DIGITIZING MORTGAGE PROCESSING TO SHARPEN YOUR COMPETITIVE EDGE

Discover why digital mortgage processing is on the rise and the roadblocks and opportunities that it brings

Inside

- Assurance Financial's implementation of an online end-to-end mortgage
- MBANC on the benefits of digitizing the mortgage process
- Recommendations on overcoming digitization challenges

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Introduction

The field of mortgage processing is one that is constantly changing as financial institutions work to keep up with the fast-paced evolution of technology, maximize workforce productivity, cut loan cycle times, boost volumes and deliver exceptional customer service.

This requires agility from financial institutions to rapidly enable, update, change and adapt their processes. Maintaining awareness of the challenges associated with deploying technology and implementing solutions to counter them represents a key goal for lenders in the attempt to optimize the mortgage process.

The mortgage industry has recently experienced influencing factors that caused many lenders to re-evaluate their existing processes. The Covid-19 pandemic brought the need to shift to a virtual workforce, while offering safe and socially distanced options for borrowers, all during a time which brought a historical increase in loan volume. Solutions such as intelligent document processing (IDP) and intelligent automation (IA) offer lenders the opportunity to embrace digital transformation and work toward operational excellence.

This *PEX Network* guide investigates the rise of digitization in the mortgage processing field, the primary benefits that can be attained from automating mortgage processes and the documents that fuel them, and how financial institutions can navigate roadblocks and pitfalls when adopting technologies. Drawing on insights and advice from experts from Wells Fargo, Assurance Financial, MBANC and ABBYY, this guide dives into how financial institutions can master digitization of mortgage processes and documents.

Contents

"The consumer is largely ready and we knew we needed to go digital to survive."

Katherine Campbell

Chief digital officer at Assurance Financial

The state of digitization in mortgage processing

Mortgage processing is a paper-intensive process, with applications typically generating up to 500 documents, not including loan servicing ones. These fragmented, manual processes can result in human error and make it difficult to enforce industry required policies and procedures such as "Know Before You Owe" rules, TILA-RESPA Integrated Disclosures (TRID), and Unfair, Deceptive, and Abusive Acts or Practices (UDAAP) compliance.

A truly digital mortgage means providing more than just an online application on your website or offering eClosing services to borrowers. A digital mortgage operates on self-service, eliminates manual paper-based processes and streamlines the experience for borrowers with minimal need for human interaction.

The trend of investment in mortgage process digitization was accelerated by the Covid-19 crisis and related economic impacts that brought lower interest rates, which accelerated and increased the volume of refinances and purchases. Forbes noted that 58 per cent of borrowers in 2020 said the availability of an online application would affect their lender selection, up from 50 per cent in 2018. This forced lenders to digitize aspects of the mortgage process that would otherwise have depended on face-to-face human interaction.

According to Cheryl Chiodi, director of industry marketing, financial services at digital intelligence service provider ABBYY, due to social distancing, regulators are now more open to adopting new technologies such as eClosing and remote online notarizations (RONs). Yet today's borrowers and brokers expect a fully digital experience, forcing lenders to focus on improving interactions and increasing customer engagement.

The drive to digitize mortgage processes can also originate from the identification of areas where the mortgage process may be missing the mark, as was the case for Katherine Campbell, chief digital officer at residential mortgage banker Assurance Financial.

Campbell received the 2020 Housing Wire Tech Trendsetter award for the implementation of an online end-to-end mortgage in the consumer market after establishing a two-way integration between systems. This initiative reduced the number of technologies borrowers had to interact with, after gaps were identified in the mortgage process that created a fragmented customer experience.

"Applying for a mortgage online, even from a mobile phone, is a very seamless experience, but I knew from the beginning that there was no real foundation beyond that stage," explains Campbell. "Even if we could get borrowers to input all of their data and log into bank accounts from our application, which is a big trust challenge for consumers still, to continue the relay of documentation through the application, there was still a lot left to do with it. There were still a lot of gaps in the journey of both the borrowers and the loan officers before we could call it a digital mortgage."

According to Chiodi, digitization can also aid financial institutions in dealing with the record levels of origination and forbearance seen in the industry.

"What we are finding is that the volumes [of origination and forbearance] are increasing so rapidly that we can no longer just throw more bodies at it," Chiodi notes. "We need to find ways to ensure that we are able to collect documents, extract information from them and classify that information very rapidly."

The next section of this report will dive into the major challenges that financial institutions may face on the road to digitization and offer expert advice for overcoming them.

The benefits of going digital

There are several benefits that financial institutions can enjoy by digitizing the mortgage process. According to Desh Weragoda, chief technical officer of mortgage lender MBANC, one of the clearest benefits of mortgage process digitization is increased efficiency, which stems from the visibility and improved communication across departments that digital processes allow.

Digitization offers lenders the chance to increase the efficiency with which they are able to serve borrowers by digitizing documents and mortgage processes that have traditionally been paper-based. This translates into cost savings, improved asset quality and risk, and greater confidence in ensuring regulatory compliance, which arises from the ease of digital document sharing and the reduced need for human interaction at each stage of the process.

Other areas of the mortgage process that can benefit from digitization include the implementation of digital self-service channels and mobile-first mortgages that enhance convenience for borrowers, eliminating the need to go in-branch to progress their application.

