



# Operational Efficiency: Streamlining Mortgage Operations

Research White Paper

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# 1

## Introduction

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### Purpose

The purpose of this Research White Paper is to:

- Identify the areas where mortgage operations typically lack efficiency
- Highlight best practice in operational practices, production throughput and resource levels
- Examine lenders' ability to manage capacity planning and volume surges
- Discuss means of assessing spare capacity
- Explain how to achieve linkages with organisational priorities
- Identify the most effective means of establishing and formalising cross-departmental linkages

### Approach

The approach has involved:

- Collation of detailed information about typical operational issues encountered within mortgage lenders, based on a combination of original research and experience gained from working with mortgage lenders over the last 10–15 years
- Identification of relevant concepts and principles
- Identification of key success criteria
- Utilisation of anonymous case studies
- Presentation of actionable insights, offering lenders the opportunity to see how the recommendations would apply specifically to an organisation like their own

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# 2

## Executive summary

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### Executive summary...

- Research suggests that the operating costs associated with mortgage operations have recently reached an all-time high, and by examining variation in the cost of new business acquisition, we can see that many small-to-medium sized lenders still have a long way to go in improving their operational efficiency
- Whilst there is obviously significant variation between lenders, the research has highlighted the key process-related and technology-related causes of inefficiency; a particular area in which there are still significant levels of variation is in the use of technology to improve efficiency in the underwriting process
- However, increasing levels of automation in underwriting processes have not resulted in a 'one size fits all' approach; looking at six of the more progressive UK lenders, we can see that a combination of automated decisioning, credit scoring models and risk criteria can impact on both efficiency and elapsed times
- Whilst core process design and technology support can have a significant impact on efficiency, there are two other critical areas that are of equal, if not greater, importance – namely insufficient focus on the need for effective process management, and an absence of effective performance management
- Most lenders now understand the importance of improving process efficiency through technology; however, the other critical driver of efficiency is the adoption of a process-based operating model; research shows that emerging best practice generally involves a number of inter-related and inter-dependent elements
- To rapidly achieve major changes in current performance, to sustain them and then enable continuing improvements requires the appropriate infrastructure to support a process-based operating model; this infrastructure is often built using some form of central 'Process Office'
- Implementing the standards and performance management methods across an operation is typically done on a team-by-team basis, and generally covers the following three stages – preparation, process definitions and standards, and implementation and consolidation
- By monitoring, managing and operating in this way over a period of time, an embedded culture of continuous improvement is developed, further improving effectiveness, efficiency and service
- Operating principles are normally used to describe a holistic end state, and to provide the inspiration and impetus for improvement innovations and initiatives
- It is clearly important for any lender to define its best practice standards – to set an expectation of what the targets need to be to achieve its goals
- Managing process conformance often requires significant changes in behaviour at both the team and manager level

- Having established standards, it is important to test these in a controlled environment; one method of doing this is to use a 'performance laboratory' approach
- Encouraging and coaching processing teams to adopt a philosophy that they are a 'small business', can be very powerful
- Processes have to be measured correctly, starting with the customer's view and their experience of how they engage with the organisation
- In the most efficient and effective mortgage operations, incentives and rewards are tied directly to the objectives set
- Research shows that an effective process framework and well-defined architecture should underpin all of the best practices described thus far
- The research has also confirmed that sustaining these kinds of changes – and maximising the benefits – requires a structured performance programme
- The ability to manage capacity effectively is clearly an essential capability for any lender – and this is, of course, particularly important in the current volatile market environment
- Lenders are currently employing a variety of strategies to achieve greater predictability of volumes, and to influence those volumes in the desired direction
- Some lenders are also taking steps to reduce the resource and capacity impacts of volume fluctuations, by focussing on 'input quality' and process design
- Many lenders now employ a variety of internal resource management techniques, to improve the matching of resources to both current and future demand
- Some lenders also use certain external resourcing management solutions to accommodate fluctuations in business volumes on either a temporary or permanent basis
- The adoption of a process-based approach to improving efficiency is of particular relevance to assessing levels of capacity within their operations
- More specifically, the accurate assessment and release of spare capacity generally involves a number of steps aimed at understanding both the existing and potential process capability
- One of the related methods used by many lenders to assess – and then release – spare capacity is to focus on the identification and elimination/reduction of waste across their operations; one of the most frequently used waste elimination frameworks is 'The 7 Wastes'
- A number of frameworks are used to ensure that operational plans and initiatives are fully aligned to organisational priorities; a common approach involves first defining the purpose of the business, then the processes required to achieve that purpose, and finally the enablers required to execute the processes
- A major UK lender used this framework to translate its key business priority – in this case a significant reduction in costs – into a set of robust, fully aligned plans and initiatives for mortgage operations
- One of the most effective ways of establishing and formalising linkages between departments – employed by various lenders – is to enter into two-way Commercial Service Level Agreements
- Another method employed by a number of lenders is to establish some form of cross-functional process governance entity
- A process council or governance function of this nature generally forms part of a broader process governance framework, across the organisation