STRATMOR
GROUP

In-Focus

THE STRATEGY OF PROCESS

AN EXCERPT FROM

STRATMOR
INSIGHTS

Volume 3, Issue 9
September, 2018

THE STRATEGY OF PROCESS

By Jennifer Fortier, STRATMOR Principal

How many of us have been stuck on the side of the road with an overheated engine? Often, this happens due to either poor planning or because we've ignored the "check engine" or "high temperature" warning signs on our dashboard. We don't think of what it means to have a "well-oiled machine" — what Wiktionary defines as, "Something that operates capably through the effective coordination of many parts"— until we are waiting for a tow truck.

Our industry tends to refer to mortgage production as the "loan manufacturing process," yet many don't understand what it takes to be a "well-oiled machine." So, to ensure optimum loan productivity, think about your process as the machine, or "engine," that coordinates and drives its many moving parts to convert power into motion. These multiple moving parts need to be synchronized and "tuned" regularly to work optimally together and at peak efficiency and performance.

In STRATMOR's *June 2018 Insights issue*, we shared takeaways from the MBA Chairman's Conference citing "New Normal" conditions for our marketplace. Housing inventory shortages, virtually no market growth, excess origination capacity, compressed margins, and continuing pressure to invest in technology are a few of the new market factors that aren't going to go away any time soon. As such, proactive lenders are seeking sustainable competitive advantages and adapting their strategies accordingly. They fine tune their engines. Process reviews are an instrumental part of this, and STRATMOR encourages lenders to elevate the role of process in their strategic planning and management approach.
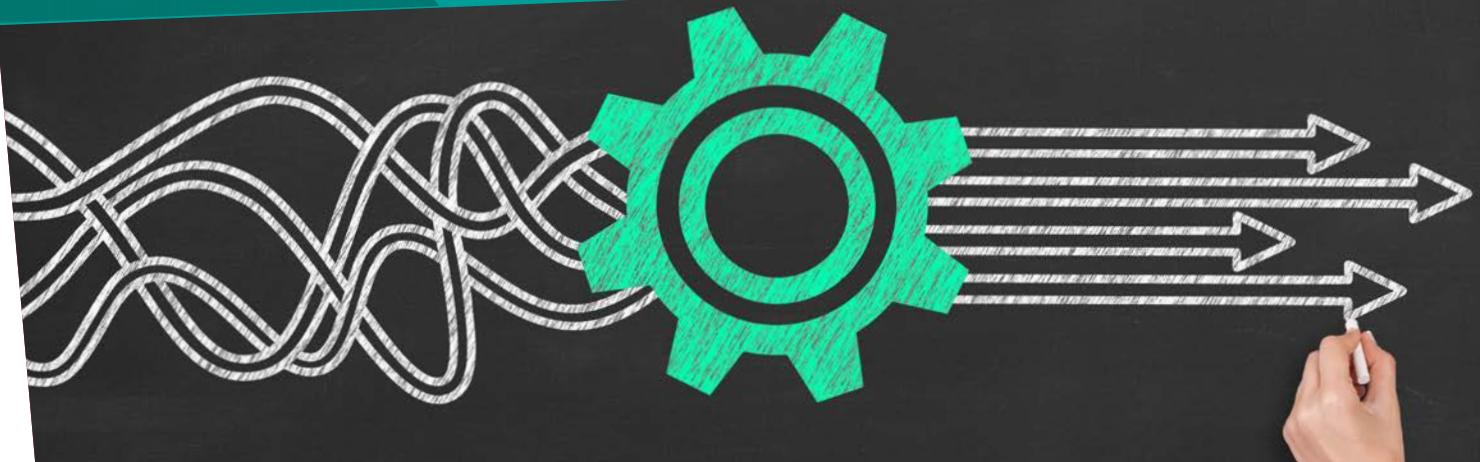
The Drivers of Process Change

Most lenders I talk with recognize that there are benefits to reviewing and revising some in-place processes. Scalability, rising production costs and reduced efficiencies are the typical underlying drivers for why lenders undertake an operational process review. These are good reasons, but process reviews are only part of a much bigger picture of their strategic planning process.

