

BY CRAIG HUGHES

# The New Face of Imaging

**After suffering from a lack of interest for a long time, imaging has suddenly caught on in the mortgage industry.**

**N**ot that long ago, imaging was often decried as a wrongheaded stop-gap approach on the way to a truly electronic and paperless nirvana. Detractors bemoaned using “pictures of paper” as a means of getting away from paper. “It’s all about the data, stupid,” was their underlying message. ¶ As we moved the mortgage industry from its analog past to its digital future, imaging was seen as akin to Betamax or eight-track tapes—functional but inevitably short-lived, to be quickly replaced by something much better. While there is truth to their position, somewhere along the way those naysayers forgot to get the industry fully on-board with their message. ¶ In case you haven’t been paying attention, the mortgage industry has witnessed an explosion of late in the adoption of imaging technology and systems that manage the images—often referred to as document-management systems or enterprise content management. Long seen as a tool used in the servicing back office

as a means of simplifying the retrieval of files, the deployment of imaging has been moving rapidly toward the beginning of the loan life cycle into the origination process. The reasons, which we'll discuss in a minute, are many, but the results are undeniable: Imaging has hit the mortgage mainstream in a big way.

According to MORTECH, the annual study of mortgage banking and technology, 49 percent of the mortgage industry has already implemented imaging and document management solutions (either fully or partially); another 35 percent is in the planning stages; and an additional 10 percent to 15 percent growth in adoption is expected in 2006.

The study goes on to show that the larger your firm is, the more apt you are to have already implemented imaging. Indeed, the study shows that 71 percent of those with more than \$1 billion in annual origination volume have imaging systems in place.

Jeff Lebowitz, founder and principal of MORTECH LLC, Guilford, Connecticut, points out that "Lenders approach the implementation of imaging and electronic document management with deliberateness and with solid conviction of future value. Electronic document management is one of those valuable inventions that provides wonderful operating benefits."

The new face of imaging in today's mortgage lending is one that is no longer simply an improvement over microfiche as a means to reduce storage costs. Document-management capabilities integrated with imaging provides intelligence to the process, giving us instant access to specific documents at speeds faster than shuffling through a paper file. When considering that virtually all files in process are available at any time with the same speed, then the efficiency gains are even more obvious when compared with searching for paper files.

The value inherent in imaging and document management lies in cost savings and labor reduction, not necessarily revenue growth. As Lebowitz says, "As a wide cross-section of lenders implements modern document-management systems, little shift in market shares [has accompanied] the investment."

With so many lenders on board with imaging today, adoption by those remaining holdouts can be seen as important to survival, not as a source of competitive advantage. So what accounts for the sudden surge in adoption after all these years? The answer lies in a confluence of factors, including technology advances and business drivers.

As with most technologies, imaging and document management have continued to decline in cost while increasing in capacity and capability. Costs of scanning, indexing, storage and display are significantly lower today than as recently as five years ago. The 20-inch oversized cathode ray tube (CRT) monitor that used to sell for some \$2,000 is now a liquid crystal display (LCD) flat-panel monitor available as a \$200 upgrade with the purchase of a \$700

computer. That same computer comes equipped with a video processor card far better than the one you were required to buy for another \$200 five or six years ago.

Even more significant is the reduction in storage costs. Those expensive optical platter jukeboxes once used to juggle imaged files have been sent to the scrap heap as the storage capacity of modern hard drives has increased just as dramatically as the cost of those drives has declined. In today's economy, bits and bytes are not only smaller, but a lot cheaper than paper.

As for scanners, not only are they cheaper, they're not even that essential to the process today. It's not uncommon for a new office photocopier to create portable document format (PDF) files and

drop them on the network as easily as printing to paper. With each equipment-leasing cycle, the functionality of these ubiquitous machines just gets richer. Similarly, faxes sent between offices are easily routed to computers and stored as digital images, never hitting paper on the receiving end.

With more and more trading partners delivering imaged documents to each other, fewer and fewer documents need to be scanned by lenders today. Innovative lenders are taking the steps needed to ensure they can accept images in virtually any format and readily integrate them into their document-management system.

Mortgage industry and imaging veteran Jeanie Lutterbei, vice president of enterprise document management at GMAC Mortgage Corporation, Horsham, Pennsylvania, is passionate about moving to a paperless environment for all business partners with a key focus on image-based enablement. She reinforces the importance of limiting the amount of physical scanning.

Says Lutterbei, "Imaging is no longer a new technology solution, and many of our partners in the life cycle of lending are using the technology to gain efficiency and lower costs to produce. The key now is to stop duplicating the initial paper-scanning process. Where partners have images, maximize your relationships and transfer the digital content to the next party in the value chain. And go digital from

the start. If it is digital already, get it into your platform without scanning. The cost savings will be significant."

