



Featured Story

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Outsourcing: How To Do A Successful Hand-Off

By Scott Kersnar



When LendingTree Loans said in November that it had selected IBM Lender Business Process Services as its outsource partner, mortgage lenders and outsource firms alike had to take notice. Big Blue already had acquired major mortgage technology players FileNet, Palisades Technology Partners, WebSphere and ILOG. In 2007 IBM spent \$5 billion to acquire business-intelligence provider Cognos to make itself, in one fell swoop, a major force in information integration and data management.

Palisades architected the loan origination system for online mortgage specialist Ditech.com, and IBM has proclaimed itself as the leader in Internet services to the consumer via service-oriented “cloud computing.” IBM also has taken big strides in setting standards for a MISMO-compliant electronic loan file. To boot, IBM LBPS already has begun providing outsource processing to Raleigh, NC-based Coastal Federal Credit Union. Clearly, the multi-year contract with LendingTree could mean the ISGNs and Lydians will have some stiff competition.

Not so long ago, the rapid expansion of companies like ISGN Technologies Ltd. in the global economy had seemed to make outsourcing a synonym for offshoring. Chennai, India-based ISGN has set its sights on nothing less than “transforming the operational environment of the U.S. mortgage industry through consulting, technology and platform-based KPO services,” in the words of CEO Krishna Srinivasan.

Offshoring is no longer the hot-button issue it once was in mortgage technology. Commented Brian Twibell, CEO of property information specialist RedVision, “The Internet backbone, communications, software standards, etc., has made this a truly connected world. With the appropriate training and quality control methods, it is very feasible to create a virtual global back office that might see a US-based expert at the kitchen table performing a high-skill task on the same order an entry-level person may perform a simple data-entry function - any place in the world - Omaha, Panama, Beijing, Bangladesh.”

Mortgage-industry consultant Jordan Brown has been to Bangalore, India three times in the past year. “The first time I visited the campus of a major Indian BPO campus,” he recalls, “I had to do a double-take. It was just like Microsoft - sprawling campus, eager people doing loan processing for major lenders. There were Fannie and Freddie manuals spread out everywhere.”

Mr. Brown, CEO of Marketwise Advisors LLC, called the global delivery model “a game changer for the mortgage industry” that offers “the ability to streamline the business process driven by automation, imaging and workflow ... required to take 24/7 advantage of labor markets spread across the globe.”

In any event, mortgage executives no longer have the luxury of worrying about anything but mission-critical issues. If their best options lie with offshore partnerships, so be it. If, as HOV Services promises, you can cut your processing costs by up to 50% by leveraging service centers in Mexico and India as well as the U.S., many lenders will go for it — especially if they discover they can “share files, know where each file is at any point in the process, maintain version control and provide detailed tracking and reporting.” HOV is one of the companies using the term “right-shoring” to describe how it decides where to have a brick-and-mortar presence. In October Chennai, India-based HOV opened a Northern California facility.

ISGN president Niraj Patel noted, in an August 2008 interview with this publication, that outsourcing in the mortgage industry has become “more of a partnership” in which the lender does not surrender total control. “For example, in the past you had 100 FTEs doing investor reporting, but today you may have a 60/40 split where the lender works with the vendor as one team.”

Mr. Brown said there needs to be a balanced “between onshore/offshore viability for the model to work effectively. Labor arbitrage is a one-time savings but is not sufficient to sustain the business model over the long term.” Outsourcing makes sense, he said, “when you can take advantage of the scale of the outsourcers.”

Not everyone agrees that offshoring is no longer an issue. To the degree that offshoring has been done for labor-saving purposes, noted Mary Kladde, founder and CEO of back-office fulfillment provider Titan Lenders Corp, Denver, Colo., the savings enjoyed can be swamped by consequent errors made, insurance issues and losses based on salability. She said there are significant cultural barriers an offshore employee has to overcome, for example, in discerning and explaining why two borrowers with the same FICO score can have different credit scores.

“I’m a big proponent of domestic outsourcing vs. overseas,” she said. “Unlike many firms offering outsource mortgage services, we are an American business operating in the continental U.S.”

Given the ongoing downsizing of the mortgage industry, pointed out RedVision’s Mr. Twibell, there is a “large, well-trained unemployed or underemployed workforce across the United States” that allows for “a cost savings similar to offshore labor but with no compromise in quality.”

