



The Role of Automation and MERS

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Many lenders are searching for a way to speed up their operations, and automation continues to be a highly effective way to reduce processing time and improve employee productivity.

Mortgage lending is a highly complex, data-intensive process involving significant amounts of information. Successfully managing all this data is key to positive revenue, so lenders are constantly looking for ways to improve their processes through a variety of means, one of the most important being technology.

While personal computers with powerful loan origination software are common in lending offices across the nation, there is still significant room for improvement when it comes to operational efficiency. In fact, lenders cite efficiency as the leading factor for generating profits in the coming few years.

For many lenders, the management of MERS data is one of the main bottlenecks to more efficient operations. Organizations that use spreadsheets to manage loan information often find themselves manually entering loan registration information from Excel or other programs. Not only is this a slow process, but it can create many errors that cost a lot of money over time.

Software that automates the transfer of data from a lender into the MERS system may be one of the biggest opportunities for efficiency improvements. eRAMP is a solution that takes data already recorded in loan origination software and automatically submits it to MERS. Automating this process is already saving many lenders significant sums of time and money.

Key Takeaways

- Lenders with a positive profit outlook see improving operational efficiency as key
- Manual data entry in spreadsheets and other forms has significant costs and high rates of human error
- Automation has been a key driver to increasing revenue for lenders
- Automated MERS data entry improves operational speed and efficiency

Why Increase Efficiency?

The mortgage lending market in the United States is massive. Surveys show that banks, credit unions, and other lenders were responsible for originating hundreds of billions of dollars worth of mortgages in 2016 and 2017. While some of the biggest banks, like Wells Fargo, can sometimes have an external effect on market conditions, most lenders succeed by optimizing their own operations. Due to these factors, increasing efficiency internally is one of the optimal ways to improve business for small, medium, and even large loan originators throughout the country..

Reduced Profit Outlook

According to survey results from Fannie Mae, a majority of lenders have a negative outlook on profits for the last two quarters of 2018. Several factors contribute to this pessimism, including increased competition from other lenders, market trends, consumer demand, and staffing. Personnel costs are at the forefront. The time it takes for staff to manage loan data is considered a significant expense.

Not all lenders are expecting shrinking profit margins. Some actually expect revenue to go up or expenses to go down, or both in the coming quarters. Lenders who were surveyed gave many reasons for these positive expectations, and improvements to operational efficiency are at the top..

Key Reasons for Expected Increase – Q2 2018	
Operational efficiency (i.e., technology)	58%
Consumer demand	56%
Market trend changes (i.e., shift from refinance to purchase)	31%
Non-GSE (other investor) pricing and policies	15%
Staffing (personnel costs) reduction	13%

Showing data for selected answer choices only. n=30

Source: Fannie Mae

Increased Competition

Despite the conditions that created the housing bubble more than a decade ago, and the warnings about banks too big to fail that came as a result, the top 10 banks have a larger share of deposits now than they have in recent memory. The same can't be said, however, for the share of mortgage originations. Credit unions and other non-banks now make up about two-thirds of all originations.

Exhibit 1: Market share by size and types



While greater market share for smaller lenders is good news, it comes with increased competition. Each lender is actively looking for ways to get an edge, and many recognize that technology plays a key role. The ability to get loans into the MERS system quickly and accurately will make lenders more competitive in this market.

