

A Wholesale Investment in Technology

TEN YEARS AGO A LOAN FILE WAS TYPICALLY ABOUT 2 to 2½ inches thick. Today, that same file is closer to ½ inch, according to Tricia Bailey, president-wholesale division at BrooksAmerica Mortgage Corporation, Santa Ana, California. With the loan volume the industry experienced in the first half of this year, imagine all the paper that was saved.

BY PATRICK H. SEROKA

When you consider that the top 25 wholesale lenders alone produced more than \$1 trillion in loans in just the first six months of 2003, according to *Inside Mortgage Finance* (Aug. 15, 2003), that additional two inches would add up to more than 650,000 cubic feet of paper.

Less paper is just one of the benefits of having powerful technology available at the desktop. Technology has been a key factor for many wholesalers in handling the staggering number of originations in 2002 and 2003.

Although the industry hasn't achieved start-to-finish online mortgage origination as quickly as some had predicted, no one any longer doubts that the Internet is a valid delivery channel for loan origination. Automated underwriting systems and sophisticated loan origination system (LOS) software have taken a firm hold throughout the mortgage industry. The efficiency, speed and accuracy of these and other technologies have played an important role in enabling wholesale lenders to meet their customers' needs.

We decided to investigate the impact of technology further in the area of wholesale lending. So we talked to several lenders, from small to large (see Figure 1). We found that keeping up with technology has become a top priority for wholesalers looking to increase efficiency and productivity and striving to provide better and faster service to brokers

and correspondents. These lenders appreciate the advances that have helped streamline the mortgage application and approval process.

We know that technology for technology's sake simply won't cut it in this industry. A growing number of practical solutions have been introduced in the past few years, automating nearly every part of the lending process. These technologies are providing the capabilities that have resulted in more efficient Internet-based loan delivery.

Automated processes now routinely and effectively handle tasks that used to be relegated to time-consuming phone calls, fax and regular mail. From automated underwriting and loan origination to appraisals, quality control, mortgage insurance, credit reports and due diligence, for most wholesale lenders there is a technology solution available on the market today. Loan decisions now arrive in hours or minutes instead of many weeks, increasing production and improving customer service while reducing errors and saving on labor costs.

Wholesale lenders, from big to small, have invested in a broad assortment of technologies to handle the crushing volume of business in recent times.

Hear what they credit for getting them through the boom.

A win-win

Les Acree, Indianapolis-based Irwin Mortgage Corporation's senior vice president, estimates his company will have substantially increased its wholesale loan production over the past two years, from \$5.5 billion in 2001 to an estimated \$13 billion to \$15 billion in 2003. According to Acree and Mike Patterson, Irwin's assistant vice president—wholesale Internet strategy, technology has played a significant role in the company's ability to process that volume.

"Internet technology links us to our customers," Acree says. "Through their point of sale, brokers have access to our rates and product guides; they can lock a loan, get confirmation online. No one has to dial a phone, no one has to answer a phone. They receive confirmations electronically and immediately."

Patterson agrees that it has been a win-win situation for the brokers and the wholesaler. "We've accomplished our goals . . . making the process easier for the brokers and reducing their time and costs, while at the same time reducing our internal costs and increasing production," he says.

Karl Young, chief operating officer of Tucson, Arizona-based First Magnus Financial Corporation, says his company, which has grown from \$5.7 billion in wholesale volume in 2001 to \$17 billion projected for 2003, also puts a significant focus on technology. "I believe the greatest impact has been and will continue to be from the business-to-business [B2B] Web sites, origination system technology and automated underwriting," he says.

For smaller wholesale lenders, technology has leveled the playing field just as it did in the retail market, allowing many of them to provide the same fast, efficient service as larger lenders. These lenders have found that through the Internet, they have an opportunity to reach out to a wider market.

Even lenders in less populated states such as Montana have found that although they may not be as dependent

on technology as other lenders, automation has helped significantly in specific areas of the wholesale origination business.

Intermountain Mortgage Co. Inc., Billings, Montana, has a projected volume of \$50 million for 2003. The company's senior vice president, Gerry Hudson, knows his volume is pretty small compared with other lenders around the country. "However, our loan volume compared to one year ago will probably be double," he says, "and \$50 million in the small communities of Montana is a lot of loans. The largest MSA [metropolitan statistical area] is probably only about 140,000 people. We process a lot of loans; they are just smaller in amount. Our niche is in dealing with banks and credit unions that have neither the desire nor the resources to install a complete real estate department, and we use technology when it can help us."

