Forbes insights

Digital Mortgages: How Leaders Are Harnessing Tech To Streamline Processes, Cut Costs And Improve Customer Experience

Mortgages are going digital. How fast can the industry evolve, what roadblocks and milestones lie ahead, and who will lead the way?

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Part I: An Industry Race Toward The One-Hour Clear To Close

Mortgages are going digital.

How much so? So much so that 82% of the 391 banking and lending executives who responded to a Forbes Insights survey (see Methodology section) say digitization is transforming key home mortgage processes. A wide range of industry participants—representing small and large banks and non-bank lenders, super regionals and regionals, and credit unions—view the advances in question as representing nothing less than a revolution.

As technology improves and consumer expectations rise, industry leaders and disruptors are moving rapidly to digitize both customer-facing and back-office processes.

"The old fashioned approach," says Rakesh Sheth, executive vice president, head of business insights & digital at Wells Fargo Home Mortgage, "is that the application process [would begin with a customer] speaking to a loan officer." But today, says Sheth, digitization is enabling everything from more efficient and lower-cost application to faster approval, origination, closing and servicing.

Who's leading the industry?

Like any other revolution, this one has its leaders, its fast followers and its laggards.

Within our sample, large banks, wholesale lenders and others are significantly more likely than average to self-identify as industry-leading in terms of digitization of mortgage processes. By contrast, only 16% of small banks and lenders are. Super regionals, regionals and credit unions sit comfortably near the mean of 32% (see Table 1).

To see what a leader in this space looks like, consider United Wholesale Mortgage (UWM).

"In terms of being digital—ease of application, documentation and speed to close—our capabilities are probably a lot further along than most," says Mat Ishbia, that lender's CEO.

In fact, UWM is in many instances capable of delivering an entirely online experience, says Ishbia. This experience is one that, he says, includes methods like e-sign and digital documentation in collaboration with payroll providers and other third parties. "We can even do FaceTime closings in certain states," Ishbia says.

As for speed to close, industry groups such as the Mortgage Bankers Association and software providers such as Ellie Mae peg today's average at around 40 to 42 days, depending on the loan, the borrower and the property type.

At UWM, however, the average is below 16 days, according to Ishbia. "With some more effort and innovation, we think we can get that down to 10 days—which is about the limit due to regulation from [groups] like the Consumer Financial Protection Bureau," Ishbia says.

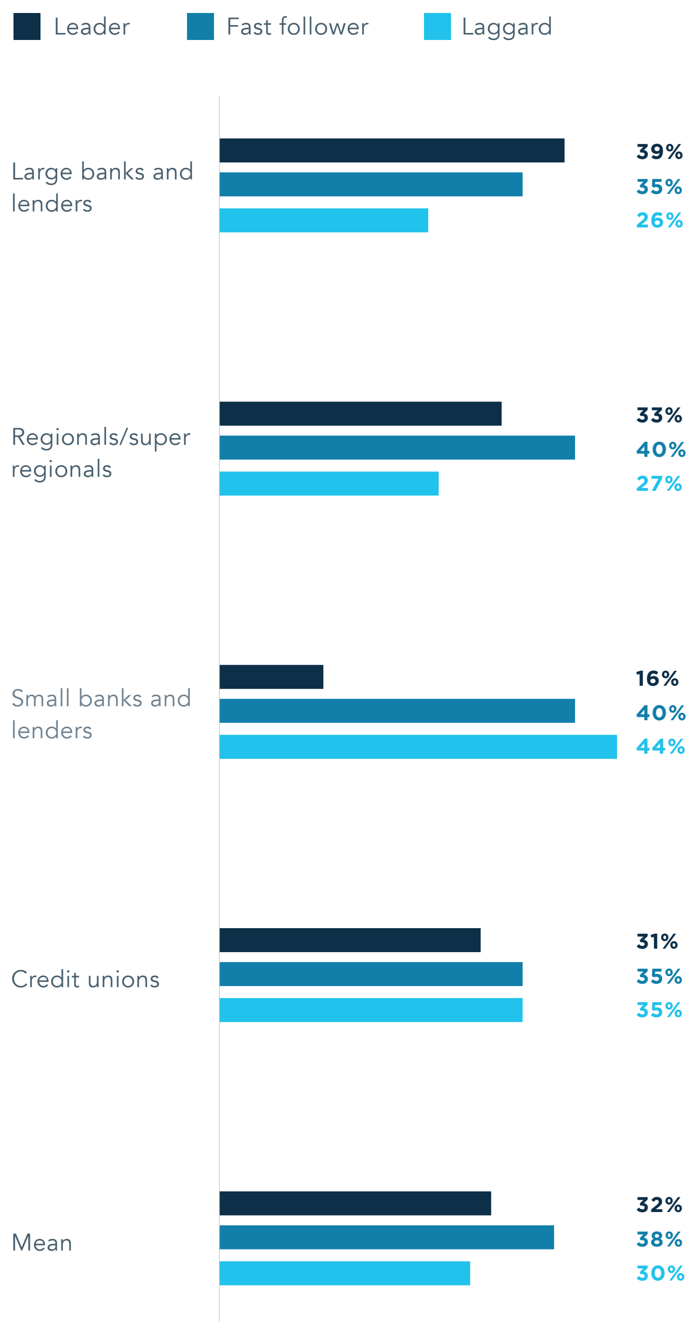
All of that, he says, "helps take the stress out of buying a house—not to mention significantly reduces costs throughout the process."

