

Business Process Offshoring in the Mortgage Industry

Deloitte Consulting LLP

February 27, 2008

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Recap of FSI Global Offshoring Research

Offshoring has been experiencing a substantial growth in the past few years with several locations emerging as competitive players

Rapid Growth and Building Momentum

India as the Leading Offshoring Center

Emergence of Distinct Operating Models

Economies of Scale and Substantial Cost Savings

Offshoring Adoption

Survey participants with offshore adaptation

Year	Percentage of Survey Participants with Offshore Adaptation
2003	26%
2004	~55%
2005	70%

Source: 2005 Deloitte Research Global Offshore Survey

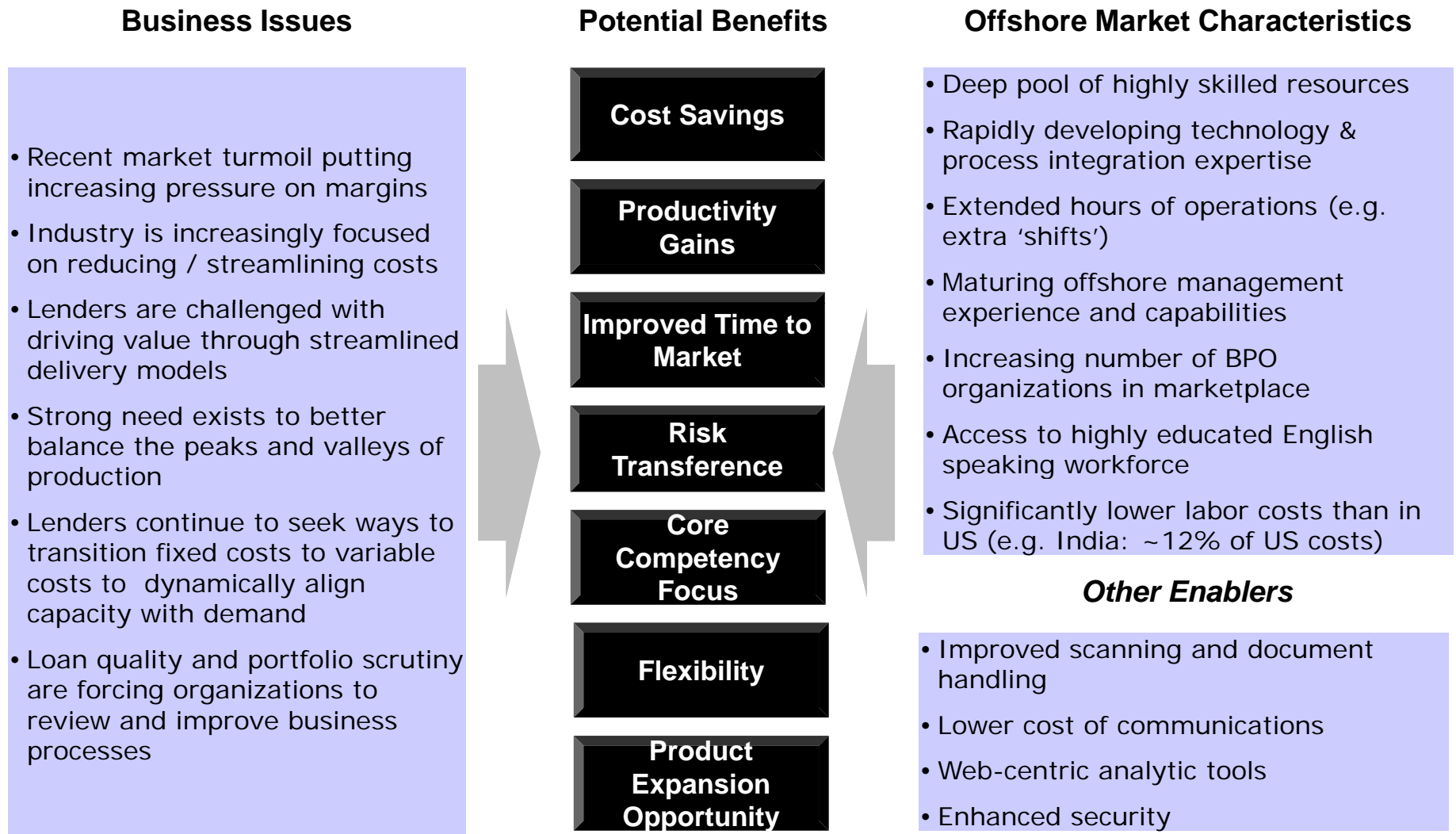
- Rapid increase in the number of institutions that offshore (70% of surveyed FSIs either offshore or are in the planning stages of offshoring)
- Best performers offshore 4-5 functions
- Increased scale and complexity of offshored operations (from simple applications development to complex business processes)
- Strong growth in the BPO services and substantial expansion of offshore service delivery centers

