

Trends, Opportunities and Best Practices in Mortgage Outsourcing





INTRODUCTION

Improving Quality, Accuracy, Speed and Efficiency in Mortgage Origination, Warehouse Administration and Asset Management

The residential mortgage lending industry has faced volatile market conditions since the Federal Reserve began raising interest rates in 2022. Loan origination volumes have declined while operational costs have increased, given the current labor and regulatory environment. In this uncertain climate, mortgage lenders are shifting to innovative staffing models powered by leading technologies. Understanding these models, and the strategic benefits of outsourcing, is crucial for market participants to remain competitive. In this white paper, we examine three areas of opportunity in outsourcing across the residential mortgage lifecycle: loan origination, warehousing administration and asset management, and look at best practices in each.



MORTGAGE ORIGINATION

Outsourcing Opportunities in Loan Origination and Fulfillment

Traditional staffing models in mortgage underwriting often struggle with fluctuating market conditions. In times of high demand, lenders face challenges in rapidly scaling their workforce, leading to longer turnaround times and compromised quality. Conversely, when volume declines, maintaining a large workforce becomes economically unsustainable. As a result, lenders are increasingly turning to flexible staffing models to help manage underwriting and loan processing.

Third-party outsourcing firms typically handle non-customer-facing activities, relieving key pain points such as processing time, quality, accuracy and compliance, explained Jon Gerretsen, Managing Director, Residential New Origination and Fulfillment Services. "The customer relationship is crucial," Gerretsen said. "Outsourcing allows mortgage originators or aggregators to spend more quality time with their customers and borrowers, and stay focused on their core activities -- product, pricing, deliverables and business development."



Just as important, outsourcing helps address the variability in staffing, providing the operational flexibility to respond swiftly to market changes by scaling a workforce up or down, and eliminating the administrative burden of hiring and firing.



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JON GERRETSEN

Managing Director, Residential New Origination and Fulfillment Services

MORTGAGE ORIGINATION (cont.)

Models of Loan Fulfillment: Component Services Support

SitusAMC has developed two different approaches to support loan fulfillment -- fully licensed underwriting and component services. The latter, modeled on manufacturing processes, breaks the entire mortgage process into 80 to 100 micro-tasks that can be performed around the globe, 24 hours a day.

"We separated the process into small components so clients understand the breadth of tasks they can outsource," explained Priyankar Ghosh, Managing Director, Shared Services. "We deliver these functions through a global team in both serial and parallel order, around the clock.



By outsourcing back-end tasks, that processor can focus on keeping the borrower, realtor and everyone else involved in the transaction happy.



TRACY LANDWEHR
Director, Lender &
Fulfillment Services

Like auto manufacturing, our processes are all standardized, so wherever they occur, whether Miami or Mumbai, the work product has the same quality standards." Those quality standards and delivery speeds are specified in the outsourcing contract, so lenders can easily measure performance.

The component model gives internal loan processors the ability to handle greater volume, invest more in relationships, or both. "Typically, a processor can manage a pipeline of 25 or 30 loans," said Tracy Landwehr, Director, Lender & Fulfillment Services. "Throughout the day they're trying to triage priorities. Maybe while they're busy doing pre-underwriting, they miss several calls from a borrower who wants to change products, and that person goes elsewhere. By outsourcing back-end tasks that occur throughout the day to a component services support firm, that processor can now balance 50 loan files. More importantly, they can focus on keeping the borrower, realtor and everyone else involved in the transaction happy, so they don't lose the opportunity."

In addition, component services teams work in pods, so the end product is a consistent output that reflects the client's business inside and out, rather than an idiosyncratic one. "The team advantage is that when people work together for a long time, everyone gets to know each other's habits," Ghosh said. "They complement each other extremely well, and that yields higher quality and greater efficiencies."



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PRIYANKAR GHOSH
Managing Director, Shared Services





MORTGAGE ORIGINATION (cont.)

Models of Loan Fulfillment: Licensed Underwriting

In a fully licensed underwriting model, the external team analyzes the collateral, credit and borrower capacity to pay, and manages the file through closing, funding and post-closing. "It's a partnership," Gerretsen said. "We add value through dedicated teams of subject matter experts with deep experience in a wide array of products and the loan cycle. We stay with our partners consistently and become part of their strategic plan and culture."

A fully licensed model gives lenders the flexibility to diversify faster into new products, with less risk. "A lender may decide to get into DSCR (debt service coverage ratio) loans to investors," Gerretsen said. "Rather than build out a team, it's much less of risky to work with a firm like ours. Outsourcing offers better efficiency, accuracy and speed of service delivery, because we have experts with deep experience in the product who can ramp up immediately."

