



Operational Efficiency: Streamlining Mortgage Operations

Research White Paper

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Introduction

Purpose

The purpose of this Research White Paper is to:

- Identify the areas where mortgage operations typically lack efficiency
- Highlight best practice in operational practices, production throughput and resource levels
- Examine lenders' ability to manage capacity planning and volume surges
- Discuss means of assessing spare capacity
- Explain how to achieve linkages with organisational priorities
- Identify the most effective means of establishing and formalising cross-departmental linkages

Approach

The approach has involved:

- Collation of detailed information about typical operational issues encountered within mortgage lenders, based on a combination of original research and experience gained from working with mortgage lenders over the last 10–15 years
- Identification of relevant concepts and principles
- Identification of key success criteria
- Utilisation of anonymous case studies
- Presentation of actionable insights, offering lenders the opportunity to see how the recommendations would apply specifically to an organisation like their own

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Identifying the areas where mortgage operations typically lack efficiency

Research suggests that the operating costs associated with mortgage operations have recently reached an all-time high...

For example, a 2008 UK benchmarking study produced some interesting findings...

Total cost per case

- The average total processing cost increased by 18%, from £132.85 in 2006 to £156.74 in 2007
- This is the highest figure since the introduction of mortgage regulation in 2004

FTE cost per case

- The average FTE cost for processing new applications to completion – one of the key indicators of process efficiency – increased by 16%, from £20.02 in 2006 to £23.25 in 2007

Speed to offer

- The average elapsed time from application to offer has remained within a range of 14 to 16 days over the last three years, despite this being a key area of focus for many lenders

Productivity

- Figures suggest that productivity has improved slightly, from 1.43 applications per FTE per day in 2006 to 1.59 in 2007; however, this still remains well below the pre-regulation level of 1.76

Cost/quality matrix

- There remains a relatively even spread of lenders in the ideal low cost/high quality category
- However, several lenders still occupy the middle ground of average cost/average quality

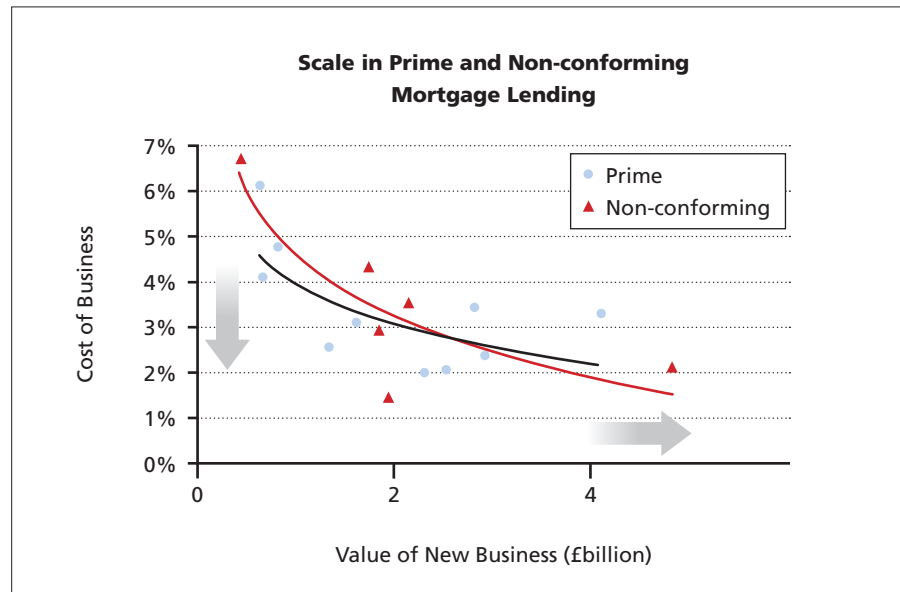
Automated valuations

- Only a very small number of lenders were using AVMs at the time of the study
- However, most lenders indicated that they would be introducing AVMs in the near future

This would suggest that efficiency improvement and cost reduction will become even more important for all lenders...

By examining variation in the cost of new business acquisition, we can see that many small-to-medium sized lenders still have a long way to go in improving their operational efficiency...

This 'scale challenge' is true of both prime and non-conforming mortgage lending...



Source: Various lenders' most recent reported results

Many of these lenders are seeking to both reduce unit cost and increase scale...

Whilst there is obviously a significant degree of variation between lenders, the research has highlighted the key process-related and technology-related causes of inefficiency in operations...

For example, detailed analysis of point-of-sale and pre-completion processes across a number of intermediary lenders has identified the key process and technology issues that negatively impact on operational efficiency...

Registration & log-in



- Manual user registration process
- Manual authorisation checks
- Manual security checks
- Manual password reminder process
- Manual password reset process
- Lack of multi-level access rights, with access limited to advisers only
- No/limited online maintenance of registration details

Product selection



- Incorrect/out-of-date product information on sourcing system
- Manual product maintenance
- No/limited product filtering, comparison and shortlist facilities
- Lack of online tools and calculators