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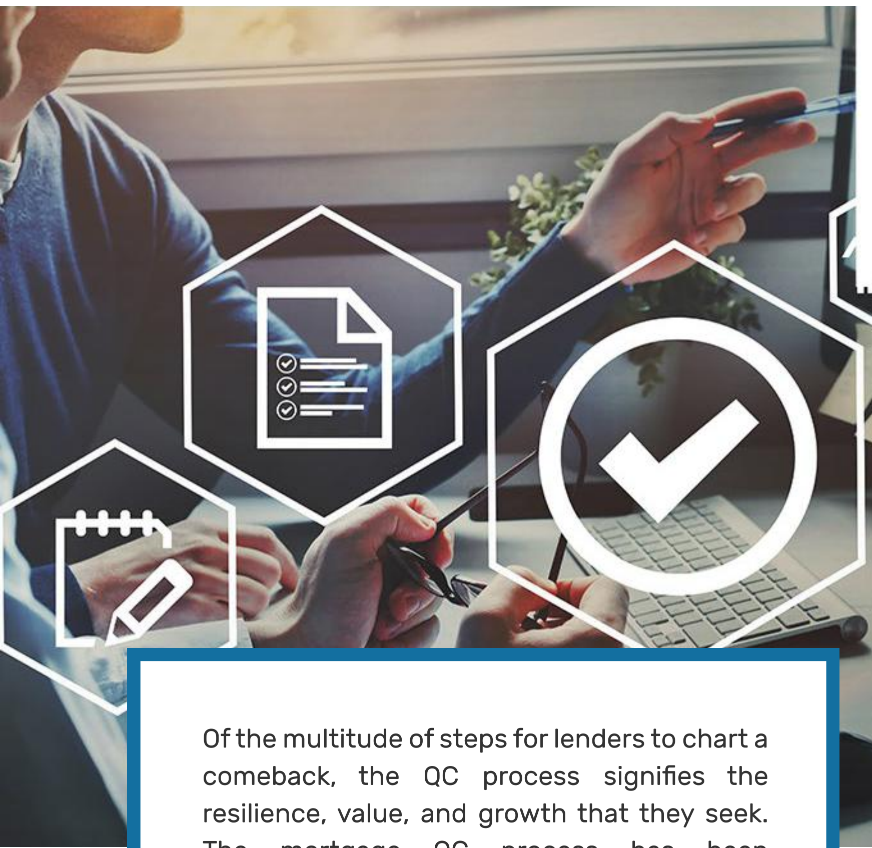
The Impact of the Covid-19 Pandemic on the Mortgage QC Process and Ways to Avoid a Repeat

The Covid-19 pandemic has disrupted the mortgage industry to the core, upending many age-old practices and penalizing insurers for lacking foresight. However, it also outlined the short and long-term areas of focus for the industry for years to come. Among the many focal points, insurance QC is right there at the top, demanding urgent attention. Often tagged as the necessary evil practiced by agencies and executed with apathetic management support, it's a determinant of success in the mortgage business. The efficacy of the QC process also has a substantial bearing on the strategic response of lenders in their fight against the pandemic to steer the organization's wheels.



Of the multitude of steps for lenders to chart a comeback, the QC process signifies the resilience, value, and growth that they seek. The mortgage QC process has been screaming for attention for years. Symptoms such as longer loan cycles, plummeting loan quality, and unhappy customers were clear indicators of what was brewing underneath the surface. But as lenders were perennially occupied with the daily firefighting around competition, finance and liquidity, tax and trade, and strategy and brand, QC took a backseat; the pandemic was just the spark that ignited the fire.

The Covid-19 Assault on the Mortgage QC Process

The mortgage ecosystem has forever been driven by manual processes involving high human intervention. The need for change was rarely felt and occasional demands for automation were invariably overlooked. Nobody wanted to fix what wasn't broken. This ignorance turned into the Achilles heels for lenders as the virus hit where it hurts the most. With the imposing of preventive measures such as social distancing and remote work, the QC process stood exposed. The inability of the team to work from the office coupled with the lack of digital infrastructure to work remotelye merged as the worst nightmare for lenders.

The number of digital mortgage lenders is rising rapidly, and direct-to-consumer (DTC) loan originations enjoy a growing share **(over 25%)** of the market.

The Free fall of Loan Quality

QC analysts are responsible for conducting a wide array of checks in the pre-closing, closing, and post-closing phases. This includes reassessing the debt-to-income ratio of the borrower, verification of the employment details of the applicant, adherence to industry guidelines, calculation and distribution of the charges involved, etc.

