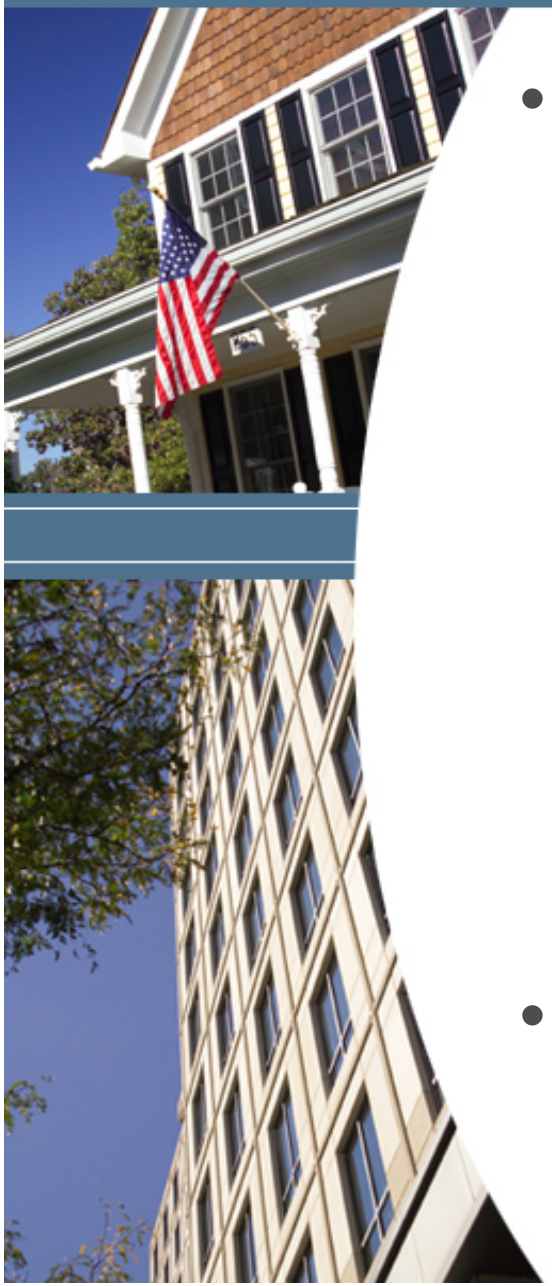
MORTGAGE BANKERS ASSOCIATION®
Investing in communities

Achieving ROI

Building business cases that drive towards ROI

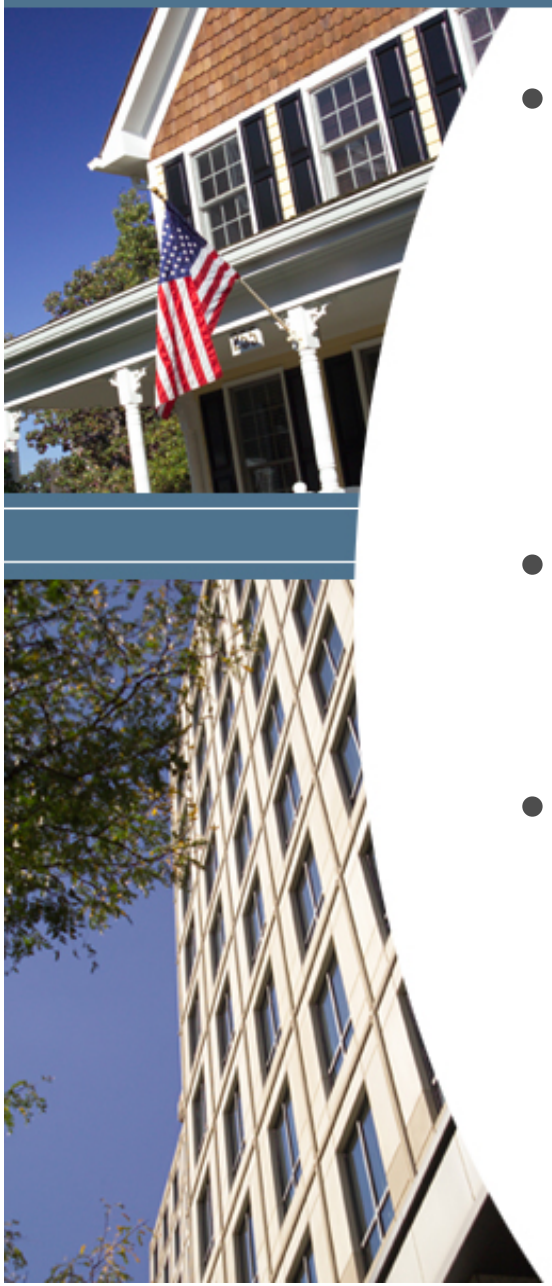
CC pace

Why Organization's Do Not Achieve ROI



- Many organizations fail to achieve ROI benefits because
  - » Their business case is a spreadsheet, not an actionable document
  - » They don't plan for them on the business side
  - » They don't manage the business side activities necessary to achieve them
  - » They manage the project output, not the strategic initiative outcome
- The issues are correctable

Overview



- Highlight concepts and tools from the CC Pace methodology to establish business cases that lead to the realization of ROI.
- Illustrate their use through case studies.
- Given the short time, we can only cover a few tools.

Three Types of Investments

1. Mandatory
   - » Regulatory change – SOX
   - » Cost avoidance based

2. **Predictable - ROI based**
   - » Process improvement
   - » Existing system replacement
   - » Costs and benefits can be estimated

3. Unpredictable
   - » Blue sky – something that has never been done before
   - » Benefits are guesses with little analogous data
   - » Use option theory

Components of CC Pace's Methodology

- Establish Assumptions

✓ Use the Whole of Life model as a framework

✓ Use the Organizational Component Model as a framework for "As Is" and "To Be" modeling – for process, technology and organization

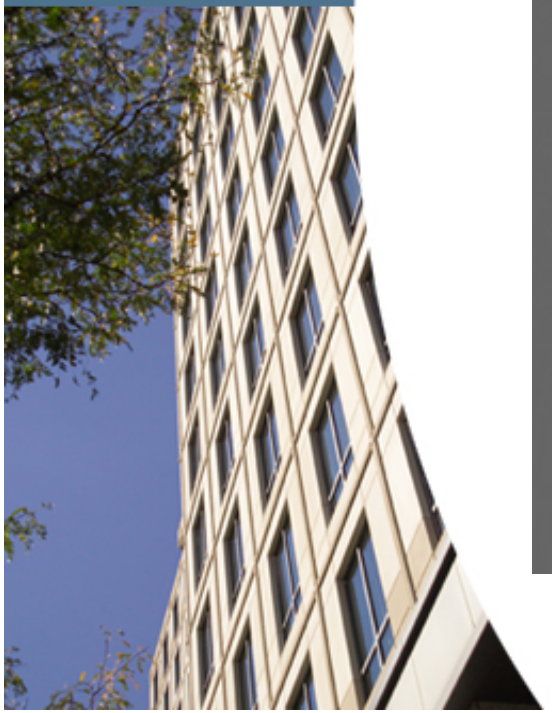
- Document benefits using IRACIS
  - » Increase Revenue, Avoid Cost, Improve Service