Automated underwriting

The most firmly entrenched lending technology by far is automated underwriting (AU). It enjoys almost universal adoption throughout the mortgage industry now. AU has drastically altered the mortgage approval process. Wholesale lenders are reaping the same benefits from this technology as are brokers, retail lenders and customers.

Wholesalers and brokers alike have embraced the added efficiency offered by systems such as Fannie Mae's Desktop Underwriter® (DU™), Freddie Mac's Loan Prospector® (LP) and other automated underwriting systems offered by private companies such as GMAC Residential Funding, Bloomington, Minnesota. Even many complex loans now can get a decision in minutes, allowing wholesalers to send their recommendation and documentation requirements back to brokers immediately.

At BrooksAmerica Mortgage, underwriting capacity has doubled over the last two years, according to Chief Executive Officer Michael Brooks. He and Bailey declined to give actual

Figure 1 A Closer Look at Four Wholesale Lenders

Company	2003 Projected Loan Volume	Loan Volume Increase Over 2001	Increase in Staff 2001–2003	Technologies Utilized
BrooksAmerica Mortgage Corp. Santa Ana, CA Wholesale operations began: 1990 www.brooksamerica.com	(N/A)	200%	10%	Appraisal, automated underwriting, B2B Web site, due diligence for new brokers, origination system, quality control/fraud detection, Web portals for MI/settlement services
First Magnus Financial Corp. Tucson, AZ Wholesale operations began: 1997 www.firstmagnus.com	\$17 billion	200%	60%	Appraisal, automated underwriting, B2B Web site, due diligence for new brokers, origination system, quality control/fraud detection, Web portals for MI/settlement services
Intermountain Mortgage Co. Inc. Billings, MT Wholesale operations began: 2001 www.intermountaininc.com	\$50 million	— (Wholesale Division opened in 2001)	—	Automated underwriting, origination system
Irwin Mortgage Corp. Fishers, IN Wholesale operations began: 1987 www.irwinmortgage.com	\$13 billion–\$15 billion	143%	105%	Appraisal, automated underwriting, B2B Web site, origination system, quality control/fraud detection

SOURCE: SEROKA & ASSOCIATES INC.

dollar amounts, but agree that technology was very important in handling that increased volume.

"The key here is that we've increased the volume with only about a 10 percent increase in staff," Brooks says. "Technology has a lot to do with that. I would say our underwriting capacity has doubled over the last three years. If an underwriter could handle six loans a day a few years ago, now they can handle 12 to 15 loans a day. And a side benefit is that we can afford to pay the underwriters more. We want an underwriter who has a tremendous amount of expertise to take care of the difficult loans—the ones that don't fly through the automated underwriting system and require human expertise—so that's another benefit."

Origination systems

While loan origination systems are extremely critical for originators, the significance of this technology for the wholesale lender's operation has been embraced more reluctantly. However, that reluctance has been changing recently. Wholesalers, many of which found themselves understaffed for the loan volume they saw during the boom, have found that LOS software helps them address these problems while decreasing paperwork and lost files, and it eliminates some manual steps in the process.

The typical origination system is designed to generate documentation, perform calculations and also act as a data repository. This technology assists wholesalers in providing increasingly higher levels of service to brokers—easily recognized as a big plus in this highly competitive business.

"We've customized our Lakewood/EDS system to match our needs," Irwin Mortgage's Acree says.

"Our Web site feeds into it, so we don't have multiple places where we have data. It's one data depository and an open architecture format. Our brokers can upload their loans through the point of sale into our Web site, which directly feeds into our loan origination system. We're implementing a link from our Web site and our loan origination system to the automated underwriting engines out there—the DUs and LPs. That's easily a savings of about 45 minutes—the time it would take to fill out a DU application and then make changes. We have that link built and just send that data over, and then we can make another decision. So we're eliminating the cost and extra time to input that information into DU, and at the same time reducing the human error. It's going to benefit us, but first and foremost it will benefit our brokers by allowing them to submit directly to Fannie Mae."

Intermountain's Hudson says his company uses Atlanta-based Harland Financial Solutions Inc.'s INTERLINQ® MortgageWare origination system. "It gives us a complete system that originates, closes, tracks documents, does everything we need," he says. "It saves on labor; . . . that's the biggest benefit for us. I now have four people on staff to do processing, underwriting and closing. Without this system, I'd probably have twice that many."