Leading Offshoring Centers

- India remains dominant with over 70% of offshore headcount share among participants
- The key offshoring players are establishing additional service centers across major offshoring markets e.g., China, Philippines, Eastern Europe and integrating them into a seamless network of delivery centers
- There has been a recent trend toward customer inquiry contact center activity in Latin American locations such as Costa Rica

Source: 2005 and 2006 Annual Deloitte Research Financial Services Offshoring Surveys

Business needs coupled with a rapidly developing marketplace are driving the significant offshore growth



Source: Deloitte Analysis

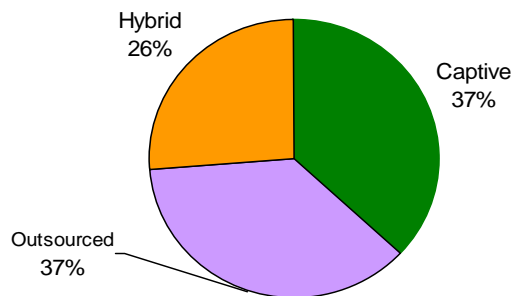
Mortgage Offshorers are relatively evenly split between three offshore operating models

Figure 3: Considerations for choosing an offshoring model

Options	Criteria						
	Upfront Investment	Center of Excellence / Pool for new ideas (IP)	Time to Start Operations	Offshoring / Outsourcing Expertise needed	Cost Savings	Quality Gains	Information Security
Captive	○	●	◐	◐	●	◐	●
Third Party	●	○	●	◐	◐	●	◐
Hybrid	◐	◐	◐	◐	◐	◐	◐

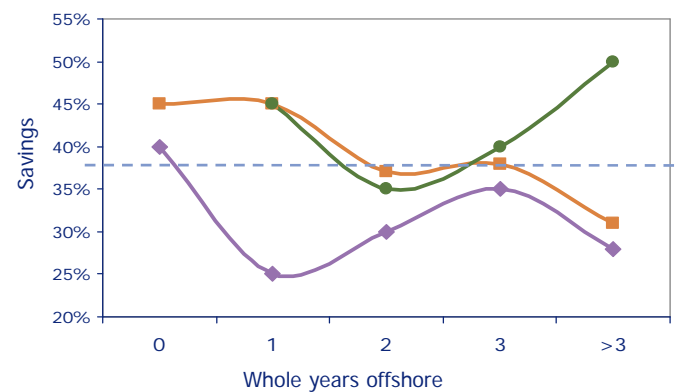
Most Attractive
 Least Attractive

Offshore Models: Leading US Mortgage Lenders



Based on the study of top 40 mortgage lenders

Typical Savings by Offshore Model



Source: 2005 and 2006 Annual Deloitte Research Financial Services Offshoring Surveys

Financial Services industry case examples illustrate a wide variety of execution options

