White paper

6 reasons to automate your post-closing processes

IRON MOUNTAIN®

Contents

Summary

Mortgage originators are facing a crisis. As rates rise and loan volumes decrease, they are losing hundreds, or even thousands of dollars on every loan.

To stay in business, financial services firms need to find ways to cut costs and improve efficiency. One of the most effective ways to do so is to automate your post-closing processes, either in-house, or with the help of a managed services provider. This automation offers a number of additional benefits that can help you achieve greater profitability and meet growth targets.

An unsustainable situation

For mortgage originators, something's got to give.

According to the Mortgage Bankers Association, lenders lost an average of $1,972 on each loan they originated in the first quarter of 2023. And that was actually an improvement over the $2,812 they lost per loan in the last quarter of 2022. By comparison, in the third quarter of 2020, independent mortgage banks were gaining $1,924 per loan origination.

For financial services executives, that drastic change in profitability can be shocking. But for anyone who has been following industry news, the numbers probably aren't all that surprising.

During the pandemic, the average rate on a 30-year fixed mortgage dipped as low as 2.65%, according to Freddie Mac. People rushed to buy houses or refinance their existing loans. The Consumer Financial Protection Bureau reported that loan originations climbed 65.2% in 2020 to reach 13.6 million. And in 2021, originations went up another 2.4% to reach 13.7 million.

But those boom times didn't last.

In order to tamp down inflation, the Federal Reserve began raising interest rates in March of 2022. By the end of the year, mortgage rates on a 30-year fixed loan had climbed well above 6%, and even briefly topped 7%. As a result, originations fell sharply. In the fourth quarter of 2020, the average institution produced 2,947 loans. But in the first quarter of 2023, the average firm originated just 1,395 loans.

Fewer loans means fewer economies of scale, driving up the average costs. When times were good, mortgage originators increased their staffing to handle the influx of paperwork.

But as volumes declined, many financial services firms found they had more employees than they needed. Banks and other mortgage lenders laid off thousands of workers, but it still wasn't enough to offset the declining volumes.

Making matters worse for mortgage companies, personnel costs also rose during pandemic years. Unemployment remains low, forcing employers to increase salaries to attract and retain top talent.

And at the same time, regulatory compliance demands are increasing. Firms face an increasingly complex legal landscape that increases their overall expenses. And the costs of failing to comply or, even worse, failing to protect consumer data, is much higher.

In related news, some firms are also seeing increasing costs related to a loss of public trust. Recent failures of sizable financial institutions has lowered consumer confidence in the industry as a whole. Forrester analyst Alyson Clark notes, "Trust in financial services brands is surprisingly weak, and we've been seeing very few brands with strong levels of customer trust." In fact, survey participants rated only 2% of US financial services brands as "strong," while they considered 57% to be "weak."

And of course, many economists are warning about a potential downturn or recession, which could have even more negative impacts on mortgage companies.

Given the current state of affairs, mortgage originators must do some things differently if they want to stay in business.

How post-closing automation can help

Many mortgage companies are responding to the current situation by looking for ways to increase their efficiency. And one of the prime targets for improving efficiency is the post-closing process.

While most firms have digitized some of their post-closing processes, much of the work remains manual and paper-based. Employees must review trailing documents to make sure that they have the appropriate signatures and have been completed appropriately. Auditors double-check to make sure that the loan complies with the most recent regulations, and they recalculate all the numbers to make sure that the mortgage is within underwriting guidelines. They pass on the documents to the appropriate parties, file paper and digital documents as necessary, and securely dispose of any paper documents that they no longer need.

In the past, digital systems could handle only a portion of these tasks, which is why they are still so manual. But the latest artificial intelligence (AI) and machine learning (ML) technology makes it possible to automate a much higher percentage of the tasks, limiting human intervention to a handful of exceptions.

Managed services providers have the tools and experience to deploy these automated solutions, while tailoring them to your firm's unique requirements. That can result in at least six benefits for mortgage originators:

1. Contain costs

One of the biggest advantages of digital automation for the post-closing process is that it helps improve the average cost per loan. Post-closing automation can help you manage expenses in at least three different ways:

Maintain a steady headcount. With automation, you may no longer need to ramp up hiring when mortgage volumes increase, and lay people off when volumes decrease. That not only can improve morale within your organization, it can also reduce costs related to recruitment, hiring, and severance.

The employees that you have will be able to handle more loan originations than they would have been able to process manually. And they will need to give their attention only to the exceptions, which is the more interesting part of the job. Reducing the mundane tasks associated with post-closing processes can further improve morale and retention, driving down costs even further.

If you choose to pursue automation through a managed services partner, you can amplify these benefits even more, driving down costs further.

Reduce floor space. In the post-pandemic world, hybrid work has become the norm. Many organizations are looking for ways to reduce their overhead by reducing their real estate space.