Accuracy in the origination, underwriting, closing, and funding stages assures the lender of high loan quality. But with the pandemic raging across the country, the mobility of the QC team to conduct their routine meetings with stakeholders was severely restricted. With no real alternative at their disposal, the quality of loans dropped rapidly and significantly.

Scalability and Profitability Aspirations Took a Hit

The profitability and scalability of the mortgage business are determined by the efficiency of the lender during critical phases of the loan cycle. The QC team which is accountable for the accuracy of all the critical steps of the pre-closing processing, closing, and post-closing stage were restricted by the limitations imposed in the wake of the crisis. Consequently, theystumbled to meet accuracy levels, leading torevenue leakage for lenders.

In 2021, the 30-day delinquency rate is expected to peak at about **14.2%.**

The early birds that embraced digitization for loan boarding, customer service, collections, etc. were able to negotiate the obstacles of human errors, long loan cycles, and others to a large extent. But the majority of the players, amidst the terrible uncertainly surrounding business continuity, grappled with the glitches of document mismanagement, costly manual process execution, and blurred visibility into processes, making it impossible to focus on the profit-making aspects of the business.

In the first quarter of the year 2020, the expenses associated with originating a mortgage spiked to **$7,982** per loan, from the **$7,525** per loan in the previous quarter.

Gross Mismanagement of Resources

Lack of automation in such testing times led to the mismanagement of the human workforce. This forced lenders to invest additional resources to streamline the QC process, which became a significant cost-driver with no real gains. On the other hand, lenders operating with a downsized workforce were forced to push the QC team into tedious file reviews with unrealistic timelines. This not just overburdened the already drained employees but resulted in a significantly high number of errors.

Disgruntled Borrowers

Under normal circumstances, mortgage QC also plays a decisive role in determining customer satisfaction. But the pandemic turned the tables quickly, making QC a pain point for borrowers. Understandably, with the customer service workflow disrupted, the QC team found it exceedingly difficult to coordinate with borrowers to address their auditing concerns, unnecessarily stretching the loan cycle.

While the leading players were able to engage applicants for tasks such as completion of the loan application, sales contract, and appraisal desk reviews, those that relied on their long-outdated processes faced complications in their default and loss mitigation procedures. The need for external help was felt desperately, particularly for review of back-end issues, borrower conversation notes, and other issues having a direct impact on the loan quality.

The Changing Face of Mortgage QC in 2021

Process Automation to Execute Heavy Lifting Tasks

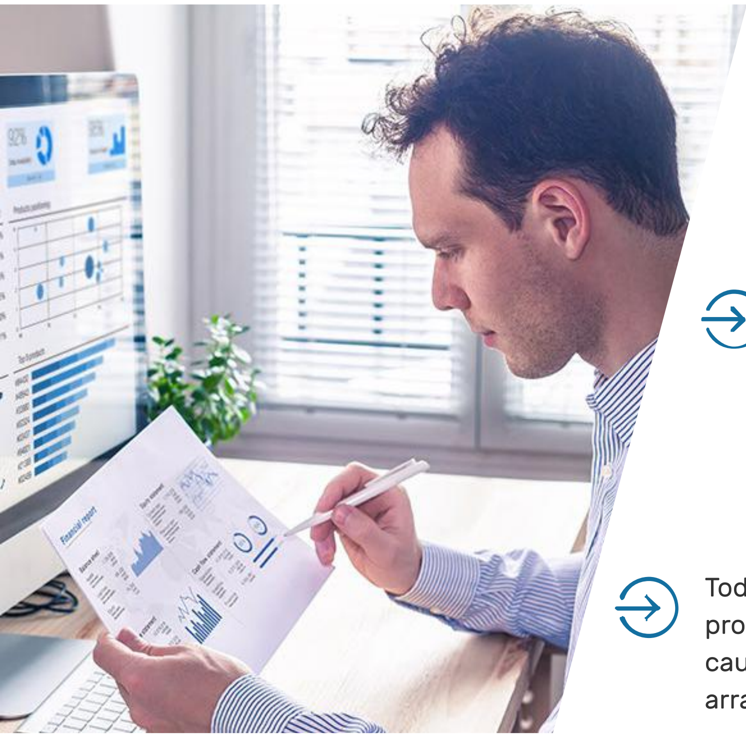
For the mortgage industry, the road to a complete recovery lies in process automation. The one point that the Covid-19 pandemic has driven home for lenders is that they cannot continue with the obsolete way of doing things. Automation of mortgage processes can assist in:

- Cutting down on acquisition and other loan origination costs. Besides front-end processes, digitization extends enough scope to revamp back-end functions including compliance/QC processes.
- Streamlining extensive paperwork pertaining to loan pre-closing, closing, and post-closing. Digital compliance systems have already replaced manual calculation processes, thereby human errors that can escape the QC lens.
- Leveraging optical character recognition (OCR) technique enables the QC team to validate documents intelligently. This cuts down on the time and effort needed on comparing documents and focus on other critical issues such as regulatory compliance.