Lender	Functions Offshored	Business Model	Comments
Leading US based mortgage and real estate lender	<input checked="" type="checkbox"/> Mortgage <input type="checkbox"/> Cards <input type="checkbox"/> Deposits	Captive	<ul style="list-style-type: none"> Opened a wholly-owned processing center in Mumbai in 2004; 250 people in India by end of 2005 Utilize IT offshoring to allow for less downtime due to time difference Initially used to provide services for data entry, pipeline management in-bound customer calls; Center in the final stages of becoming a full processing and customer service provider, mirroring processes including IT Programming, appraisal quality control and call center
Leading global financial services firm	<input checked="" type="checkbox"/> Mortgage <input type="checkbox"/> Cards <input type="checkbox"/> Deposits	BPO	<ul style="list-style-type: none"> Reached an agreement in 2004 with a vendor to provide private label mortgage processing services Customer service officers take client applications using a customized web tool built by the vendor, which supports the institution's pricing and credit policy Applications flow to vendor, which provide all borrower contact, processing and fulfillment services through loan closing
US based top 10 savings and loan originator	<input checked="" type="checkbox"/> Mortgage <input type="checkbox"/> Cards <input type="checkbox"/> Deposits	BPO	<ul style="list-style-type: none"> 300 FTEs in India in less "customer-oriented" roles; plan to have 1,500 workers in India by 2008 Currently performing welcome calls to new borrowers, new customer verification, loan collections and call center activities offshore Cost savings in the double digits in the double digits in the second year Chose vendor for loan origination and underwriting, about 60% of vendor's work is done offshore Considering near shoring to Mexico to serve Spanish speaking population
US based, diversified financial services company	<input checked="" type="checkbox"/> Mortgage <input checked="" type="checkbox"/> Cards <input checked="" type="checkbox"/> Deposits	BPO	<ul style="list-style-type: none"> Renewed deal with vendor for consumer credit and small business card processing services (November 2006). Vendor acquired client's entire unit of ATM and Debit card processing (March 2007) Client to locate its IT and Business Process Outsourcing Centre in Hyderabad Another vendor partners with client to deliver its digital Loan Management solution

Source: Deloitte Analysis

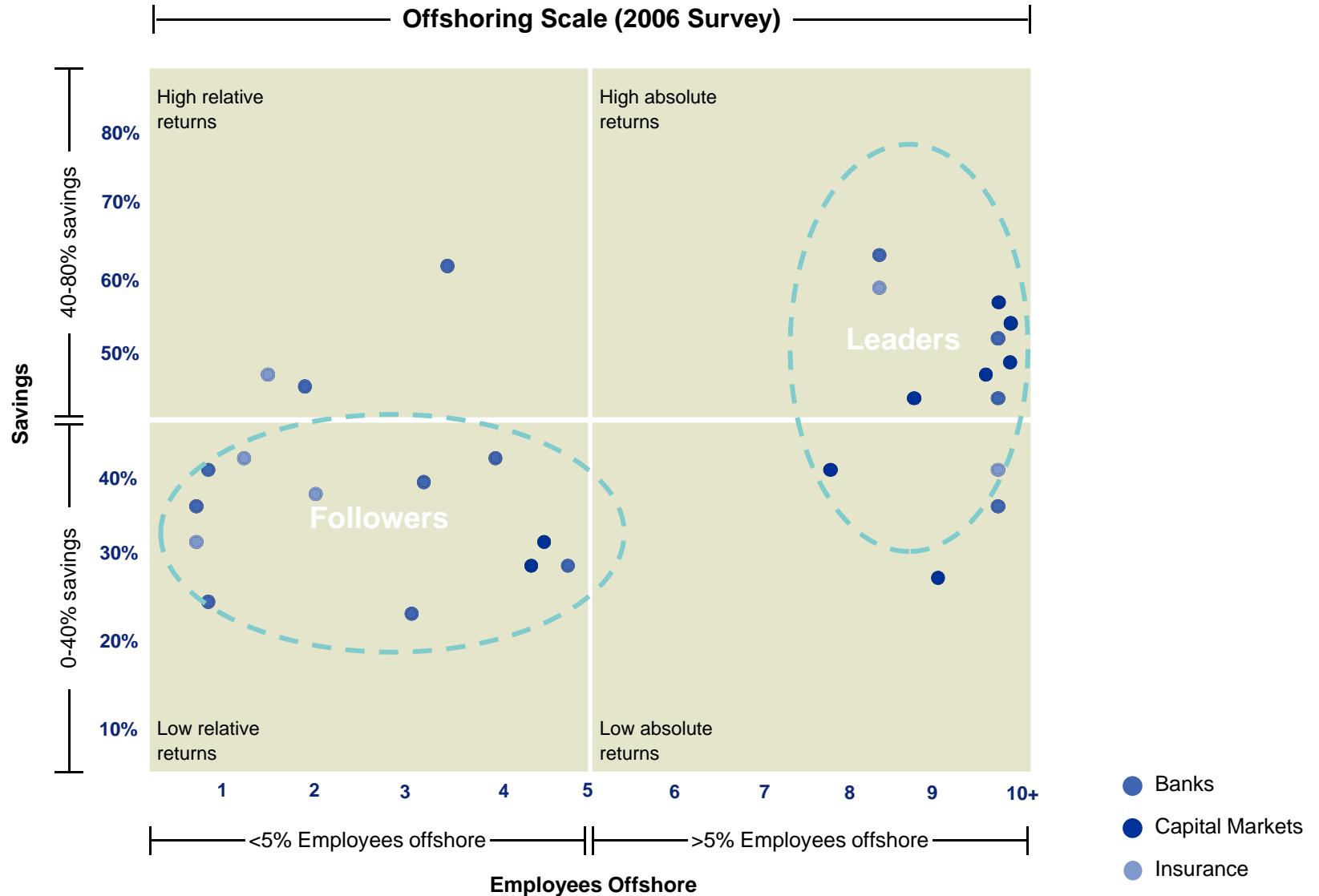
Financial Services industry case examples illustrate a wide variety of execution options (Cont'd)