Table 1

Which Segments Are Leading In Digitization?

How would you characterize your progress to date?

Large banks and lenders are more likely to be leaders...



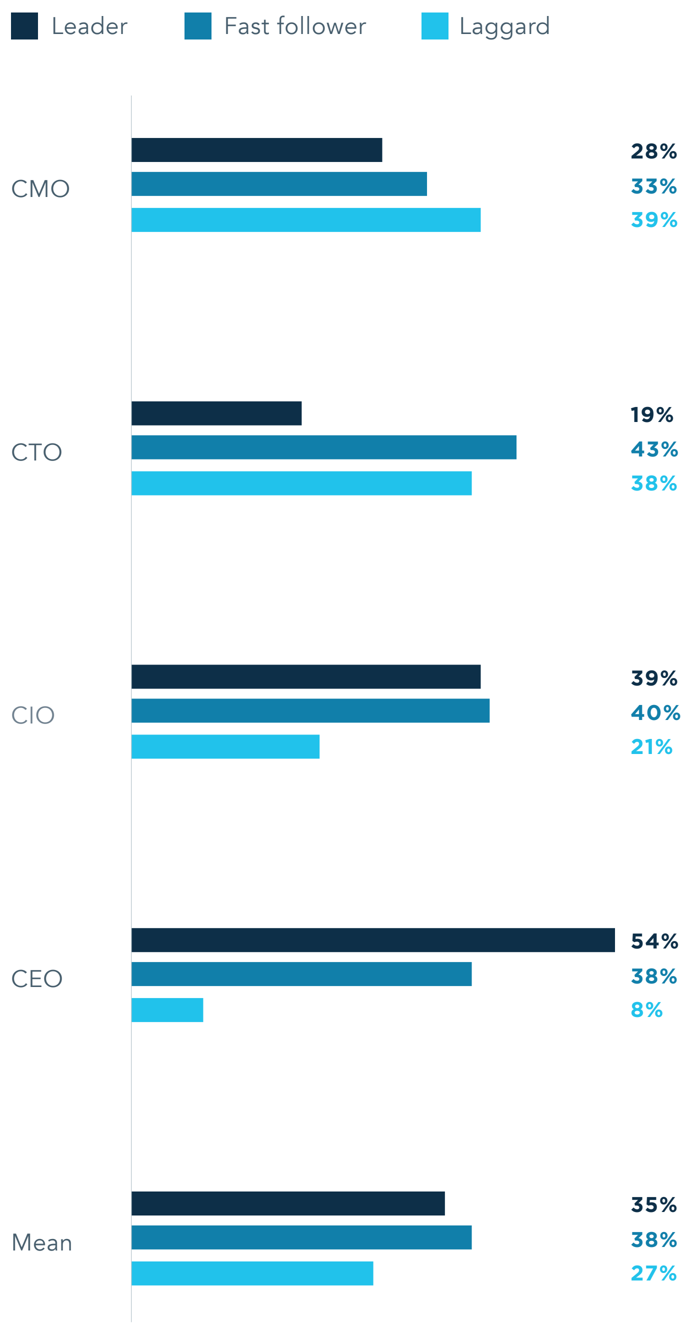
It's worth noting that such self-assessments vary significantly according to the titles of the people making them. In particular, CEOs are significantly more likely to view their capabilities as industry-leading than are CIOs, CTOs or CMOs.

Table 2

Percentages Of Execs Who Characterize Their Digitization Efforts As Industry-Leading

CEOs are confident in their groups' capabilities

By respondent title...



Part II: Amid Benefits, Good Customer Experience And Lower Costs Stand Out

Industry executives participating in the survey say digitization of the mortgage process confers myriad benefits. Some of the most valuable, and visible, are the following:

- **Lower origination costs, stronger compliance, reduced risk:** 76% believe digitization will deliver these and related operational benefits; 96% of CEOs do. In this area, says Ishbia, "we're already achieving substantial reductions and believe there's more to come."
- **Improved decision making:** 78% say the introduction of digital processes and advanced analytical tools to the home lending industry will lead to improved decision making and security and better outcomes for borrowers. The figure reaches 94% among leaders and 88% among CEOs.
- **Improved array of products and services for customers:** 78% agree that digital leaders will be able to provide more than just loans. They'll also work closely with their customers to develop a wide range of complementary value-added products and services. Not surprisingly, the figure reaches 94% among self-described leaders and 88% among CEOs.

