

# The Automated Mortgage Loan Process

Whitepaper

The projected development of the real estate market, improved financial situation of many households and more favourable conditions to obtain mortgage loans have all led to a significant increase in demand for mortgage loans. Achieving and maintaining a competitive market position may require innovative solutions to support the automation of mortgage loan sales and services.

## A Growing Market

The loan market is constantly growing – in developed countries mortgage loans accounted for 50% of the GDP in 2004. Increasingly more people are searching for a way to finance their investments, with banks beating at their doors with attractive mortgage loan offers. Lower interest rates, lower commissions and margins, smaller mortgage borrower deposits as well as more lenient eligibility criteria all present mortgage borrowers with a real dilemma as to which bank to choose. Additionally, the situation on the loan market is made more difficult by the increasing number of loan brokers, enabling comparison of different bank loan offers.

Therefore, apart from the loan cost, customers are interested in only one essential aspect – time. After receiving their credit rating, customers want to know how fast they can get their money and how many visits they have to pay the bank. Optimization and automation of the complex loan process effects faster loan grants and access to a wider customer base. At the same time, it is conducive to lower loan processing costs and allows banks to maintain their position and expand their activities on the ever more competitive loan market.

## Mortgage – a complex credit process

Complexity of the mortgage loan process results from a lot of factors. Most important is the high value of mortgage loans and the associated risk, which force banks to implement security provisions against potential customer insolvency. Implementation of such provisions requires procurement of many documents from cu-

stomers before a loan decision can be made. Another aspect complicating the loan process is the way of payment. In contrast to smaller-amount loans, which are mostly paid in one lump-sum, mortgage loans are paid out in consecutive instalments dependent on the property purchase agreement signed by the customer or the progress of building an own house.

Furthermore, the long period of mortgage loan repayment requires banks to take preventative steps to secure mortgage loan repayment in case of work loss by mortgage borrower, his death or other accidents. There are different kinds of preventative steps, which require periodic updating. This situation presents banks with a dilemma: how to optimize the mortgage loan process and minimize bank activities in a way which allows quick loan grants and low risk for banks.

## Process automation

Fierce market competition has forced banks to implement innovative IT solutions, which automate the entire mortgage loan process, or parts of it. The introduction of a comprehensive system for managing the mortgage loan process enables quick decision making and minimizes customer involvement. Moreover, banks are assured that all the important elements of the credit process have been taken into consideration. The automation process can be executed on a few levels. Firstly, by introducing an electronic mortgage loan application system. Instead of the traditional way of sending paper documents between people involved in the mortgage loan process, data from a given application together with all the necessary documents are registered in an IT system. The traditional stack of paper documents is replaced by a computer and a system which enables authorized users to access all the documents immediately following their entrance into the system from any bank location. Mortgage loan decisions are made on the basis of e-documents, which are verified with the originals in the final stages of the mortgage loan process, before loan payment.

What are the benefits of automating this aspect of the mortgage loan process? The main benefit is the reduced time it takes for mortgage loan decisions to be made. This

is particularly significant in situations when mortgage loan decisions are made in different places (another city, another bank branch) to where mortgage loan applications were initially lodged. The solution is especially relevant when banks grant mortgage loans through financial brokers, who initiate the mortgage loan process and are the main source of contact with customers.

The next benefit is the availability of mortgage loan application forms on the Internet, which allows customers to fill out their applications online, saving them trips to the bank until after the initial acceptance of their mortgage loan application. From the perspective of a mortgage loan lender, the greatest benefit lies in the automation of the decision making process. To this end, advanced scoring systems are used, which enable banks to establish customer credit rating in a matter of few minutes. The decision is made automatically, in accordance with bank policy and on the basis of mortgage loan application data, external databases, internal bank databases (i.e.: "black lists", customer databases), customer history and other sources.

Other undoubted advantages of scoring systems, besides reducing the length of the mortgage loan decision process, include rendering risk management processes more efficient and standardizing procedures in this area. Using the above-described tools at different stages of the process is a necessity for innovative banks. However, one other level of process automation exists – that of comprehensive IT solutions which support the mortgage loan process from the moment that an application is lodged until loan payment and monitoring of loan instalment repayment. Such solutions enable precise planning and optimization of the whole process, planning of roles of people involved in the mortgage loan process and their authorization and access to documents. Of vital significance is the possibility to model the mortgage loan process continuously, according to changing market trends.

In the case of mortgage loan sales, implementation of an IT system that supports core mortgage loan proces-

ses solves two basic problems. Firstly, system support in the area of registration and service of security devices facilitate their management and monitoring at later stages; something that without system support is very difficult, time-consuming and susceptible to mistakes. The second important benefit is service support of many documents (application forms, contracts, transfer of insurance policy rights, land registry entries). The possibility to generate in the system different printouts on the basis of initially introduced data shortens the process and saves customers and bank employees time. Additionally, IT systems facilitate the whole mortgage loan process by selling mortgage loans with the aid of e-documents, which eliminates sending paper documents between bank branches and the credit analysis center. This comprehensive system minimizes the risk of mistakes and thanks to control tools, enables diffusion of blockages that delay the process.

Introduction of a comprehensive system of mortgage loan process management promotes quick decision making and minimizes customer involvement.

### Comarch Credit Process Management

Such a comprehensive IT solution for mortgage loan process management has already been implemented by Bank BPH using Comarch's Credit Process Management system. Bank BPH is one of the biggest banks in Poland in the area of mortgage loan services, with a 20% share of the Polish market. Currently, all elements of the bank's mortgage loan sale process are carried out with the use of Comarch's Credit Process Management system. This significantly shortens the time of processing mortgage application forms (from 2 weeks to 1 day), renders the process more efficient, lowers the credit risk and cuts operational costs. In consequence, Bank BPH is expertly prepared to answer the continuously increasing demand for mortgage loans and maintain high standards of customer service as well as strict bank policies.

**Katarzyna Siwarska**

Business Solution Manager  
Consulting Center for Financial Sector

#### Comarch Headquarters

Al. Jana Pawła II 39 a  
31-864 Krakow  
Poland

**phone:** +48 12 64 61 000

**fax:** +48 12 64 61 100

**e-mail:** info@comarch.com

[www.finance.comarch.com](http://www.finance.comarch.com)

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