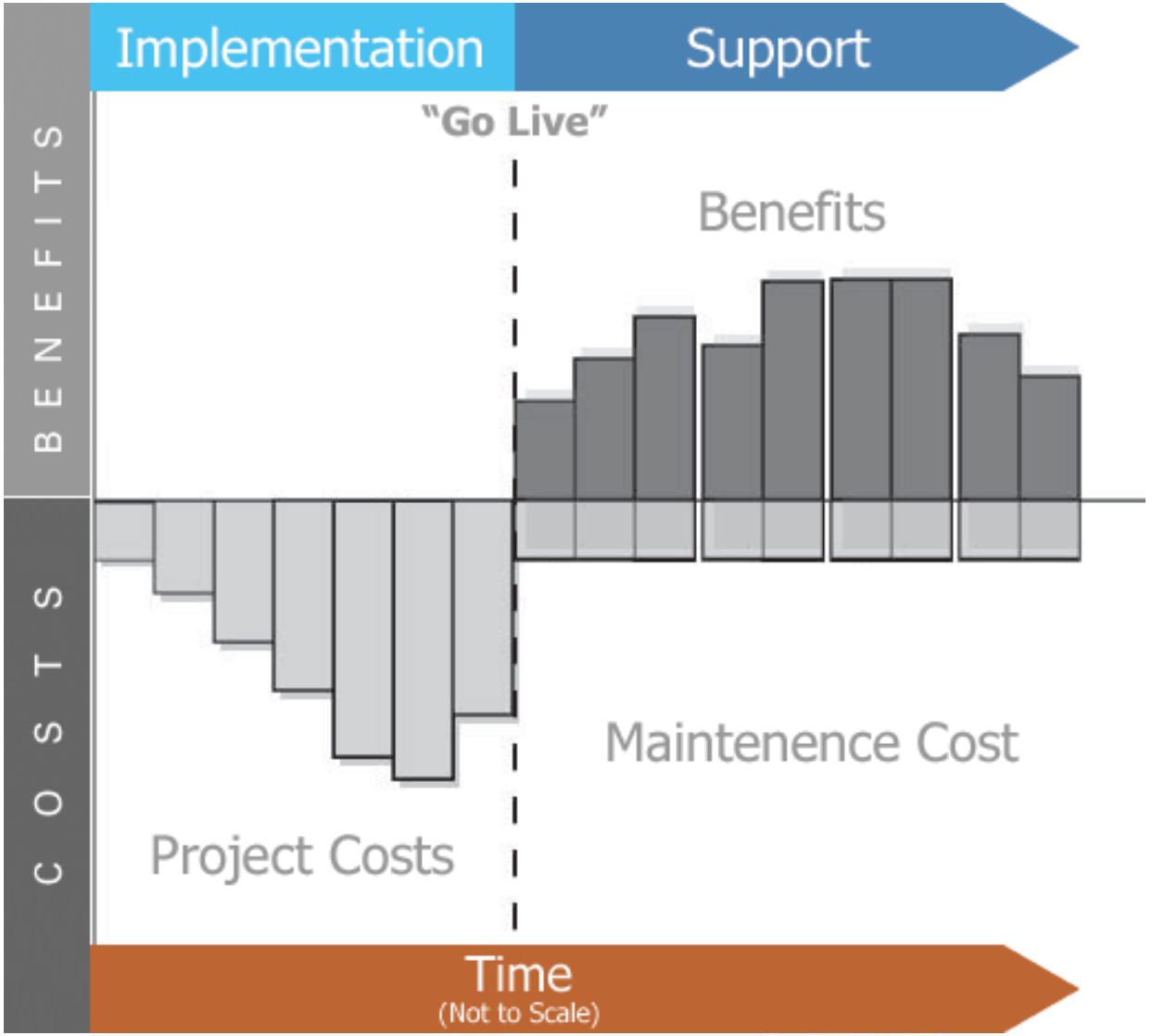
✓ Use range estimates for benefits and costs

✓ Develop the Project Profile

- Establish a baseline and methodology for measuring pre- and post- implementations