1. **More competition than ever.** No longer are lenders competing for business with one or two regional lenders or a local bank. The competition comes from nationwide companies and others who have scaled their sales and operations and created a competitive advantage. Competition is the overarching driver of process improvement, and lenders who are thinking, "I've got to be cheaper because," or "I have to be a better place to work because," or "I have to offer a better customer experience because I have to be competitive" will find solutions in improved processes.

2. **Customer-centric service is a must.** I seldom hear lenders say, "We want to build a process that is less painful for our customers," and yet offering superior customer service is a known competitive advantage. In the *August Insights* report, Senior Partner Matt Lind's article explained that the broadly-defined borrower experience is the new competitive paradigm. He points out that meeting an "acceptable" level of customer service doesn't cut it with today's borrowers — they expect such things as sound product selection advice, timely and good communications, closing at the expected rates and fees and closing on time. Processes created absent of the borrower point-of-view need to be refocused. Lenders who focus on creating a good borrower experience will naturally end up with more effective fulfillment practices because they will have to button up processes, systems, and communications to make the borrower happy. And this will give these lenders an edge.

3. **Digital Mortgage is here to stay.** Lenders still think in a paper processing way, and this is a problem. Under pressure to remain competitive, the efforts made to adapt processes from paper to digital were quickly done, and not necessarily completely reviewed before they were implemented. I often find operations staff have created workarounds by grafting old paper processes onto new digital technology, usually when a new loan origination system was implemented. Breaking this cycle isn't easy, but digital capabilities need digital processes, not paper processes reproduced on a computer screen. Today's borrowers expect an easy-to-do digital mortgage loan experience like their online experiences with Google and Amazon, and lenders need digital fulfillment processes to support the borrower's digital experience.

4. **The mortgage business will continue to evolve.** Blockchain technology is moving in, too, making more digital changes likely (this article on Blockchain for the mortgage industry by my colleague Andrew Weiss is a great resource on the topic). I'm not advocating change for the sake of change — I'm advocating that lenders make process a priority in their strategic plans to stay competitive, take care of the borrower and be prepared for the future.

When lenders ask for help assessing or implementing process change, they are generally motivated by one of three pain points:

1. "The process of originating a loan is hard/expensive/painful/etc., and we need someone to tell us the 'right' way to do this."

1. "I'm not really sure how we are doing. We'd like to know if we could be doing things better."

1. "We are facing change (maybe a new LOS or merging operations) and need help getting focused and figuring out how to achieve improvements in our processes."

What lenders are really asking is how to perform better — they want to know the perfect sequence and timing of steps and who should perform them. In the context of process, this is workflow, but "workflow" is only one aspect under the umbrella of process.

STRATMOR believes a holistic approach that considers the full spectrum of factors that influence process is critical to assessing the current state and design improvements for the future. We have embraced this concept as we learned from our studies of two experts in process improvement, whom we greatly admire — Alec Sharp and Patrick McDermott.

Sharp and McDermott emphasize that process is a collection of factors, referred to as "enablers," that govern how a process works. These enablers include workflow, technology, motivation and measurements, HR factors (jobs roles, job structure, capabilities, etc.) and policies and rules.

Workflow and technology are the most obvious and important in our industry, but ignoring the others leaves a lot of room for disappointing results, as we've witnessed. For example, we commonly see very effective processes get derailed because the bonus structure is counter to the lender's process intentions. Basically, we believe it's important to look at the entire picture, to understand processes as a system in which all aspects support the others and complement each other — e.g. create a well-oiled machine. All parts need attention.

The Operational Review
Making changes to your processes is like making changes in your life — better when you have a plan. Since you can't plan without knowing where to start, we advise that any process improvement effort start with an assessment to get a holistic perspective on process enablers. If you're working with a Target Operating Model, this perspective is a prerequisite to focusing on Core Capabilities.