Some companies prefer to invest in developing their own proprietary loan origination system to achieve the specific benefits they seek. That's what BrooksAmerica decided to do in 1996.

"We built a system that did exactly what we were looking

for in an origination system," Brooks explains. "As a sole proprietorship, we could make those kinds of investments and also drive that investment to give us the productivity requirements we wanted. We asked ourselves, 'How much more efficient can we become? How much better can our quality be?' Every aspect of our business has been enhanced dramatically by this loan origination system. It's fully integrated with everything that we do, from payroll to accounting to loan servicing. . . . And it's fully accessible from anywhere in the world, whether it be at home or on vacation. That's a tremendous benefit to our employees."

Appraisal technology

One part of the mortgage process where lenders have been slow to adopt automated solutions is the appraisal process. There have been, however, several technologies created that are getting attention now.

With fraud a serious concern in the mortgage industry, quality control and fraud prevention are crucial components in every wholesale lender's strategy.

Wholesalers are beginning to employ Internet capabilities that allow appraisals to be sent to them electronically, and many are also using automated valuation models (AVM) for uncomplicated types of loans or as a "second opinion" to verify the accuracy of a traditional appraisal.

The AVM systems employ models that utilize demographics, property characteristics, economic variables, home sales prices and price trends to estimate property values. This accelerates the appraisal process and lowers the cost significantly, with results generally available in 24 hours or less.

"We've been using AVM since early 2002, mostly as a second opportunity to verify that the appraisal we received is correct," Irwin Mortgage's Acree says. "In areas of the country where fraud has been more prevalent, it allows us more peace of mind that the appraisal is accurate."

Quality control/fraud prevention

With fraud a serious concern in the mortgage industry, quality control and fraud prevention are crucial components in every wholesale lender's strategy. Automated systems for point-of-sale, prefunding and postfunding quality control are offered by several companies, allowing lenders to use technology to check each loan quickly and conveniently.

At Irwin Mortgage, a full-time fraud investigator is employed and the company also takes advantage of AVMs and other electronic tools for preventing fraud. "We use the standard technologies that are out there," Acree says, "including the Internet sites that verify Social Security numbers and other data."

When it comes to quality control and fraud protection, BrooksAmerica's Bailey says that the company prefers to outsource some tasks to technology-based companies that provide services for BrooksAmerica.

“Our own people do quality control and fraud protection. Plus, we outsource certain parts such as prefunding, which is such an integral part when you have third-party origination. We’re relying on that broker to put the package together, and we have to validate that information to make sure that it is accurate since we’re basing our underwriting decision on it.

“There are many, many tools available to lenders, such as back-up credit reports and verifying employment, and we probably use most of those, depending on what we find on our initial audit, the length of time that we’ve used that particular broker, the relationship we have with them. One of the ones we like is LexisNexis. We can put in an individual’s name and find out whatever we need—verify a Social Security number, bankruptcy, criminal records, all of that. And the information can be gathered in one day versus a week,” says Bailey.

Web portal access

Electronic access to services such as mortgage insurance, escrow, title and flood certification is another area where technology is being widely accepted and welcomed by many

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in the wholesale lending business. These B2B Web portals deliver many of the crucial services involved in the loan approval process—services that previously required fax or mail to complete and involved extensive time, labor costs and paperwork for lenders.

Now all the major players offer proprietary Internet portals for originators to access their mortgage insurance (MI) and settlement services. Broader Internet transaction portals such as Dublin, California-based Ellie Mae Inc.’s ePASS®; Milwaukee-based Mortgage Guaranty Insurance Corporation’s (MGIC’s) eMagic; and Santa Ana, California-based RealEC Technologies’ RealEC™ Exchange also provide access to a wide array of these mortgage-related services in one spot.

Wholesale lenders such as Intermountain Mortgage have recognized the value of accessing certain origination and settlement services through these Web portals. “The process for ordering and having mortgage insurance approved on a loan definitely has gone the way of the automated underwriting systems,” Intermountain’s Hudson says. “It’s all done by computer now, so it saves quite a bit of time and money. We don’t have to send a loan package to the underwriting center of the private mortgage insurance company and we don’t have to wait for answers. That saves a lot.”

