

Implementing the Prime Alliance Platform's Best Practices at VyStar

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### Changes in Mortgage Lending and Overview of VyStar Credit Union

“This year millions of American households will buy a home. The process will always be lengthy and a big deal” (Coy, 2006). With the highly accessible Internet, today’s homebuyers have a wealth of assistance to help them shop for the best rates and service such as can be found at bankrate.com (Bankrate.com, 2006). There are also other considerations for a faster process; one rule of thumb for successful sales is to close the deal as soon as possible. Lenders that can provide a quicker, easier solution from start to finish use this to leverage more market share.

Highly-profitable mortgage lending is the flagship offering of many financial institutions. Technology has helped increase focus and ease in the mortgage lending arena. VyStar Credit Union utilizes some of the functionality and recommendations offered by Prime Alliance (PA), however VyStar has not implemented PA’s recommendations for “best-use” functionality that would require a reorganization of the mortgage origination, processing, and closing functions (Aiman Beg, 2004). Richard Sobocinski of Bethpage Federal Credit Union in New York hopes to cut their processing time from 30 to 10 days using the best-use operational guidelines (Bankston, 2005).

PA offers mortgage origination and processing software. This software allows VyStar to push point-of-sale originations to the front office staff in the branches and call center. Cost reduction and mortgage growth take center stage via this valuable partnership. VyStar’s mortgage group strives to increase growth of the primary mortgage portfolio in a very competitive mortgage market. The market is so competitive that some companies have even taken to hiring former pro football players. Such is the case with HomeBanc Mortgage Corporation’s newest mortgage consultant, former San Diego offensive lineman Jose Munoz (Woodward, 2006). This year’s goal is to increase the number of members that currently have a

primary mortgage with VyStar by 2 to 3 percent (L. Allen, personal communication, March 20, 2006).

Despite rapid growth since its inception in 1950, VyStar remains a small-town financial institution with big city membership. With more than 340,000 members and assets approaching \$3 billion, it is a sizable financial institution (VyStar, 2005). In fact, VyStar is the largest to call Northeast Florida headquarters. Account holders are referred to as members, not customers, in order to augment the sense of loyalty that reaches beyond a patron's partnership with a traditional bank or savings and loan. The credit union is a non-profit, member-owned, member-run financial institution with a community charter permitting service in 15 counties in Northeast Florida (VyStar, 2006). That service is provided by a call center with extended evening and weekend hours, 20 branches, and 127 ATM's.

Classified as a non-profit organization, meaning all profits are shared among members in the form of better prices for services, VyStar has no stockholders to answer to (VyStar, 2006). That's the reason they offer a full range of financial services including auto, boat, RV and motorcycle loans, credit cards, signature loans, mortgages, and business loans. VyStar also offers investment and mortgage title services and frequently sells insurance products.

A credit union can be thought of as a cooperative where financial assets are pooled and used by members to obtain the best price. The credit union began by offering banking to military forces stationed in Northeast Florida. The first account holder and co-founding member, named Michael Cascone, has served in various capacities through the years and is still an active member of the all-volunteer Board of Directors.

#### Types and Uses of Technology Employed to Support Current Business Functions

The credit union employs a networked system of personal computers for business operations. Software programs and platforms are also used to support business functions.

Branches, the call center, and corporate headquarters are linked via the network and software in use. Vendor-specific software for contracted services, such as post-loan approval insurance products, is also accessible via the web.

The Mortgage Department allows mortgage loan officers to process an application in the field and provide a member with a pre-approval letter. The use of this software gives VyStar the opportunity to make applying for a mortgage loan fast and convenient. Not all best practices however, were implemented when the software was originally introduced to the credit union (Allen, 2006). But some were. The focus of this paper is on the additional enhancements that may be achieved within the mortgage process, from origination through closing, via this software.

#### Overall Business Strategy, Alignment with IT and IT's Contributions

VyStar's business strategy is captured in its Vision and Mission Statements as follows:

“The vision of VyStar Credit Union is to be the primary financial institution for all eligible consumers.” (VyStar, 2005)

“The mission of VyStar Credit Union is to be the primary financial institution of our members by providing quality services while maintaining fiscal soundness.” (VyStar, 2005)

Growth was relatively minimal for VyStar the first 35 years. But as the area grew, so did VyStar. Growth has been much more robust recently and is attributed to a strong vision and aggressive growth strategy that remains engrained in employees and members today.