Operating costs in the industry are on the rise. From 2019 to 2020, the staff total cash compensation increased by approximately 15-20 percent.

Intelligent Reporting as an Anchor for Decision-making

Well-created reports reveal volumes about the financial status of a mortgage firm, its position in the market, and opportunities and challenges. The QC team should have an efficient reporting workflow with a direct reporting line to the organization's senior executive officers. Any issues or anomalies encountered by the team should be reported to the management for prompt actions. But without digital assistance, building such in-depth reports is a time-consuming process.



- With the disordering of the standard reporting procedures, QC teams operating in 2021 and beyond would need intelligent reporting tools. Such tools standardize the data collection procedure and provide a quick and accurate graphical representation of the reports, saving the precious time of stakeholders.
- The QC team is swamped with reporting tasks pertaining to all stages of the loan cycle – loan pre-closing, closing, and post-closing. AI-based reporting tools can automatically prepare, share, receive, and read summary reports on QC findings. Ideal reports include QC results at a high level, covering defects and broad trends revealed by the review process.
- Today, the QC team needs advanced reporting mechanism that provide actionable insights to identify and address the root cause of process errors. Such capabilities also make it easy to arrange targeted training sessions for the staff.

Deeper Analysis for Better Visibility into Processes

The inability of lenders to predict roadblocks and prepare for those led to disastrous consequences in 2020. Today as they brace up for the post-Covid era that promises unexplored opportunities, the QC team must delve beyond the basic raw data and reports and carry out deeper analysis aggressively. Lenders should also recognize that to get the best out of the QC team, they should avoid engaging it in the laborious tasks of data comparison and document presentation.

- Technologies such as big data and artificial intelligence can automate the tedious, brain-racking tasks in loan-level production. With that, the team can concentrate single-mindedly on the QC tasks involving greater cerebral effort.
- A thorough analysis of the current and historical data of the loan process helps the team refine its loan eligibility checking process, improving the overall loan quality. Such steps also help address issues around data consistency, document completion, etc.
- With accurate analysis of relevant data on post-closing and compliance audit tasks, the QC team can manage fluctuating loan volume. With audit automation, reducing the cost of creating and assuring loan quality is possible. Also, the lender can readily identify and correct any compliance glitch before it becomes systemic and impacts the borrower.

Aggressive Sampling Methods for First-rate Loan Quality

As it is impractical to review every loan originated, QC analysts take to different sampling techniques where they choose a small number of loans filed and inspect those to determine the acceptability of the entire lot. In 2021, QC teams have to employ statistical methods judiciously with digital backing to measure and improve loan quality - at low costs.

- The QC team must evaluate if the current sampling technique is helping the lender attain their objective(s), be it better quality loans, shorter loan cycles, or anything else. If not, they must switch to a new method depending on their post-Covid business plan. However, such a decision must be backed by time-bound gains and timely reviews.
- Increase the frequency of evaluating samples. While most lenders prefer doing it on a monthly, quarterly, or biweekly basis, the intent should be to increase the sampling frequency depending on the volume and nature of loan applications.
- For greater success, lenders can team up with a QC back-office support services firm that delivers discretionary reviews of loans by drawing statistical, stratified, and targeted samples. Such firms take into account the client's unique historical and current process risks to ensure accurate results.

Evolved Key Performance Indicators

Metrics to measure the performance and success of the QC team would be the priority for every lender in 2021 and beyond. However, in the pre-pandemic era, there was a lot to be done in terms of adhering to the KPIs and drawing insights from them to improve performance. The Covid-19 episode has flipped this situation, making it imperative for mortgage businesses to not just set up stringent and transparent performance gauging systems but also ensure timely evaluation of those.

- Lenders must possess well-documented processes for periodic validation of metrics and their underlying information source. This would help maintain a strong internal control environment and target specific areas requiring process improvements.
- Individual KPI sets must be devised for distinct processes such as documentation, calculation of debt-to-income ratios, etc. (for loan origination). Likewise, on the operational and servicing side, KPIs can be for first-call resolutions, case follow-ups, and timely payments.
- Accurate analysis of critical metrics and KPIs would enable the QC team to spot potential adverse trends early. This would buy enough time for lenders to perform root cause analysis and avert or at least prepare contingency plans.

