

CASE STUDY:

Six Sigma Legal Services for Mortgage Loans

**Up to 25% Reduction in Time Charges
Dramatically Enhanced Quality**

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Development of Model

- Morgan Lewis developed a Six Sigma legal services model that reduces, often by more than 25%, the cost of delivering legal service for mortgage loan transactions.
 - Commenced in 1974
 - First Employed Institutionally in 1988 (FDIC/RTC)
 - TQM Retooled in 1997
 - Six Sigma Retooled 2000-2003

Six Sigma Methodology

Define Client Requirements (VOC)

Measure Defects in the Process

Analyze Causes of Defects

Improve the Process

Control the Improved Process

Voice of the Client (VOC)

Universal Outside Counsel Guidelines:

- Highest Possible Quality
- All Services Delivered on Schedule
- Low (Not Lowest) Cost
- Service Provider Must Add Measurable Value
 - Fee Discounts (most typical)

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Definition of “Defects”

- Not Just Mistakes
- Defects Include Any Function That Does Not Add Value to the Client

Client Billing Guidelines

Exclude from Bills (i.e., Service Defects):

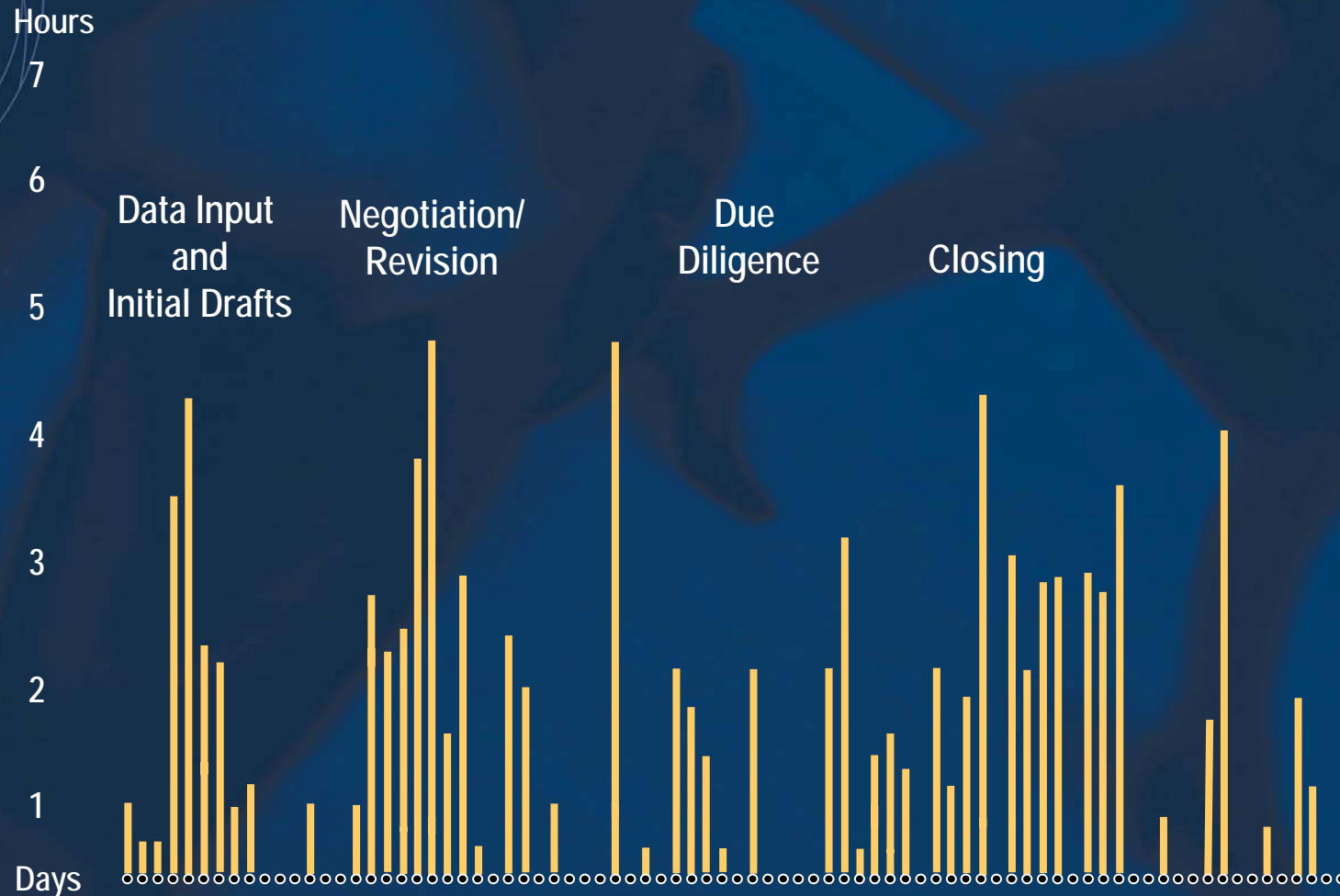
- Excessive Staffing
- Internal Meetings
- Excessive Drafting
- Excessive Partner Time
- Internal Training

Statistical Measurement of Defects

- Process Mapping
- Time Records
- Word Processing Reports

Time Charges: \$14 MM Office Building Loan (Old-Fashioned Way)