Quality Assurance Standards

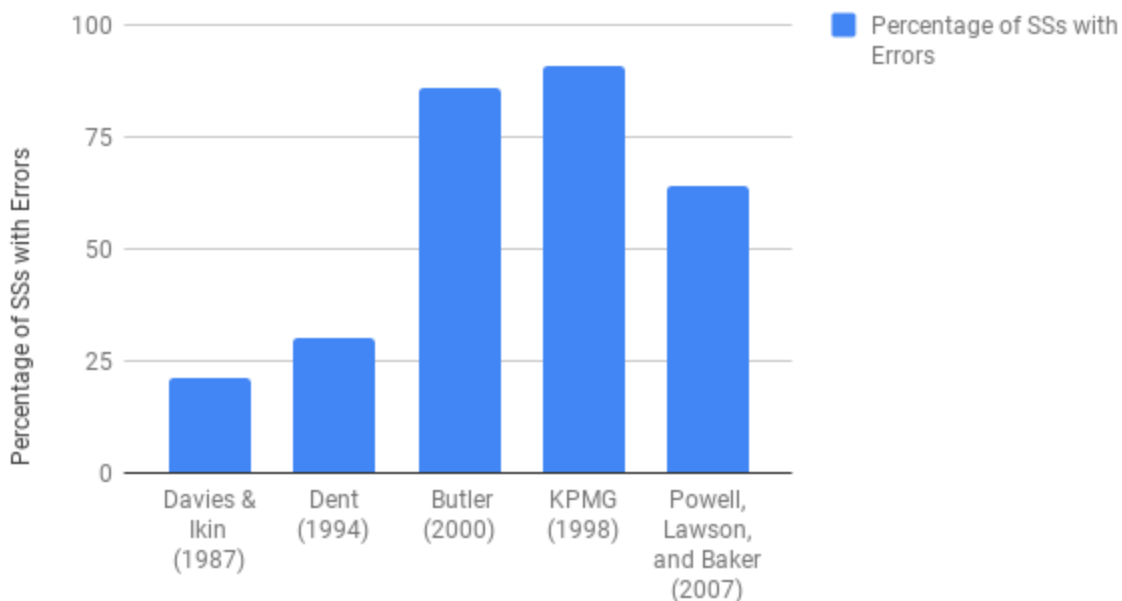
MERS quality assurance standards are designed to ensure that the system delivers its primary value to both buyers and sellers. When a lender interacts with MERS using spreadsheets and manual data entry methods, adhering to their quality assurance standards can be more difficult, risking membership. Processing standards check for a variety of factors, including:

- The use of valid MINs at all times
- Accurate registration of loan information to MERS
- Accurate updates to the system when changes are made
- Completion of an annual report by an External Review Organization

Reduce Human Error

No human being is a perfect data entry machine. Research shows that error rates for all types of input are significant, but mistakes in spreadsheet entry are particularly troublesome for lenders who rely on Excel or other programs for origination. According to meta analysis conducted by the University of Hawaii College of Business Administration, the average human error rate for data entry based tasks is around 0.5%. When looking at spreadsheets specifically, a high percentage of documents were found to contain errors.

Percentage of SSs with Errors



Source: <http://panko.shidler.hawaii.edu/SSR/>

This problem is best illustrated by the 1-10-100 rule. Developed by G. Loabovitz and Y. Chang to show the true hidden costs of data error, this business management concept shows how the cost to fix a single error can rise exponentially the longer it's allowed to fester. For a lender, an incorrect MIN number, address, or other data point can delay the sale of a loan to the securities market. An error that is caught immediately by a loan officer may only cost a few dollars in extra labor, but false information delivered to the MERS system could end up costing a lot more. If certain errors are copied across multiple fields, tens or hundreds of loans could be affected.

Customer Management

Relationships between lenders and borrowers are often characterized by a variety of printed documents and forms. In a Moody's Analytics survey, lenders were asked what their were most problematic issues were in the loan process. Manual collection and transfer of data was a top choice for 56% of the respondents. Every time information needs to be moved from one spreadsheet, form, document, or digital database to another, the chance for errors increases. When these errors occur, it can make it very difficult to give borrowers accurate information about the status of their application or loan.

“An automated credit origination platform enables multiple teams across departments or locations to access the same customer documents electronically, according to their need and purpose, creating a single source of truth.” Moody's Analytics

Manual processes also cause data decentralization, an issue that's exacerbated when information is transferred between parties. When a customer service representative attempts to retrieve a specific data point, they may encounter inconsistencies among different sources, reducing the confidence of a borrower or investor. While complete centralization of data between all parties in the mortgage market may be impossible, using automation to migrate data eliminates inconsistencies and errors.

Automation in the Lending Industry

Automation in finance dates back as far as stock tickers, but the lending industry, and finance in general, were uniquely poised to take advantage of the introduction of cheaper and more widespread personal computers. As processors have increased in speed and software has become more powerful, the processing of vast amounts of information faster and easier than ever.

In a 2016 article by [Business Insider](#), reporters asked experts in the financial industry what factor would bring about the most fundamental change in the coming decade. The vast majority of respondents had the same answer: automation. While this technological trend has strong implications for the future, it already has a rich history in the industry.

Technology's Impact on the Mortgage Market

In historical terms, the mortgage industry is relatively new. Lending itself goes back as far as Ancient Greece and Rome, but the idea of borrowing large sums of money with the idea of using a purchased property as collateral was only popularized in the last century. Two major developments helped the mortgage industry explode in the 20th century. One was the creation of the Federal Housing Administration and other government institutions that promote home ownership. The other was technology that facilitated the relationships between borrowers and mortgage investors.