Due diligence services

In today’s regulatory environment and with all the concern about fraud, wholesale lenders are finding that they must proactively address due diligence regarding their broker rela-

tionships. Internet services offered by companies such as Houston-based IMX Inc.’s BrokerBankSM and Wayne, Pennsylvania-based GHR Systems Inc.’s BrokerOneSourceTM provide thorough background checks on brokers, which have made the task of verifying and monitoring these relationships much simpler. The technology has taken a process that could be very time-consuming and made it quicker and more cost-effective.

“You have to be very careful in checking on potential brokers,” Brooks says. “We outsource this to a company called QC-MAC [based in Culver City, California] that has extensive resources and very sophisticated technology to do the brokers’ credit checks, reference checks, background checks, all the things of that nature. We’ve been able to do that at lower cost than if we did it ourselves.”

Wholesale Web site technology

For most wholesale lenders, B2B Web sites have become a major tool for conducting business with loan originators and vendors. These sites give brokers and correspondents 24-hour direct access to the lenders’ product descriptions and services, as well as capabilities for online loan submissions and loan status confirmation. Similar to what’s occurred on the retail side, the convenience, instant access, decreased reliance on phone calls and, again, the reduced paperwork, have won over many of the skeptics who originally balked at using the Internet.

BrooksAmerica strives to provide a level of technology on its site (www.brooksamerica.com) that is as good as or better than most others, according to Brooks. A new version of the site, created by the company’s information technology (IT) director, Ray Jones, launched this fall.

“You can check the status of loans on our site, order loan documents, e-mail documents, do rate locking, analyze different types of loan programs, find out what program a borrower qualifies for, look at different pricing scenarios to figure out how to qualify a particular borrower, get automated underwriting, e-mail loan documents. You can do pretty much anything you want to do on the Web site. And you don’t have to talk to anybody. Basically, you can transact almost all your business through the Web site,” says Brooks.

“We also use our site to distribute rate information and our marketing information on a regular basis. We really don’t do advertising. For the most part we do our marketing and promote our products on our Web site and our rate sheets, which are available through e-mail, fax, or the site,” says Brooks.

First Magnus Financial (www.firstmagnus.com) and Irwin Mortgage (www.irwinconnect.com) offered similar examples of how they use their Web sites for loan transactions and marketing/promotion efforts. Irwin built its entire site internally, and handles all the maintenance and upkeep.

“With our Web site and e-mail,” Acree says, “we have an audience that wants to receive our information—so we take advantage of that opportunity to get our name out and tell them what’s going on at Irwin.”

According to Young, First Magnus is preparing for a major re-release of its online proprietary Web site. “Until now, our most advanced technology has been primarily related to internal operations,” he says. “However, we are in a position

to leverage some of the most advanced technology in the industry for our brokers. We believe our site is more usable and more accessible to brokers than most others, and also plan to make ourselves widely available through such portals as Ellie Mae's ePass, IMX Inc.'s IMX Exchange® and others.

"We have recently developed one of the most advanced e-mail/fax distribution engines, which is fully integrated with our mortgage banking system. It pulls information directly from our system to send loan status notifications to any or all parties involved in the transaction in real time. We have leveraged that same technology to incorporate e-mail and fax communications for marketing purposes to the brokers in our database, sorted geographically by the characteristics and/or performance of their book of business with First Magnus," Young says.

Moving forward with technology

As wholesale lending procedures continually become more automated, will the industry get to a point where everything will be done electronically—and every step of the process will allow for a seamless electronic transfer of data? That remains to be seen. However, Internet technology has proven that it's invaluable in handling a huge volume of loans. The wholesale lenders that are embracing it seem likely to reap huge rewards in productivity and efficiency.

Investing in technology is something that wholesale lenders really can't afford to neglect, as both brokers and consumers get used to new levels of customer service.

Young says he believes those who can't leverage the many advantages of technology as we move into the future will

have a hard time surviving and competing as the industry continues to evolve.

Brooks says he believes the biggest gap will be evident for companies that haven't yet invested in technology. He says, "As the market gets more difficult and there is less refi business out there, the companies that have achieved the productivity gains are the ones that are going to experience the greatest benefits in terms of maintaining their bottom lines."



Investing in technology is something that wholesale lenders really can't afford to neglect, as both brokers and consumers get used to new levels of customer service.

As this technology evolves and additional technologies are developed, accepted and modified to meet the demands of the industry, we can foresee even more savings in time and money for wholesalers. Whatever the challenges of the coming year, technology will likely play a major role in finding ways to meet them. **MB**

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