Gross Time Charges



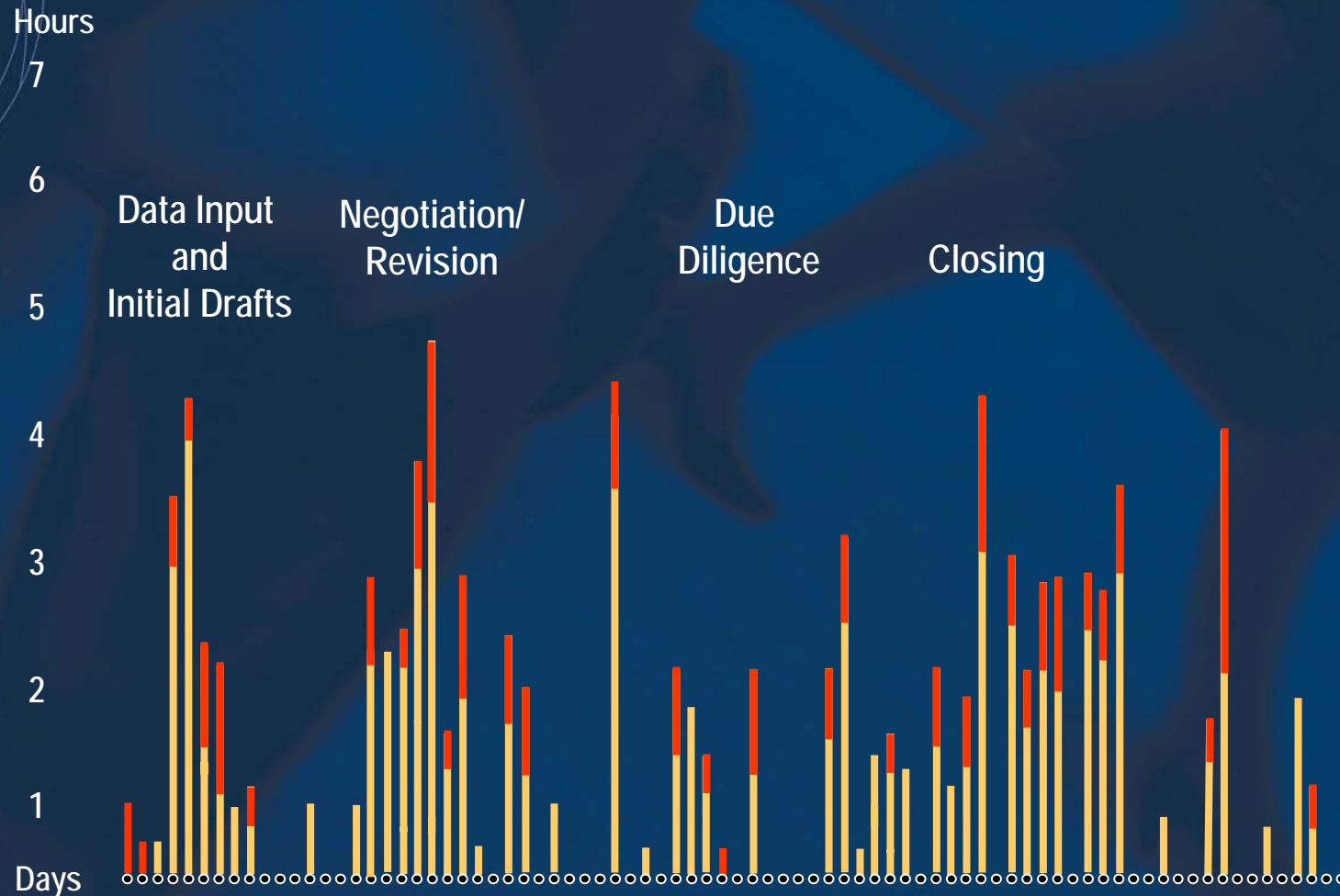
Time Charges: \$14 MM Office Building Loan (Old-Fashioned Way)

Partner Time
Associate Time
Paralegal Time



Time Charges: \$14 MM Office Building Loan (Old-Fashioned Way)

Internal
Time Charges



Document Revisions: \$14 MM Office Building Loan (Old-fashioned Way)

Changes per
1,000 Words

200

175

150

100

75

50

25

Days

Initial Drafts

Negotiation/
Revision

Due
Diligence

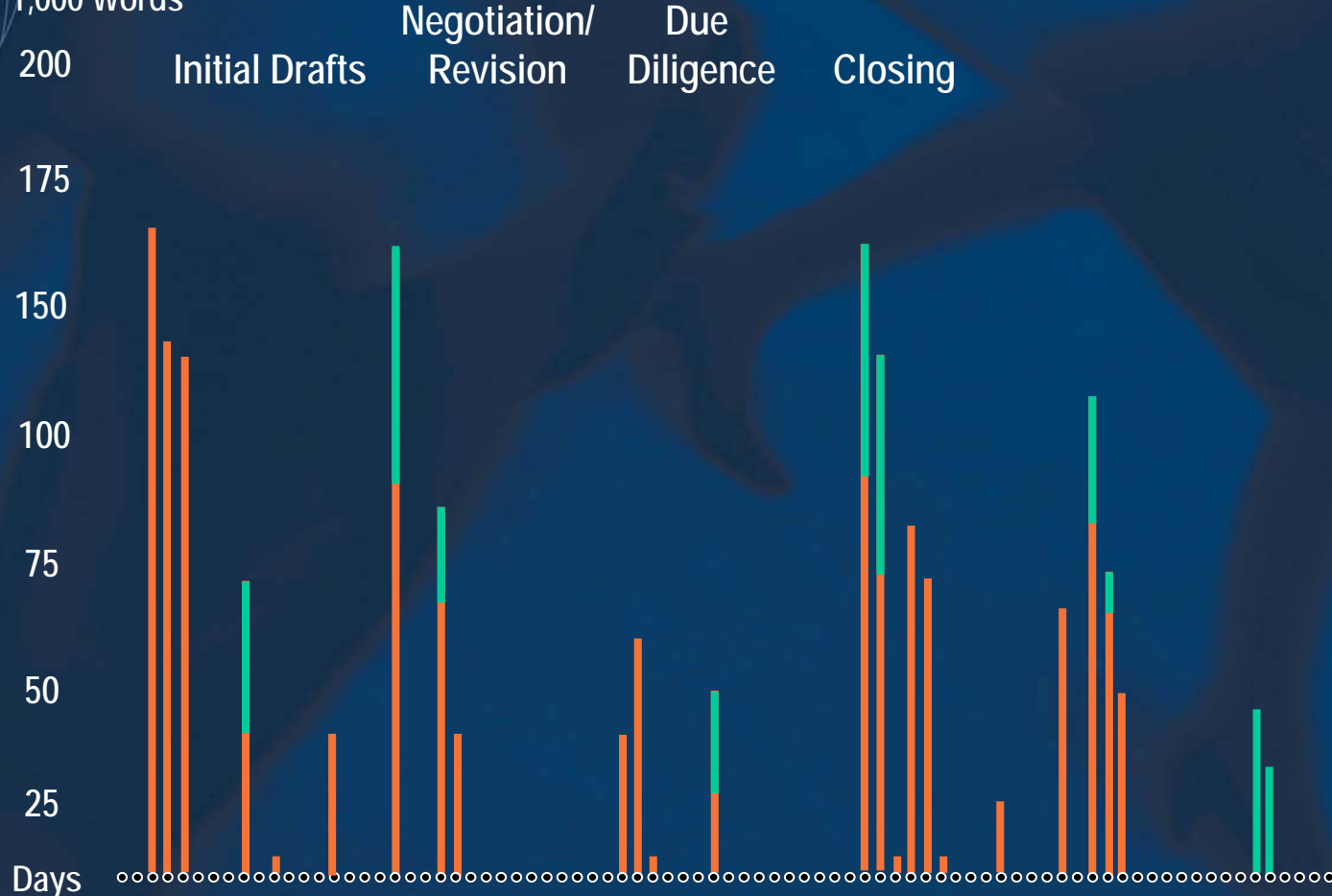
Closing



Document Revisions: \$14 MM Office Building Loan (Old-fashioned Way)

Circulated Documents

Changes per 1,000 Words



Days

Six Sigma Methodology

Define Client Requirements (VOC)

Measure Defects in the Process

Analyze Causes of Defects

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Control the Improved Process