There are really only two important people in the mortgage process: the borrower and the investor. Everyone else, including lenders, are just friction.” - **Angelo R. Mozilo, Ex-CEO of Countrywide Financial**

While it's fundamentally untrue that lenders are unimportant, their underlying role is of a facilitator. Some private investors risk their own money originating loans, but the vast majority of loans are sold on the secondary market. That means, ideally, lenders are responsible for delivering loans with minimal risk to investors in a timely, accurate, and reliable manner. Technology has proven to be an invaluable tool in this process. Loan origination software specifically made it much easier to set application rules, automatically pull credit reports, manage documents, pull digital signatures, and perform a wide range of other tasks.

The very first LOS was likely released in the early 1980s and only contained a few features, but it wasn't until the mid-1990s that the technology really took off with ubiquitous Internet connectivity. According to research by Michael LaCour-Little of the Journal of Housing Research, improvements in CPU speed, data storage, and network technology had a few fundamental impacts, including:

- Reducing information costs
- Enhancing risk management techniques
- Improving valuation
- Increasing productivity
- Opening a brand new origination channel: the Internet.

By the time computers showed up in lending offices throughout the country, a need to manage all the loans flowing from loan originators to the securities market became paramount. A centralized location of loan records could revolutionize the way mortgages were used as financial instruments.

MERS Hits the Market

One of the biggest technological developments in the 1990s was the introduction of MERS. The Mortgage Electronic Registration System, later MERS Inc., was designed to provide a private platform for the trade of mortgage-backed securities or deeds of trust. By circumventing local record keeping, parties avoided the expensive legal fees that often accompany the transfer of securities from one owner to another. The system serves many other purposes behind the scenes, but they are largely invisible to lenders.

While MERS has been subject to a lot of scrutiny in the past decade as a result of the housing market crisis, it remains a valuable and necessary tool for lenders. Submitting loans to MERS' eRegistry is required by almost all investors involved in mortgage-backed securities, including the largest purchasers of MBSs, Fannie Mae and Freddie Mac. As a result, tens of millions of American mortgages are contained within MERS.

The MERS Bottleneck

Both loan origination software and the MERS eRegistry are essential tools for lenders, but many have yet to discover the effective bridge between the two. Much of the origination process for these lenders is fast, easy, and automated, but transferring information from their own database to MERS is cumbersome and time consuming. This can be referred to as MERS bottleneck.

MERS Loan Registration Requirements



Loan Info

- MIN Number
- Note Amount
- Note Date
- Funding Date
- Lien Type
- Owner Occupied
- MOM
- Loan Pool Number
- MI Case
- FHA/VA Case
- Securitization



Property Info

- Address
- City
- State
- Zip Code
- Country
- Country FIPS Code



Borrowers

- Borrower (SSN)
- Co-Borrower 1 (SSN)
- Co-Borrower 2 (SSN)
- Co-Borrower 3 (SSN)