Another key business driver for the imaging explosion is the big growth in private-label securitization. Many private investors have learned the importance to their operating costs of eliminating paper files, and are aggressively promoting the use of imaged files for delivery. For many lenders, this was the push that finally got them on board.

As Lutterbei puts it, "Investors are definitely driving increased adoption. They're literally saying, 'Keep the file, deliver the images, please, do not send us the paper,' and industry platform portals are making it very cheap and practical to do this. They handle image conversion and delivery for you, and they do it very economically."

**A** **another**  
**key business**  
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One such vendor is Vienna, Virginia-based VirPack, a company providing imaging, ePackaging and eDelivery applications and services for a number of correspondent lenders. Michael J. Coar Jr., VirPack founder and president, explains this as a paradigm shift.

“Traditionally, imaging systems were built for internal use only,” he says. “Delivering the documents out of these systems to share the content with others was an alien concept. We designed VirPack from its inception to electronically deliver content in an ePackage, but initially there was no one to deliver to or anyone who knew what to do with the content they received. Recipients often actually printed the images out, only to be rescanned subsequently. Investors needed to re-examine their workflows and change their internal processes to achieve the real benefits from imaged loan delivery. Over the past year, an increasing number of investors have successfully shifted their processes to be paperless.”

There is a certain snowball effect occurring as investors tell their brokers and correspondents to deliver files to them as images. When the brokers and correspondents begin to see the advantages of imaged delivery, they begin putting pressure on their other investors to also accept paperless files if they want their business. This often results in more companies adopting imaging, and the cycle continues.

How you implement your solution, of course, can greatly influence the value you derive from it. The stronger the document-management component and the more willing you are to redesign your processes are often the most telling factors.

According to Coar, “Indexing provides exceptional value. Simply ‘blobbing’ documents—capturing images without any meta-data to distinguish one page from another—is not the best answer. You need quick access to specific documents when you want them. You get this capability through indexing. When done right, indexing can save both ends of the transaction a lot of time and money.”

With the cost of deploying imaging solutions in rapid decline and the potential benefits greater than ever, the ability to achieve an enviable return on investment is now straightforward. This kind of easy-to-justify cost-benefit analysis is another reason why many companies have been able to move their imaging initiatives off the planning table and into production of late.

So just what are the cost savings available through imaging? As with many things, they can be broken down into both hard and soft costs. On the hard-cost end of the equation, most agree that savings on paper and copying costs for the average 250- to 300-page loan file is at least \$4 per loan. Factor in another \$6 to \$20 in delivery charges, at minimum, and a lot more savings if that file needs to be shipped to multiple locations along the way.

Then there are long-term storage costs of as much as \$25 per box per month. Should you ever need to look at that paper file again, you can chip in another \$35 per loan in file-retrieval charges.

Then there are the soft-cost savings. Consider the value you would obtain from the efficiency of allowing simultaneous sharing of a file's contents via imaging instead of passing around the physical file, thus enabling the execution of parallel tasks instead of serializing them. The elimination of handling paper allows myriad cost-reducing process improvements and a shortening of cycle time. As the cycle time is compressed and loans are delivered as images instantly to investors, funding cycles can also be shortened, thus reducing warehouse costs and even allowing you to produce more loans under existing warehouse-line limits.

Imaging is also a critical underpinning of the movement toward outsourcing for cost reduction. Whether off-shore or domestic, imaging plays a significant role in keeping outsourcing costs low while ensuring efficiency remains high. When sending loan files to a sub-servicer across the country or an underwriting file to an outsourcer in India, the ability to transfer images instead of shipping paper is essential.

The question today, then, is no longer whether imaging is viable and cost-effective; it's why aren't you doing it yet?

So, if the imaging naysayers and digital-data purists missed the point about imaging, does this mean they're wrong about their preference for eMortgages and SMART™ docs? Not at all, there are definite advantages to eMortgages that just can't be met through imaging.

eMortgages are no longer pie in the sky. They are very real, and more lenders are creating more of them each and every day. But there are still hurdles to be cleared before the eMortgage rises to ubiquity across all products, in all jurisdictions and for all investors. And there are many documents in the process—such as tax returns and pay stubs, for starters—that may never be fully digital in origin.

For now and the foreseeable future, there should be peaceful and harmonious co-existence between these two complementary technologies.

The nature of eMortgage adoption is such that most in the mortgage industry believe we will be in a hybrid state of intermingling digitally signed and wet-signature loans for per-

haps as long as the next 10 years. Many believe the negatives from the resulting process-bifurcation (having one process for eMortgages and another for traditional loans) can be significantly reduced by properly leveraging image-enabled processes alongside their fully electronic counterparts. After all, an image-based paperless process has far more in common with a SMART-doc paperless process than either have with paper files, including many of the same cost efficiencies.

Whether you are a supporter or opponent, get used to today's new face of imaging. You'll be looking at it for quite some time to come. **MBt**

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