Causes of Defects

- **Transaction Data Input (into Minds and into Forms)**
 - Intermittent Data Flow
 - Inefficient Data Communication to Entire Team
 - No Data Quality Control
- **Lack of Standard Forms/Poor Quality Forms**
 - Precedent Documents Contain Defects
 - Lack of Baseline/Quality Control
- **Socratic Associate Training Method**
 - Lack of Written Transaction Practices
 - Lack of Written Standard Operating Procedures
- **Time Pressure/Disorganization**

Six Sigma Methodology

Define Client Requirements (VOC)

Measure Defects in the Process

Analyze Causes of Defects

Improve the Process

Control the Improved Process

Principles of Process Engineering

- Channel Human Behavior
 - Client Protocol
 - Standard Transaction Practices
 - Standard Operating Procedures
- Control the Physics of the Transaction
 - Data Input/Data Integrity
 - Standard Forms
 - Document Preparation Software
 - Standard Forms of Communication

Client Protocols (Tab 3)

- Adopted at Beginning of Transaction
- Allocates Tasks among Client, Its Consultants and Morgan Lewis
- Adjusted to Client's Requirements
- Prevents Duplication of Effort
- Eliminates Data Chasing

Best Transaction Practices (Tab 4)

- Best Generic Transaction Practices
- Channel Lawyer and Paralegal Behavior
 - Uniformity of Service
 - Quality Control
 - Eliminate Clerical and Administrative Work by Time Billers

Standard Operating Procedures (Tab 5)

- Real Property Sales
- Real Property Acquisitions
- Development/Construction (AIA regime)
- Commercial Mortgage Loan Origination
- Commercial Mortgage Loan Master and Special Servicing
- Leasing
- Client-Specific

The Physics

Transaction Data Management

- Create and Test Perfect Data Bank (Tabs 7 and 8)

The Physics (cont'd)

Document Preparation Software

- Always Start with Quality Standard Form
- Use Software Written by Morgan Lewis Real Estate Attorneys
 - Avoids Pitfalls of Commercial Software
 - Uses Standard Morgan Lewis Applications (Word Letter Merge)

Document Preparation Software (cont'd)

- No Significant Time Charges for First Drafts
- Senior Attorney Prepares First Drafts and Due Diligence Checklist/Closing Agenda
- Focuses Partner's Attention on Deal Structure and Important Issues
- Standard Forms of Communication
 - Standard Transmittal Memos
 - Automatic Circulation

Six Sigma Methodology

Define Client Requirements (VOC)

Measure Defects in the Process

Analyze Causes of Defects

Improve the Process

Control the Improved Process

Recalling the Voice of the Client

- Highest Possible Quality
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- Service Provider Must Add Measurable Value
 - Fee Discounts (most typical)

Six Sigma's Response to VOC (cont'd)

- **Timing**
 - Initial Drafts in Two Business Days
 - Revisions in One to Two Business Days
 - Reduces “Ramping Up” Time
- **Deals Stay on Schedule**
- **Small Teams**
 - Fewer People are Needed
- **Single Point of Contact**

Six Sigma's Response to VOC (cont'd)

- Legal Services Become Transparent
 - Accountability (Lawyer/Client/Consultant)
- Clients Control the Transaction
 - Fast Documentation/Revision
 - Control All Service Providers
 - Dominate Counterparties
 - Minimize Negotiations

Savings Studies

Loan Originations

Time Charges: \$14 MM Office Building Loan (Old-Fashioned Way)

Partner Time
Associate Time
Paralegal Time



Time Charges: \$20 MM Office Building Loan (Early Six Sigma)

Partner Time
Associate Time
Paralegal Time



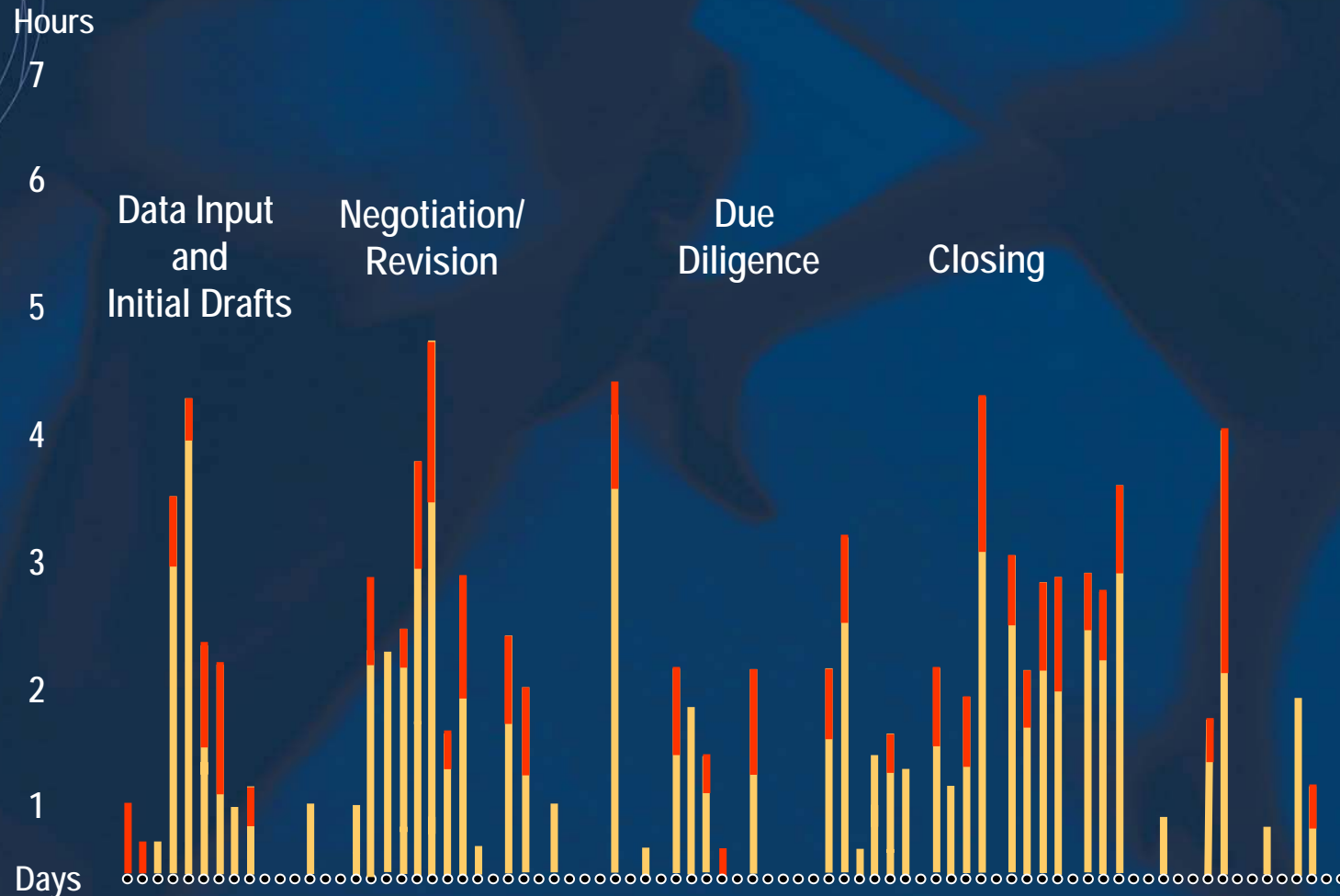
Time Charges: \$18 MM Office Building Loan (Later Six Sigma)