When the surveyed parties were asked to cite the single most critical driver behind their digitization efforts, however, the two they most frequently cited ended up in a statistical dead heat: improve customer experience (34%) and reduce costs/improve efficiency (32%).

Improving customer experience. "There's a growing recognition in the industry and among consumers that home purchasing, financing and servicing are not distinct transactions—in the consumer's mind it's all the same thing," says Wells Fargo's Sheth. Consequently, "we're using technology to create more options and make the whole thing more efficient and seamless."

- **Reducing cycle time.** The company is looking to reduce cycle time in areas such as application and documentation. For example, Sheth says, "if the applicant is already a checking customer, of if they have a trust or business account, we already have access to a great deal of what we need." The bank is also working to develop rapid and secure means for obtaining employment and other financial data from other institutions electronically.
- **Online closing.** Yet another customer-focused innovation is the increasing availability of online closing. This is something that the bank can now offer in limited circumstances, says Sheth. The key limits, he says, are issues such as whether or not the bank can "use a video camera or other digital methods to notarize a document," as "various counties have different requirements." Overall, he says, the customer experience in mortgages is improving, but it remains very much "a work in progress."
- **Digital alerts.** Perhaps nowhere is the focus on customer experience more clear than at Pulte Mortgage. "During the implementation of the Dodd-Frank rules, our digital focus was dedicated to compliance," says Debra Still, president and CEO of Pulte Financial Services. "But over the past several years, it's all about improving the customer experience."

Being the mortgage provider within an organization that also builds homes creates a unique customer experience challenge. "New construction lending is a longer process than financing an existing home," says Still. "We're building relationships lasting four months on average—and we want to provide our customers an easy-to-transact, transparent, integrated and seamless home-buying experience."

In terms of digital, "about 95% of our customers are now opting to complete the application process online," says Still. The online experience includes helpful dashboards and alerts "that keep the customer informed on progress" and "lets them know when their action is needed." Within 72 hours of applying for their loans, "customers can see their dashboards, letting them know where things stand."

Other customer-facing digital advances at Pulte include e-closings—the group is running hybrid e-closing pilots in multiple states—and automated ordering of appraisals.

Reducing costs/improving efficiency

According to Stratmor Group, initiation costs for today's mortgages now average approximately $9,000.[1] Perhaps unsurprisingly, then, 79% of those participating in the Forbes Insights survey say it is vital (31%) or extremely vital (48%) that their group take steps to address rising fees.

Indeed, 82% of executives believe digitization can significantly reduce initiation costs by 10% or more. Drilling still deeper, 46% expect savings of 26% or more; 9% expect savings of 51% or more. It's noteworthy that these expectations vary little by type of institution or title of respondent.

Again at Pulte, a system of online dashboards and alerts helps keep internal processes aligned and moving forward efficiently. If, says Still, a customer decides to add some options to a home after meeting with the builder, the change to the contract automatically triggers a digital alert that the sales price will be higher. The mortgage team, Still explains, will then be assigned extra tasks. These might include adjusting the customer's financing and obtaining a new appraisal, for instance.

1 "Lenders Turn to Alternative Technologies as Loan Origination Costs Continue to Climb," Stratmor Group Insights Report, May 2019.

In fact, Pulte Mortgage long ago committed itself to technological advancement as a means of improving efficiency and reducing costs. In 1995, the company began centralizing operations and standardizing core mortgage processes. Operating from a standardized digital enterprise workflow environment, says Still, "makes it easier to implement technology and automation upgrades in all of our processes."