Lender	Functions Offshored	Business Model	Comments
Leading US based consumer and small business bank	<input checked="" type="checkbox"/> Mortgage <input type="checkbox"/> Cards <input checked="" type="checkbox"/> Deposits	BPO/Hybrid	<ul style="list-style-type: none"> ■ Internal technical help desk outsourced to vendor in India in 2004 ■ Philippines based vendor provides a variety of customer management services in English from the Philippines and Spanish from Costa Rica for retail banking clients. ■ Has an on-going seven-year business process outsourcing (BPO) agreement with another vendor, to host and manage check processing operations using leading-edge image-based technology
Leading global financial services firm	<input checked="" type="checkbox"/> Mortgage <input checked="" type="checkbox"/> Cards <input checked="" type="checkbox"/> Deposits	Captive/BPO/Hybrid	<ul style="list-style-type: none"> ■ Relationship established in 1992, client pioneered the use of India's potential for providing cost-effective services to their global operations ■ Recently sold its captive operations with 10000 FTE's to third party for \$700M ■ Another vendor runs client's mortgage back office operations through its call centers in Delhi and Mumbai and dedicated a 100 member team to handle the BPO job. ■ Contract includes global mortgage customer queries (pre-sale and post-sale), mortgage processing, refinance, logistics management and related tech-support ■ Has nearly 2000 FTE's located in India (handling everything from call center support to number crunching for investment research) ■ The Global Services offered were: loan processing, appraisal first-level review, global customer service queries (pre- and post-sale), refinance, tech-support, Trade Services, Cash Management, Retail Banking, Insurance, Capital Markets, Credit Cards Operations, Mortgages, Benefit Administration & Retirement Services and Financial Middle Office

Source: Deloitte Analysis

Executing an Offshore Model

Recent research shows a growing divide between leaders and followers in the offshoring evolution



Source: 2005 and 2006 Annual Deloitte Research Financial Services Offshoring Surveys

Note: The savings ranges denote the highest reported savings per process and the institutions have been plotted as per average savings reported across for all functions

What differentiates the leaders?