But that can be difficult if you are still storing a lot of documents in old-fashioned filing cabinets. Paper documents take up 40 times (or more) as much space as storing the same number of documents digitally. By automating your post-closing processes, including digital storage of documents, you can reduce real estate costs, or reallocate existing space to more productive uses.

Convert capex to opex. If you choose to partner with a managed services provider to do your post-closing automation, you also have the advantage of transforming some capital expenditures into operating expenditures. Rather than paying infrastructure costs upfront and depreciating over time, you can have predictable monthly operating expenses that correlate directly to your loan volumes. This can help make your financials look more attractive to investors, and give your organization some stability in uncertain times.

2. Increase operational efficiency

Manual post-closing processes aren't just expensive — they're slow. Automating these processes can dramatically decrease the amount of time it takes for a loan to be fully approved and ready for sale.

In addition, digitized processes also lead to efficiencies throughout your organization. Automation technology can transform unstructured data into structured data with meaningful metadata tags that make it easier to find information. That reduces the amount of time workers waste looking for information. It also results in you having easy access to all the information you need to sell the loan on the secondary market.

With automation, you can sell the loans you originate more quickly. That reduces carrying costs and enables some more aggressive pricing options. In many ways, your loan process is like a factory. The faster you can get the raw materials (loan documents) through your loan approval factory, the faster you can get your goods to market. In an increasingly competitive marketplace, that gives you an advantage over your rivals.

How one large credit union improved efficiency by 25%

Recently, one of the largest credit unions in the US found itself stymied by its existing technology. It had set some ambitious growth objectives, but its legacy systems were unable to support its goals. Post-closing processes took a long time, and leaders didn't have the data they needed to make strategic decisions.

The credit union chose to partner with Iron Mountain for end-to-end post-closing services. Iron Mountain deployed an automation solution that leveraged the power of artificial intelligence and machine learning to identify, classify, extract, and validate loan data. In addition, Iron Mountain secured its valuable digital assets and put in place the people and processes necessary to streamline the post-closing processes.

The credit union's results were impressive:

- Improved efficiency by 25%, significantly shortening cycle times,
- Reduced loan review costs,
- Cost-effectively created a digitized post-closing process,
- Improved loan salability and eliminated buyback risk,
- Enabled 30% year-over-year growth.

Find out how Iron Mountain can help transform your mortgage and loan services.

In addition, quality automation can reduce your defect rate. According to Freddie Mac, the two most frequent contributors to load quality defects are missing documents and miscalculation of income. Human error can contribute to both of these issues. The average error rate for manual data entry is between 1% and 5% or higher for complex data. The error rate for automated processes is just 0.1%. By deploying automation, you'll make your operations more efficient by reducing the need for rework – or in the worst-case scenario, the need to repurchase a loan – due to defects like these.

And when you use a managed services provider as you deploy automation, you have the added benefit of an independent reviewer doing your document audits. That further increases the likelihood of finding any defects, making your operations even more efficient.

3. Attain scalability

The mortgage market is extremely volatile, and it's largely influenced by factors outside of your organization's control. Interest rates, stock market trends, inflation, consumer confidence, unemployment, regulation, and a host of other factors determine whether people are buying new homes or refinancing their current ones.

In the past, manual, paper-based processes meant that mortgage originators had no choice but to add more people when volumes increased, and lay them off when volumes decreased again. That process of adding and removing headcount takes time, and can be extremely disruptive.

Digitized processes are much more scalable. Adding more computing resources is simple. In fact, automatic provisioning of cloud-based resources means that staff don't necessarily have to do anything to turn on or off additional capacity.

It makes your costs more predictably scalable as well. You'll know exactly how much your expenses will increase as you originate more loans.

Of course, automation doesn't completely replace people. You'll still need humans in the loop for handling exceptions, and that means you won't be able to completely eliminate the need to hire more workers as volumes increase. But if you partner with a managed services provider to handle the entire automated process, the vendor can bear the risk and hassle of scaling personnel up and down as market conditions necessitate.

4. Enable revenue streams

When loan originators are losing hundreds to thousands of dollars on every mortgage, cutting costs is necessary, but it isn't enough. Financial services not only need to become more efficient, they also need to find new ways to make money.

By automating your post-closing processes, you can free up your staff to focus on more strategic concerns. Rather than spending your time simply processing your mortgage documents, you can innovate new ways to generate revenue.

This might mean finding ways to uncover new markets that you could be serving. It might mean finding ways to better address your current customers' needs. It might mean doing a better job of marketing your products, or inspiring more trust. It might mean reconfiguring your mortgage products to become more attractive to borrowers or to the secondary market. Or, it might mean developing entirely new products, entering markets or industries where you don't currently participate.

To do any of these activities well, you're going to need to analyze your historical data to find hidden opportunities. Intelligent document processing powered by machine learning (ML) simplifies this analysis by accurately converting unstructured data into structured data and adding intelligent metadata that adds context. This makes it possible for your analysts to find and capitalize on information that would otherwise remain hidden – information that you simply don't have without it.