Illustration 1

Target Operating Model Framework

- Strategy
  - • Integrate our businesses to build more profitable relationships
  - • Align our resources with revenue and growth opportunities
- Customer Insights
  - • Actionable and profitable segmentation
  - • Voice of customer, market intelligence and data driven
- Customer Experience
  - • Customer choice - from sales through servicing
  - • Leveraging digital solutions - POS, Day 1 Certainty, closing collaboration, etc.
- Core Capabilities (People/Process/Technology)
  - • Design core processes and align technology to deliver customer experience
  - • Establish program management office (PMO) and governance discipline
- Shared and Supporting Services
  - • Leverage common processes across lending functions and business units
  - • Share technology build and implementation costs
- Technical Architecture
  - • Enable specific applications/APIs and mobile platforms
  - • Support cost effective customer integration

© 2018, STRATMOR Group.

We generally advise our clients to start with an operational review. We consider it a non-negotiable step that is required to set a baseline and get clarity and direction on where to focus improvement efforts.

In an Operational Review we level set. Level setting involves orienting to the lender's current state, which means understanding not only the step-by-step processes, but also the environment in which the processes function — the systems used, the cultural aspects taking place, how people are trained, what the business model is and how it impacts how people work, and so on.

> When we perform operations reviews, our goal is to develop an objective, comprehensive view of what's going on in that lender's business so that we give them a baseline to help them understand their current situation as a basis on which to suggest changes.

Operations reviews also dig into the root causes of problems, and we often go to a very detailed level in our analysis. For example, we typically look at performance metrics to inform our review and to validate our conclusions.

Cost and productivity data provide an immediate sense of where there may be issues and offer some context to set targets for improvement. Examining, with the lender, the detailed data behind the metrics also provides valuable information about how operations function. STRATMOR draws on benchmarking data from our PGR: MBA and STRATMOR Peer Group Program, which serves as a diagnostic tool to shine a light on areas where the lender may be falling short of the competition.

Analyzing performance data also allows us to confirm our recommendations when we detect issues that we believe are impacting overall performance. Fairly often, there are practices that seem like they might cause a problem, but the data shows that the cost and productivity numbers are actually quite good. In this case, this is an area where it might be best to leave well enough alone.

When we finish our review, we provide an overall assessment and a recommendation of where we think the lender should concentrate their attention. If we have specific recommendations, we offer them; and if we don't have specific recommendations, we offer directional guidance and a path for how to explore these problems further. We may not have all the answers, but we will say, "If I were in your shoes, here's what I'd tackle first and how I would approach it." And from there, we talk about how to implement the recommendations.

Like our recommendations, the tactics we endorse and/or use ourselves vary widely. It is important to tailor solutions to the problems at hand — unfortunately, no lender (or problem) is cookie cutter; nor are the solutions.

So, once you have an operations review, what do you do with it? Some lenders may take our recommendations and put them in place without additional assistance. However, many companies want assistance with implementing changes, and STRATMOR will support them from simple oversight and guidance to full-blown management of the effort and hands-on work with the lender utilizing the below methodologies to drive change.

Illustration 2

Plan
Establish and communicate the critical elements of a change program.

⊙ **Market Research**
   • **Consumer**
   • **Market Segments/Channels**
⊙ **Supply Chain Process Design**
⊙ **Process Management**
⊙ **Technology Renewal**
   • **Build/Buy/Partner**
⊙ **Program Management**

Build
Build the Process, IT Solutions and Operating environment required to deliver on the business objectives.

⊙ **Requirements Definition**
⊙ **Business Process Design**
⊙ **Workflow Management**
⊙ **Digital Document Management**
⊙ **Best Practice Programs**
⊙ **Software Integration & Testing**
⊙ **Technical/Data Architecture**
⊙ **Legacy Integration**

Run
Manage the transition from a project/program structure to "business as usual."

⊙ **Business Performance Management/ Scorecards**
⊙ **Dashboard Reporting**
⊙ **Six Sigma**
⊙ **Activity-Based Cost Reduction**
⊙ **Continuous Process Improvement**
⊙ **Employee Readiness**
⊙ **Change Management**

© 2018, STRATMOR Group.

Process as a Strategic Discipline

There is one recommendation I make to almost every lender: You must develop a discipline around how to think about process.