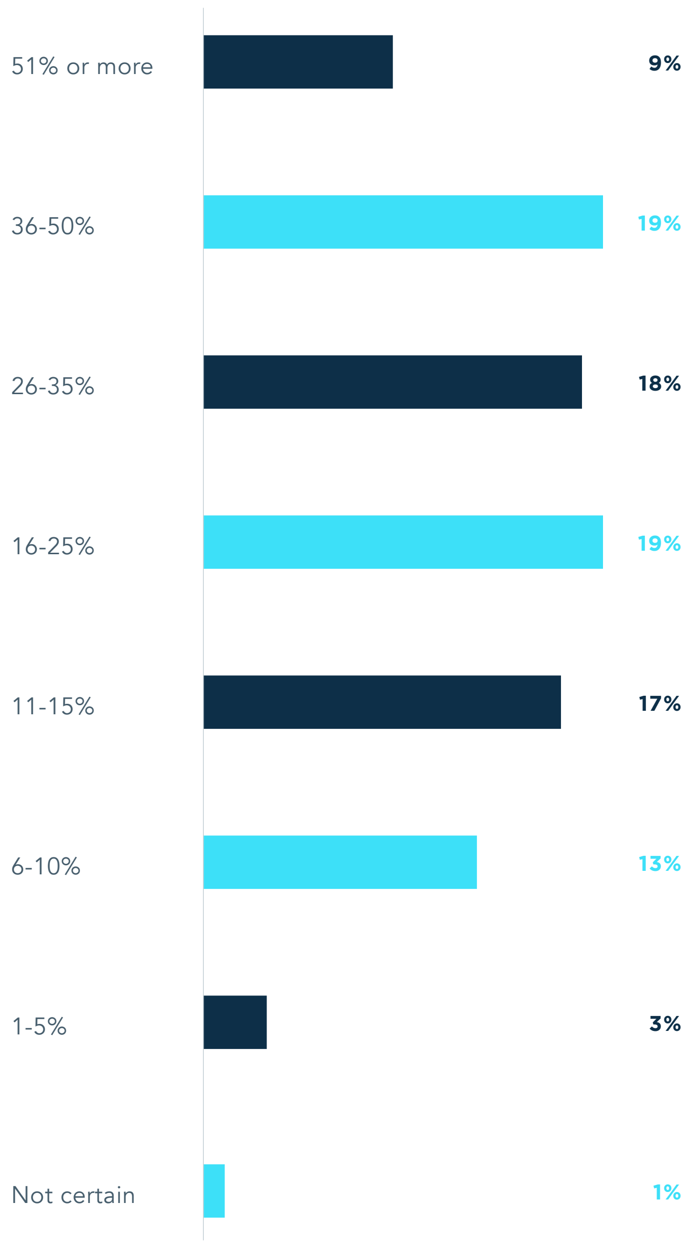
A key digitization advantage for the group is its vertically integrated structure. Pulte's corporate family not only provides home-building and loan services, but also comprehends affiliate title and property and casualty companies. Vertical integration aids digital initiatives and boosts efficiency.

Overall, Still says, the company's technology strategies and platform are ideal not only for improving the customer experience, but also for reducing costs and cycle time across the entire financing process. Says Still, "Our aspirations are to do it better, faster—and all at lower cost."

Table 3

Going Digital Will Cut Mortgage Initiation Costs

By how much can digitization—once fully realized—reduce mortgage initiation costs?



Part III: The Industry Is Responding To Digitization's Call

Eighty-one percent of the surveyed say they are aggressively (40%) or very aggressively (41%) pursuing mortgage process digitization.

At 85%, large banks and lenders are only slightly more likely to be ahead of the pack when it comes to such efforts. Meanwhile, super regionals, regionals and credit unions almost align with the mean. Small lenders are bringing up the rear, but at 71% still represent a significant majority of this segment.

As with other findings, the level of optimism also depends on the respondent's title. Again, CEOs are significantly more likely to view their organizations as aggressively pursuing digital mortgage processes (92%) than are CIOs (89%) or CTOs (78%).

Progress to date

A wide array of activities, from marketing to application and servicing, play key roles within digital mortgages. Here the survey offers a snapshot of where the industry stands, on a scale ranging from that point at which a company is just getting started to that point at which it's fully digitized.

Broadly speaking, just about every element within the mortgage process is on its way to going digital. Marketing is the function that is the most likely by far to be fully digital today. But numerous other activities, from compliance and documentation to approval and servicing, appear to be moving into the digital realm today, via either proofs of concept or pilot programs (see Table 4).

Table 4

The Mortgage Industry Is Digitizing Rapidly

Describe your digitization progress to date:

	No action at this time	Under consideration	Proof of concept	Pilots underway	Already fully digital	Sum of pilots underway and already fully digital
Marketing	3%	9%	17%	25%	45%	70%
Digital applications	2%	9%	18%	39%	30%	69%
Application collection	4%	13%	21%	31%	30%	61%
Digital documentation	3%	13%	23%	26%	34%	60%
Review/qualification/approval	4%	12%	23%	27%	33%	60%
Underwriting	6%	13%	19%	31%	29%	60%
Title issues	8%	14%	18%	36%	22%	58%
Compliance	5%	14%	18%	29%	34%	63%
Servicing	7%	14%	21%	24%	32%	56%

Reducing Mortgage Costs For The Gig Economy

Mortgage lending for the gig economy is on the upswing.

Throughout a 12-month period ending January 2019, for example, underwriting for self-employed borrowers represented 16% of the entire portfolio.

Looking ahead, the number of gig-worker buyers should see steady growth. A study from MBO Partners[2] shows that 41.8 million people in the U.S. are now full-time (15.8 million), part-time (11.1 million) or occasional (14.9 million) gig workers. This segment already earns more than the national average and is expected to grow significantly relative to the economy at large. Moreover, a large swath of this group is now entering its prime home-buying years.

