



The Value of Clean Data

Collecting **quality data** and rethinking the process **is crucial** in the current down market.

THE SOFT MARKET AND RECENT TIGHTENING OF CREDIT has caused many mortgage lenders to take a closer look at how to increase the profitability of their portfolios. An important way of doing so is maximizing the quality of loans delivered to the secondary market. Lenders today are not only thinking about data quality internally but also how to collect quality and accurate data from their third-party originators.

It is more obvious than ever that the data collection process is now driven by the need for valid data from the start and through constant interaction between lenders, third-party originators and borrowers. The mortgage industry as a whole is now looking at data flow as the process-needed component for electronic collaboration. In the past, there were some great concepts on the paperless mortgage front but many did not take into consideration that trailing documents will continue to be part of the process well into the future. Many of the concepts did not take into consideration the need for third-party interaction steps, let alone bringing the consumer into the mix.



The right approach is to understand the problem and the risk that lenders face and then formulate a new process that takes advantage of technology. The approach should not only improve the process and reduce risk, but do it more quickly and efficiently.

First, the process should start with analytics to allow lenders to monitor data at any given point in the credit creation cycle and prevent fraudulent loans from being funded. Analytics and compliance checks can and should be applied at every stage of the loan to verify broker licensing and verify compliance with Office of Foreign Assets Control and Financial Crimes Enforcement Network requirements at application. In addition, predatory lending checks at several points of the loan should be performed within the software, especially before docs are drawn. This, along with secure e-delivery, allows lenders to control the data at all times. Lenders must also eliminate information silos and have a single, more complete view of their borrowers. To do this a

common and comprehensive data repository is necessary.

Other industries outside of the mortgage industry, like the insurance and health care industries, have similar problems to solve. They are debating if the process drivers should be the knowledge management (rules engines), the data alone or the data combined with the knowledge management. These industries are debating if the process should be completely owned by the business drivers or some component of the data managers, CIOs and CTOs.

Within the mortgage industry over the course of the past several years, data flow was not identified as the most important business driver. Instead, lenders focused

mainly on migrating the paper-based process behind the data flow to an electronic one. Today the industry understands that while an electronic process may be more efficient, it doesn't guarantee quality loan data.

Content management tools help ensure continual compliance with existing and potential regulatory requirements for document preparation and secure e-delivery. And compliance analytics tools help lenders adhere to requirements in real time.

The good news is that technology today can support sequence and data validation and data management very well. The other good news is that lenders can now share the expense of this management with Software as a Service components via outsourcers.

SaaS technology is a good way for lenders to ensure that initial disclosures are electronically sent on behalf of their originators to meet RESPA requirements and provide verifiable proof of the delivery. It is more cost efficient than mailing traditional paper document packages and enhances the borrower experience by getting disclosures into their hands earlier.

The right partner for compliance and technology can help lenders focus on originating and closing loans instead of regulatory compliance. The provider can help the lender ensure that the proper documents are being used to meet regulatory requirements for each jurisdiction and loan and transaction type. The provider can also help ensure that investor and regulatory guidelines are met proactively.

IT managers need to think about:

■ **Data integrity:** Was the data well formed, in the right position, and can the technology application read the data when imported?

■ **Validity of the data:** Once the systems can read the data, can the right rules be applied?

■ **Security of the data:** Will we meet the requirements for Gramm-Leach-Bliley?

■ **Cost to support:** Where is the point of demising returns to maintain internal tools?

Business managers need to think about:

■ **Maintaining relationships,** only with originators who provide quality loan data.

■ **Balancing ease of use and operational challenges** with shrinking budgets and smaller staffs.

■ **Legal compliance and loan quality risk,** dealing with higher standards and how to control risks-associated growing costs to support the unknown legal demands.

■ **How to address fixed IT and automation costs** without risk to data quality and security of that data.

Maintaining the overhead costs of

// Technology today can support sequence and data validation. //

automation can bring lenders to a point of dismissing returns. SaaS outsourcing to maintain automation is a way to exchange fixed costs for variable costs with flexibility to move the point of demising returns and allow lenders to create high data validation.

Data management is not going to be a competitive advantage or at least not one that lenders can maintain very long. Wikinomics author and consultant Don Tapscott believes that transparency is power and that the benefits of collaboration outweigh its drawbacks. That statement should apply to data sharing and the management of that data. To collaborate effectively, companies and their business partners have to share intimate knowledge with one another.

Outsourcing providers focus on data issues and can obtain quality

data. SaaS outsourcing providers will spread costs across many of their customers and should be able to competitively under price what you can do internally.

SaaS outsourcing providers should help lower operational costs and increase data quality. They will be able to scale to leverage and distribute cost across multiple customers for balance sheet management (fixed costs converted to variable costs). By working with a good outsourcing SaaS provider that is well-funded, lenders will have the opportunity to receive features updates provided by a specialist faster as well as legal updates added to their rules engines. A good SaaS provider will afford lenders access to industry best practices and remove the need to hire in-house industry experts.

Recent market conditions have been a driver for lenders to improve upon their loan data quality. Lenders are looking to better manage their core business drivers while balancing their relationships with originators, tighter margins on all product types and new legal and compliance demands. They are looking to new technology to help them in their drive for quality data and SaaS will play an important supporting role for accurate data. **MT**

This is a two-part article. In the second part Ms. Thompson goes further to detail the role of Software as a Service in getting at clean data and also in ensuring compliance. Stay tuned.

Ruth Thompson is senior principal, mortgage document preparation at Wolters Kluwer Financial Services. With more than two decades of experience in the mortgage industry, Ms. Thompson has worked on behalf of industry initiatives in MISMO and other trade organizations. She is the founder and former chief executive officer of Desert Document Services, a leading provider of Web-based solutions for document preparation focused primarily on serving the mortgage lending industry. The company was acquired by Wolters Kluwer Financial Services in 2007.