A consistent and disciplined process management approach is a pre-requisite to incorporating process management into the company's strategic thinking. We have a structure we successfully use to help implement process changes with our clients. Our approach is embodied in what we call a Business Process Design Summary. The Design Summary is a "lay-out-the-details" document that includes major elements that, combined, represent how a process should work. The most critical are workflow models, requirements, and operating principles. Operating principles are the "why-do-we-want-to-do-it-this-way" logic of the improvement plan — this is the part that often gets missed.
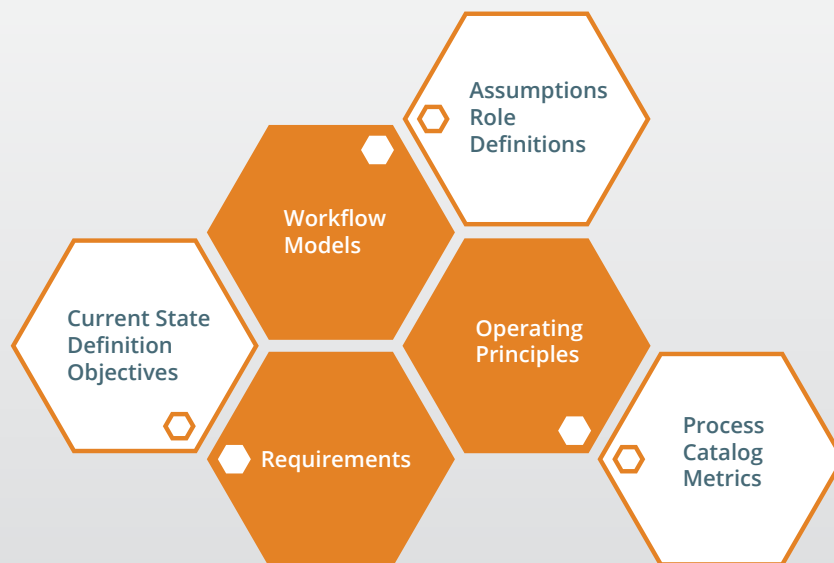
This approach is not only a document structure but a framework for thinking through how a process should be designed. I always tell clients that the brainwork of developing a process design document is as important, maybe more important, than the content of the document itself.

In our work with clients, we facilitate the creation of BPDS and similar artifacts. We offer these same techniques to our clients who embrace our recommendation to build a process discipline but need guidance and skill-building to get started. For those clients, we offer training, facilitated sessions, and guidance to small teams who are charged with process management. The goal is to leave the client with a self-sufficient team, armed with a consistent, repeatable toolset to manage process.

Illustration 3

Key Elements of a Process Design Summary

Assumptions Role Definitions

Workflow Models

Current State Definition Objectives

Operating Principles

Requirements

Process Catalog Metrics

© 2018, STRATMOR Group.

A Tale of Two Lenders

The following stories are about lenders who have found ways to incorporate process change — process improvement — into their business model. They've done it by focusing on improving the right processes and sticking to their commitment to improve. And, they included an Operational Review as part of their journey.

Tidewater Mortgage Services, Inc.

A change in senior management was the impetus for Tidewater Mortgage Services of Virginia Beach, Virginia to undertake a process review. While they were interested in an overall company assessment, they wanted to start with an Operational Review.

"Our processes weren't broken, but we knew they needed tweaking," says Rob Runnells, Tidewater president. "The Operational Review was the right place for us to start, and it gave us a roadmap and a direction. We started making changes immediately — so far, we've implemented about 90 percent of STRATMOR's recommendations."

Runnells says that while they weren't surprised by the recommendations, the review turned up issues that were less about the workflow and process and more about the staff and what they needed to help them do their jobs.

"We knew we needed to make some operational changes," says Kathy Reed, vice president of operations at Tidewater. "It was exciting for me to have STRATMOR come in and evaluate our processes, look at our procedures, talk to us about what others are doing in our marketplace and to validate that it was okay to make the changes we wanted to make."

At the top of the list of changes: clarify for people what their jobs are. From job to job, department to department, staff did not understand who should do what, when. Discovering that people were unclear

on their roles, and of the roles of others, was uncovered by interviewing every member of the operations team.

"STRATMOR interviewed everyone in all the departments so we could see the workflow and then came to us with really good suggestions for changes we could make with our skill sets, with our head counts and our unit counts," says Reed. "This showed us what we could do to make our operations department more efficient. At the time, I didn't know what impact my team and I could have on the company, and the process has really changed how we look at loans, each other, and our responsibilities. It's helped us make great changes."