Vision	Leaders see offshoring as a core part of their overall group strategy
Strategy	There is clarity on the role of offshoring in group operational strategy
Execution	Different execution approaches can lead to offshoring success

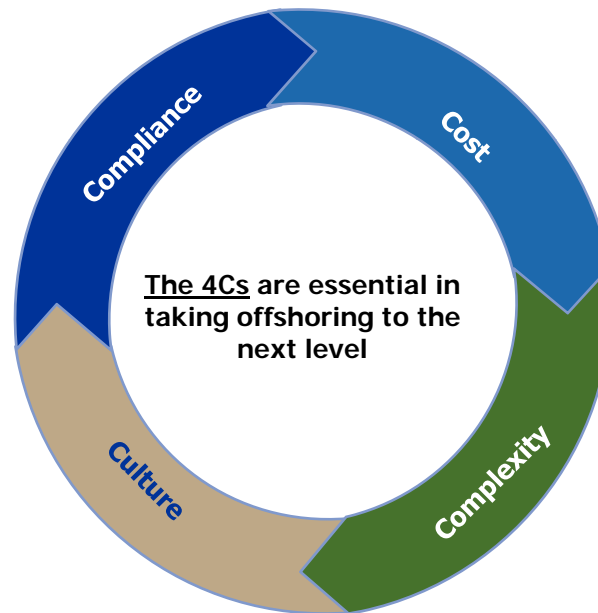
Leaders focus constantly on operational excellence to prevent savings leakage and to justify scaling the operation

Compliance

- Building global ethics: A key way to improve morale and ethics is a formalized, longer-term programme of compliance activities.
- Onshore and Offshore should be seamlessly integrated from a compliance perspective

Culture

- Tour of Duty: A truly global operating model requires more top managers setting up and operating offshore units to embed ethics and establish the management framework
- Retained organizations should be optimized around the offshore model