Immediate Steps to Improve QC Function

Considering the varying degrees of the havoc of the pandemic, lenders must acknowledge that complete recovery would take time and substantial effort. It requires a phased approach that starts with attention to the most urgent aspects of the QC process and gradually moving on to the remaining ones. For that, lenders and QC teams must segregate the 'highest-priority' tasks from the ones that can wait until the business gets back on track.

Reviving the Verification Process

In the post-Covid period when most mortgage firms would start operations with a reduced employee strength, the bulk of the verification tasks would solely rest on the QC analysts' shoulders. Members must ensure accurate verifications across the pre-closing, closing, and post-closing phases. Both lenders and borrowers would want a fast, low-friction verification process –where the QC analysts seamlessly verify the employment and income verifications.

Lenders must equip their QC department with solutions that let them sift through the current and previous employment and income records of loan applicants. Such solutions come with a robust source of relevant historical dataand standardized verification processes for up-to-date information, providing verifiers with a broader understanding of the applicant.

Taking All Measures to EnsureCompliance

Both the federal government as well as industry regulators have signalled that lenders can expect evolved regulatory requirements in the coming days. The QC compliance aspect of the mortgage business has traditionally been resource-intensive, making it important to seek unexplored solutions. To their relief, lenders can partner with firms offering such services in the form of compliance tools, giving the in-house QC analysts an upper hand in managing the organization's lending portfolio.

Comprehensive compliance service packages comprise policies, checklists, standard procedures, risk-assessment methodologies, worksheets, training tools, and more. Such tailored solutions also serve the much-needed function of cutting down on compliance costs while enabling the team to perform detailed checks on all loans and identify violations instantly.

Being Extra Cautious About Fraud

While the pandemic was rattling the mortgage ecosystem, an unprecedented spike in fraudulent activities made matters worse. Amidst the chaos, lenders had to strive to ensure the security of critical business data, and proactively identify the growing fraudulent claims. In 2021, the role of the QC team would be critical in enabling lenders to detect, report, and prevent frauds.

Financialinstitutions are the target of cybercriminals about 300 times more than any other business in the U.S. Also, the rate of successful breaches has tripled in the past 5 years.

The complex nature of fraudulent activities today warrants lenders to brace up their QC team with AI-based fraud detection tools. One way by which modern AI-based solutions help prevent deceitful attempts is by analyzing past QC data and identifying hidden fraud and mistakepatterns. Intelligent tools can be leveraged to closely examine the appraisal process to spot red flags such as fudged price that vastlyvaries from the predominant market value, discrepancies between the borrower's income and price of the property, etc.

Executing Rigorous Internal

Internal audits fulfil a two-fold objective – quality control of loans and the tracking of performances of individuals involved in the loan cycle process. Anticipating the fierce competition that would characterize the mortgage space in the coming days, lenders must consider a digital recalibration of their audit processes. For better audit outcomes, they must include a sizeable percentage of loans from that each underwriter, loan processor, or loan officer in the job.

As lenders attempt to regain their lost traction, there would be an increased need to subject their workflows to routine audits for a specified period. A reliable mortgage audit back-office services provider emerges as the ideal choice for lenders. Such an audit support firm contributes to the establishment of consistent monitoring workflows to maintain the integrity of critical loan origination processes. Their analysis of key issues in the QC process creates a solid foundation for enabling the client to drive continuous process improvements.Their standard periodic loan audits, loan portfolio reviews, and documentation process make the client's mortgage quality control process fool-proof.

Causes Behind the Meteoric Rise in the Outsourcing of Mortgage QC Back-Office Support Services

Outsourcing isn't a new concept in the mortgage ecosystem. For ages, it has been the success enabler for lenders across the world. The common tags attached to working with the right mortgage outsourcing partner include high loan quality, low overheads, digitized workflows, and satisfied customers. Even when the Covid-10 disaster was raging wild, lenders who were wise enough to team up with a reliable service outsourcing partner were able to carry out business with the least disruption. In the new era where market dynamics would be ruled by lenders with futuristic processes and a robust workflow foundation, the role of mortgage QC back-office support providers gets elevated by several levels.

The total value of the global mortgage outsourcing market is estimated to grow significantly between **2020 and 2026**.

