SERVICING MANAGEMENT

Reprinted with permission from the February 2009 issue

Servicing Unwrapped: Reducing The Costs Of Wrap Apps

Portfolio-status reports pulled individually from several departments' wrap applications can vary greatly, negatively impacting an organization's effectiveness.

by Rod Hatfield

In an effort to expand the value and life cycle of their core servicing systems, servicers have long turned to add-on "wrap applications" to enhance feature functionality and meet new business needs.

Using this approach allows organizations to incorporate necessary functionality using applications as simple as an Access database or as complex as BizTalk, with a full 16-server implementation.

While wrap applications can help servicers to complete a broadened set of departmental processes and even improve operational performance, in every case, they introduce complexity to systems maintenance and ongoing support. Wrap applications add multiple layers of risk and increase total cost of ownership (TCO) exponentially, particularly in the face of today's unprecedented transaction volumes, file sizes and pace of regulatory change.

As core servicing platforms evolve with more robust functionality, servicers are discovering value embedded in their platform that can eliminate the need for some wrap applications that might have been considered or developed to address a void.

Servicing organizations have become larger through industry consolidation, and so have the volumes they must manage. Today's abnormally high level of default activity has only added to the stress on individual wrap applications, many of which are now at risk of performance failure.

The sheer size of the data movement between the servicing platform and the wrap applications is so large that databases are literally crashing under the stress. Worse yet, some smaller organizations may have wrap applications that are performing critical functions but are running on servers and workstations, unsecured in everyday work areas. These applications are not always accounted for in business continuity planning, further compounding the risk of business disruption and delayed recovery times.

When these applications do fail under the pressure, it can have a cascading effect. Depending on the nature of the wrap application and the feature functionality it enables, a failure can cause process disruption in one department, or across an entire line of business. Like a crack in a dam, sooner or later, servicers must deal with the operational integrity and cost issues associated with wrap applications, or the risk of failure will continue to increase.

Finding the objective truth

With so many individual add-ons, data can become trapped in islands of automation throughout the enterprise, with various systems, wrap applications and databases unable to communicate with one another. The greater the fragmentation, the more difficult it is to establish a single, objective version of the truth. Consequently, managers are unable to obtain an aggregated, reliable view of the portfolio from which to make the best possible operational and strategic decisions.

Objectivity can quickly break down for those tasked with managing all of an organization's operations. Portfolio status reports pulled individually from each department's limited wrap application can vary greatly from application to application and depending upon the time of day.

In a business that depends on a single, objective view of a loan, such disparity can have a negative impact on the organization's effectiveness. The gravity of the issue increases significantly when you consider that inaccurate reporting also represents a regulatory risk for the servicer. Without a single version of the truth, servicers lack the insight required to make informed portfolio decisions.

In addition to these concerns, the increased TCO associated with a system wrapped with multiple applications can be substantial. Disparate systems, combined with the staff and resources necessary to support the environment and its many wrap applications, produces increasing technology TCO over time.

A smarter way forward

Making use of Web services often improves the capabilities of current wrap applications, but also provides the nec-

Rod Hatfield is the senior vice president of information management for the mortgage processing division of Lender Processing Services. He oversees the product strategy and business direction for the Information Management line of businesses and can be contacted at rod.hatfield@lpsvcs.com.

essary scalability for servicers to handle whatever volumes they may face in the future. But how does an organization begin to reduce the risk and cost associated with wrap applications, or decide if the time has come to shift entirely to a new, more capable platform to eliminate the risks of patched cores?

It begins with an assessment of the servicer's inventory of wrap applications or add-on databases - as well as the state of those applications - across all of its various business departments. Understanding what is in use will provide a strategic view of how to optimize system utilization.

There will be some applications that servicers determine are working just fine. They are familiar, able to scale as needed and perform valuable services to the point that they have essentially become part of core operations.

On the other hand, the assessment will also show the organization which applications are lacking sufficient support. To ensure the proper functioning of critical systems, these applications must be reexamined, and appropriate action must be taken.

When you consider that some organizations have created (or acquired) literally hundreds of individual databases and wrap applications within multiple business environments over the years, you get a sense of how great a challenge this can be. SM