According to Andy Higginbotham, senior vice president and COO of single-family at Freddie Mac, gig earnings documentation and analysis requires added "hours, even days." It also forces banks to use more experienced and "expensive underwriters."[3]

Gig-worker buyers present a growth opportunity. At the same time, as Higginbotham indicates, granting a gig worker a mortgage can involve more complexity than does granting one to a traditional buyer. The result can be higher origination costs.

To make the most of the gig-worker opportunity, then, lenders should be seeking digital solutions that address those higher associated costs. Such digital solutions represent an area, says Higginbotham, "where we're making tremendous progress—[we] can point lenders to digital tools that can cut this process down to as little as one hour."

2 "The State of Independence in America 2018: The New Normal," MBO Partners, 2018.
3 "Tapping the Untapped Market—Lending to the Self-Employed," Freddie Mac Single-Family, Aug. 20, 2019.

Part IV: Improvements Are Evident, But Challenges Remain

Moving forward, the industry will need to address an array of challenges.

These include:

- **Regulatory hurdles:** 64% say compliance and related challenges represent a significant (37%) or very significant (27%) challenge to digitized mortgages. In fact, says Ishbia, "as digital processes improve, it's requirements that vary from county to county or built-in consumer protections that will set the real limit in how fast we can close."

- **Resistance to change:** 60% of executives say workforce or process inertia are significant (36%) or very significant (24%) roadblocks. Note in this case that the degree of resistance perceived varies significantly by title. At 81%, CEOs are by far the most likely to suspect that their organizations are displaying resistance. The figure drops significantly to 67% for CIOs, 50% for CMOs and 47% for CTOs.

- **Internal silos:** 58% say internal silos present persistent challenges—and again, perceptions vary by title. That is, 76% of CEOs believe internal silos are still a barrier, compared to just 63% of CIOs, 44% of CTOs and 39% of CMOs.

- **External silos:** 56% say a lack of coordination across the industry inhibits digitization efforts. At 69%, CEOs are again much more likely than others to hold this belief. Meanwhile, as with most other findings in this section, there is little variance by size/type of institution.

The responses to a closely related question indicate that 77% agree that banks, the IRS, credit agencies and other trustees of consumer financial data need to do more to enable rapid, transparent, compliant and secure access to customer data. The figure rises to 93% among leaders, a group that likely has greater insight into the challenges at hand.

Other challenges include attracting talent, understanding new technologies, lack of senior management buy-in and insufficient resources. Again, there's significant variance by role.

Table 5

Digitization Of Mortgages Faces A Range Of Challenges

How challenging are the following issues when it comes to digitizing mortgage processes?

	1 Not a challenge	2	3	4	5 Very significant challenge	Sum of 4 and 5 ratings
Regulatory requirements	5%	9%	22%	37%	27%	64%
Internal resistance to change	7%	10%	23%	36%	24%	60%
Functional silos	4%	14%	25%	35%	22%	57%
Industry silos	7%	12%	26%	36%	19%	56%
Attracting talent/ understanding technologies	8%	13%	25%	34%	20%	54%
Lack of sr. mgt. buy-in	10%	15%	21%	32%	22%	54%
Insufficient resources	9%	13%	26%	30%	23%	52%

To what extent do you face these challenges?

	CMO	CTO	CIO	CEO	Mean
Regulatory requirements	61%	56%	61%	85%	63%
Internal resistance to change	50%	47%	67%	81%	60%
Functional silos	39%	44%	63%	76%	58%
Industry silos	39%	47%	59%	69%	56%
Attracting talent/ understanding technologies	56%	46%	51%	67%	54%
Lack of sr. mgt. buy-in	44%	50%	51%	71%	54%
Insufficient resources	50%	29%	56%	74%	52%

Overcoming Hurdles

To overcome these challenges, the industry will be taking steps such as:

- **Training:** 59% of firms today are providing training to help their teams provide digital mortgages. Another 33% will be doing so in the near future, bringing the total to 92%. As of today, credit unions are well ahead of the pack in this respect, with 71% currently providing digital mortgage-based training. (Another 24% plan to provide it in the near future—bringing the total to 96%.)

- **Buying technology:** 54% of firms are turning to external providers to acquire needed process technologies. Another 38% will do so in the near future.

- **Focusing on talent:** 51% are focusing more intently on recruiting and retaining talent capable of delivering stronger digital capabilities; 40% more will be doing so in the near future.

