



THE OUTSOURCING ALTERNATIVE

Understanding key trends, challenges and steps to success.



By **KATHY SWEENEY**

Mortgage bankers and brokers have long understood the benefits of outsourcing the right functions at the right time—to achieve greater cost efficiencies and to execute a greater variety of services that might otherwise not be available to their clients and customers. The current climate in mortgage lending has forced company executives and team leaders to reevaluate their outsourcing processes, and lead the novice to ask questions such as: *Can I fix my business by outsourcing? What should we outsource and what should we keep? Where do we begin?*

There are many business processes that are good candidates for outsourcing, including telemarketing, lead generation, diverse marketing activities, processing, underwriting, technology, shipping, quality control, loan servicing, EPD and fraud audits, and human resources.

Outsourcing Trends

There are a few notable trends, such as the technology, personalization of outsourcing, and global reach.

Technology—Outsourcing can play a major role in cost reduction of large and small operations, and can include everything from Web site design, online lead generation and IT consulting, to implementation of specific processes tailored to the firm needs. An overriding goal is to help the originator cost effectively outsource various functions without losing control.

Within the technology sector, there are specific applications. For example, a loan officer outsourcing loan processing to an outside firm/source can still have his or her eyes on the file 24/7 during its migration to underwriting

via the improved connectivity of Web-based applications that outsourcers use today. The technology around electronic files and file transfers has so improved that not only is it cheaper to image files, imaging makes it more convenient to outsource when the outsourcer and the loan officer can see the file at the same time and update it as needed. Accounting offers another technology outsourcing application. Outsourcers of accounting tasks can use their technology to “plug and play” into the client accounting systems, making the use of their service easy and requiring no additional capital investment. In addition, online training offers lenders and brokers a cost effective option to ensure current and professional training programs.

Personalization—More than ever, outsourcing has expanded beyond the corporate level to greater individual use. Loan originators are using outsourcing to gain individual market identification by outsourcing marketing services and at times even outsourcing their processing needs.

Globalization—The continuing trend to offshore has taken on a new face with a stateside workforce at the outsourcing company called the “bench.” The bench is a team of professionals experienced in loan process problem solving who interface with the client instead of the client dealing with the outsourcer’s offshore work force. Instead of working directly with the offshore person who is trained to read from scripts for various scenarios, the loan originator speaks directly to an experienced, trained person (the bench), making problem resolution much faster. Outsourcing companies may off-shore data entry, loan boarding, data capture, file creation, review and submission. The trend of the outsourcer’s stateside workers interfacing directly with the client is reducing the fear factor of off shoring and yet gives nearly the same cost reduction benefits.

WHEN NOT TO OUTSOURCE

Reasons to Outsource

Improved efficiency is a primary reason for outsourcing, such as the case with loan processing. Many originators have antiquated systems that are inefficient and lack the rhythm to produce more than a few loans a month. While some firms decide to completely revamp their existing systems, others conclude that outsourcing is the best solution to gain the efficiency needed for greater market share. This means deconstructing the current loan process flow, which could entail imaging the file before or in lieu of setting up a paper file folder so that the electronic file can be sent to the outsourcer or it may mean sending the 1003 immediately to the outsourcer from the loan officer laptop bypassing any kind of internal file set up. Outsourcing should create a more seamless workflow, giving loan officers more time to ply their craft and originate instead of process.

Guru Amrit Khalsa, president of Nationwide Processing, says, "We have clients nationwide who are small to medium-sized mortgage brokers. Our team of 30 processors keeps the workflow going while our clients continue to produce loan volume. We apply a digital infrastructure to the loan workflow to bring improved processes. Big business mortgage companies and banks have been taking advantage of this concept for years. It is time for the smaller mortgage companies to think like big businesses and enjoy the cost reduction benefits in the same fashion."

Another key reason to outsource, besides allowing you to focus on your core business, is to enable you to offer services at a higher quality than you could do it internally. Some areas such as quality control or interim servicing are not the core business functions of mortgage origination. Outsourcing these tasks assures quality work and compliance to industry and government regulations.

Of course, firms are also able to outsource for situations they hadn't anticipated. An example of this is today's buy-back issue. An employee must be culled out of their normal job to work out the buy-back issues and often lack the experience to do this type of investigative work. Outsourcing Early Payment Default (EPD) loans to an experienced vendor can save you from the internal nightmare and possibly save thousands of dollars. Gagan Sharma, president of BSI Financial Services, an outsourcer of QC audits (including EPD audits), is familiar with this scenario. "Many times, clients think that just reviewing the EPD loan for underwriting and fraud issues are enough," he said. "However, the research auditing should not stop there. The servicing file should also be reviewed. We have found such things as a file not boarded correctly by the investor, and incorrect payment information. We have also found where the borrower's mailing address is incorrect, statements or servicing transfer letters were not received, so borrowers send payments to incorrect locations. Too soon the payments are lost, not applied and the EDP occurs."