One of the most important benefits of digitization, however, is the improved experience that customers and employees can enjoy when dealing with digital mortgage processes as opposed to traditional, manual, paper-based ones.

According to Assurance Financial's Campbell, with the current largest segment of borrowers being millennials, an age range that is highly familiar and comfortable with digital technologies, it should be no surprise that borrowers now expect digital components to their mortgage process.

"The consumer is largely ready and we knew we needed to go digital to survive," Campbell remarks. "It was an easy investment to make for us because we did not need to change the market's behavior, it was already going that way."

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When documents are digitized and integrated into a single system, this makes life easier for employees to serve customers. According to ABBYY's Chiodi, many traditional mortgage process systems do not speak to efficiency or excellent customer service, as the disconnected nature of these systems makes the completion of mortgage processes not only take longer but also more stressful for employees and customers alike.

This is due to the need for staff to input data and search for information in multiple siloed systems, or potentially locate physical copies of documents, which adds unnecessary layers to the process. The efficiency offered by digital mortgage processes allows lenders the scalability to handle growing volumes of loan applications, without needing to increase FTEs.

The next section of this report will wrap up the benefits and challenges that have been discussed with regard to mortgage process digitization and offer some parting advice for lenders.

How to overcome challenges of digitizing the mortgage process

Many financial institutions that have considered embarking on their own journey of digitizing the mortgage process have likely encountered a number of challenges that must be overcome in order to achieve successful implementation of digital initiatives.

First of all, financial institutions need a clear and accurate understanding of their current processes, to uncover full operational visibility and identify bottlenecks and unnecessary steps. This level of transparency is critical in ensuring that they are not automating broken processes.

Another challenge is understanding and navigating changing compliance guidelines, which can present a roadblock to innovation and transformation in any industry. This has been further complicated by the added pressure of forbearance requests in response to Covid-19, as guidelines and requirements are changing quickly. Srikant Iyer, head of home lending originations product strategy and transformation at Wells Fargo, advocates for having an innovative mind-set to overcoming this particular challenge.

“There are some very clear guardrails that [the regulators] have set for us, unlike less regulated industries where you can start with the customer and your imagination is the limit,” Iyer remarks. “What we look at is how you can be as innovative and transformative as you can be within those guardrails.”

Iyer explains that driving a culture of engagement with regulatory authorities is a great way to achieve this. Wells Fargo encourages this interaction with regulators to improve understanding of the guardrails within which the organization must operate and to provide feedback regarding where these boundaries can cause complexity or challenges for customers.

In doing this, a financial institution can not only develop its understanding of how to transform and innovate within the regulations of the industry, but also encourage discussion around the voice of the customer and the pain points they are experiencing.

Changes can be some of the most difficult to successfully roll out across an organization however, says ABBYY’s Chiodi. “People do not want to change existing processes and the way things have always been done, so they blame technical barriers such as legacy IT or regulatory barriers rather than embracing a cultural shift in the organization,” Chiodi remarks.

Chiodi explains that cultural changes must be woven into the fabric of the organization and must become part of everything the business does in order for staff to see how digital transformation not only aids the business but also makes their own lives easier.

“I can’t talk to my leadership about implementing digital transformation for my mortgage lending process and then ask them to physically sign a hard copy of my expense report. Instead, it is about having a digital mind-set and thinking about the best ways to operate and collaborate,” Chiodi advises.

Going digital also requires full visibility into existing processes to detect If this doesn’t fit on the page, just ignore it and remove the capital letter from cultural behaviors that may be beneficial or detrimental to operations, and into back-end systems to ensure full understanding of business relationships and process flows from end-to-end.

Chiodi says: “For continued success, financial institutions need the ability to monitor and alert to ensure the process improvements implemented conform with required protocols, compliance regulations, and ongoing performance targets.”

While innovating under the strict regulations of the mortgage process and driving culture changes throughout an organization represent a significant challenge for lenders, some in the field, such as those at Wells Fargo, have already been successful in doing so. By following the advice that Iyer has shared organizations have an opportunity to follow in the footsteps of those who have successfully gone digital.

Final remarks

While many lenders may be aware of the trend of increasing digitization in the mortgage space, they may not be aware of everything that attempting to achieve this entails, the challenges they will face and the rewards they could reap. This guide has offered an overview of what these challenges and benefits are and how digitization will affect the mortgage process.

Aside from efficiency gains and savings in costs and resources, the digitization of mortgage documents and processes improves customer experience. By removing the headache of traditional, manual, paper-based, and disconnected legacy systems and going digital, financial institutions can remove friction and make it easier for customers to do business with them, which will increase satisfaction levels and customer's likelihood to recommend the brand to others.

It is likely that we will see the trend of mortgage process digitization accelerating to the point where it becomes the standard for all mortgage transactions, driven by younger generations becoming borrowers. According to Assurance Financial's Campbell, this sets a promising tone for the future of digitization in the field.

"Over the next one to five years, we are going to be looking at a total acceptance of e-notes and a complete, remote online notary so that we have a full e-closing," she said.

The mortgage industry is indeed experiencing a wave of technological innovation as lenders seek ways to use automation to process mortgages more quickly without increasing loan risk. The key to success will be in ensuring that the borrower is kept at the center of every business and technology decision, ensuring that they are provided with best-in-class digital experiences across all channels.

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