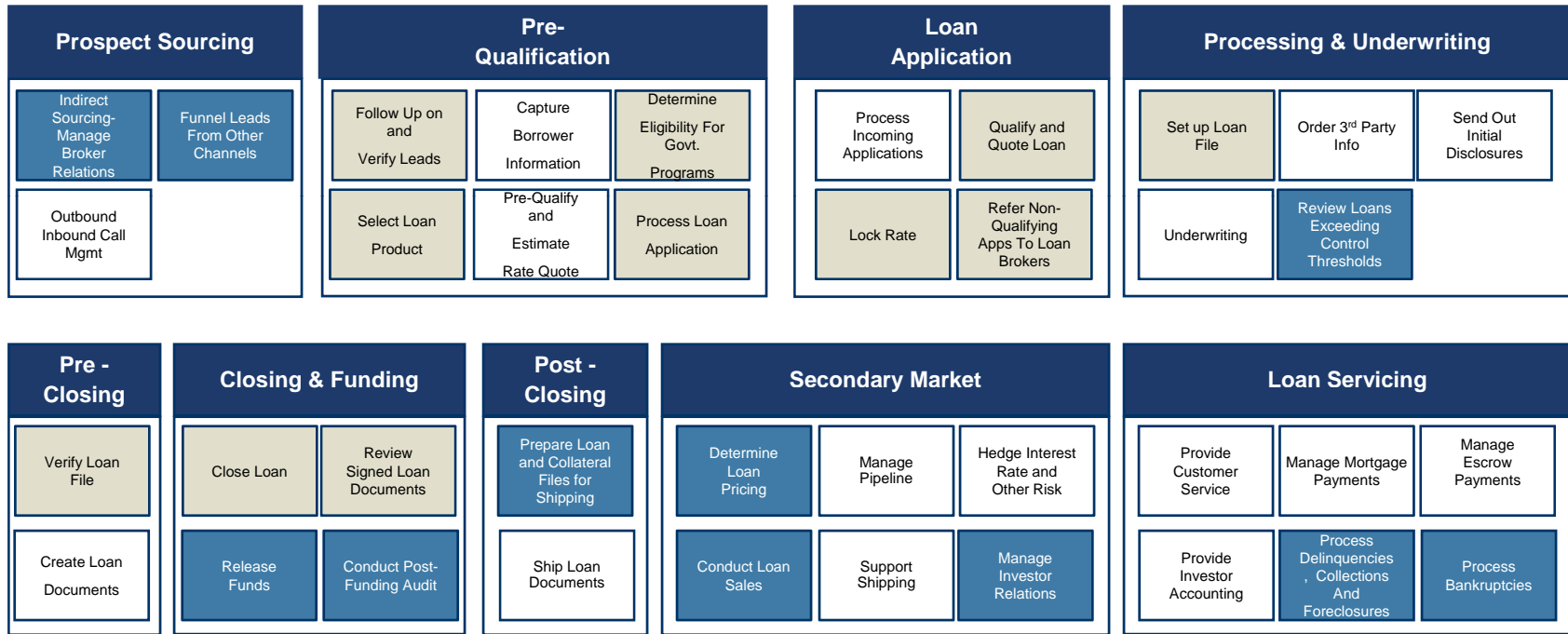
Cost

- The bottom line impact can only be sustained if savings are recycled back into operations
- Finding a balance between short-term investor demands & long-term strategic development is imperative

Complexity

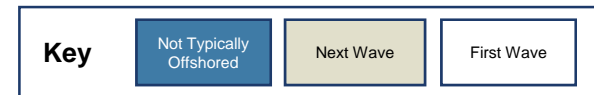
- Building a business model and strategy with offshore as a key component is essential
- Our survey shows that its not possible to stand still – the big challenge ahead will be to scale, focus or fail?

Leaders methodically analyze the value chain to find and sequence offshore candidates



Note: Deloitte's best interpretation of activities, subject to clarification/discussion

Source: Deloitte Analysis



Leaders assess vendor industry experience and define detailed operational service levels

Sample Metrics

Accuracy:

- Audit Scores: Quality Audits
- Frequency of Transaction Monitoring
- Knowledge Shop Percentage
- Mystery Shop Percentage
- Monitoring Shop Percentage
- Regulation Shop Percentage

Speed:

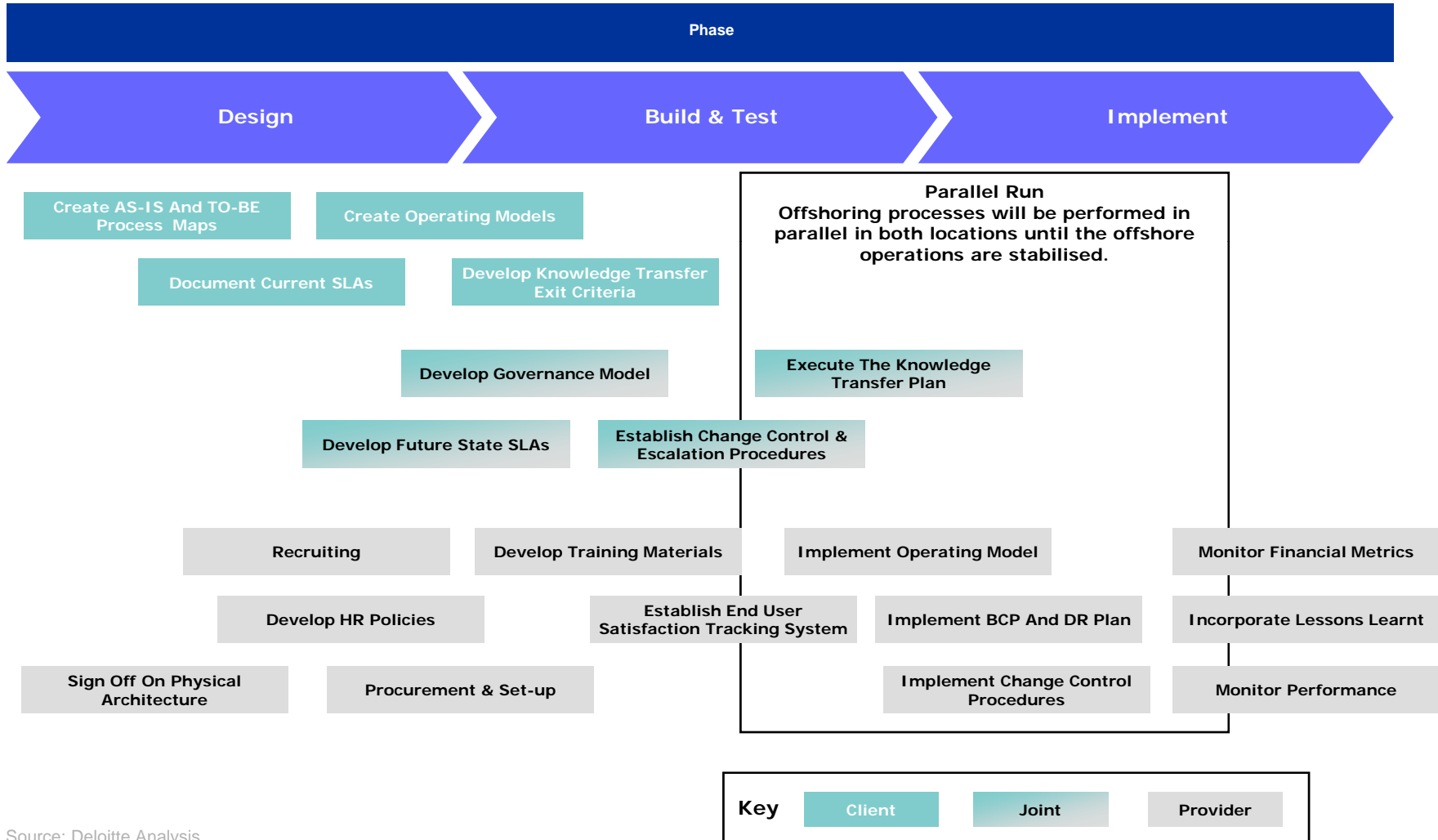
- Contact Rate - Right Party Contacts per Hour
- Average Handle Time
- Calls per Hour
- Cycle Time/ Turnaround Time