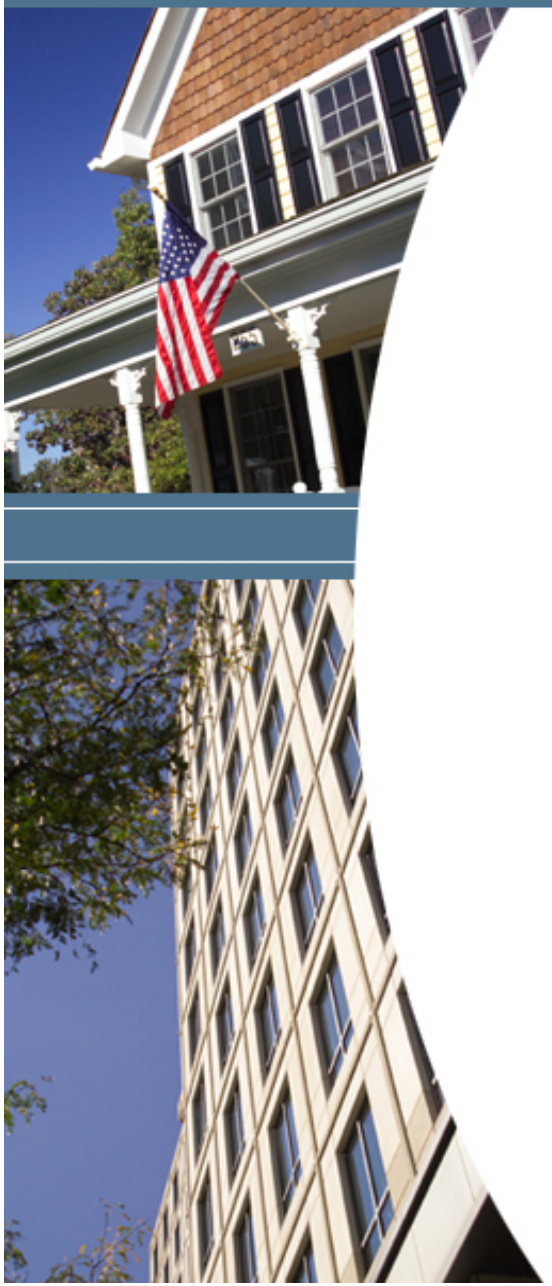
Framework: Whole of Life Model



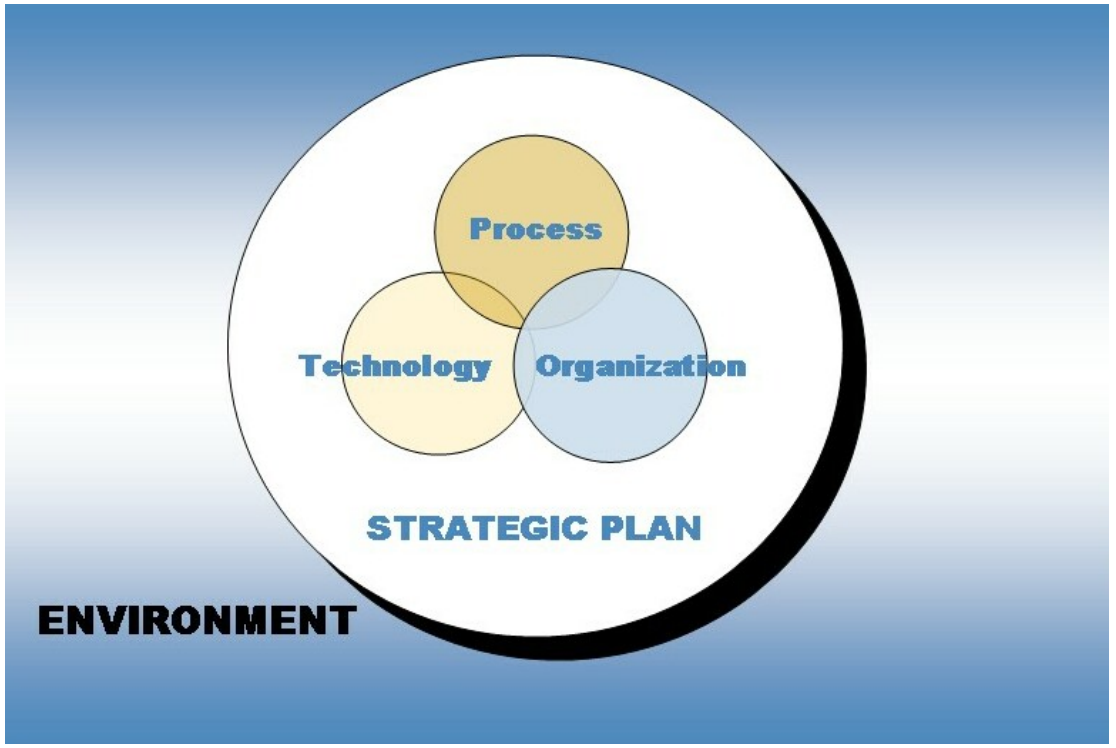


Whole of Life courtesy of the thomsett company third wave project management

Framework: Organizational Component Model

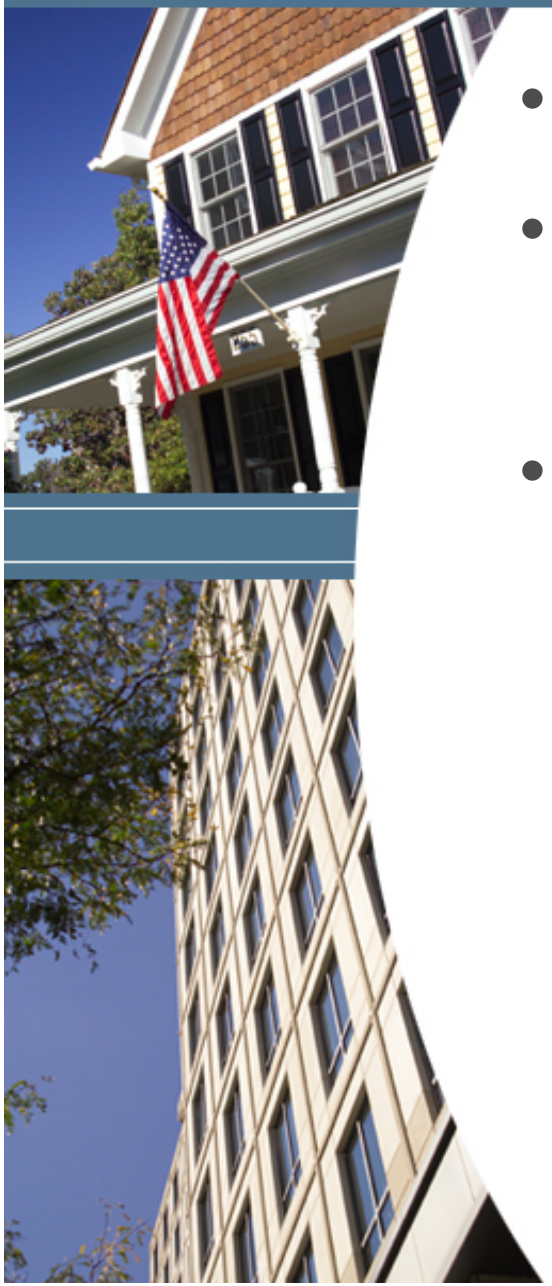


Process, Technology & Organization are interlinked



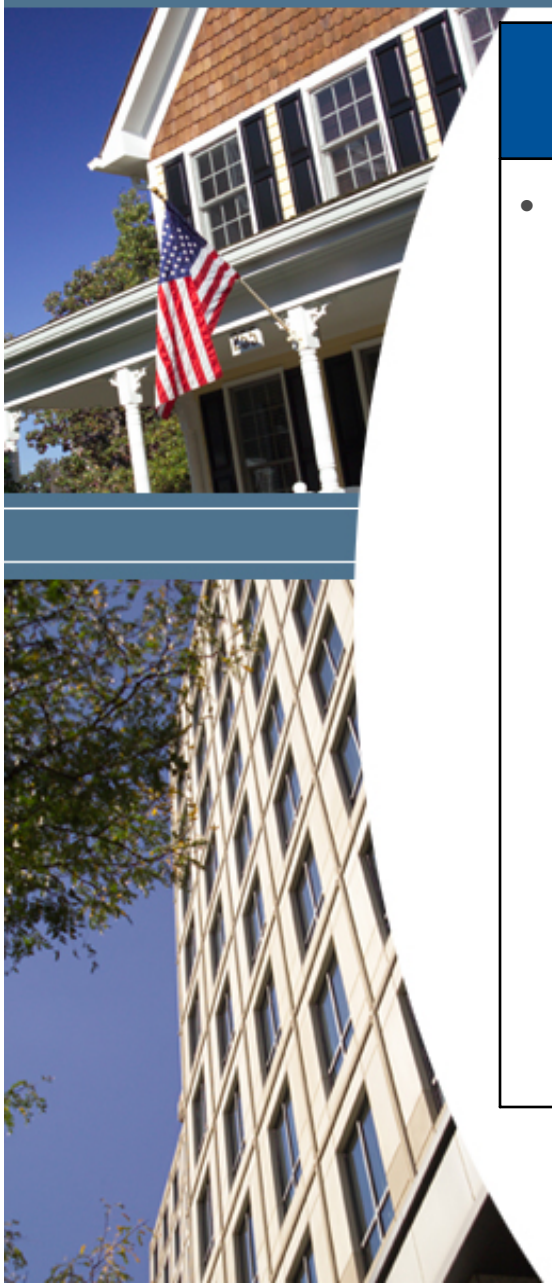
A change in one should force a change in the other two.