The IT infrastructure has had to grow significantly to support the organization (M. Ventura, personal communication, March 20, 2006). In order to remain competitive in the financial industry, it is critical for IT to keep up with changing technology. IT works closely with personnel to bring new products and services to market quickly. In the early 1980's, VyStar used a service bureau to handle all data processing needs. The first in-house data processing

system was installed in 1987. There was a conversion in the early 1990's to another in-house system that was in place for 13 years. This system helped the credit union grow. After 2000 and the infamous worldwide Y2K computer challenges, a decision was made to search for a new in-house core banking system. This conversion took place in September 2002 and is still the system in use today (D. Wilson, personal communication, March 20, 2006).

In 1995, ten people supported the IT department. Today that number has grown to more than 40. The IT Department supports the company's business plan by quickly deploying new products and services to adapt to member and consumer needs (Ventura, 2006). The move from using a service bureau was a necessary step to help the credit union expand its product offerings and increase membership. By having the proper mechanisms in place for the development, testing, and implementation of system changes and the deployment of new systems, we are able to respond to the rapidly changing marketplace. In addition, capacity planning is important as we deploy new systems and schedule projects to upgrade existing systems; we are always cognizant of the requirement to stay ahead of the anticipated growth goals (Ventura, 2006).

#### IT Governance

Information Technology governance is a required ingredient for any organization to succeed. It provides the mechanism for the executive team to capture and leverage the appropriate information to plan, manage, and make decisions that help transform a business. Without it, a company will be inefficient and have difficulty maintaining its business position in an industry, resulting in business lost to competition (Rogers, 2006).

A component of good IT governance is involving senior management in the committees, approval process, and performance reviews (Weill et al., 2004). VyStar's Senior Management Team meets quarterly to consider IT initiatives. Major initiatives are reviewed by the committee and determinations are made regarding allocation of resources. The main focus of the committee

is to determine if the IT departments are meeting the needs of the credit union (Ventura, 2006). The steering committee also consists of IT personnel as the responsibility for making IT decisions must be in the hands of those best equipped to do so (Fogarty, 2004).

“Good governance, like good strategy, requires choices” (Weill et al., 2004).

Governance is a tool to determine which projects should be performed to best meet the organization’s goals. Ensuring that IT projects fit into the business plan and budget is part of the steering committee’s responsibility. ROI is determined by internal customer departments (Ventura, 2006).

Some IT projects are simply driven by market demand. Others are strictly based on the hardware’s life-cycle, such as replacing outdated personal computers and servers. Additionally, other IT initiatives come about due to technology or regulatory requirements. Vendors also play a role in IT changes. Such is the case with a new graphic user interface that was recently implemented when a vendor discontinued support of the prior interface (Ventura, 2006).

For IT Governance to be effective, ownership and accountability must be part of the plan (Weill et al., 2004). At VyStar, accountability is driven by the business plan and spells out who is responsible if due dates are not met. Responsibility for meeting ROI is different as some of the benefits of IT initiatives are higher system functionality and difficult to quantify for purposes of assigning accountability (Ventura, 2006).

VyStar Credit Union is subject to various industry regulations and compliance standards. Governance helps the organization comply with these regulations (Rogers, 2006). VyStar is audited multiple times per year by internal and external examiners and must comply with safe and sound information technology and fiscal practices in the IT departments as well as the overall organization (Ventura, 2006). Although VyStar is not affiliated with any professional, IT governance organizations, they do take security and governance seriously and have personnel on

staff that hold the recommended qualifications per the IT Governance Institute (ITGI) (Isaca, 2006). The Information and Systems Security Officer (ISSO), Tim Graig, is a Certified Information Systems Auditor (CISA) and Certified Information Security Manager (CISM).

### Emerging Technology

As mentioned previously, Prime Alliance offers a variety of mortgage services via its web-based mortgage origination and fulfillment technology solutions. The platform used for the mortgage solutions is referred to as the “Loan Fulfillment Center” (Prime Alliance, 2006).

The Loan Fulfillment Center (LFC) is the launching pad for Prime Alliance Services. Since the LFC is a web-based service itself, it is easier to load new products onto the platform. This is important if VyStar wants to provide a new loan product to increase business. The LFC is user-friendly while also helping eliminate unnecessary steps. The condition-based processing system, based on lender business rules, generates a roadmap that includes only necessary tasks for each loan and provides the originator everything needed to completely process the mortgage (Prime Alliance, 2006).

Prime Alliance Mortgage Solutions will change the way VyStar manages the mortgage loan process. According to Allen (2006), using PA will help reduce the “human touches” to the file, loan origination costs when members fill out the application themselves, and loan processing time. Currently only about 2 to 2.5% of members have a first mortgage with VyStar (Allen, 2006). VyStar’s goal for implementing this product is to better meet the needs of members and provide online around-the-clock loan application and approval access.

