## Retail Loan Processing

Retail loan processing is the series of events that occur throughout the life cycle of events between a lender and a borrower. A borrower may acquire a loan for many reasons. For this framework, borrowers will acquire a loan for the purpose of a mortgage.

Generally, there are two types of loans:

- Secured (Land Secured) – a secured loan is a mortgage, where the loan is secured by property.
- Personal – a personal loan is a loan that is not secured by property. An example of a personal loan would be an auto loan.

It should be noted that between institutions, and within institutions, the question of "what is a loan" will vary. Frequently, a lending institution will consider a process a loan after funding has occurred. However, within the same institution, business users may consider a process a loan once it has been audited. Further, the IT department may consider a process to be a loan at any point where data is being processed, or computations are being performed. For the purposes of this document, the latter definition will be utilized when referring to a loan.

## Loan Process

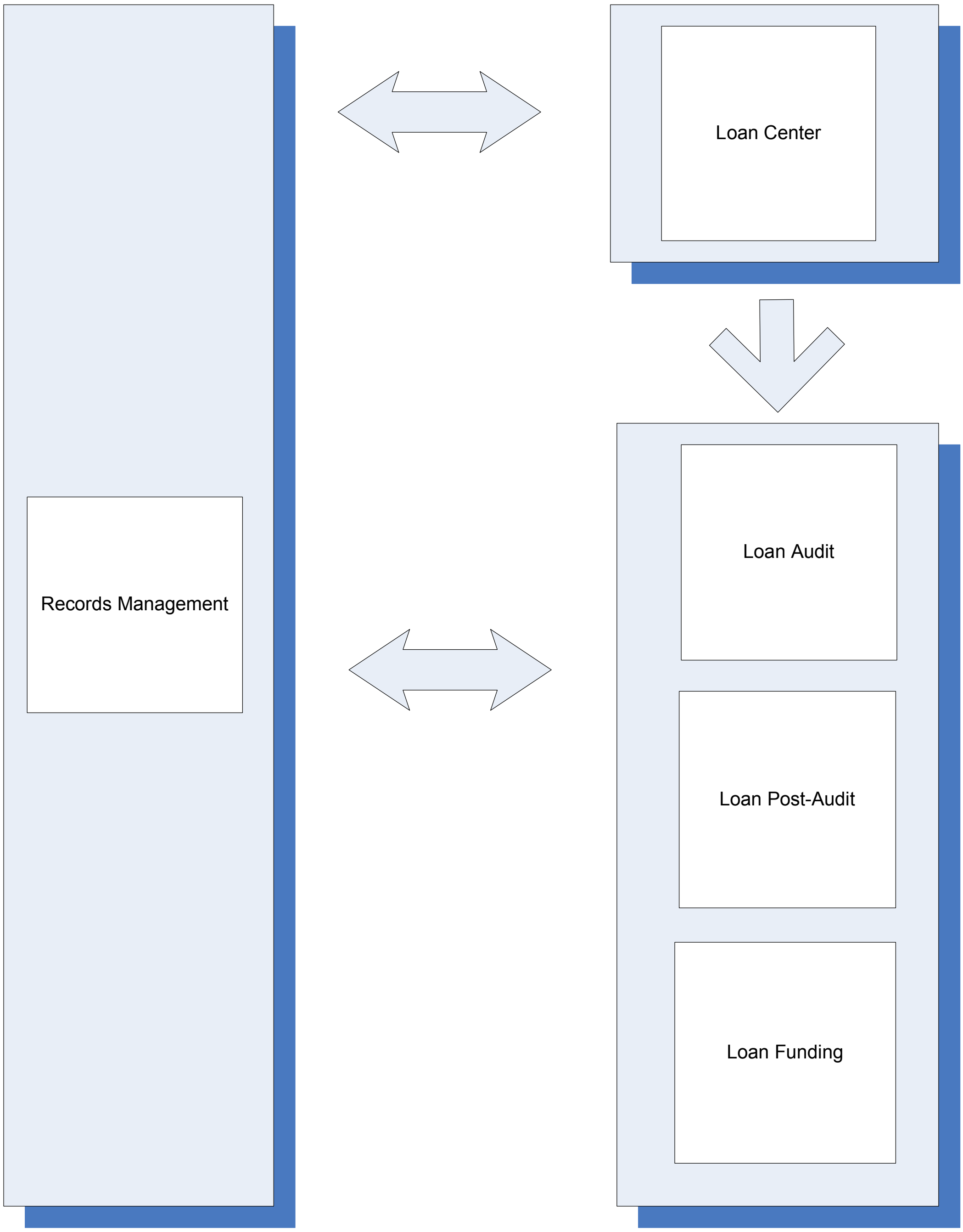
There are five general steps involved in the processing of a mortgage:

- Loan Center – The loan center is the branch at which a customer conductions business. The loan center is the location where the loan process will begin, and from where the loan application will be submitted. The loan center act as borrower contact point.
- Loan Auditing – The loan auditing process is concerned with validation of data submitted from the loan center.
- Loan Funding – The funding phase of the loan life cycle is primarily focused on the transfer of funds from the lender to the borrower.
- Post Audit – During the post auditing phase, final loan documents are generated. Once complete, the loan will enter the maintenance phase.
- Records Management - The records management system exists in parallel to any loan processing system, and is the system of record for all loan activity.

Each step of the loan process consists of a set of detailed activities that must occur before the loan process can move forward. This set of activities will vary by institution, but are generally concerned with the verification and quality assurance of loan data.

The diagram below gives a high level representation of the loan process.

Retail Loan Processing – Mortgage Framework



## Loan Center

The "Loan Center" is the point of origin for a loan. This would typically be a local branch of a bank or credit union. The loan center will collect required data and make any necessary checks and validations before proceeding with the loan process. For example, the loan application is submitted to the loan center by a borrower. Once collection of data is complete, the loan center will submit the loan for processing to the parent institution. Prior to submitting loan data for processing, the loan center may be required to post information to the records management system At this point, the records management system may be responsible for such items as assigning account numbers. Additionally, the loan center will frequently include processing instructions along with the actual loan data.

## Loan Audit

Purpose of the pre-audit tasks are to review the submitted loan center data, verify accuracy of terms and conditions, verify appropriateness of loan terms and conditions given customer account and security, contact the lender if there are discrepancies or missing information, update Loan Status, create a preliminary Disbursement Record, select Loan Package documents and input non-financials to the records management system. The auditing process may involve the following steps:

- Selection of a loan package
- Send loan package
- Post Non-financial information to the records management system.
- Canceling a loan

If information is incomplete, inaccurate or missing, the process is held\delayed while corrections are requested from the lender.

Additionally steps may exist in the audit process to verify the accuracy and completeness of the processor's work and to review and send the Loan Package to the lender.

## Loan Funding

The Funding tasks verify Funding details, insure all fees, premiums and penalties are documented and assigned to the correct debit and credit accounts, the terms are compliant, and necessary security documents are received and in order.
During the funding phase, the following steps may occur:

- Final verification of loan details is made, prior to requesting funds for disbursement. A loan processor verifies that loan terms and conditions are compliant with dates and rates and verifies all non-financial information including rate, payment, next payment due, IAD, expiry, compound date, term and amortization.
- Request for funding of loan by lenders.

- Disbursement of funds – a loan may have multiple disbursements. It is common for loans to be disbursed, or funded, in increments (see terminology section below)
- Generation of loan documentation.

As with each step in the loan process, notification and updating of the records management systems is required.

## Loan Post Audit

After the loan has been funded, it is officially a "loan". During post auditing, a final check is made to ensure that all requirement documents are in place. At this point, the lending process is complete and the loan will enter the maintenance phase. Many loans remain archived in the maintenance phase, even after the loan has been repaid.