“As Is” and “To Be” Modeling



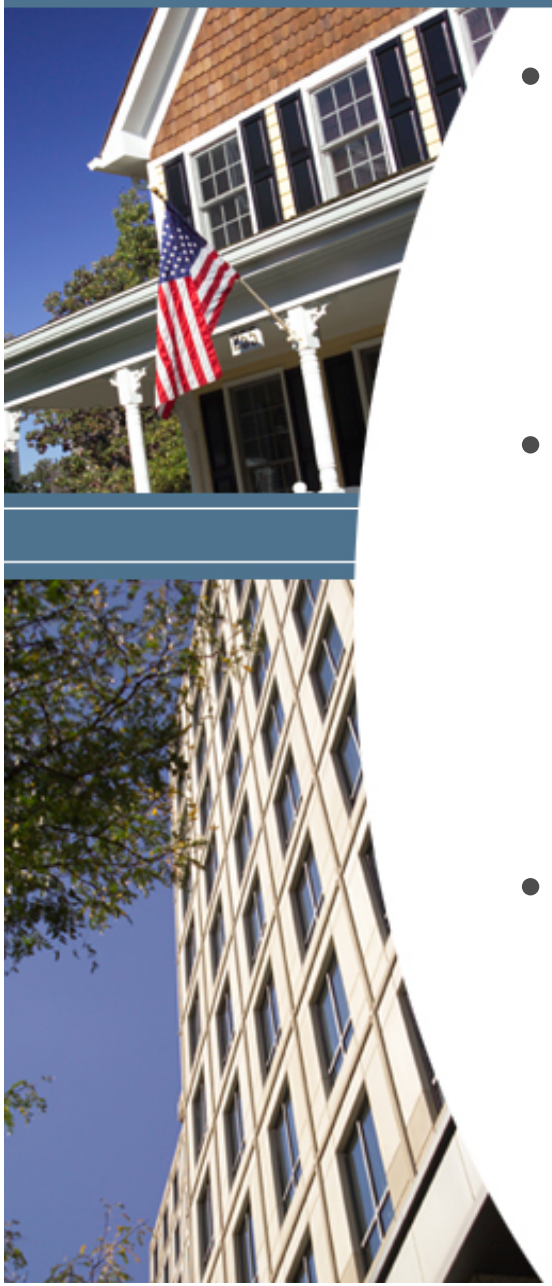
- There are few technology projects.
- There are business projects with an IT dependency.
- Use the OCM to define differences between the “As is” and “To Be” models.
  - » Process, Technology and Organization
  - » NOT functionality

Tool #1: O3M Model



Objective	Output	Outcome	Measure
• An objective must state what is going to change in the status quo	• The output is the direct change in the statue-quo as a result of the objective	• An outcome is the indirect change in the status quo as a result of the output	• How the outcomes will be measured

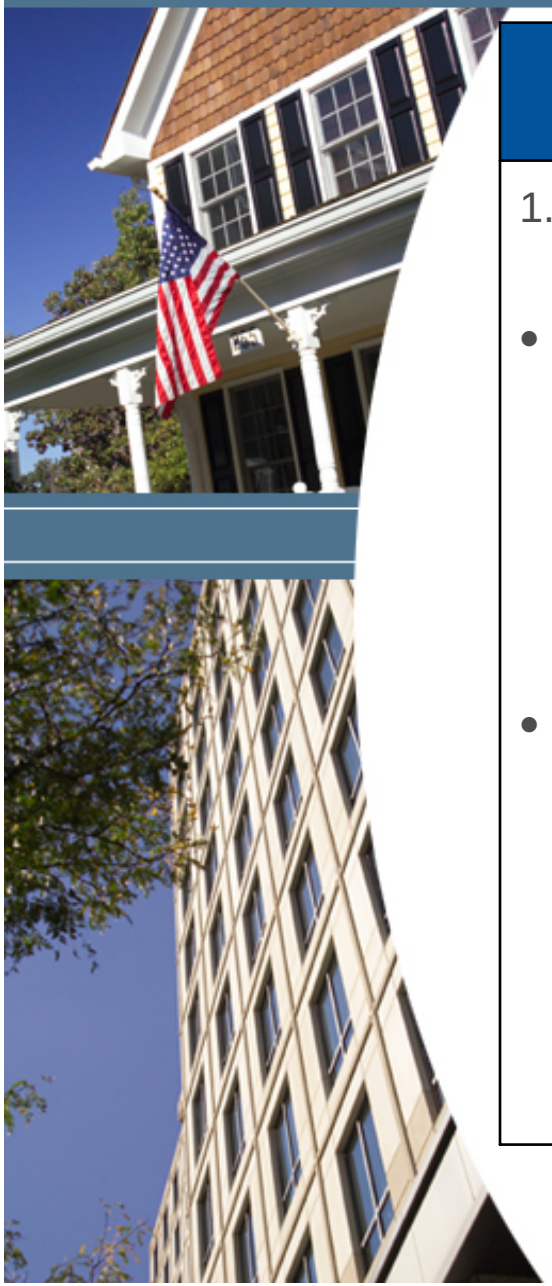
Case Study #1 – Small Lender



- Small lender is constrained because their LOS does not have closing packages
  - » Closers must pick each closing doc individually
  - » Requires a very senior resource
- Objective - Implement a system where:
  - » Data flows correctly and completely between Processing and Closing
  - » Closing packages are produced based on loan characteristics for packages produced out of LOS
- Output – Implemented System

