The Shocking Truth About eMortgages

The other day a friend of my kids' was over at the house wearing the ultimate spoiler T-shirt—the front of the shirt was emblazoned with a litany of movie "spoilers" (Rosebud is a sled, the boy's analyst is a ghost, etc.). I was amused to find several spoilers that I did not already know, and it made me think how often these days I see the words "spoiler alert" in the press.

It seems it's become harder and harder to discuss a variety of subject matter without first getting some critical, but secretive, piece of information out in the open, thus risking spoiling the surprise for the reader. These articles typically start off with some kind of setup to draw readers in, then issue a clear warning to read no further if they don't want the secret revealed—the so-called spoiler alert.

This has been the setup to this column; now, here comes the warning.

SPOILER ALERT. If you want to go forward continuing to believe that eMortgages are all about a technology revolution that will dramatically change our industry, read no further. *SPOILER ALERT.* Still with me? Well, you've been warned. Now here's the secret divulged: The trick to success with eMortgages is not about technology, it's about people and process. Sure, technology is a critical component of the eMortgage paradigm, but too often it seems that people think eMortgage is all about the technology—and that simply isn't right.

A few years ago, Cleveland-based AmTrust Bank had made the strategic decision to be the industry leader in eMortgages. Rightly speaking, the strategic decision was not "to be the leader," but rather to truly reap the benefits that eMortgages offered, which meant significantly increasing the volume of eMortgage that AmTrust produced each month.

The truth be told, AmTrust was already the industry leader in eMortgages, at the time producing dozens of eNotes each month. But to achieve their goals, AmTrust management figured they had to up their game significantly, increasing monthly volume from dozens to thousands, because the real benefits of disruptive innovation can only be realized when new approaches become regular and routine.

Here is where this story gets really interesting. For the most part, the technology to produce eMortgages was already in place, fully implemented and in use, being leveraged to produce those handfuls of eNotes each month. Further, getting the boost in volume they sought did not seem insurmountable, as AmTrust Executive Vice President for Mortgage Banking Jon Baymiller had a pretty good handle on using "the carrot and the stick" to get his account execs and clients to deliver the loans electronically instead of on paper.

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Instead, the problem AmTrust execs faced was simple: Counter-intuitively, it was proving to be more expensive to produce eNotes and deliver them to their investor—not less costly—because the *process* could not truly evolve until the unit velocity forced changes in behavior across all key aspects of the business execution.

While some of the costs incurred were related to technology services that could reasonably be expected to decrease on a per-loan basis by virtue of ramping up the volume, the bulk of it came from operations. The people and process costs of dealing with an electronic note were not decreasing sufficiently to produce the compelling return on investment (ROI) that Baymiller expected from the eMortgage investment.

To successfully reach the goal of shifting production increasingly to electronic mortgages and reaping cost benefits from that change required that AmTrust re-evaluate everything it did in the back office. Digitally signed electronic loans needed to be processed as the norm, not as exceptions, and that meant AmTrust had to examine what it did and begin doing things differently.

The management team determined that an independent and objective view was required, given everyone's vested ownership of the operation's legacy processes, so AmTrust engaged CC Pace to bring external technical and process expertise to bear on the assessment and redesign effort.

At the outset of the effort, Baymiller drafted a simple statement of the primary goal driving AmTrust's quest—what he referred to as the company's BHAG: a big, hairy, audacious goal (BHAG) for how eMortgages should be produced and the time frames in which key tasks should be completed. The specifics of that guiding vision are proprietary to AmTrust and irrelevant here. What is relevant—and more than that, critical—is that management's actions were driven by a well-defined objective, clearly communicated and broadly understood by the organization. That is key to realizing complex business transformation in a truly impactful way.

The first task of the redesign was to facilitate a much broader vision for how business needed to be conducted. The BHAG laid out a very specific, but relatively narrow, goal to build upon. The business vision needed to go much further in outlining what AmTrust's business might look like if that goal were achieved.