The role of Post audit is to verify that the loan is in order; the security has been properly executed, registered, signed and input correctly on records management. Post audit updates information as permitted, culls unnecessary docs from file, and completes the Post Audit Checklist for Records & Distribution.

## Records Management

The records management system exists in parallel to any loan processing system, and is the system of record for all loan activity. The records management system will be queried for loan detail information at multiple steps throughout the loan processing cycle.
The records management system will be update with information that is augmented or added to the loan center data by loan process described above.

## Incoming documents

Loan processing consists of a large number of email and fax communications between lenders, solicitors and builders. Incoming email frequently contains one or more document attachments for a specific loan. Lenders also email change requests, cancel deal requests and responses to omission emails. Incoming email and faxes must be received and indexed to the correct loan. The receipt of incoming documents is frequently a key event in continuing the flow of a loan process.

In addition to email and fax documents, loan processing may involve scanning of a number of critical paper documents. These documents must also be indexed and associated to the correct loan. Processing frequently depends on these documents having been indexed correctly.

## KPI

There are numerous Service Level Agreements related to loan processing, generally centered on processing times at various levels.
At a high level, the following indicators may be utilized:

- Errors –errors fall into 2 general categories. Errors in data that affect processing, and error in processing (human or otherwise). The capture of processing time related to errors is a key performance indicator. The affect of errors on processing time is utilized to create reports, and to identify deficiencies in meeting SLA's. Some examples of errors that would be captured include:
    - Errors by lending center (branch).
    - Errors by user.
    - Errors by activity.
    - Errors within specific time ranges.
- Quality of data – A second area that affect performance is the quality of the data. Data that may be valid, not in error, may be incorrect. This incorrect data may require re-processing of a loan, or may adversely affect service level agreements for a particular step in the loan process. The ability to capture metrics on poor quality data, as well as time spent correcting poor quality data, is highly valuable.
- Processing time – Loan processing is a key performance indicator. Each step in the loan process generally involves service level agreements. Most institutions have highly refined the processing time of each step in their process. Any automation/integration must not have a negative impact on these SLA's.
- Action by the lender to complete the loan process results in latent periods between activities. These latent periods make up key performance indicators.
- Dates & Times - Numerous milestone events occur throughout the life of a loan process. The date and time these milestones occur is captured and utilized for reporting purposes. Some examples of the date/times captured include:
    - When the loan data was received from the loan center.
    - When the loan data was completed by the loan center.
    - When funding was requested.
    - When the loan was actually funded.

The processing of loans in tightly monitored by institutions and almost any event can be utilized for analysis and the gathering of metrics.

## Security and Access Control

The level of access control to loan data is regulated at each step of the loan process, and varies between institutions. Generally, there should be a set of business rules governing which processors can access loans at each step. Access can usually be managed at the group level, but it is not uncommon for access to be granted at the user level, or according to the current state of the loan process.

## Key Terms

Disbursement – A disbursement is the release of funds from the lender to the borrower. Detailed records are kept of each disbursement. For mortgage loan processing a loan may have multiple disbursements (common for builders or construction loans). A disbursement will be the periodic release of construction loan in installments, called progress payments, at specific phases of construction. A portion of the loan is normally held back until completion of the project.

Transaction – The term transaction can be abstract when applied to loan processing, however a transaction can be thought of as a change in status between any two actors in the loan process (lenders, borrowers, solicitors, etc).

SLA - (Service Level Agreement) is a contract between the provider and the user who specifies the level of service that is expected during its term. SLA's are used by vendors and customers as well as internally by IT departments and their end users. SLA's can be very general or extremely detailed, including the steps taken in the event of a failure.

## Conclusion

When considering the processing of a mortgage, a fine grained approach should be taken. A mortgage is a complicated and detailed process consisting of many complex interactions between business units. Each interaction of the mortgage process is recorded for analysis and metrics gathering. Most institutions will have a set of highly refined service level agreements in place. These SLA's should be considered the cornerstone of any loan process. The ability to demonstrate a positive impact on this set of SLA's will add great value to a business, and will be well received.