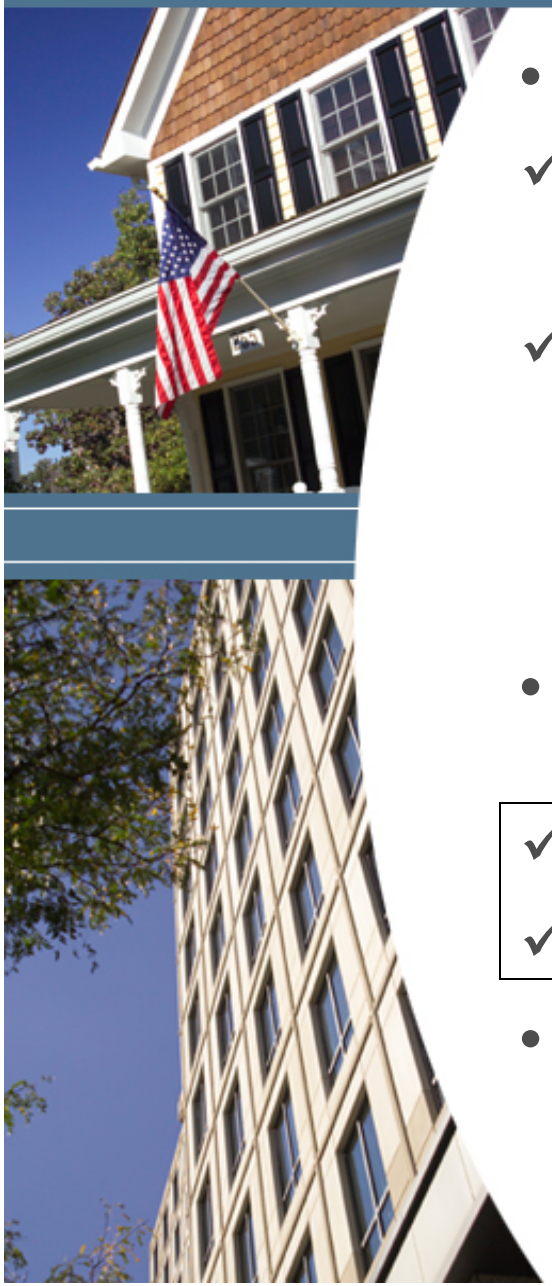
This will NOT get the ROI

Tool - O3M Model For Case#1



Objective	Outcome	Measure
1. Implement a system where: • Data flows correctly and completely between Processing and Closing • Closing packages are produced based on loan characteristics for packages produced out of LOS	Avoid Cost: Create Junior Closer Position (HR & OPS) Change process to triage between Jr and Sr Closer (OPS) and route easy loans to Jr Closer	Raise closed loans per closer per day from 8-12 Comparison in cost of current closers to new Junior Closer Availability of Jr Closer resulting in higher volume

Components of CC Pace's Methodology



- Establish Assumptions
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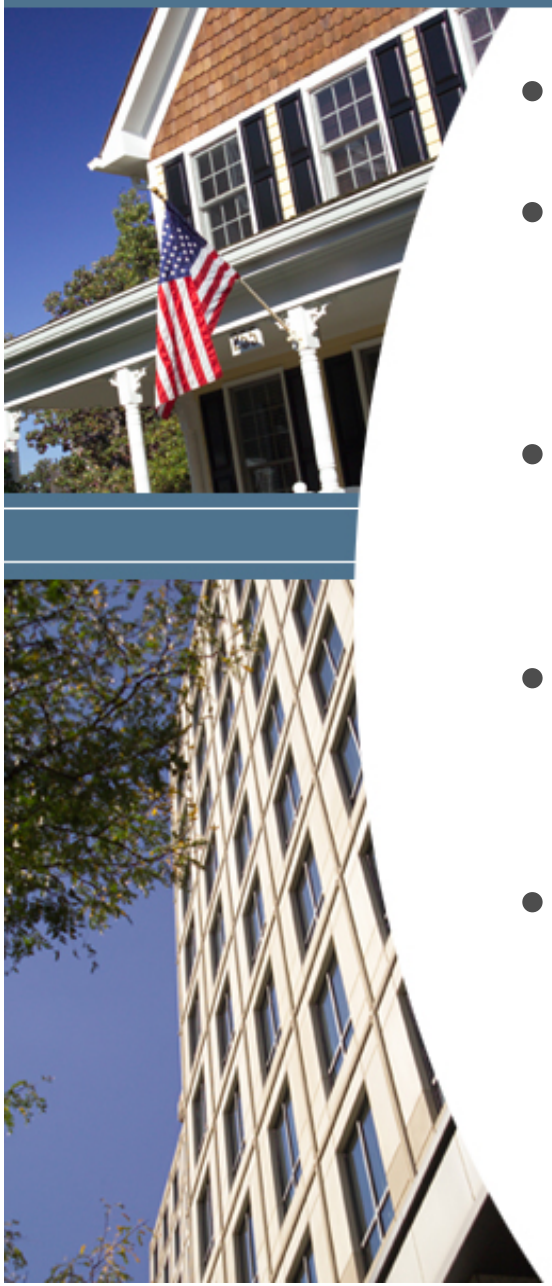
- ✓ Use the Organizational Component Model as a framework for "As Is" and "To Be" modeling – for process, technology and organization
- Document benefits using IRACIS
  - » Increase Revenue, Avoid Cost, Improve Service
- ✓ Use range estimates for benefits and costs
- ✓ Develop the Project Profile
- Establish a baseline and methodology for measuring pre- and post- implementations

Most CBA look like this

23			
24	Project X		
25			
26		Benefits	18,124,177
27		Cost	8,500,000
28		Net	9,624,177
29			
30			
31			