The concept was that the core goal, while a stretch, was ultimately achievable if AmTrust charted its course correctly and put all the right pieces in place. The grand vision, on the other hand, was to set the tone for how that goal was met and how business was to evolve for some time to come. It was intended to be inspirational more so than achievable.

Next up was to establish some very specific ground rules for the process redesign through a series of facilitated meetings with key stakeholders. Despite the best intentions of many well-regarded approaches to process redesign (including Michael Hammer's book, *Reengineering the Corporation,* and Six Sigma, among others), the activity remains far more art than science. (The classic rebuttal to Hammer is "How do you *re*-engineer something that was never engineered in the first place?", while Six Sigma naysayers point out that you don't fix processes where the process maturity level is at "zero" by counting defects.)

Understanding that efforts toward process improvement would likely require a fair amount of negotiation to secure buy-in from the work force, it was important to establish near the outset those things that were non-negotiable. These were things that management felt strongly must be done in the new process, no matter what that process ultimately looked like. Some of these were things that were done currently that they felt must be preserved, but others were specific steps that needed to be added; most dealt with regulatory compliance or fraud detection.

With the ground rules established, the goals firmly in mind and the grand vision well understood, the project team began exercises to fully document the current state (the "as is"), to model the desired future state ("to be"), and to perform a gap analysis to understand what it would take to move the organization from the "as is" to the "to be."

It is important to be clear that the project team was not strictly designing an eMortgage workflow. We were redesigning AmTrust's mortgage processes—digital or wet-signed, table-funded or warehoused, escrow or non-escrow. In order to ensure that eMortgage processing was not treated as an exception process, it was important to limit process bifurcation as much as possible, and that meant changing the way traditional mortgages were handled, too.

If a process designed for handling a digitally signed electronic file could be applied to a wet-signed paper file, it was. This was not a straightforward, linear process-modeling exercise; it was accomplished through a series of iterations and was improved upon continually through incorporating feedback from management and staff alike. New concepts and significant departures from the current state were work-shopped to fine-tune and gain acceptance from those who would be most affected. Senior management scrutinized the details to ensure they were convinced their goals would be met, regulatory compliance assured and business risks reduced.

In the final analysis of the gaps that the project documented between the current and future states, 40 key items were identified—significant gaps between where AmTrust's "as-is" model was and where it wanted to be that needed to be closed to achieve the company's objectives. Each of these items was then localized to where it fell in the overall production cycle and timeline, and assessed for impact to policy, process, technology or organization.

The analysis showed that none of the gaps were isolated to a single point of impact, and many fell across all four areas. In fact, the 40 key gaps identified were found to have a total of 106 points of impact. Process impact led the pack with all but four of the gaps (or a total of 36), having been found to represent significant implications to current processes.

The remaining 70 impacts broke down as 33 affecting technology, 24 with policy implications and 13 impacting organizational design. It should be noted that of the technology impacts, relatively few dealt with the nuts and bolts of electronic files, but rather required changes to core processing, pricing and underwriting systems.

As Baymiller remarked, "With CC Pace's assistance, AmTrust Mortgage Banking (now a service provided by New York Community Bank) very quickly advanced our technology-centric business model into an extraordinarily efficient approach to mortgage aggregation. Today, over 95 percent of our business is manufactured through substantially automated business processes, which we control, culminating in an eMortgage that can be monetized within one business day of funding the loan. There are tremendous advantages for New York Community Bank, our clients and our investors in terms of speed, ease, control and compliance risk management. Investing the time to comprehensively understand the process change necessary to support a totally different method of mortgage aggregation fulfillment is critical. Then keep implementation simple and straightforward, notwithstanding the thousands of decisions and details, by staying true to your vision."

The industry's eMortgage push may have been put on hold temporarily, along with many other things, during the market upheaval (or perhaps more correctly, diverted to fitting the needs of loan modifications), but no one doubts that it will be a critical component of how business is conducted going forward. It is therefore critical that the business side of the house becomes more engaged in the preparations. After all, that is where the real impact lies and where the greatest transformation is needed.

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