

## **US Mortgage Outsourcing Market – India’s Perspective**

Mortgage outsourcing- an untapped sector that holds a relatively higher potential in the off shoring business is the buzz word today. The interest rates blooming and the real estate market being a ‘bubble’, mortgage lenders and home owners now experience a tough time. The home owners find it difficult to pay off their dues and consequently it imparts a negative effect on the business of the mortgage lenders. Mortgage outsourcing has emerged as the perfect solution for both the home owners and the money lenders.

Analyzing it from an industry’s perspective, it clearly reflects that many BPO organizations are gradually realizing the urgency to focus on niche verticals, which ideally is an outcome of the increase in competition in the low end BPO space. The ‘Top Core Players’ or big players in the mortgage businesses are now venturing in outsourcing by operating through their own captive units or planning outsourcing deals through outsourcing vendors.

With the bloom of different verticals in the Indian BPO segment, a vertical that remains relatively untouched and with immense potential is the Residential Mortgage banking market in the United States. According to NelsonHall, a consultancy, the total annual value of such outsourcing contracts around the world is about \$10.9 billion, with about a third of that in America alone. However, a small proportion of that is being sent offshore. “But as costs are mounting, the Indian outsourcing industry's lobby - mortgages have become ripe for off shoring”, says Sunil Mehta of NASSCOM.

### **Mortgage Process in USA**

North American Banking and the US mortgage industry, both going through a consolidation phase have acted as a catalyst to the growth in opportunities for the BPO sector. In terms of automation and outsourcing in the whole banking chain, mortgage has always been a low priority. However, as a result of rising interest rates and stiff competition, Mortgage banks now seek the ITO and BPO sectors as long term strategic tools. Besides this, the biggest challenge in any consolidation is the integration of processes and functions. However, the success of consolidation invariably is dependent on the pace of integration of organizations.

This being a very resource and cost intensive process, banks may seek the help of external experts to assist them through their consolidation phase by taking up their outsourcable processes. This in turn reduces the burden on internal resources and helps the bank to focus on its core competencies.

The driving force here is cost. Higher interest rates eat away at the money-spinning business of refinancing outstanding mortgages, slash business volumes and squeeze margins. India, being a low cost destination happens to be appealing in terms of investments. India is emerging at a very high pace as a mortgage manufacturing hub with its strong competitive advantage over other economies like China, Canada and Philippines.

### **The US mortgage banking BPO market in India**

The US mortgage banking BPO market in India is expected to bloom very fast. Currently, this industry employs a fair amount of 7500 people in this sector. According to a research report "BPO Opportunities in the US Residential Mortgage Market" by the Avendus Advisors, the offshore addressable BPO market size for the US residential mortgage ecosystem is in the range of \$6 billion to \$7.4 billion. The existing mortgage-processing BPO market in India is approximately \$150 million.

The market indications suggest that the range of processes presently being outsourced or would be sent overseas in the near future by mortgage lenders could primarily curtail three areas of the mortgage processing life cycle, from acquisition to origination to servicing. However, today the most mature market in terms of outsourcing is mortgage servicing. Loan processing is another area which can fetch in up to 50% of cost savings if off shored to destinations like India.

Acquisition is another domain with great potential, particularly in areas such as analytics and lead generation. Other sections of mortgage industry which presumably will extend opportunity to outsourcing organizations will be the brokers. Industry experts expect lot of activities happening in area of lead generation and end to end loan processing. Andy Efstathiou, of NelsonHall, says the main impulse behind outsourcing in the industry as a whole is not so much cost-cutting as shifting from a fixed cost base to a variable one: the contracts give companies

more flexibility to scale up and down as volumes vary.

According to analysts, the future growth of BPO will be driven by an increased focus on domain-specific vertical processes that provide not only cost savings, but other long-term benefits in the areas of productivity and capacity management for the client. Analysts also say that labor costs constitute a significant portion of the overall costs that mortgage banks incur in servicing clients. Offshore outsourcing is expected to generate cost savings in the range of 30-50 per cent. Industry experts say that the US mortgage banking BPO market in India will grow to approximately USD 1 billion over the next five years.

US represents a market that would grow at a CAGR of over 50 percent in five years. There mortgage outsourcing business presents abundant opportunities in the years to come.

According to NASSCOM, India in particular is poised to benefit from a huge rise in "mortgage-process outsourcing" in the next few years - worth anything from \$100 million-\$150 million to \$3 billion-\$7 billion a year.