

MORTGAGE OPERATIONS REVIEWS – CASE STUDY

CLIENT INFORMATION:

Mid-West Regional Bank

BACKGROUND:

- Mortgage lending division with retail, wholesale and correspondent lending channels. Affiliate banks originate fifty percent of the correspondent loans.
- Annual production is approximately \$1 billion and the bank has a servicing portfolio of approximately \$3 billion. The majority of loans are serviced for Fannie Mae.

PROBLEM STATEMENT:

- The bank wanted to fold the loans originated by affiliate banks into their retail-lending platform but the affiliates used different systems, different investors and different workflow processes.
- The bank had a strategic initiative to double loan production volume and double the servicing portfolio within three years while reducing the cost of originating and servicing loans.
- Senior management was concerned about the capabilities of many middle managers to affect the changes necessary to grow the operations while maintaining adequate controls and operational efficiencies

SOLUTION SUMMARY AND KEY BENEFITS:

- Perform an onsite review of the Bank's mortgage production and servicing operation. The review included an evaluation of processes and procedures, staffing, controls, systems, financial management reporting and relevant support functions.
- Interviewed senior management and key managers and supervisors in each functional area of mortgage production and servicing operations to assess their capabilities and gather information on lending operations and mortgage banking opportunities and problems.
- Evaluated the loan origination and servicing systems as set-up and used by lending and servicing personnel to understand the ability of the systems to support improved procedures and workflows.

THE RESULTS:

- We found numerous operational deficiencies. Some posed a regulatory risk to the Bank and needed immediate corrective action due to exposure to potential fines and sanctions from regulatory agencies.
- We identified non-standard settlement practices and inefficiencies in operating processes which increased costs incurred by the borrower and the Bank.
- We established that a high percentage of secondary marketing losses were due to critical reoccurring documentation and data integrity errors that were not being identified and corrected prior to closing.
- We identified internal conflicts within operating groups, which impeded the Bank's ability to achieve goals and expand opportunities.
- Based on our practical recommendations, the Bank implemented most of our suggestions for additional controls to minimize regulatory issues and reoccurring data and documentation exceptions.
- We recommended relatively minor system enhancements to improve process controls with a recommended longer-term initiative to upgrade to a more robust loan origination system to accommodate growth plans.
- The Bank took swift action to terminate managers and supervisors that did not demonstrate the ability or willingness to affect improvement changes.
- We outline a transition plan to fold the affiliate banks' mortgage operations into the Bank's platform. The Bank intended to implement the plan once key improvements were made to their mortgage operation.