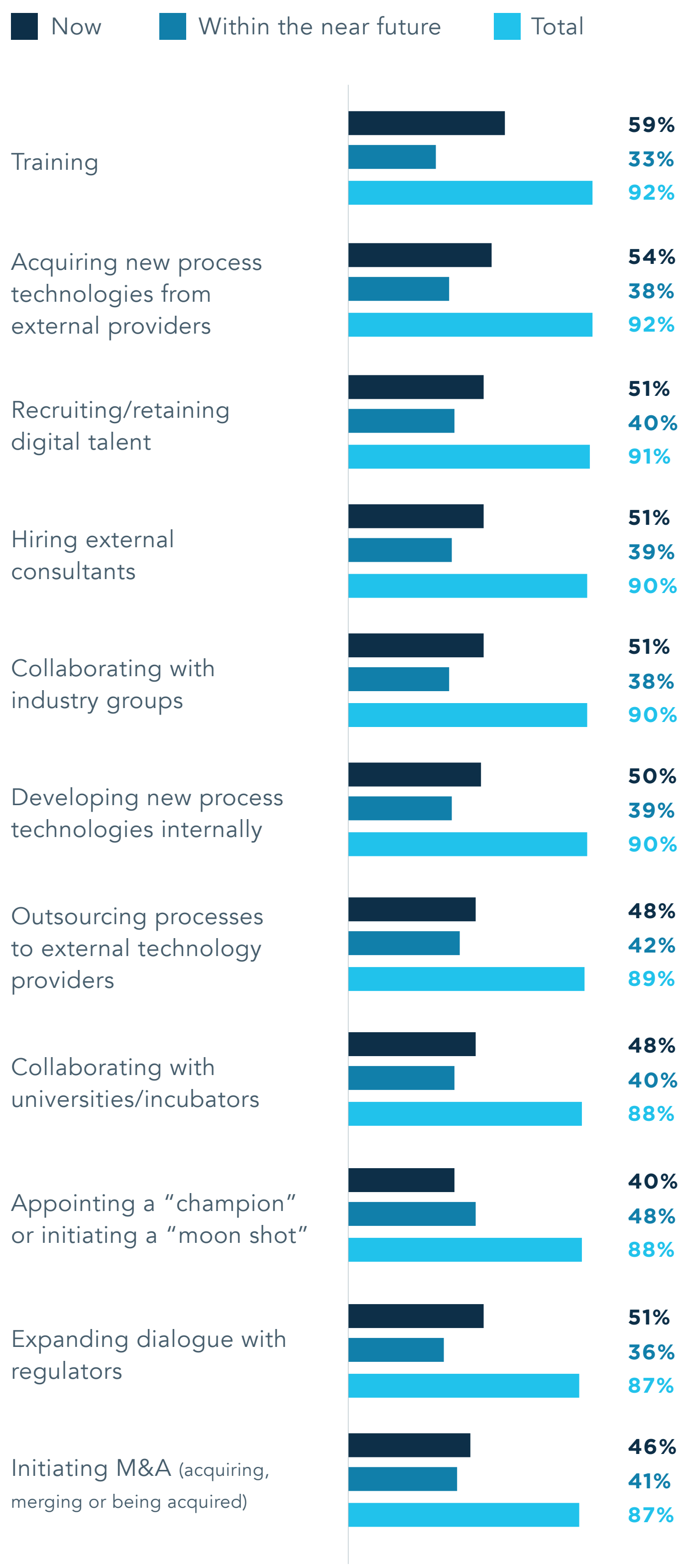
- **Other key steps:** These include hiring external consultants, collaborating with industry groups or outsourcing key mortgage processes.

Over half (51%) are working more closely with regulators to expand the dialogue. This activity will expand to include 87% of industry members in the near future.

Table 6

The Industry Is Taking A Range Of Steps To Enable Its Digital Future

What steps are you taking to expand your digital mortgage capabilities?



Part V: The Industry Predicts A Fast-Arriving Future

Survey respondents have news that is both sobering and inspiring. Sobering, because the forces driving digital mortgage evolution are potentially disruptive; inspiring, because the industry is fast approaching a number of key digital mortgage milestones.

Potential disruption

Survey participants believe that failure to act amid the ongoing revolution invites failure. For example, 65% say digitization has the potential to disrupt the mortgage industry. That proportion rises to 82% among self-described industry leaders and to 80% among those for whom digital mortgages are a core business focus.

The belief that disruption looms is significantly wider-spread among CEOs: 82% of them subscribe to it. That belief is also slightly more common at credit unions (73%); and it's slightly reduced among regionals and super regionals (58%).

Relatedly, 79% say digital strategies will enable new, technology-focused entrants to displace current industry participants. The proportion of those who say that rises to 92% among CEOs. Similarly, 70% overall and 78% of representatives of large banks and lenders say that streamlined, automated processes at scale will transform and disrupt the industry. And 74% say the industry will consolidate, with large, nimble, tech-savvy platforms outperforming less comprehensively digitized lending models.

For an example of disruption, consider UWM. According to its CEO Ishbia, "we've got 600 people on our IT team whose sole focus is digitization; automating; reducing time, effort and costs; improving customer experience—solely in the mortgages [space]." Others in the industry may have larger overall IT budgets, "but their focus is distributed across a full range of banking products."