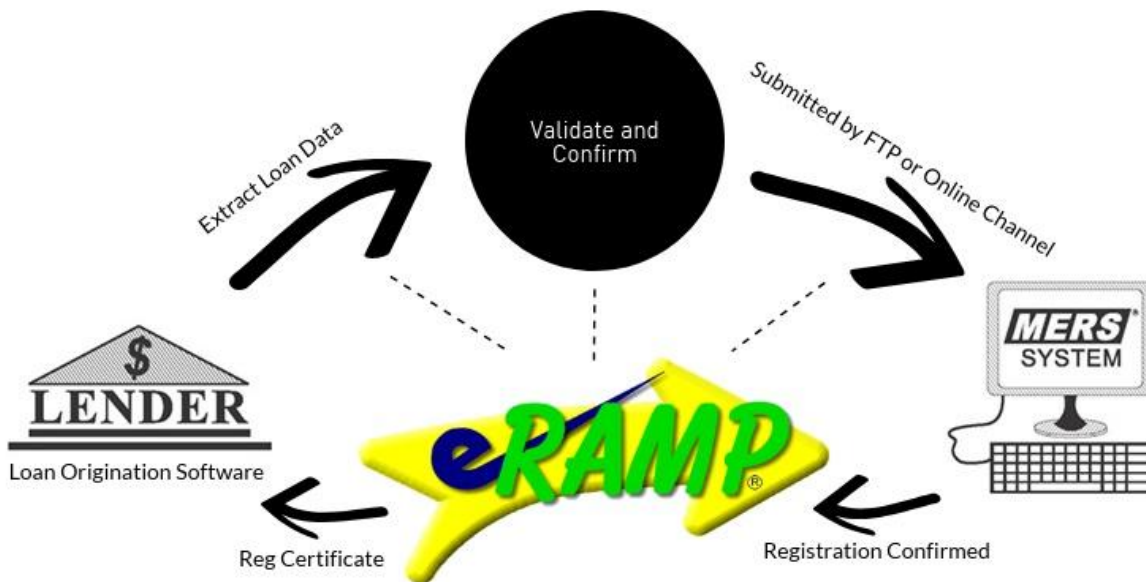
Entities

- Originator
- Investor
- Servicer
- Sub-Servicer
- Funder
- Document Custodian

For many lenders, submitting this information to MERS requires copying data from spreadsheets or other sources into the MERS website form through manual data entry. Many problems can occur during the process.

How Batch Loan Entry Works

Rather than spend a significant amount of time entering data manually into MERS, lenders can take advantage of automated software to submit tens, hundreds, or even thousands of loans at a time in just a few minutes. eRAMP takes advantage of FTP and other online communication channels to transfer loan data from several of the most popular LOS solutions directly to the MERS database. Below is a somewhat simplified view of how the whole process works.



Steps to Take

- Step 1: Import loans from a LOS file (eRAMP verifies each data point during import)
- Step 2: Click one button to transfer loan info from one grid to another(Each individual loan is validated)
- Step 3: Press send button, enter username and password (eRAMP automatically submits the loan data)

A Side-By-Side Comparison

In order to see the true value of automation, it's crucial to look at a direct comparison between manual entry and eRAMP. No two individuals have an identical data entry rate, but we can use the industry average of 8,000 kph to estimate how long it takes to manually submit a loan to MERS. Calculations show that it's about 3 minutes. This is if a worker has a constant keystroke rate making no errors and taking no breaks. Conversely, it takes eRAMP about 3 minutes to submit 100 loans to MERS. The graph below shows how much time can be saved when a specific number of loans are submitted.

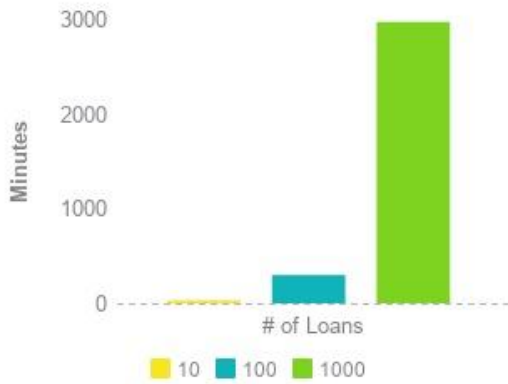


VS

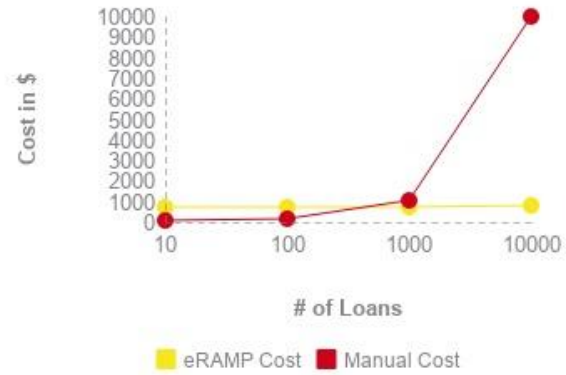
Manual Entry

From Spreadsheet or LOS

Time Savings Using eRAMP



Cost by Amount of Loans Submitted to MERS



Conclusion

The modern mortgage lending market is a highly competitive space that requires technological adaptation for success. While many lenders have already adopted numerous forms of automation, there remain many areas for improvement at all size organizations. One of these areas is the migration of data from loan origination software to MER. Lenders who continue to manually enter loan information from their LOS or spreadsheets spend significant sums of time and manpower completing this process.

Current software makes it possible to almost completely bypass the manual process of submitting loans to MERS. eRAMP takes existing loan data from the loan origination software and automatically submits it to MERS through FTP or their Online channel. Lenders who use eRAMP free up a significant amount of time to focus on other aspects of their duties, including customer relations and marketing.

About eRAMP and Cyberlink

Sources