Summary | NPV Cost | NPV Benefits

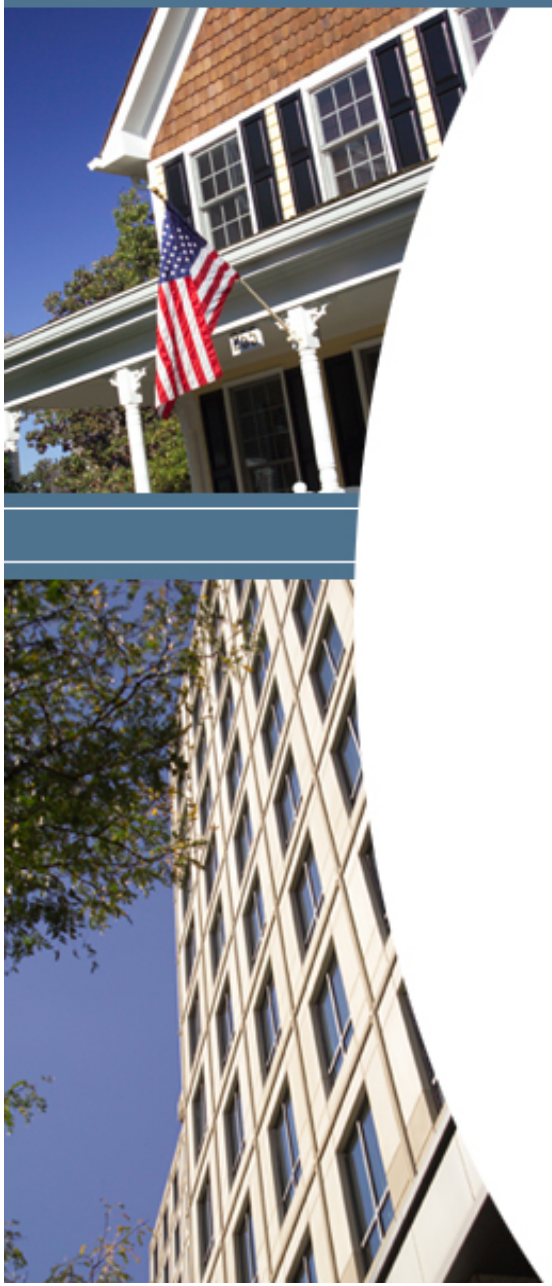
Estimating Project Costs and Benefits

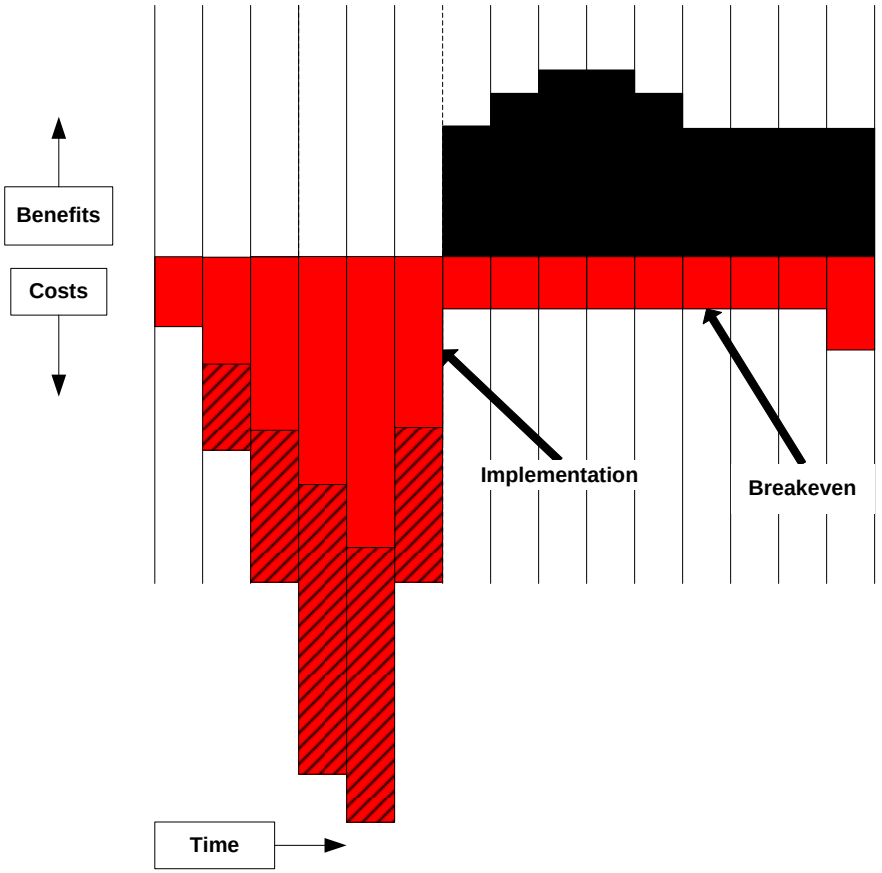


- How long is the project?
- How well understood is the project?

- Change is the lesser known brother of death and taxes
- Do we know the direction of interest rates tomorrow?
- Why do we insist on single-point estimates?

Best Practice: Use ranged estimates

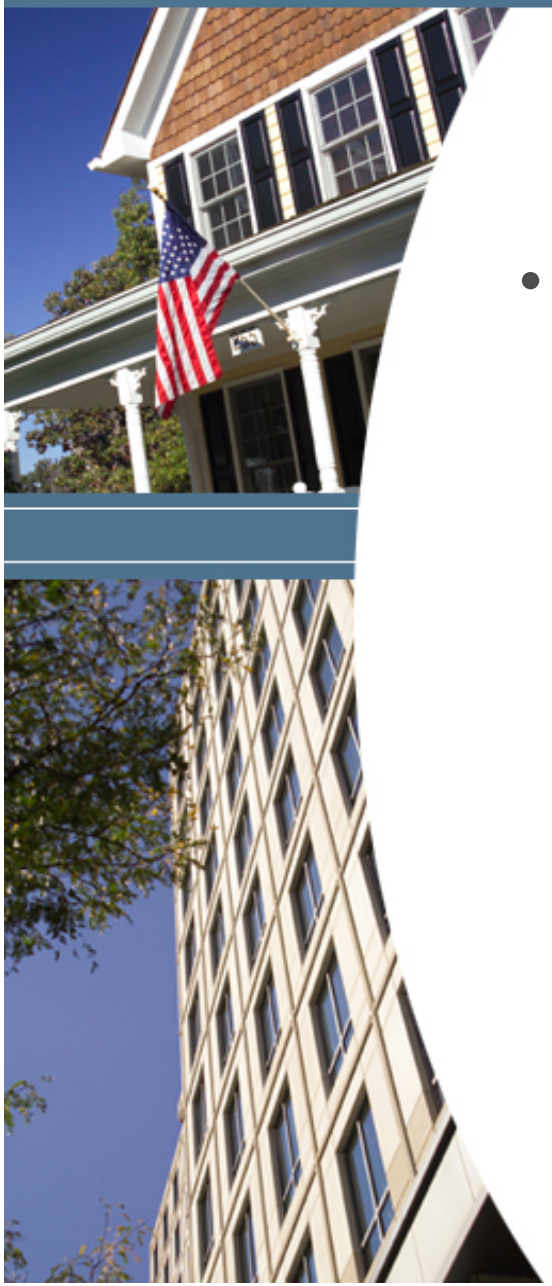




Build costs are often under or over-estimated by as much as 4X when compared back to actuals.

Single point estimates hide risk

Ranged Estimates



Use group sessions to estimate costs and benefits

- Estimated Costs
  - » Low = $6,800,000
  - » Likely = $8,500,000
  - » High = $12,750,000
- Estimated Benefits
  - » Low = $10,218,475
  - » Likely = $18,124,177
  - » High = $28,842,590

Best Case	All goes better than expected.
Likely	All goes as expected.
Worst Case	Risk factors come true.

$$\text{Single Point Estimate} = \frac{\text{BestCase} + 4(\text{Likely}) + \text{WorstCase}}{6}$$

Assumptions will become clear in the best case estimates.
Risks will become clear with the worst case estimates.