Agreeing with Mr. Brown and Ms. Kladde that labor arbitrage is not in itself a sufficient reason to outsource, Lydian EVP Brian Fitzpatrick defined a best-of-breed outsourcer as one that provides “a standard repeatable process that increases the level of quality and provides an economic benefit to all parties.” He said the best way to do that is to automate best practices in such a way as to provide “a fully documented workflow” that takes the human “out of the process as much as possible.” While lenders can use technology to streamline processes and reduce costs, he said, “The ROI on technology investments doesn’t come fast enough” to be helpful at times when the market is in upheaval. Therefore “outsourcing becomes more attractive.”

With the industry now averaging a \$600 loss per loan, said Mr. Fitzpatrick, “Lenders don’t have a choice but to reduce costs. We expect that trend to continue as processing becomes much more complex with the introduction of FHA” as a larger portion of the loan mix. He said the onus is now on lenders to “make sure you are producing assets the government is going to insure and stand behind.” “All of our clients are struggling with cashflow and overhead,” said Ms. Kladde. “We offer a way for them to shed responsibility onto someone that offers full accountability.”

Predicting that tech spending will continue to shrink in the mortgage industry, she said, “A lot of customers are keeping their Calyx and letting us do the rest rather than spending money they don’t have.”

If lenders need to stick to their core competencies these days, is it wise to seek outsource partners that do the same? Mr. Twibell said it is. “Quality comes from the concentration by the client and the outsourcer on what they do best. In our world, 100% of our technology, training and management attention is for the production of property information. Our clients are insurers, lenders, agents, and attorneys with many other responsibilities. The ability to scale comes from the movement of title and related property report production from the client’s back office (a fixed cost) to the outsourcers (a variable cost).”

Lydian has established Lydian Data Government Services to provide mortgage processing, closing, post-closing and quality control services for FHA and VA loans “to help brokers, correspondents and lenders bridge the significant knowledge gap and enter this market very quickly.”

With HUD too strapped to do more than simply stop working with the lenders it has to send multiple notices of rejection, he said outsourcers now have a responsibility to address the quality of the process — even for touch points they do not handle.

“We have education programs for government loans of all types. The lenders rely much more on us than before in the days of subprime,” said Mr. Fitzpatrick.

Lydian says its Mortgage Connectivity Hub makes outsourcing easy by providing the integration link between the Lydian Exchange Network and a lender’s internal information systems via pre-built integration adapters. “Lenders don’t have to use our origination system,” Mr. Fitzpatrick said, “It could be Mortgagebot or any loan origination system.”

Sometimes, as with reverse mortgages, there can be a very clear dividing line between lender and outsourcer competencies. While reverse mortgage loans are “not a large piece of the market yet,” said Ruth Lee, Titan vice president for sales, “savings and annuities have been decimated by the market, HELOCs have become cost prohibitive, and the market is poised for expansion of reverse mortgages as baby boomers come into the market.”

All sources stress that there is no way to reduce or automate the extensive upfront counseling required with a reverse mortgage. From that point on, however, outsourcing to a competent specialist becomes attractive.

Titan, for example, has partnered with Bay Docs to providing originators with complete HECM fulfillment services after counseling is completed. Titan promises to absorb any cost or fees related to errors in its delivery of reverse mortgage services to interested mortgage lenders.

Both Titan and Lydian stress that they built their systems from the back end forward, with the objectives in mind of automating best practices and bringing quality control, compliance and fraud detection as far forward as possible, and thus prevent stumbling blocks to closing and sale to the investor before they occur.

From a personnel perspective, both stress that they are much better positioned than the lenders to benchmark loans handled per person per day and create measurable improvements in process efficiency. “Running compliance checks and fraud checks should be done in underwriting, not post-closing,” said Ms. Kladd. Mr. Fitzpatrick noted that this attention to detail also serves to make sure there is no collusion in the process.

One challenge an IBM may not be inclined to deal with is the fragmented nature of the mortgage industry. When the devil is in the details — as it is in mortgage loan processing — niche players with modest revenue expectation, the Titans and RedVisions, may be the outsourcing firms that maintain a comfortable home. It remains to be seen whether IBM will find enough new business serving the mortgage industry to make the outsourcing business attractive over time.

“We are seeing a lot of interest in variable cost models, variable capacity models,” said IBM sales vice president Brian Jones.

He said that IBM can do a lot more for lender customers than process the loans they originate. If IBM Lender Business Process Services sticks around for the long haul, don’t be surprised to see IBM leverage the LendingTree partnership as a proving grounds for “helping migrate borrowers to more efficient channels” — specifically the Internet — where a comprehensive outsourcing package can really shine in the mortgage space.

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