Partner Time
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Paralegal Time



Time Charges: \$14 MM Office Building Loan (Old-Fashioned Way)

Internal
Time Charges



Time Charges: \$20 MM Office Building Loan (Early Six Sigma)

Internal
Time Charges



Time Charges: \$18 MM Office Building Loan (Later Six Sigma)

Internal
Time Charges



Document Revisions: \$14 MM Office Building Loan (Old-fashioned Way)

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Changes per 1,000 Words



Document Revisions: \$20 MM Office Building Loan (Early Six Sigma)

Circulated Documents



Document Revisions: \$18 MM Office Building Loan (Later Six Sigma)

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Revision

Closing



Loan Forbearances

Time Charges: Multi-family Loan Forbearance (Old-Fashioned Way)

Partner Time
Associate Time
Paralegal Time



Time Charges: Hotel Loan Forbearance (Early Six Sigma)

Partner Time
Associate Time
Paralegal Time



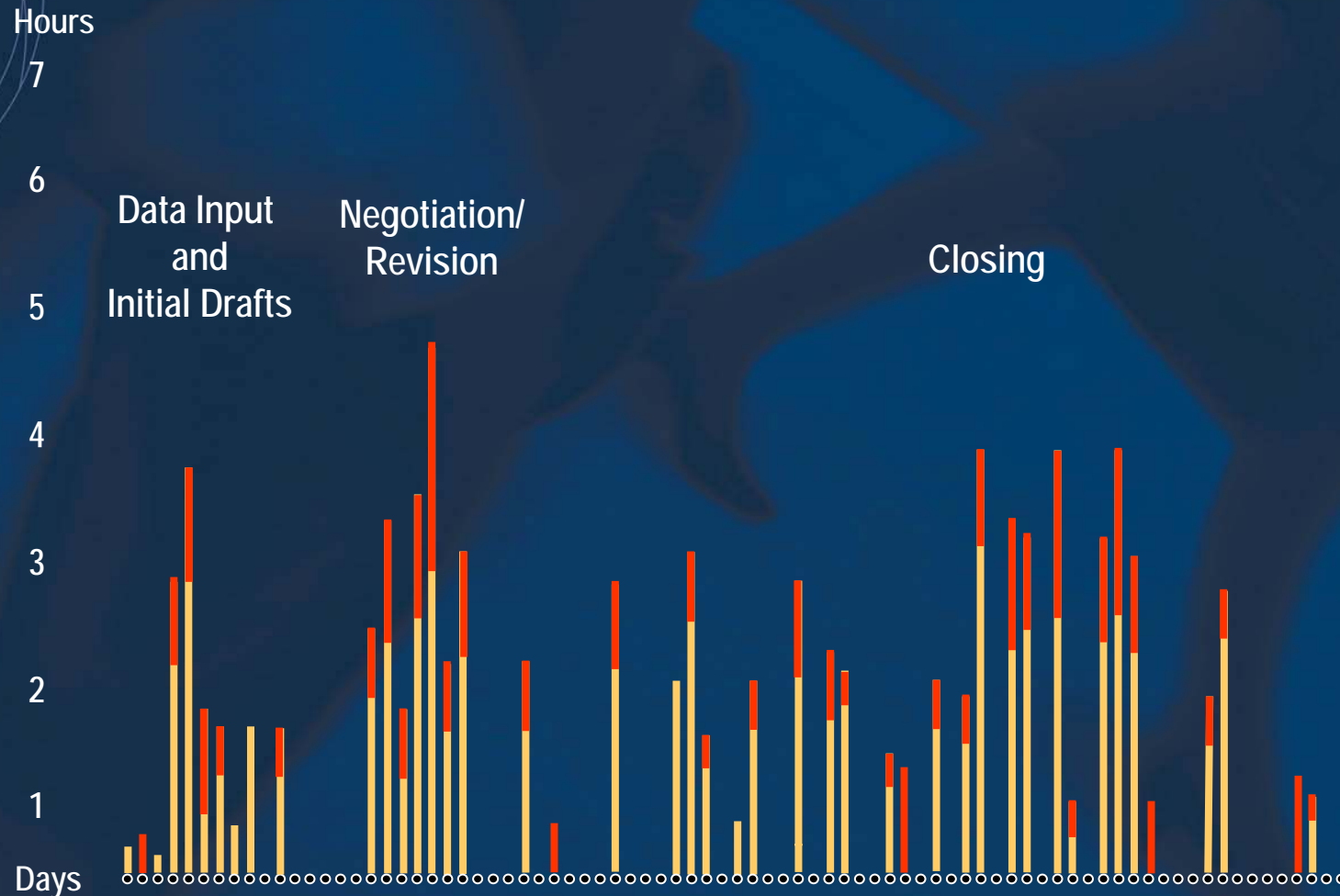
Time Charges: Multi-Family Loan Forbearance (Later Six Sigma)

Partner Time
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Time Charges: Multi-family Loan Forbearance (Old-Fashioned Way)

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Time Charges



Time Charges: Hotel Loan Forbearance (Early Six Sigma)