Productivity:

- Cure Percentage
- Payments vs. RPC
- Inbound and Outbound Conversion Rates
- Title-Policy and Title-Endorsement Pull-Through Rates
- Pull-Through Rate – Completion of Tasks on Ti
- Documents Retrieved (>3 Months)
- Percentage Aging
- Loan Sub-Tasks Verified per Agent per Day
- Capacity Percentage
- Volume Assigned per Day
- Total Faxes and Total Emails Processed per Full Time
- Employee (FTE) per Day
- Speed
- Total Number of Applications on Due Diligence
- Report Run/FTE/Day
- Funded Dollars Percentage
- Closing Rate

Leaders view transition as a key potential failure point and plan accordingly

Transition Management



Source: Deloitte Analysis

Moving Forward

Key considerations for 2008

- Recent slowdown in originations with some clients has impacted the offshore mortgage BPO business
 - Buyers will find a ready market of talented resources and vendors ready for new business
 - This is a positive development for mortgage companies new to offshoring
 - Entering into transaction based agreements may be more difficult without volume guarantees

- Wage inflation and attrition continues to be a challenge for the Indian vendors
 - Vendor peak staffing support should be evaluated in light of attrition challenges

- Currency movements (i.e. dollar vs. rupee) continue to be a factor and should be considered appropriately when contracting

- The offshore mortgage BPO market is relatively mature compared to many industries, and a number of compelling vendor alternatives exist

- Mortgage companies evaluating offshore options should stay abreast of US regulatory developments

- More offshoring activities may be driven by servicing needs rather than origination

Incorporating offshore into company strategy requires careful consideration of many complex questions

Questions to Consider in Developing an Offshoring Strategy

- What process can help best **assess ideal move candidates**?
- What is an ideal **retained organization** and new organization structure and what are the keys to ongoing success?
- What are the keys to **managing the transition** and sustaining a successful operation far removed from the business?
- What possible **different approaches** exist (e.g., product view, process view, job view, etc.)?
- **How ready is the organization** for a move (is this a one step process or many)?
- How can a mortgage offshoring initiative translate into **development flexibility** and **speed to market**?
- Who are the best mortgage **benchmarks**? How did they move? What did they move? What steps led to the success?
- What expertise and independent, **third-party guidance** can be relied upon to make the move effectively?

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