Moreover, fully licensed outsourcing mitigates the risk associated with staff turnover and retention, particularly for highly

skilled roles. During peak periods, talent wars erupt as competition for skilled underwriters intensifies, leading to higher costs and potential service disruptions. Outsourcing firms can serve as a kind of insurance policy, so when spikes occur, lenders don't have to figure out how to hire several dozen underwriters at a time when every other firm in the industry is recruiting as well.

"Outsourcing licensed underwriting does not replace full-time staff, but supports the client when their employees get hired away by their competitor across the street," Gerretsen said. "We provide immediate lift so that they can retain their staff, doing it with a reliable, ready-to-deploy workforce, who are knowledgeable of the client's product guidelines, practices and culture. The speed to market to adjust to spikes in demand is dramatic, and we ensure continuity, stability and higher-quality service levels. And then when the spikes go away, the lender doesn't have to reduce 40% of their people. We are there, acting as that leverage."





MORTGAGE ORIGINATION (cont.)

Choosing the Right Outsourcing Partner for Underwriting

Selecting the right partner is critical to maximizing the benefits of outsourcing. Mortgage lenders should consider several factors when evaluating potential partners. First, the partner's expertise and experience in the mortgage industry are paramount. Firms with a deep understanding of a wide variety of products, the regulatory environment, compliance requirements and market dynamics are better positioned to deliver high-quality services.

In addition, lenders should consider a partner's ability to integrate seamlessly with its operations. This includes compatibility with existing technologies and processes and a collaborative approach to working with the lender's internal teams. Effective communication and a shared commitment to quality and service standards are essential for a successful partnership.

Third, lenders should assess the scalability and flexibility of the outsourcing firm. The partner should be able to adjust their services to meet the lender's changing needs, expanding during peak periods and contracting during slower times. Additionally, the outsourcing firm should offer robust metrics and reporting mechanisms to ensure transparency and accountability in service delivery.





WAREHOUSE ADMINISTRATION

Outsourcing to Support Growth and Creative Execution

The warehouse lending side of the mortgage business is seeing right-sizing, consolidation and some firms exiting amid higher interest rates, lower volume and decreasing margins. At the same time, new players are entering the business, finding creative ways to expand the product box. “We’ve seen clients exit the warehouse lending space, but others enter and become very successful by pursuing more nuanced asset classes and product areas,” said Anthony Beshara, Managing Director, Head of Warehouse Finance & Custody Solutions. “The market is seeing this dichotomy, in which some participants are more cautious and pumping the brakes, while others view the environment as an opportunity to build market share.”

Growth areas include non-QM loans, Debt Service Coverage Ratio (DSCR) loans, Residential Transition Loans (RTLs) and the financing of Mortgage Servicing Rights (MSRs). “Many institutions have held on to the servicing rights of lower coupon loans, which are more valuable as it relates to their MSR book of business,” said Kelly Kucsma, Senior Director, Warehouse Finance & Custody Solutions.

As a result of continued uncertainty, warehouse lenders are looking at ways to make their platforms more adaptable and scalable through technology and operational support services. “By outsourcing execution of transactions from beginning to end, lenders don’t have to worry about recruiting, hiring, training and supervising teams -- or staffing in different time zones for coverage, which can be complex to manage,” Beshara said.



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ANTHONY BESHARA

Managing Director, Head of Warehouse Finance & Custody Solutions





WAREHOUSE ADMINISTRATION (cont.)

Choosing the Right Outsourcing Partner for Warehouse Administration

When outsourcing warehouse administration, look for a partner with a track record of financial and systems stability that will support long-term performance. Deep experience in different warehouse lending franchises, as well as expertise across a variety of products, provides the flexibility to scale, grow or downsize as needed.

“You don't want to have to teach your outsourcing partner the processes needed to execute,” Kucsma said. “Our team has covered the full range of loan products, and has experience building franchises from very large to niche, making it faster, easier and more efficient for us to support clients as they come to market with new product areas.”

In addition, lenders looking to outsource should identify operational pain points in various parts of the process. For example, challenges can occur in setting up the facilities and system; managing the guardrails in processing settlements; or having enough staff who understand what to do to fund a transaction and recognize risk. Some firms want an outsourcing partner to be client-facing; others, a vendor working behind the scenes.

In addition, there's the credit question: What are the institution's requirements to sign off on transactions? This task may need to be internal if the institution has complex processes for approving a funding transaction, and the credit committee prefers internal team sign off. The key is to review processes, understand the different touch points where outsourcing can improve operations, and consider what the bank is comfortable with in terms of execution.