Internal
Time Charges



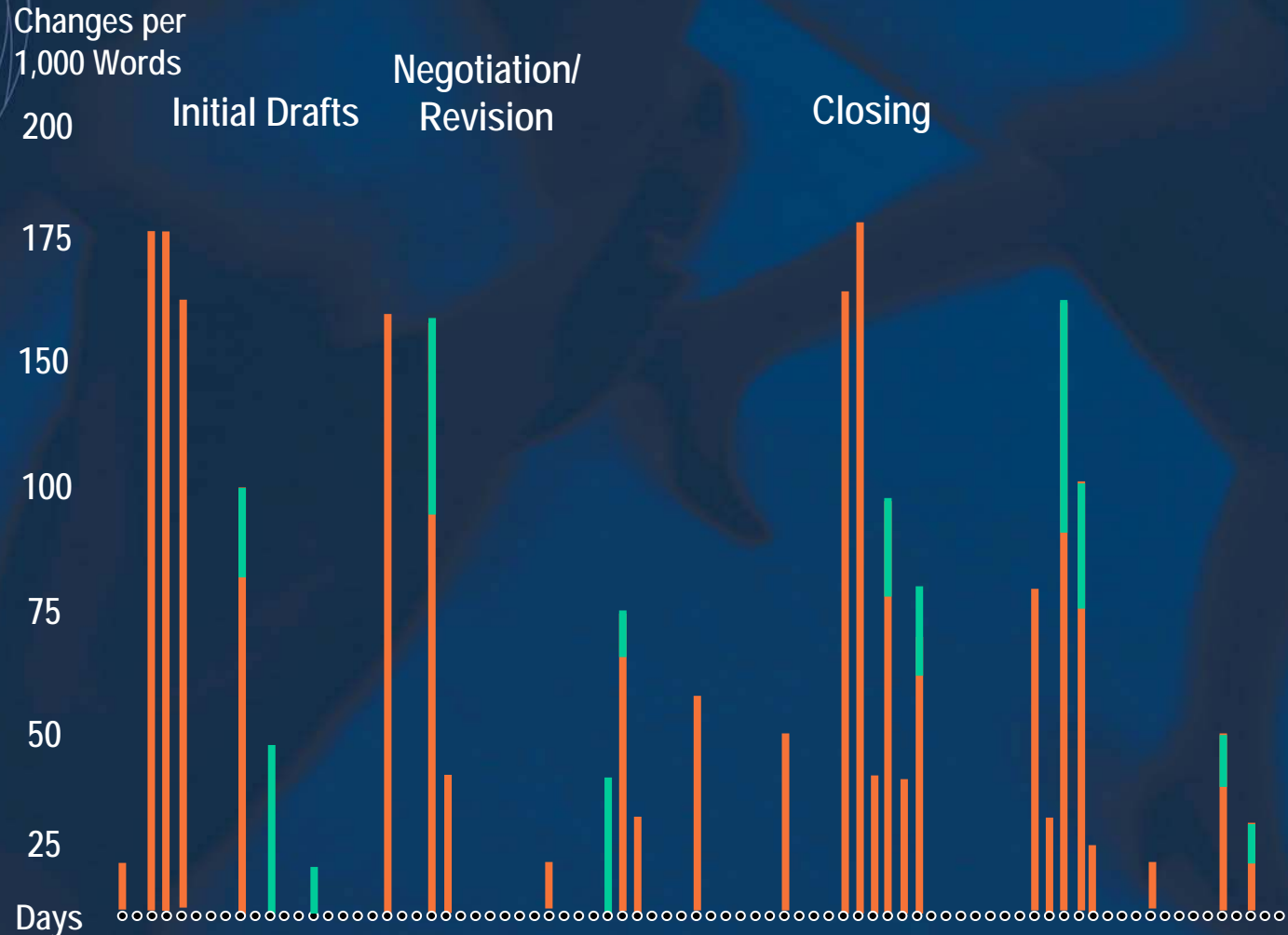
Time Charges: Multi-Family Loan Forbearance (Later Six Sigma)

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Time Charges



Document Revisions: Multi-Family Forbearance (Old-fashioned Way)

Circulated Documents



Document Revisions: Hotel Loan Forbearance (Early Six Sigma)

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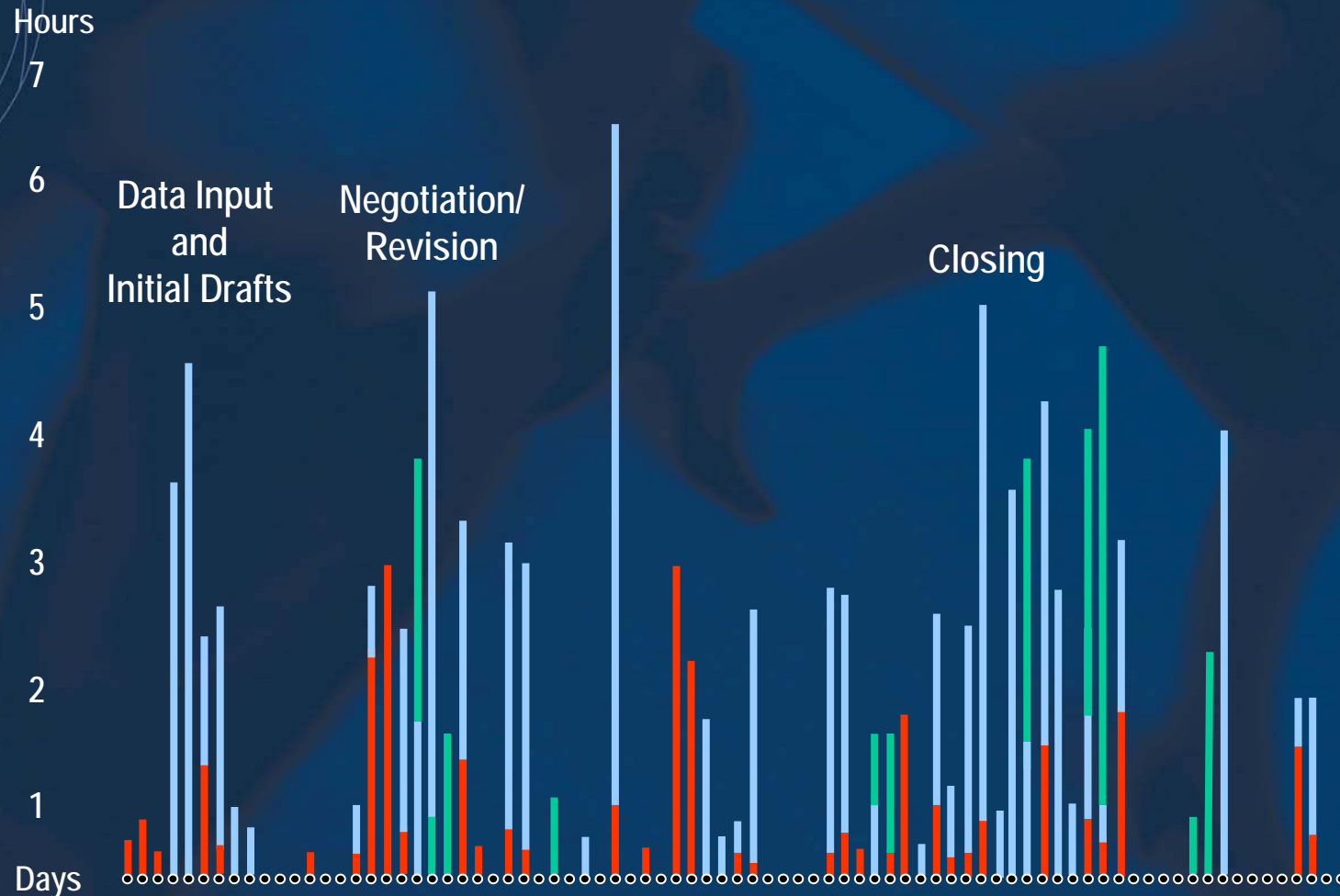
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REO Sales