Prime Alliance Mortgage Solutions would be considered a disruptive technology according to VyStar. That’s because this system changes the current mortgage loan process, meaning loan processors will have to be taught how the software works and how it will change their jobs. But with the growth of the mortgage industry and technology integration, this type of

product is essential for credit unions to compete for market share in the industry (Allen, 2006).

The mortgage loan process has evolved into a highly technological means of allowing customers to fill out their own mortgage application on-line (Garritano, 2005). It is obvious that technology is at the forefront as lenders do not want to wade through mounds of paperwork.

#### Competitive Advantages Gained through Emerging Technologies

The primary competitive advantage gained via technology is increased market penetration. Currently, less than 3% of members have their primary mortgage with VyStar. Capturing additional market share of the general public is not the primary focus in the mortgage area at VyStar. But capturing an existing member's primary mortgage is. "Market research indicates that, as a credit union, if we can solidify a relationship with a member in obtaining a mortgage loan, they are more likely to use other products and services offered by the credit union" (Allen, 2006). Studies have also shown that the more services a consumer holds with a financial institution, the less likely they are to default on their debt.

Prime Alliance speeds up the mortgage process at VyStar. Currently, the mortgage process and closing functions are separate entities at VyStar and many other credit unions. The idea of having a more streamlined process is not emerging at larger lending houses, but it is at most credit unions. Having the tasks separate increases the number of people in the organization that must review the file and results in a longer closing time.

#### IT Needs and Team Recommendations

The team recommends VyStar reconsider further enhancing the mortgage process through the use of Prime Alliance's best practices. By going with the best practices, Prime Alliance estimates a significant time savings for VyStar on the front end approval process, less hand-offs of the file and an overall reduction in the time between origination and closing. Cherry-picking the system provides some benefit, as currently experienced by VyStar's prior

implementation of the desktop underwriting feature for guaranteed loan purchases by FannieMae, but does not offer the same time saving benefits of the best use practices. VyStar's current mortgage processing practices and use of PA is somewhere in the middle; better than it used to be but not as the analysts say it could be.

However, the team understands the other considerations to be examined when changes are introduced into an existing operation. The depth required to give full consideration of this proposal and adequately address all the human, organizational and financial factors concerned is not permissible in this paper due to the restrictions on length. However, Attachment A contains the questions that were reviewed during the interview with the VP of the Mortgage Department and outline the implementation concerns that must be addressed.

These options were previously considered but were shelved due to quality control concerns (Allen, 2006). Quality can be viewed from two very different perspectives. First, would having a reduced number of personnel touching the file be more convenient? Would working with a single mortgage employee make it easier when documents are needed or additional questions arise?

Secondly, as quality relates to the secondary market that exists for the sale of mortgages to protect lenders from interest rate risk on long term debt – would quality be lost by converting to non-specialized representatives during the process? Would core competencies be lost? The concern is that while some mortgage specialists may know various functions very well, can many know multiple functions well enough to ensure the loan will still meet secondary market guidelines for Fannie Mae and Freddie Mac (Fannie Mae 2006)? This poses a financial concern for the lender. If the borrower defaults and the organization finds that the loan fails to meet certain standards of accuracy and due diligence for verification of qualifying criteria, then the

investor has full recourse. This means the lender is burdened with the loss. When this occurs, it can negatively impact potential future sales.

VyStar would not incur additional cost to switch to Prime Alliance best practices methodology. Fully utilizing the platform however, would create other associated costs and would take approximately two years to fully cross-train personnel and integrate positions. But savings can be achieved as well through the reduced process, thereby allowing more mortgages to close in the same time without increasing personnel needs. Attachment B highlights the figures related to this part of the change.

#### Conclusion and Summary

No solution fits every industry, however the importance of knowing your customer base, company's strategic vision, and the ability to harness technology, will help a solution fit better. Change is not easy and rarely embraced on a large scale. Hurdles must be overcome if the business is to continue growing and protecting its place in the market.

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Implementation Questions for Using the Suggested Process and Features available with the Prime Alliance (PA) Platform for Interview with Lori Allen, VP Mortgage Department at VyStar Credit Union:

- 1) Are there positives and negatives and the latter carried more weight in which to sway the final decision not to combine the positions?
- 2) Is this something that may be re-considered as the credit union grows larger geographically and in number of closings to prevent having to increase staff?
- 3) Is there a potential trade off between saving time and cutting quality/would it save time but potentially cost in quality?
- 4) If so, how specifically will it cut quality?
- 5) How will it specifically save time?
- 6) Would it be beneficial for the member to only have to speak with a single rep in the Mortgage Department versus possibly being transferred around?
- 7) Does that sometimes occur today?
- 8) If it does occur today due to not using this functionality, would this move increase quality from the member's perspective (in addition to possibly saving on staffing costs)?
- 9) Would there be an additional cost to the vendor for use of this service or is it package-priced already?
- 10) How long would it take to recoup the costs?
- 11) Will it provide any external benefits to the credit union? It appears the software itself helps with the secondary market conforming piece but is there any other external benefit?
- 12) Are there any other PA features the credit union is not using that may provide additional benefits such as:
  1. Pipeline flow or loan assignment such as in a queue to accommodate even distribution of workflow/loans for regular and specialty lending or faster processing for a quicker turnaround.
  2. Forwarding the loan when a rep is out of the office just like a phone queue would if you're in send calls.
- 13) What type of pre and post implementation support and/or training does PA provide?
- 14) Is this at an additional cost?
- 15) What types of monitoring reports exist for loan turn time and employee time spent in the file?
- 16) What staffing reorganization and training costs might be incurred?
- 17) What staffing replacement costs might be incurred if some would choose to leave due to this change?
- 18) Would this be higher than the normal turnover currently experienced today?
- 19) Is part of today's turnover due to the current processes per any feedback given from existing or exiting employees?
- 20) How would the processing and closing staff receive a change such as this, other than the normal and expected fear and rejection of change in general?
- 21) What type of implementation time would be needed to be fully functional?
- 22) Are there any other drawbacks?

- 23) Were any of the seven preceding questions taken into consideration to not use the additional functionality and combine the positions?
- 24) What is the current time to close considering the two separate positions?
- 25) What would that be in the future?
- 26) Are there any bottlenecks in the current process that would be non-existent with this new process?
- 27) Would this new process create any bottlenecks?
- 28) Are any other organizations successfully using such a process?
- 29) How are they organized to do this?
- 30) What have they learned from their experience?
- 31) What would they do differently for implementation considering hindsight and lessons learned?
- 32) What tweaking did they do to make further improvements, provide even better and faster customer service and calm employee dissention?

## Mortgage Productivity

| Current Practices vs. Best Practices | Activity Time to Approval in Minutes | Elapsed Time to Approval in Days* | Activity Time to Close in Minutes | Elapsed Time to Close in Days* | Overall Process in Minutes | Overall Process in Days* |
|--------------------------------------|--------------------------------------|-----------------------------------|-----------------------------------|--------------------------------|----------------------------|--------------------------|
| Current Time                         | 500                                  | 20                                | 75                                | 7                              | 575                        | 27                       |
| Best Practices Time                  | 100                                  | 2                                 | 200                               | 18                             | 300                        | 20                       |
| Difference as a Straight Value       | 400                                  | 18                                | -125                              | -11                            | 275                        | 7                        |
| Difference as a Percentage           | 400%                                 | 900%                              | -63%                              | -61%                           | 92%                        | 35%                      |
| Percent of Time Lost                 |                                      |                                   | -167%                             | -157%                          |                            |                          |
| Percent of Time Saved                | 80%                                  | 90%                               |                                   |                                | 48%                        | 26%                      |

\*This value considers the hand-offs of the file and delays within the pipeline flow. It does not specifically equate to the value noted in minutes.

| Current Practices vs. Best Practices  | Value | Difference as a Straight Value | Difference as a Percentage |
|---|-------|--------------------------------|----------------------------|
| Working Days Per Month  | 28    | No Difference                  |                            |
| Working Minutes Per Month   | 1680  |                                |                            |
| Current Staffing Level - Approvals  | 10    | No Difference                  |                            |
| Current Staffing Level - Processing & Closing                                       | 20    |                                |                            |
| Man-Minutes Per Month Approval Staff  | 16800 | No Difference                  |                            |
| Man-Minutes Per Month Processing and Closing Staff                                  | 33600 |                                |                            |
| Approvals Possible Per Month Current  | 34    | 134                            | 394%                       |
| Approvals Possible Per Month Best Practices   | 168   |                                |                            |
| Closings Possible Per Month Current   | 448   | -280                           | -63%                       |
| Closings Possible Per Month Best Practices  | 168   |                                |                            |
| Overall Approvals & Closings Possible Current Based on Existing Staff Values        | 88    | 80                             | 91%                        |
| Overall Approvals & Closings Possible Best Practices Based on Existing Staff Values | 168   |                                |                            |

This chart does not cover financial savings however, it should be evident that since the best practices allow for more approvals and closings with the same number of personnel, economies of scale are possible up to certain values and overall personnel expenses will remain steady up to certain numbers of mortgage originations per month. This makes it possible to increase mortgage volume without increasing personnel. Other costs however, such as training, must be considered and are not covered in these considerations.

**NOTE:** The figures contained in the charts in this attachment are purely hypothetical for purposes of illustrating a “what-if” analysis and do not represent the current or future proposed mortgage processing times or staffing levels at VyStar Credit Union.