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Purity in the Pipeline Through Automation

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When it comes to the water that comes out of your tap, which scenario would you prefer? Water that's pumped from its source, filtered and treated for hardness and for high acidity to lower the risk of lead, removed of suspended material and sediment, then micro-filtered, disinfected and tested? Or would you want your drinking water to be cleaned by someone armed with a simple sieve, the kind you use in the kitchen to separate the lumps from the gravy before dinner?

Anyone who has visited their local water treatment plant might be amazed to see the amount of technology that goes into ensuring their community has clean, safe drinking water, and how few people it takes to operate the plant, as well. In fact, water remains a relatively cheap commodity in part because much of the purification and delivery process is automated through technology. And by and large, the water we drink is safe to drink. So what does this have to do with mortgages? Plenty.

Purification in Mortgage Loan Process is Crucial As Well

While humans don't require mortgages the same way we absolutely depend on water, purification in the mortgage loan process is highly crucial as well – even though it is rarely achieved. By and large, the current system of checking loan files for inaccurate, incomplete and missing data before loans are shipped off to investors is rife with manual processes and prone to errors, whether performed internally or by an external provider. In fact the way most loans are audited today is the equivalent to taking that kitchen sieve to a source of drinking water: you may find the easily visible problems – like dirt clumps and vegetation – but you will miss countless problems that could pose a risk to the health of that loan.

Manual processes aren't just incredibly expensive and inefficient. They also increase the chances of errors and costly buybacks. In fact, sometimes these audits aren't even performed at all, with lenders relying on loan purchasers to perform their own mortgage loan file quality control. During the industry's heyday a few short years ago, some lenders simply budgeted for a certain number of loans to be bought back if they caused trouble.

Even if they performed a pre-sale audit, it was generally cursory in nature for the simple expedient of saving time and costs required by true mortgage quality control. These practices existed for years in the mortgage business, even as various loan products increased in number and complexity. But these practices are changing, and changing fast. Investors are more concerned than ever about mortgage loan quality and documentation precision, not only because of the catastrophic experiences of the past, but also because the capital markets have fundamentally changed. Paraphrasing the old Ford slogan, loan quality is now job one. There just isn't room for anything less than purity in the mainstream mortgage pipeline anymore.

Today's Lender and Investor Relationship Casualty: Trust

The current mortgage crisis has brought about a transformation in the relationship lenders have with investors, and the first casualty in this new dynamic is trust. For years, the "impurities" that came through the loan pipeline were overlooked, whether it was missing information or data that didn't match the database of record produced by the LOS. Now even the smallest discrepancies are enough to send loans back to the originator. In today's climate of increasing scrutiny over risk, it is incumbent upon everyone in the mortgage value chain to ensure a cleaner, purer mortgage product.

Like our water plant example, I believe this is where automation is sorely needed. In fact, technology solutions exist today that can take over the majority of pre-close and post-close audit tasks, resulting in cleaner loans. These solutions are able to scan loan files and capture every element of data in them, verifying that key data is accurate and that critical disclosures have been made accurately and compliantly. Current solutions are also able to spot loan deficiencies and signal the staff member who is responsible for fixing it. And most importantly, automation provides the ability to immediately identify trends in a pool of loan files, so that the root cause of a recurring problem can be addressed. The metrics produced by this ultra-granular approach can be of tremendous value in many ways to the organization. Consider for a moment how it might have helped during the wholesale boom in finding and eliminating "bad actors" by spotting trends in documentation anomalies and myriad other loan irregularities.

This level of automation is able to do things that were simply unheard of before. For example, in the post-close loan audit process, an auditor can take a loan file and see every signature in that file side-by-side on one computer screen, and immediately be able to detect whether there is any issue with those signatures. Data fields that should match but don't are instantly revealed and flagged for review. There is almost no way to do this manually without spending an inordinate amount of time going through pages and pages of documents, even if they were on a computer screen – which is why critical checks such as these rarely are performed effectively. By combining the technology with human expertise to automate the process, inconsistencies and loan fraud red flags are caught far more readily, just as that purification plant keeps the undesirable elements out of the tap water.

“Purified” Loans Mean Fewer Buybacks, More Attractive Loan Pools

From the lender’s point of view, the result of these "purified" loans, if you will, is fewer buybacks and more attractive loan pools for investors, GSEs and other players in the capital markets. Ultimately it's about restoring trust, and lenders who are able to earn it from the capital markets have a much better shot at not just surviving the current marketplace, but thriving in it. By the same token, automated loan auditing has proven to be an effective tool on the pre-purchase side of the equation. Investors who don’t want to be plagued with losses are able to use automated tools to mitigate their risk as much as possible.

The best thing about this automation is that it’s highly accessible to the average lender or investor – and a lot simpler than building a brand new water treatment plant. It is available today and is far less expensive than using manual processes alone. Think of these rapidly advancing technologies as not just the means to a better, healthier mortgage industry. Think of them as new and critically important tools for keeping capital flowing by ensuring data integrity and loan quality. And that is just as essential to the future of our business as pure water is to our communities.

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