

THE CASE FOR COGENT QC SYSTEMS

Executive Summary

Transforming the Quality Control Mindset

- Cogent's Lasting Impact on the mortgage industry has been *transformative*.
- Beyond simply automating and streamlining an existing process, Cogent QC Systems enable lenders to *transform the quality control function from a cost center to a profit center*.
- Cogent QC Systems focus on process improvement across the mortgage value chain (including origination and servicing), providing the tools lenders need to identify process failures, weight their potential impact on risk and profitability, and take action.
- Using Cogent's statistical quality control techniques, lenders have improved quality (thereby reducing the cost of poor quality) while lowering the cost of performing quality control. Both have contributed to increased profitability.
- "Quality is the new frontier of value creation in mortgage banking. As the process of getting a loan from application to the secondary market becomes more automated and uniform, it will not be products or pricing the differentiate lenders; it will be quality."
[James C. Robinson, President, Cogent QC Systems]

Enabling the Transformation

- Cogent's fundamental innovation has been to adapt established quality improvement principles from manufacturing industries to the mortgage industry.
- In pioneering the use of modern statistical quality control principles, Cogent has:
 - educated quality control managers, investors and regulators about the myriad benefits of statistical sampling and process improvement
 - created a robust statistical sampling methodology, specific to the mortgage industry, that would provide maximum opportunity for process improvement while reducing review costs
 - convinced highly conservative lenders that a new approach is in their best interests (Cogent systems have been successfully deployed at over 100 clients since 1995)
 - developed software systems that facilitate the adoption of the new approach, with features such as:
 - easy-to-use statistical sampling tools
 - comprehensive yet flexible workflow that guides lenders through the process
 - concise reports that provide not just raw data but *accurate, precise, and actionable information in context*.
 - Feedback tools that streamline the actual implementation of process improvement initiatives
 - Created ongoing training and education programs to drive adoption across the industry, including joint programs with the Mortgage Bankers Association (MBA) and over a decade of leadership in the MBA Quality Assurance Committee.

Mortgage Technology Magazine
2009 Lasting Impact Award

Prior to the early 1990's, mortgage lenders were required by Fannie Mae, Freddie Mac and HUD to randomly sample and audit a straight 10% of their loan origination volume. Cogent recognized that this created an unnecessary burden, especially for the largest lenders. For example, a lender with 10,000 loan originations per month would have to audit 1,000 randomly selected loans, which at an average cost of \$150 per loan cost them \$150,000 per month! And this was before any risk-based sampling was performed. So Cogent PIONEERED THE USE OF STATISTICAL SAMPLING IN THE MORTGAGE INDUSTRY to replace the straight 10% random sample with a calculated statistical random sample, which could be 1% or less of a lender's origination volume, RESULTING IN A 90% REDUCTION IN COSTS. This allowed lenders to minimize their random sampling and to focus their resources on areas of their business which they knew to be higher risk, a more EFFICIENT AND EFFECTIVE approach that helped them LOWER COSTS WHILE IMPROVING RISK MANAGEMENT.

This methodology has been embedded in Cogent QC Systems since the beginning, together with several others such as: concise reports that identify process failures and quality outliers; applications carefully tailored to all facets of mortgage quality control (Pre-funding, Compliance, Post-funding, Due Diligence and Servicing); comprehensive workflow that automates the audit review process for ease of use and consistency, and more. Today, other vendors of mortgage quality control software have introduced 'statistical sampling' but none of them come close to matching the value provided by Cogent's proprietary methodology. The suite of Cogent QC Systems is widely recognized as the best mortgage quality control and mortgage compliance audit software available. For more information about Cogent QC Systems, please see <http://cogentqc.com/About-Cogent-QC-Systems.php>.