A more narrow focus, Ishbia says, "is what enables us to create industry-leading mortgage tools, gives us the edge."

Ishbia adds: "We take all of this technology we've created to improve processes, and we give it to our customers—the mortgage brokers—who then use it with their customers." In essence, UWM is giving mortgage brokers and credit unions advanced tools that they might not be able to afford on their own. Smaller players can thus provide their customers with capabilities just as good as or better than those of the industry's biggest players.

"So now [a mortgage broker or lender of any size] can provide their customers with industry-leading technology," Ishbia says.

Important milestones

The road may lead towards disruption, but along the way the industry will be achieving breakthroughs that will improve everything from ease of application to quality of documentation to origination to servicing and compliance.

Some of the more noteworthy upcoming milestones include:

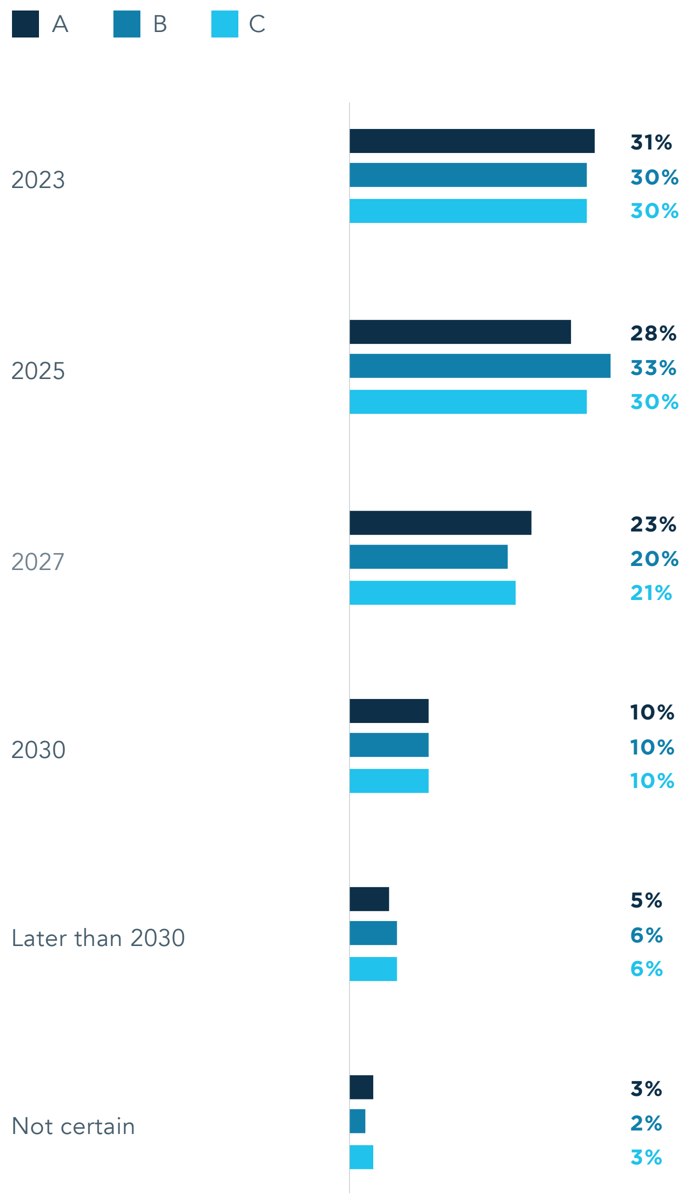
A. Digital documentation: By 2023, 31% of survey participants say, leading institutions will be capable of easily authorizing and enabling sharing of validated employment, banking, tax, payroll and credit reporting histories with mortgage lenders seamlessly and securely across integrated networks. Fifty-nine percent say these things will be possible by 2025.

B. Digital closing: 30% of respondents say that by 2023 customers at leading institutions will be able to apply, qualify, achieve clear to close and then ultimately close entirely online. Sixty-three percent say that this will be possible by 2025.

C. Digital end-to-end: For the industry at large, 30% say that by 2023 all key front- and back-office elements of mortgages—including origination, documentation and closing—will become digitally integrated and enabled. Sixty percent say that this will happen by 2025.

Table 7

When Will The Home Mortgage Industry Achieve These Milestones?