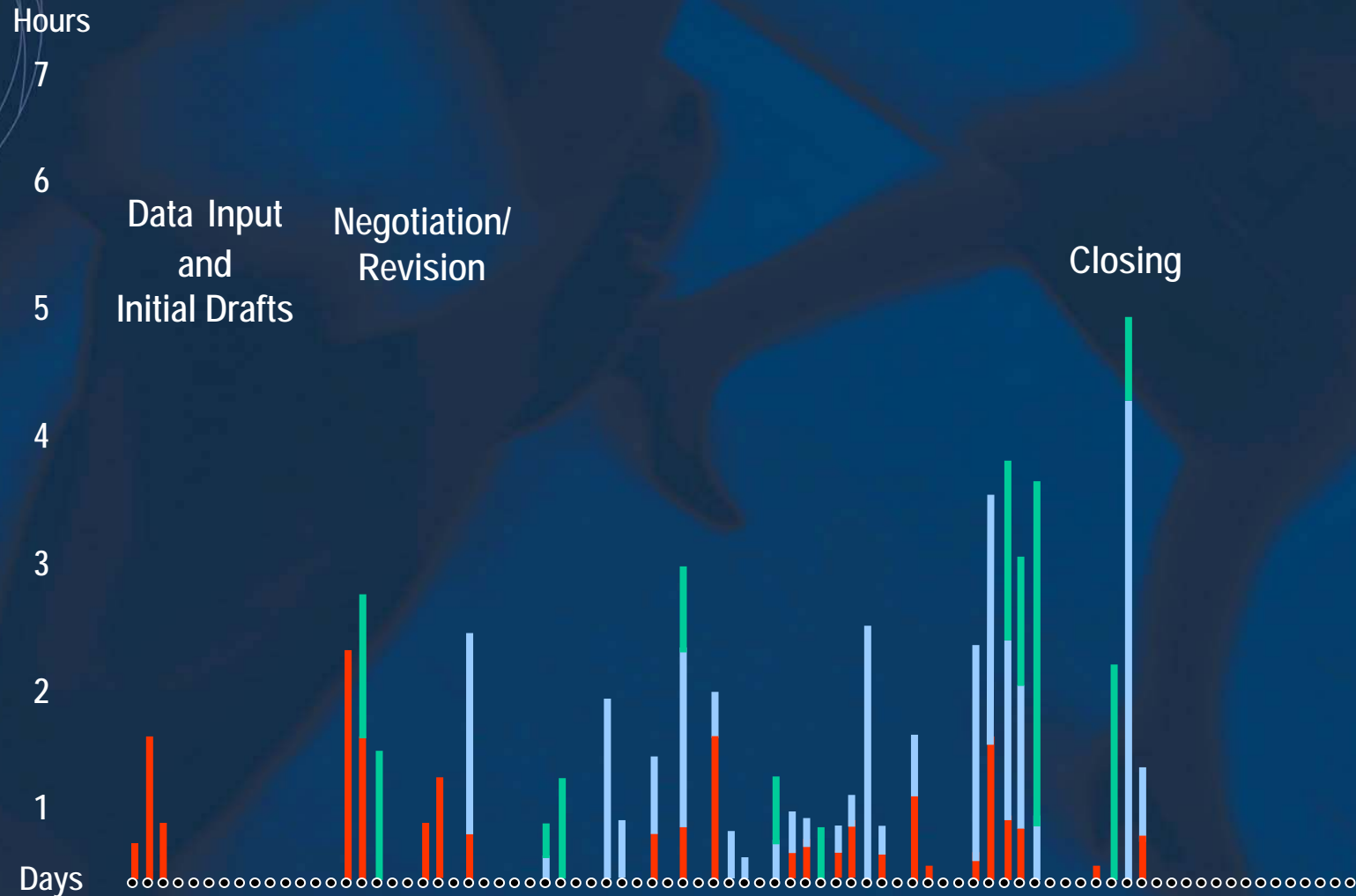
Time Charges: Sale of Texas Multi-family (Old-Fashioned Way)

Partner Time
Associate Time
Paralegal Time



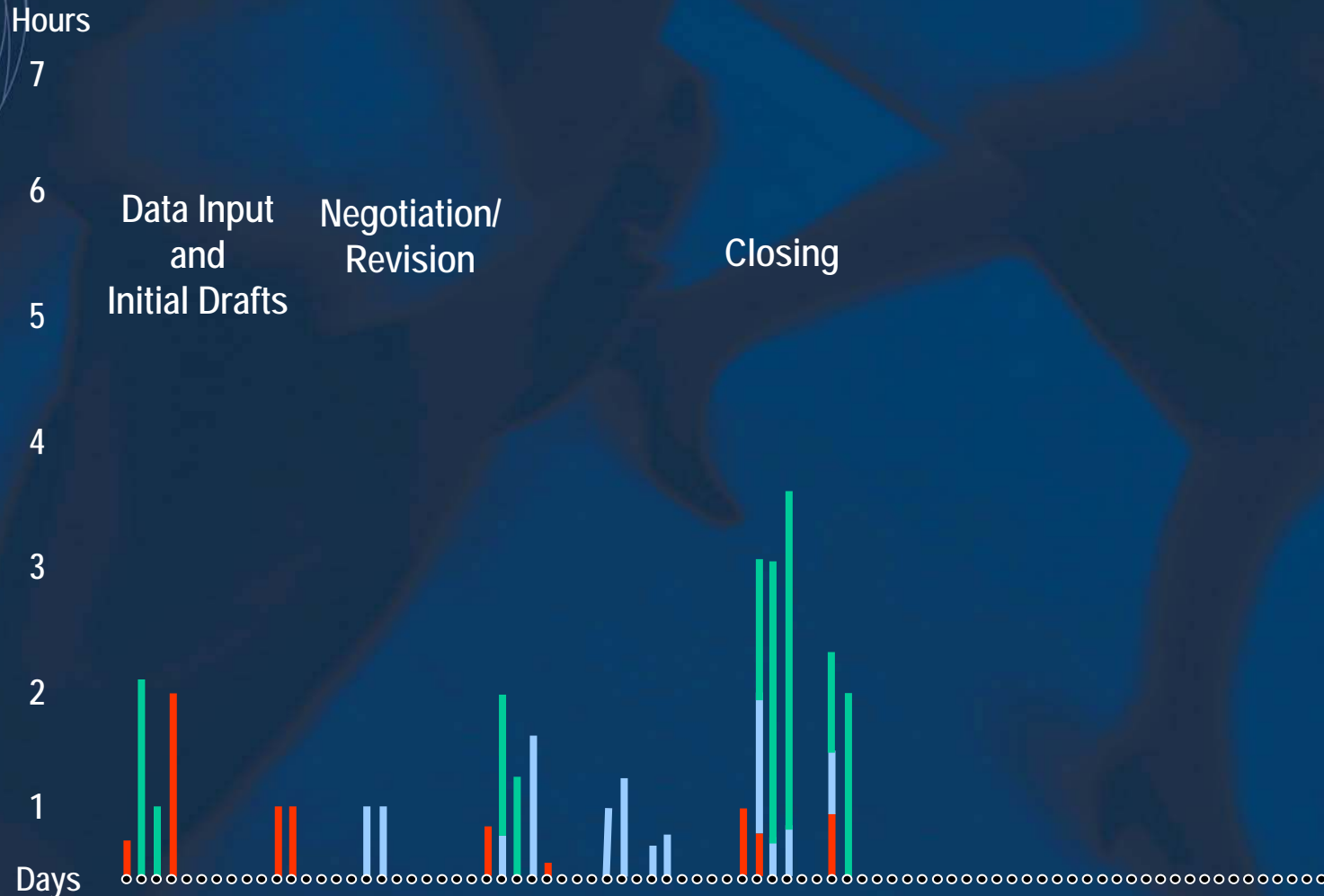
Time Charges: Sale of Pennsylvania Multi-family (Early Six Sigma)