In addition to reorganizing the processing team from one team reporting to one person to three teams, each with a lead, Reed reports that they've trained everyone on their roles, moved loan responsibilities from the loan assistants to the processors, and created procedure manuals for processors, loan assistants and loan officers. Now everyone knows what their job is, how to do it — and they have the tools they need.

"The tools were something indicated in the review," says Reed. "People asked for written guidance — going over the cubicle wall to ask a question doesn't work so well when you've grown as much as we have. We needed tools that are accessible to everyone, including the outside branches."

Reed and Runnells also created incentive plans that reward the processing staff for exceeding expectations, which they agree has increased ownership of the process and fed the empowerment they've seen in their people.

"The most valuable aspect of the Operational Review was that it gave us direction," says Runnells. "Having STRATMOR validate some of the things that we were talking about gave us the confidence to execute the plans we had. At the end of the review process, we're now managing to the metrics. We're still a work in process, and we're not where we want to be just yet, but we know where we want to go."

North American Savings Bank (NASB)

North American Savings Bank is further down the process improvement path than most companies. They've gotten this far because they have embraced process improvement as something that gives them a competitive advantage and better supports their business model. They started with an Operational Review and asked STRATMOR for additional assistance in formalizing the process improvement discipline they started.

"We were having difficulty getting traction on how to organize our LOS project and select priorities and called STRATMOR in to help us with the governance part of project management," says Bruce Thielen, NASB executive vice president. "We also needed help with how to start from the beginning to align our efforts with our strategy and prioritize the work that needed to be done. It always seems there are enough people to get the work done but somehow it doesn't get done. We needed help with creating a structure to drive accountability and coordinate our efforts."

Initially, the NASB team wanted to look at only specific areas of the operation, those that they felt needed the most attention the quickest. STRATMOR helped them see that it was necessary to take a step back and look at the whole loan process see how all steps are interconnected.

"Pretty quickly, we came to understand that we really needed to start at a higher level," says Thielen. "We realized we couldn't expect to look at just a few parts of the loan process and expect to understand how the entire loan process works. Take closing — there is work done on closing at the end of the process, but there is work coming in at the beginning of the process that affects closing, too. Looking at how all the parts are connected helps you understand where improvements can be made."

STRATMOR's help in establishing the governance infrastructure and defining individual roles and responsibilities in the project management function so that everyone within understands their role formed the basis for NASB's new process management structure that includes the Solutions Group. This new five-member team with people from IT and the business units is charged with not only understanding the entire loan manufacturing process, but also with proposing solutions when change is needed.

"The role of the Solutions Group is to own the loan manufacturing process," says Thielen. "If there is going to be a change to that process, they then approve that change. The role of the operations and sales staff is to follow the process, but they are often focused on only their part of the process. They don't see how changes they want to make might impact the process

upstream or downstream from them. The Solutions Group has a 360-degree view of the process, and they will come up with a solution — it may be technology, it may be process or people. Their recommendations are reviewed by the company, prioritized, budgeted and then we determine the metrics to make sure the project has the outcome expected for accountability."

Currently, this team is involved in the selection of a new LOS and will soon be tasked with overseeing the implementation of the new system and writing the high-level business requirements. Also, in the new governance structure, there is a Design Lab team that includes business analysts, subject matter experts, testing coordinators and developers who will be directed by the Solutions Group to develop the technical project requirements for the implementation.

"We are really pumped about our new process design," says Thielen. "We have designed a process that is highly-focused on efficiency and on improved performance, and we've incorporated accountability into it. We believe we have a process improvement plan that will give us a competitive advantage."

A Final Note on Process
It is tremendously rewarding to help clients through this process. If you are contemplating how process strategy would help you gain a competitive advantage, contact STRATMOR. We can guide your team in creating optimal processes to realize your strategic objectives.

WE WELCOME YOUR FEEDBACK

If you would like to talk about how your organization could incorporate process design into your business, please email your STRATMOR partner or principal, or contact Jennifer Fortier at jennifer.fortier@stratmorgroup.com.