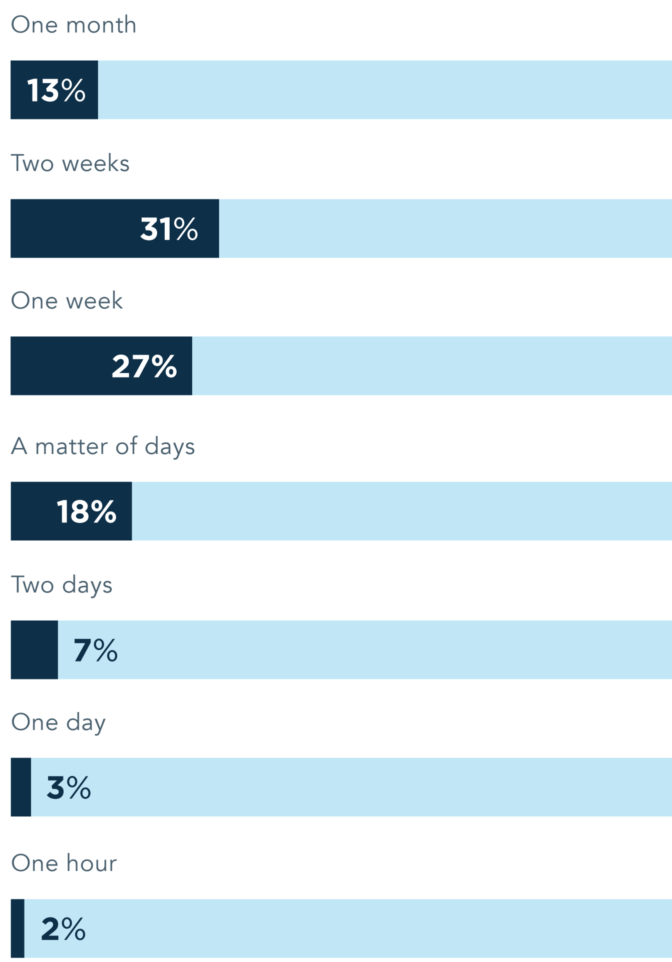
Time to closing will continue to shrink

Seventy-three percent also agree with the statement that the period from application to clear to close will compress from months to weeks to days and eventually to hours. Ninety-one percent of leaders agree on this. By 2024, some organizations will be able to achieve clear to close within as little as one day or even one hour—see Table 8.

Table 8

Closing Times Are Shrinking

Respondents believe that by 2024 "best in class" organizations will be able to achieve clear to close within:



The Digital End-State

Ultimately, 79% of lenders believe they will be able to leverage their digital mortgage platforms using artificial intelligence (AI) and related tools to streamline analysis of digitized consumer and asset information. In that way they'll dramatically improve the overall quality, integrity and security of decision making.

Similarly, 79% agree that the use of technologies like AI in conjunction with trusted independent data sources will reduce the potential for human error or fraud. This indicator rises to 94% among CEOs and to 86% among large lenders (though it falls to 69% among small lenders/credit unions).

The road may lead towards disruption, but along the way the industry will be achieving breakthroughs that will improve everything from ease of application to quality of documentation to origination to servicing and compliance.

Winning With Digital

"You put tech into any industry and you create more efficiency, driving costs down while improving service. Technology is helping us to grow."

—Mat Ishbia
CEO, United Wholesale Mortgage (UWM)

The drive toward a more streamlined, digitized, end-to-end mortgage lending process is generating a wide range of invaluable benefits.

- Virtually every dimension of any borrower's experience—from application through documentation and all the way to closing and servicing—can dramatically improve.
- Lenders as well as others across the mortgage life cycle can lower their own costs, generating greater value for providers and consumers alike.
- Automation and digitization enable greater visibility across processes—leading to reduced risks and stronger compliance.
- Digitization enables expanded use of AI and machine learning to further improve decision making and process design.

Leaders—those who have already digitized "the basics"—are now looking for still more ways to enhance their processes, further reduce costs and, along the way, capture the largest swaths of the marketplace. By testing new proofs of concept, launching pilots and placing new processes into production, these leaders are creating even more competitive advantage for themselves, step by step.

For the others, the question then becomes: How much of a lead are you willing to concede to those at the front of the digital pack?

Methodology

The findings in this report are based on a Forbes Insights survey of 391 senior U.S.-based lending executives that took place in June and July of 2019. Key demographics include:

Title: Director (21%), CIO (19%), CTO (17%), VP (10%), SVP/EVP (9%), CMO (5%), CEO/Managing Director (18%)

Focus/function: Front-facing (e.g., marketing, sales—24%), back office (e.g., underwriting, compliance—24%), front- and back-office roles (37%), IT (25%)

Type of institution: Regional or super-regional bank or lender (38%), large bank or lender (36%), small or corporate bank or lender (14%), credit union (13%)

Role of mortgages within overall business: Seventy-five percent say mortgages and directly related services form a significant (42%) or very significant (33%) product offering for their firms—a core business focus (see Table 9).

Table 9

Mortgages: A Core Business Focus

How significant are mortgages within your mix of product/service offerings?

	Minor offering 1	2	3	4	Core business focus 5
Credit unions	0%	4%	12%	51%	33%
Regionals/super regionals	0%	5%	17%	43%	35%
Large banks and lenders	1%	4%	17%	39%	39%
Small/corporate banks and lenders	2%	4%	40%	44%	11%

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