Partner Time
Associate Time
Paralegal Time



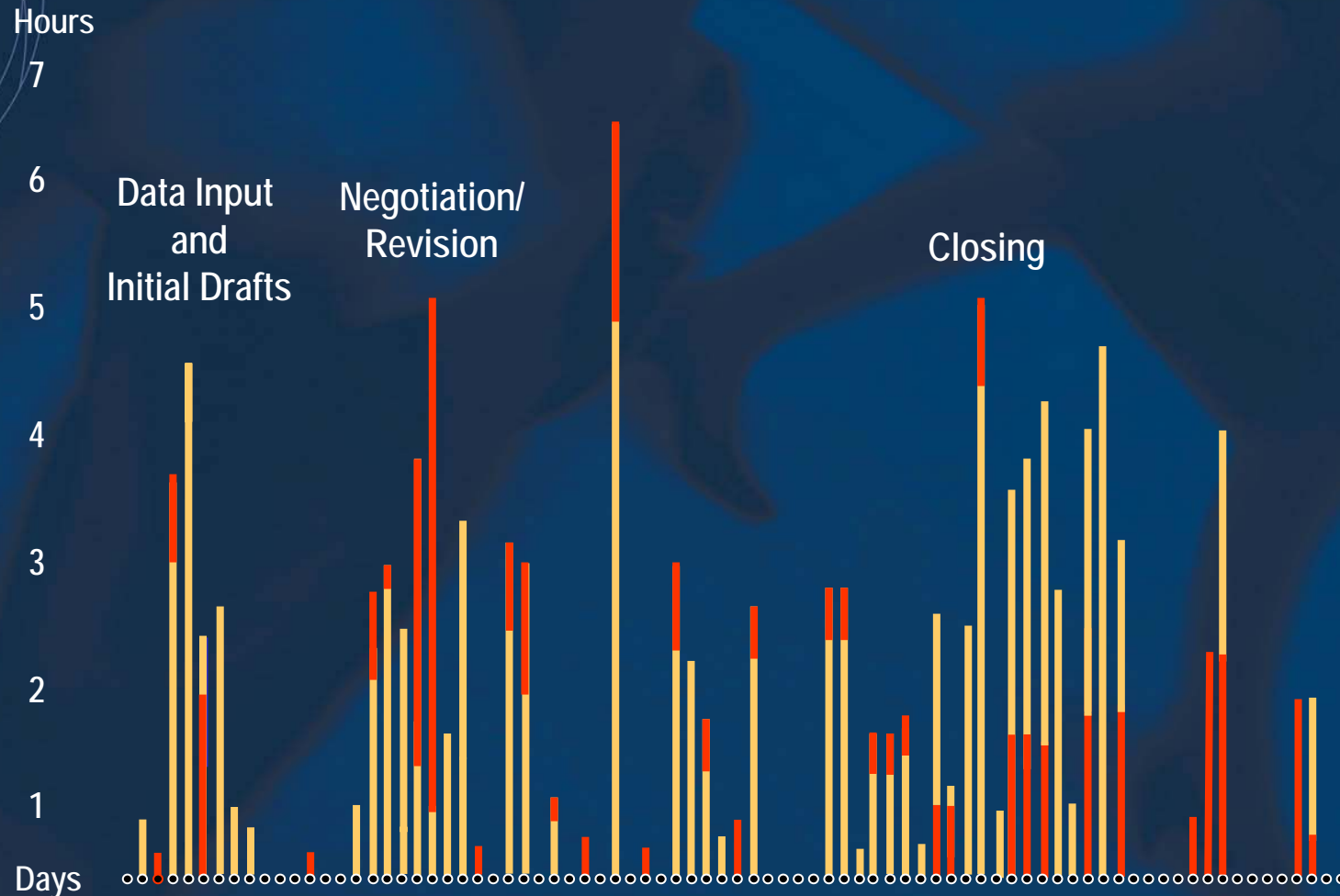
Time Charges: Sale of Florida Hotel/ Conference Center Building (Later Six Sigma)

Partner Time
Associate Time
Paralegal Time



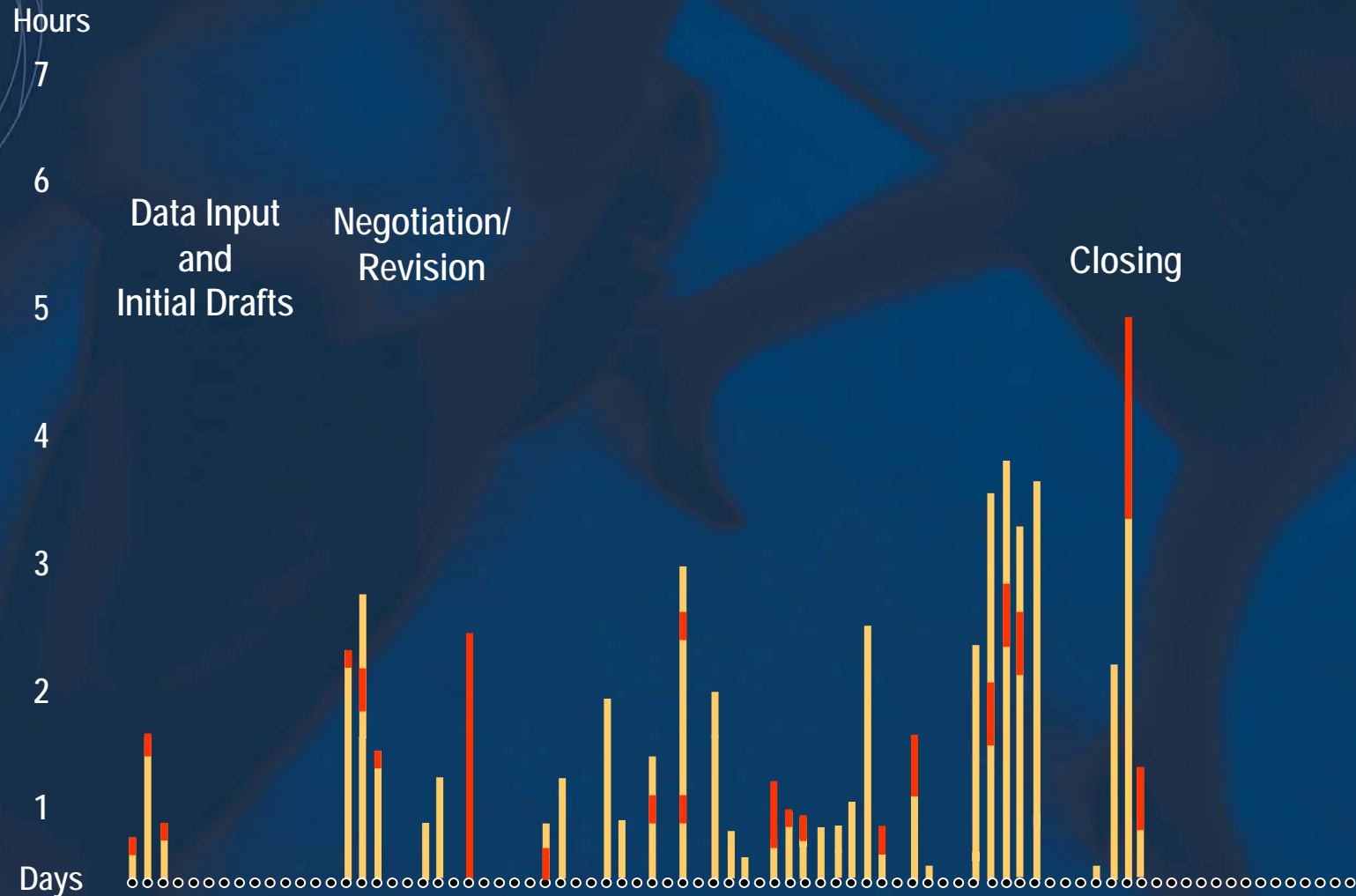
Time Charges: Sale of Texas Multi-family (Old-Fashioned Way)