5. Achieve regulatory compliance

For financial services companies, the cost of failing to comply with government regulations can be substantial. For example, in 2022, the US Securities and Exchange Commission (SEC) fined one large bank $35 million for failing to properly dispose of sensitive data. In a separate action around the same time, the SEC imposed penalties totaling $1.1 billion against 16 other financial services firms for not maintaining and preserving important electronic communications. Sanjay Wadhwa, the SEC's Deputy Director of Enforcement warned firms, "The time is now to bolster your record retention processes and to fix issues that could result in similar future misconduct by firm personnel."

Automating post-closing processes can help mortgage originators ensure that they are saving the data they need to save and properly destroying the data they need to destroy.

And if you partner with a reputable managed services provider to perform that intelligent document processing, workflow automation, and data destruction, you can bolster your compliance efforts even more. A managed services provider can serve as a third-party reviewer performing due diligence. They can prepare and release documents for customers and investors, as well as perform automatic audit reviews with humans in the loop as necessary.

Meeting your compliance requirements doesn't only help you avoid fines – it can also help improve your business operations. Tagging and securely storing your loan data makes it easier to sell your mortgages to buyers. And it makes your organization look more attractive to investors. It reduces risk, protecting you, your customers, and your investors.

6. Unlock valuable knowledge

If you are just scanning and storing your post-closing documents, you are missing out on valuable business opportunities. Automation solutions like Iron Mountain InSight® can extract and classify the data from scanned documents into structured content.

Adding that structure to unstructured content has a host of benefits. First, it makes data much easier to find. If someone on your team has a particular question about the terms of a mortgage, they can search for the answer without needing to know which document contains that data.

Second, the classification and tagging enables dashboards that help you keep track of your loan pipelines. For example, automation can enable you to:

- Track pending and completed loans
- Filter and view loans by user groups, flag types, or other criteria
- View total cleared loans and loan status by date
- Monitor the lifecycle of a mortgage
- Watch trending activity summary
- See exceptions by code, settlement agent, or correspondent seller.

In addition to tracking the current situation, the data can help you to analyze historical trends. Armed with these valuable insights, you can better craft your offerings and market them to customers, spurring greater growth and new revenue-generating opportunities.

Meet your goals today — and in an uncertain future

Post-closing automation also dovetails nicely with larger enterprise initiatives. For example, many financial services firms have been engaged in digital transformation efforts for several years. Post-closing automation brings digital transformation to trailing documents. It allows firms to securely and cost-effectively digitize, store, access and retrieve key collateral loan documents, automate processes, and unlock value from the dashboards and reporting, accelerating your loan pool certification process and salability on the secondary market.

Similarly, automating post-closing processes can also aid with workplace transformation efforts. When processes are digital rather than paper-based, employees have a greater ability to work remotely, which can improve morale. Intelligent document processing can also make it easier for employees to find the information they need to do their jobs, and it allows them to focus on more meaningful, fulfilling work, rather than repetitive tasks.

If you choose your solution and/or managed services provider with care, you can also improve your data security, another top enterprise goal. You'll want to look for solutions that leverage the National Institute of Standards and Technology (NIST) Cyber Security Framework (CSF) as their enterprise security framework, and vendors with extensive expertise in digital security.

Post-closing automation also supports environmental, social, and corporate governance (ESG) initiatives. It reduces reliance on paper-based processes, which can be an important part of a robust sustainability program.

Most importantly, automating your post-closing workflows, particularly with the help of a managed services provider, can help your organization become faster and more efficient. In a world where the future seems uncertain, that efficiency can help you develop the agility you need to effectively respond to changing conditions.

Iron Mountain's post-closing managed service offering

Iron Mountain can manage your post-closing processes. We bring together expertly trained teams, digitized mortgage accelerator processes, and an intelligent technology platform to deliver scalability, reduce operational costs, meet regulatory compliance, and unlock valuable knowledge from your data for new revenue streams.

The process begins when we receive your closing packages from the settlement provider. Our experienced team digitizes the paper loan documents using leading-edge machine learning for post-closing document classification, field-level extraction, and quality control. Our pre-trained mortgage model workflows validate data and follow auditable processes to satisfy stringent investor and regulatory requirements.

It delivers seamless and collaborative curative actions along with informative dashboards in a searchable and self-service digital repository, improving efficiency while satisfying physical collateral management obligations. The platform also enhances the management of trailing documents. It tracks the loan type, follows your business rules, and flags any exceptions. This quickly ensures that all collateral documents are accounted for, enabling salability in the secondary market.

Being able to digitize, classify, extract, and validate loan data transforms unstructured mortgage content into structured data, supporting the authenticity, accuracy and completeness of the loan. Iron Mountain bridges the gap between today's legacy paper and tomorrow's certified and transformative information. Learn more about transforming your mortgage post-closing process.

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