



MANDRIEN CONSULTING GROUP
REAL ESTATE SERVICE INDUSTRY



Offshore Outsourcing in the Title Industry: Considerations

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Residential mortgage transactions are the bread and butter business of the title industry. However, when mortgage originations (sales) decline, it becomes increasingly difficult to achieve the right balance of cost, risk, customer service, product and technology for title companies and other real estate service providers such as abstractors. Achieving this balance — and supporting a successful effort — requires a high degree of expertise, streamlined processes and the right technology, all of which require significant capital. This is why leading title insurance companies and major national agents outsource their servicing process. End-to-end outsourcing can help those major participants in this industry accomplish the following:

- Minimize income volatility and create earnings predictability
- Mitigate risk
- Lower fixed-costs and required capital investment
- Stabilize staffing requirements
- Free up capital to focus on high-return projects
- Efficiently expand sales channels, resulting in incremental volume

A company considering outsourcing will select its partner with care. When choosing an outsourcing partner, entrants will consider companies that have a track record of high customer service ratings, proven processes and leading-edge technology. Additionally, the partner should be able to ensure scalability and integrated operations across multiple channels.

Many companies that have chosen to outsource their operation have found that an end-to-end outsourcing business model minimizes margin volatility, while at the same time helping to ensure the long-term profitability of their product or service offering.

Opportunities and Risks in the Residential Mortgage Market

In order to be effective, it is important that an organization's strategies reflect the current state of the mortgage market. The mortgage market is very cyclical. Prior to 2001, homebuyers and owners either refinanced or obtained a new mortgage through the purchase of a new home on average once every seven years. But the landscape has changed considerably as a result of the Fed's post-9/11 action to drop interest rates, which led to a sharp decrease in mortgage rates.

From the overall growth in mortgage origination volume from 2001-2005, it appears that the average homebuyer now obtains a new mortgage, through refinancing or purchasing a new home more often than was the case prior to 2001. During this refinancing boom, consumers learned to view mortgages as financial tools. They now value mortgages for the tax benefits.

The rush of refinance business had major implications for the title industry, overwhelming many traditional providers just as deregulation opened the market to new entrants from other areas of financial services. But in 2003, experts began predicting the end of the refinance boom and warned that recent entrants would face an uncertain future. Continued low interest rates have kept the industry strong, and that is expected to continue due to the recent economic crisis. Still, despite recent volatility, most title industry participants are making the significant changes necessary to position their operation for long-term profitable growth.

The Role of Outsourcing in Reducing Earnings Swings

For many title companies, end-to-end outsourcing is the preferred response to production and income volatility. The title process is an expensive proposition, considering overhead and technology, and as loan volumes drop the infrastructure required to process title becomes more costly. Empirically earnings rise and fall rapidly in response to changing market conditions, stressing the title company and leading to higher expenses as the company struggles to react. This ultimately creates significant swings in earnings. End-to-end outsourcing can minimize or eliminate this earnings volatility. The need for ongoing investment in technology and capacity exacerbates the problems of a volatile market. During mortgage booms, when origination volume is high, title companies are able to earn an acceptable margin as they spread their fixed-costs over a relatively large number of units. During these aggressive periods, the strain on market capacity allows title companies to increase prices or avoid price concessions. However, there is an opposite effect when rates rise and a refinance bubble bursts — profits fall off sharply because of price concessions and significantly higher fixed costs per loan. This market volatility makes it difficult to remain competitive in the marketplace absent a change in business strategy.

For a number of reasons, managing market volatility is extremely challenging, especially during market downturns when cost cutting is unavoidable.

These reasons include:

- Fixed costs, which limit a company's ability to scale down when required
- Cost reductions, such as employee downsizing that lag revenue declines, which are a result of lower production volume and higher price concessions

The factors in choosing the right outsourcing partner?

Once a title company has decided to pursue an end-to-end outsourced operation, it is important that it finds an appropriate outsourcing partner. Among the key criteria for making this decision are:

1. Responsiveness to customer needs.

The ability to respond to customer needs is the top priority for both the title company and the outsourcing partner. It is important to monitor customer satisfaction with the outsourcing partner throughout the servicing experience.

2. Ability to support a brand.

The entire customer experience should reflect the title company's brand and be transparent to the customer. The firm must have a track record of tailoring the title process to meet customer needs and support the brand through all channels. Well defined customer service levels must be established. Frequent reporting must be required, and service levels must be measured on an ongoing basis. And, to further ensure that the outsourced experience reflects the brand, the partner's standards must meet or exceed those of the title company's own quality control standard.

3. Advanced technology.

Title Company's will only consider leading-edge partners that are working to make the process simpler, faster and more streamlined. They should be sure that the technology in place will provide a positive experience. Ideally, the operating platform should support the ability for title professionals to conveniently and seamlessly access information.

4. Single-source solution.

Title companies may limit their search to outsourcers who can do everything from beginning to end.

5. Dedication to the outsourced title industry.

Title company's will make sure that the prospective provider focuses on title outsourcing; provides an adequate level of historic stability, in terms of customer service; has the ability to absorb new business or scale back if necessary; can handle enough volume to deliver the expected efficiencies; invests in technology and the development of better platforms and products.

Conclusion

If the mortgage market "crisis" continues or interest rate fluctuations effect the mix of loan types, this problem will be highlighted even further — making it difficult for all but the highest volume participants to handle processing efficiently and profitably. Consequently, it makes sense for title companies to outsource. End-to-end outsourcing can protect them from volatility and risk, while increasing profitability and helping them maintain and enhance valuable long-term customer relationships. While end-to-end outsourcing may not be the right decision for every organization, eventually all will give it serious consideration as margins shrink. It is becoming more common, makes financial sense, and should be considered as part of a comprehensive and long-term growth and profitability strategy.

For a consultation regarding offshore outsourcing, please contact Mandrien.