Internal
Time Charges



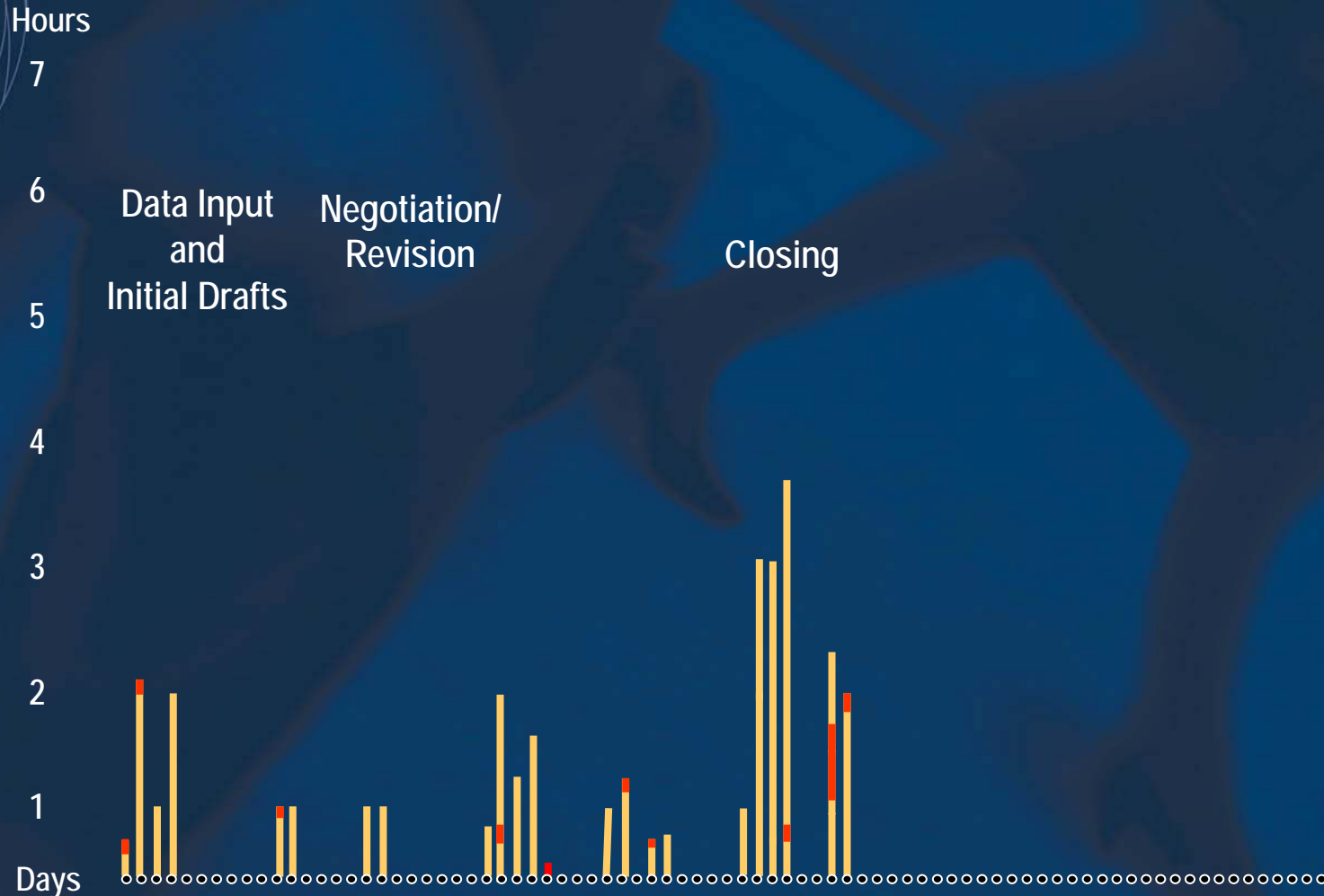
Time Charges: Sale of Pennsylvania Multi-family (Early Six Sigma)

Internal
Time Charges



Time Charges: Sale of Florida Hotel/ Conference Center Building (Later Six Sigma)

Internal
Time Charges



Document Revisions: Sale of Texas Multi-Family (Old-fashioned Way)

Circulated Documents



Document Revisions: Sale of Pennsylvania Multifamily (Early Six Sigma)

Circulated Documents

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Document Revisions: Sale of Florida Hotel/Conference Center Building (Later Six Sigma)

Changes per
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175

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100

70

50

25

Days



The Road Ahead

- Use of Non-Legal Personnel (Outsourcing)
 - Brokers, Secretaries and Administrators
 - Mortgage Administrators
 - Servicer Personnel
- Morgan Lewis Resources
 - Staff Attorneys
- Fee Credits

Beijing

Boston

Brussels

Chicago

Dallas

Frankfurt

Harrisburg

Houston

Irvine

London

Los Angeles

Miami

Minneapolis

New York

Palo Alto

Paris

Philadelphia

Pittsburgh

Princeton

San Francisco

Tokyo

Washington

Morgan Lewis

C O U N S E L O R S A T L A W

Thank You