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KELLY KUCSMA

Senior Director, Warehouse Finance & Custody Solutions



ASSET MANAGEMENT

Outsourcing Data and Servicer Management

Outsourcing is also gaining traction in a third area of the mortgage lending business: asset and data management. Investors, portfolio managers and asset managers rely on transaction and servicing data to be delivered quickly and accurately. A key pain point is when the file contains different or conflicting information, which can lead to downstream impacts on loan accounting, reporting and performance.

“Having clean, accurate data is the foundation to make better pricing, portfolio and asset management decisions,” explained Mike Margolf, Managing Director, Secondary Market Technology. “This means maintaining disciplined processes and systems that quickly understand what your servicer or other service provider is reporting, what may be missing and what may be inaccurate. It also requires maintaining strong servicer relationships and expertise that supports remediation, either with file delivery or data accuracy.”

Servicing data management firms aggregate information, ensure the files are complete, accurate and up to date; normalize fragmented, inconsistent and erroneous data; and collaborate with the client and/or their servicers to manage data delivery cadence effectively. This frees up internal capacity and empowers investors, portfolio managers and asset managers to seize strategic opportunities.

“The outsourcing firm provides turn-key support through systems and services, delivering instant access to accurate data and reporting,” Margolf said. “This gives clients a clear and immediate picture of value and performance, so they can make more meaningful decisions about the assets in their portfolios. Outsourcing what many may see as mundane but critical data tasks allows firms to focus on their core expertise and better deploy their personnel. This leads to better asset and portfolio performance.”

Clients that choose to outsource reduce the high cost of data administration and augment their teams with scalable technology and focused professionals. Outsourcing firms offer flexible capacity, improved margins and accelerated turn times through contractual performance metrics. “All of these things translate into potential cost savings and ultimately, in the ability for downstream operators to act with more confidence in secondary market transactions,” Margolf said. “We apply hundreds of logic conditions that can recognize potential holes in data. This goes well beyond missing data, and applies testing that may identify loan performance concern, compliance risk or incongruity across reported loan terms or activity.”

A third-party firm can take those findings back to the servicer to investigate, helping the client understand systemic reporting errors -- and improve both reported data and underlying servicing processes. “It takes a disciplined operations team to manage the data-delivery process to understand what’s received, what may be missing or inaccurate and how to normalize it,” Margolf explained. “That takes infrastructure. Not every client has that infrastructure, or is efficient and scalable as SitusAMC may be, because we do this for so many clients across asset classes, and offer technology to perform these functions.”



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MIKE MARGOLF

Managing Director, Secondary Market Technology





ASSET MANAGEMENT (cont.)

Choosing the Right Outsourcing Partner for Asset and Data Management

Investors, portfolio managers and asset managers looking to outsource data and asset management functions should consider a single provider that can marry technology and services to deliver a superior product. Opportunities exist to consolidate data from across all available sources, including seller, due diligence, servicer and collateral. Look for a firm with deep expertise and significant scale across asset classes and clients, which provides the resources to continually improve technology and systems. "We have centralized systems of record that retain day-over-day and month-over-month data with clear lineage and line of sight into how that data has changed over time," Margolf explained.

Finally, consider a vendor that offers value-added services, such as servicing quality control, mark-to-market valuation or collateral management services integration. Opportunities exist to bring together technology and services in one place that can use data efficiently to meet needs of secondary market transactions, financing obligations, loan accounting and/or other internal requirements.





CONCLUSION

Outsourcing as a Solution: Navigating the Challenges of the Mortgage Lending Industry

The mortgage lending industry has entered an era of significant transformation, driven by economic volatility, cost constraints, regulatory challenges and the need for greater operational efficiency. Adopting flexible staffing models through outsourcing gives mortgage lenders, warehouse administration teams, investors, portfolio managers and asset managers the opportunity to navigate these challenges with agility. By partnering with experienced, tech-enabled third-party firms, industry participants can enhance their service delivery, manage costs and remain competitive in a dynamic market.



About SitusAMC Outsourcing

SitusAMC the #1 solution provider to the residential real estate finance industry. We are trusted by leading banks, non-bank originators, RMBS issues and other market participants, to power opportunity in their residential real estate businesses. Our innovative solutions support the entire residential mortgage lifecycle, from originations to secondary market activity to loan servicing and asset management, leveraging expert-led services and innovative technology to power more efficient, effective, and agile businesses. How can we power your opportunity?

To learn more about SitusAMC Outsourcing, contact:
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