Tool – Create a Project Profile

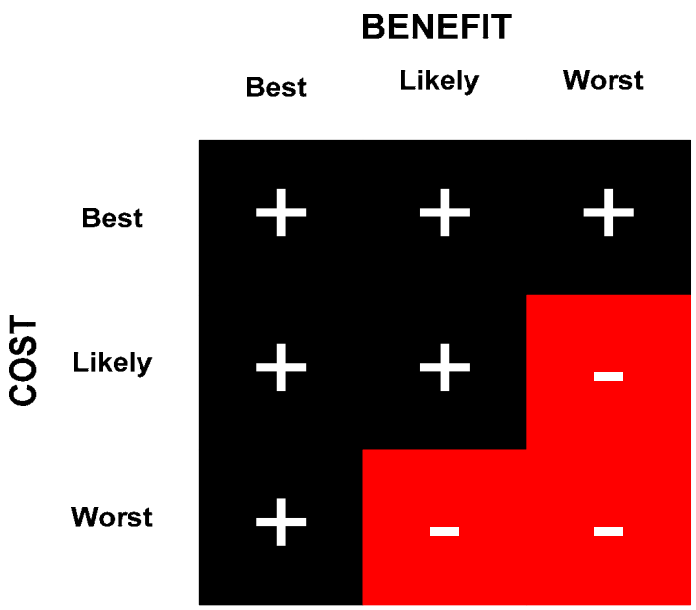
Combine the ranged estimates into a project profile

		BENEFITS		
		High	Likely	Low
COSTS		28,842,509	18,124,177	10,218,475
	Low Cost	6,800,000	6,800,000	6,800,000
	Net	22,042,509	11,324,177	3,418,475
		+	+	+
		28,842,509	18,124,177	10,218,475
	Likely Cost	8,500,000	8,500,000	8,500,000
	Net	20,342,509	9,624,177	1,718,475
		+	+	+
		28,842,509	18,124,177	10,218,475
	High Cost	12,750,000	12,750,000	12,750,000
	Net	16,092,509	5,374,177	-2,531,525
		+	+	--