Steps to Success

There are several core steps that can help make outsourcing successful.

Of course, outsourcing isn't a panacea, the answer to all of a firm's problems. In addition, there are instances when outsourcing may not be the correct solution. For example, if you:

- Are highly transactional and want to control or perform each step of the particular function.
- Don't have or won't take the time to manage the vendor properly, using the necessary checks and balances.
- Only process one to two loans per month, thus not requiring additional staffing.
- After evaluation, you find no cost or efficiency savings in switching from your current staff.
- Are unable to handle the change that outsourcing certain services requires.

—Kathy Sweeney

Finding Your Objectives—You should have a full understanding of the firm's/team's business objectives. Is your primary objective to grow the business? If so, your goal may be to outsource those tasks that take away the focus of production but are needed to generate borrower interest, such as Web site creation or the creation and mailing of e-zines and newsletters. If your primary objective is to "fix the business," a hard, realistic look must be made as to why the business is in trouble in the first place. Poor management will not be solved by outsourcing tasks. Outsourcing must still be managed as part of the overall business. If a reinvention of the business is your primary objective, then an innovative approach must be considered where multiple tasks are up for review and possibly outsourcing.

Be Prepared—It is not enough for a company to 'hand off' the work and ignore the outcome. You must be prepared for the success the outsourcing relationship brings. As an example, a well run mortgage brokerage entered into an outsourcing relationship for telemarketing services. The telemarketers were housed in India, making the cost even more affordable. What the broker did not plan for was the extreme success of the effort and many leads were unattended. This example is a good lesson in planning far reaching business outcomes and making provisions for a successful outcome.

More than a Contract—Today's mortgage business environment demands outsourcing to be more than a contract signed for services rendered. It must be a business relationship interdependent in many ways, not only to the buyer of outsourcing, but to other value-added outsourcers. A good example is the quality control outsourcer who shares audit knowledge and loan compliance training with their

clients, and who are also there when an audit occurs. The help of the Q.C. outsourcer in an audit can mean the difference of thousands of hours and/or thousands of dollars. Another cost-saving outsourcing relationship is the enterprise outsourcer's ability to interact with other outsourcers. Whether the client is outsourcing hardware, software or network maintenance, vendors must be involved in new business strategies to ensure compatibility without time or dollar losses.

Manage/Oversee—Managing multiple service providers is no easy feat. Therefore, the selection of vendors who are experienced in the particular mortgage function is paramount. In addition, a manager/other assigned employee who is clear on the business objectives should be assigned to oversee the outsourcing relationships and their outcomes. Loan originators must be able to measure the value delivered from service providers against the cost of the service, spot negative trends and have the authority to fix the problems either internally or with the provider.

Overcoming Challenges

Confidentiality of borrower loan data is the lender/LO's responsibility. When selecting an outsourcing provider who will work directly with your loan files, obtain details of their security protocol. They should give you written information about how data is stored, backed up, who has access to files, and how the log-in security is implemented. Your due diligence in gaining this information will protect you should there be a borrower complaint.

Tracking, enforcing and getting commitment to the outsourcing tasks can be a challenge. Be certain your outsourcing contract has built in protection for such things as missed dates, quality issues or other hot buttons for the tasks outsourced. Ensure that you and your vendor agree to what your requirements are and have a contractual way to enforce non-compliance.

The challenge to utilize your vendor as part of your own team begins with the immediate inclusion of all parties involved with the outsourcing tasks in communications and

planning. The idea that outsourcing will eliminate existing jobs can be frightening for employees. Making sure that everyone on your team understands the outsourcing relationship and the benefits involved will eliminate problems before they arise. Therefore, it is a good idea to hold regular team meetings.

Diverse lending and mortgage firms have found outsourcing to be a powerful, effective tool. Those just beginning to outsource can use new technology to create high performance in a fairly quick amount of time. Veteran outsourcers can use the innovation of the industry and technology to improve their outsourcing advantage. While the first few months of outsourcing any task will undoubtedly be a challenge, it just may be one of your most valuable keys to success. 🏠

KATHY SWEENEY is CEO of The SRS Group, a premier mortgage staffing firm, Walnut Creek, Calif., www.srsgroup.com, e-mail: Kathy@srsgroup.com or 888/773-7812.