Lenders Forced to Trim Workforce

With most lenders left with no option but to make their staff redundant in order to balance their operating budget, the QC structure, among others, is left vulnerable. While fortifying it is urgent, lenders cannot afford to invest immediately in new resources. External QC teams emerge as the answer to this catch-22. A reliable QC support firm eliminates the hassles of hiring and onboarding candidates by deploying established subject matter experts that guarantee first-rate outcomes.

Future Opportunities Demanding Rapid Actions

The future is agile, and mortgage firms must choose between keeping up with the breakneck speed of the evolution of the industry and slowing down on the path of growth and profitability. The biggest plus of a competent QC back-officefirm is that it enables the client to strike the right balance between increasing production and maintaining a high level of quality. With the repetitive tasks taken up by the QC back-office support partner, the in-house teams are now more capable of spotting and pursuing new growth avenues.

Intense Competition Necessitating Cost-cutting

One thing is certain in the post-pandemic world – mortgage margins would get tighter while the expectations curve of the customer would rise sharply. This makes cost-optimization in QC and other processes the logical move for lenders to keep their balance sheet stable. To their relief, outsourcing firms charge usually a fraction of the costs involved in managing in-house teams, giving the client a head start in the post-Covid race. Outsourcing is a time-tested trick of lenders to keep variable costs in check, thus better managing their overall expenses.

The Need to Focus Only on What's Core

A life saving lesson that lenders have learned during the pandemic is that multitasking can be useful as well as suicidal. When they operated with fewer employees and everyone had to take up more than their share of work, the results were disastrous (in varying degrees). For an elaborate and intricate process like QC that includes several layers of tedious tasks and subtasks, lenders cannot afford to cause employee burnout. On the flip side, when a partner firm takes over the QC tasks, the core team finds itself in a better position to excel in the core areas.

How Outsourcing Mortgage QC Back-office Tasks Turns the Game in Lenders' Favor Flawless Reporting

Mortgage Mortgage QC back-office firms employ clearly defined procedures for reporting findings to the management. They adopt intelligent solutions for monitoring the appropriateness and timeliness of reports. Such tool scan auto-evaluate reports and offer corrective actions to mitigate the challenges highlighted. QC analysts ideally adopt a direct reporting line to the organization's management, fostering effective decision-making. They also assume full responsibility for the credit bureau reporting on behalf of the client.

Accurate Forecasts

The pandemic has taught lenders the importance of predicting what the future holds in order to protect themselves from Covid-like situations. Forecasting provides the QC team with a clear picture of the organization's current position vis-à-vis its goals. QC back-office support providers can help lenders modify their assumptions and explore how operational changes impact profitability, cash flow, and their ability to borrow funds. Lenders also need QC forecasting to fend off liquidity problems that inflicted hardships, resulting in massive losses and even insolvency for many lenders.

Error-free Samplings

Choosing the best sampling methods from the plethora of available options isn't easy for lenders. However, getting it right is critical to the success of the lender to a large degree. Third-party QC analysts possess the know-how to choose the right sampling methodology and can assist clients in choosing the best method. For optimized outcomes, QC analysts combine statistical analysis with a sound sampling methodology, allowing the QC manager to determine the minimum number of random loan reviews required.

Continuous Process Improvements

Mortgage QC back-office service firms employ professionals who can drive modifications to enhance the existing QC process or implement new ones, as appropriate. Their findings and recommendations are based on the meticulous root-cause analyses they perform. Their evaluations are directed to ensure continuous process improvements in the client's ecosystem. Competent firms usually designate a single point of contact as the subject matter expert to keep the client updated on key matters. They also monitor the ongoing evaluation and Corrective Action Plans (CAPs) to ensure improved outcomes.

As they embark on the pursuit of new business avenues within the mortgage universe, lenders would need to rethink a lot of their current processes, including QC. They would need sophisticated but cost-efficient QC models that can reveal significant insights and foretell opportunities and challenges. It's in their best interest to seek the expertise of an efficient outsourcing partner, buying themselves the time to work on their core competencies of loan origination and servicing.

What Makes Us a Trusted Back Office Service Provider for Mortgage QC

A trusted, go-to provider of mortgage QC back-office support solutions, Expert Mortgage Assistance (EMA) is acclaimed for its commitment to its mortgage clients. With an elaborate list of lending organizations in our clientele list, we, even at this time of distress, are enabling our clients to meet all their QC demands without stretching their budget. Besides helping clients with their daily mortgage QC firefighting with our custom audit services, we are stitching up a future-proof QC architecture to ensure the best outcomes for their post-Covid innings.

Expert Mortgage Assistance

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