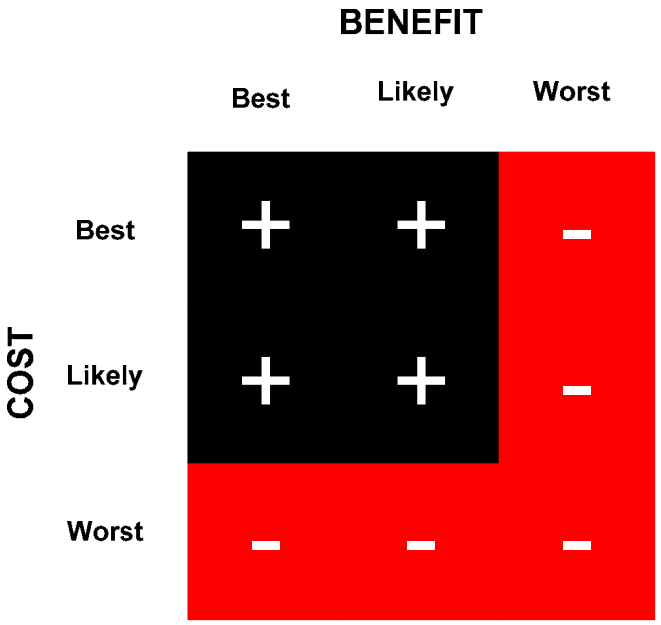
Using the Project Profile

The profile can tell you a lot about how to manage the project

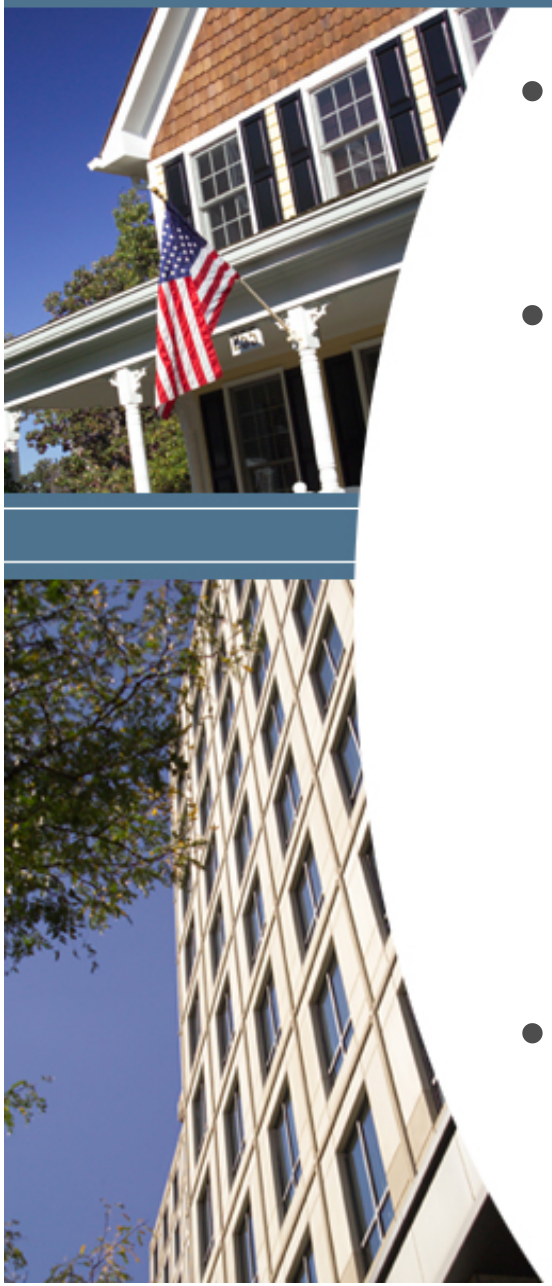
Good Investment



Riskier investment

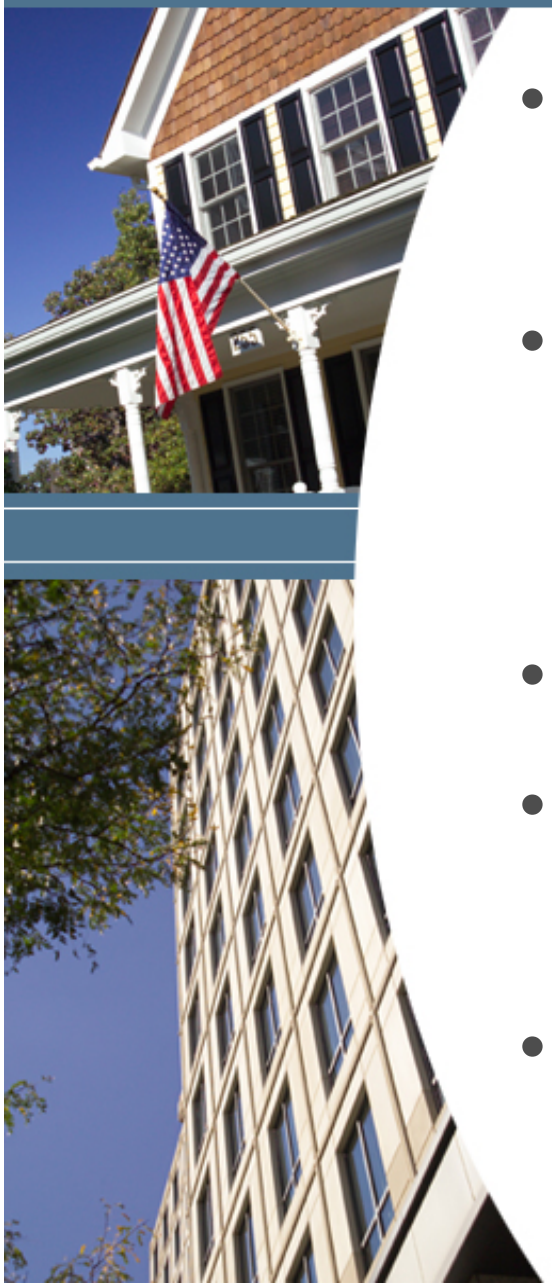


Case Study #2 – Automated Underwriting

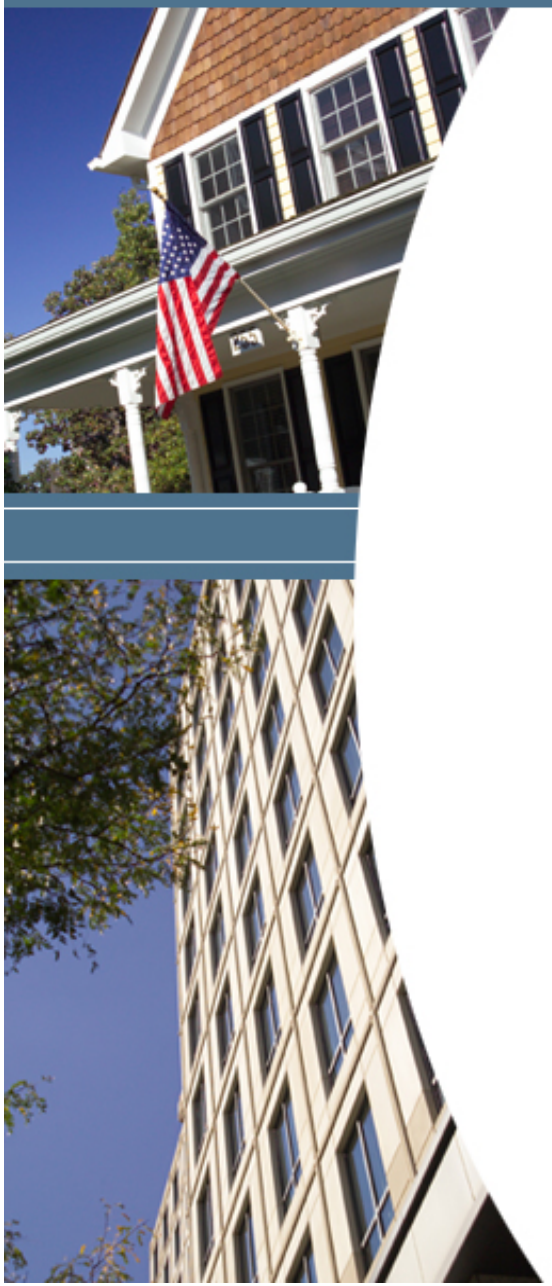


- Project named after vendor; NAMB deadline
- We identified 47 critical activities in 9 departments that must be done before rollout
  - » Some were training AE's, shockwave tutorial for brokers
  - » Only 5 were on IT project plan
  - » Only some had a budget; most were outside of the project budget
- Implemented a program manager

Summary



- Not IT projects, but business projects that are IT enabled
- Define changes in process and organization
  - » Tool: O3M
- Insist on seeming a benefit plan
- Use a program manager to manage the business side activities
- Use range estimates, not single point, and develop a project profile



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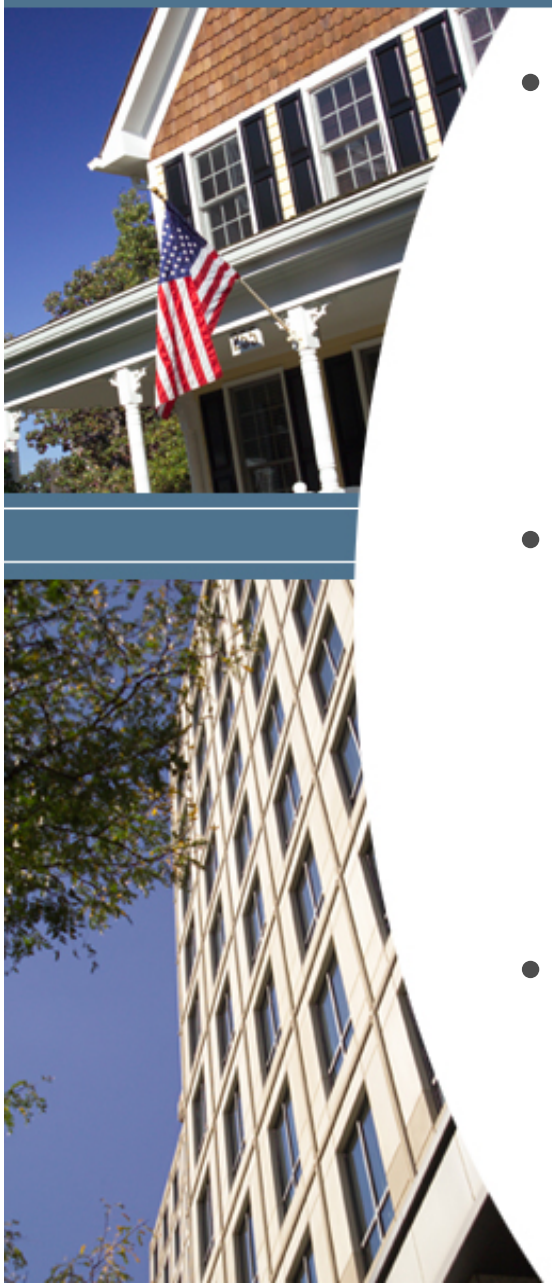
About CC Pace



- CC Pace is a financial services consulting firm with a boutique mortgage banking practice.
- We are prized for being
  - » Thought leaders
  - » Trusted, objective and independent
  - » Focused on our client's business case
- We have a proven track record of success
  - » 80% of our revenue is from repeat customers

Services Include:

- ***Business and technology strategy***
- ***Process design, operational review and assessment***
- ***Project and Program Management***
- ***System Selection and Implementation***
- ***Due Diligence Review and Assessment***
- ***Automated Decisioning***