

Freddie Mac Single-Family Home Starts Here Podcast Episode Transcript:

Leveraging Digitization: How APIs Can Help Drive Efficiency Throughout the Mortgage Process

Announcer [00:00:01] Welcome to the Freddie Mac's Single-Family Home Starts Here podcast. Your connection to all the latest industry trends, insights and points of view on the mortgage market. From Freddie Mac leaders and other industry experts.

Liz Mugavero [00:00:17] Welcome to the Freddie Mac Single-Family *Home Starts Here* Podcast. This is your host, Liz Mugavero and today we're talking about one of the ways in which we're using technology to enable more efficiency and simplicity in the loan origination process through APIs or application programming interfaces. I'm joined today by two of my Freddie Mac colleagues, David Fulford, vice president in strategic technology integration, and Dan Ashdon, vice president in our Loan Advisors Strategy and Solutions area. Welcome both.

Dan Ashdon [00:00:44] Thank you Liz, happy to be here.

David Fulford [00:00:46] Yeah, likewise. Thanks for having us today.

Liz Mugavero [00:00:49] So let's get started. So, for either of you, I wanted to just start by level setting about how Freddie Mac is thinking about the future of mortgages from origination through servicing.

Dan Ashdon [00:00:58] I'll start and let David jump in. So, I think we can expect a much more consumer driven process where we're more in control. That has been a focus for the entire industry over the last few years. And there's been a lot of foundational work done to build out, you know, online and omni channel experiences. And certainly, the fintech in this space have been very active in creating solutions to support a far more digital process. But clearly, there's more work to be done. It still costs too much and takes too long to manufacture a mortgage. I think the experience is a source of frustration for consumers. They've become used to instant gratification. And generally, you don't get that in a mortgage experience. I think from a digital perspective, the mortgage process has work to do to catch up to those expectations at this point. I think many of our customers aspire to a process that supports a call at seven to 10 day close, which is a huge improvement over the 40 plus day average that we see out there. And ultimately, I think, there should be a meaningful percentage of mortgage applications that receive a near instant clear to close. You know, at Freddie Mac, I think we're certainly in position to have a significant amount of influence over the process. So, we do work closely with our customers as we develop and deliver solutions just to make sure that we are aligned with our clients and what they're trying to do. So, I know David's been on the front lines of all of this. I'm sure he can offer more color.

David Fulford [00:02:25] I echo everything Dan said. Certainly, that is the direction it's going in. I think what I'd probably add to that is, so much of the mortgage origination process historically has been built off of documents like collecting documents, typing information and all the documents to move into this digital space, this experience of trying to create upfront for the consumer. It has to get away from documents and into data and really getting into source data. And to be able to move into leveraging source data requires a higher level of integration and all of the components to deal with that data. As you can imagine, all the models run to assess assets and income and credit and things of that sort. Are all being done systematically now versus manually. And a lot of the process is still kind of baked around managing through documents instead of data. And so, we really have to look at all of our capabilities and make sure that they're going to meet the demand of going to source data, assessing that source data and determining next steps based on that. So, I

think that's another critical piece that we're looking at. And the other point that I would make is that, you know, we have really the way we've interacted with our customers up to this point has been through a very monolithic integration meaning that they have to capture a lot of information before they can send that to us and get our assessments and determinations on what their next steps need to be. And we really have to be able to work with less data earlier in the process to be able to allow them to build the type of experience that they want to build. And so, what we're here to talk about today, of course, are APIs. And I think that is the pathway towards being able to really support these lenders in building out a more sophisticated self-service type experience up front for their consumers.

Dan Ashdon [00:04:09] Yeah, I would I would I would echo that as well. I think Freddie's view of risk and low quality are important to the origination process. Right? But this is the digital process evolves for the reasons David kind of talked about, we're not really in position to render the insights. What is really the optimal point of process, because we require so much data. So, you know, where are our applications right now and collect all of the data. The lender may have to go back to the borrower, or they have to go back to the appraiser or the process or to resolve any of the conditions that we identified. And I think that works OK from a QA perspective, but if we want to support a faster and cheaper process and really a better experience for our customers and at the same time take out some of the guesswork with respect to the framework that we operate in, we need to kind of rethink how we architect and distribute our capabilities in a way that supports a much more dynamic workflow. And I think that is where our approach to APIs can create some benefits.

Liz Mugavero [00:05:05] And, you know, for those listeners who might not be as familiar with APIs I know, this is the language you guys speak every day. But could you give just a quick overview for our listeners what an API is, what it actually does, and how we're using this in the mortgage industry to better everyone's experience?

Dan Ashdon [00:05:19] Okay, sure. So, let me talk a little bit about our approach. So, APIs is really just a mechanism to communicate with our applications and services. And it's not a new concept. the current system, the system integrations that most of our clients have with our current tools, that it's a form of API. So, what we're really talking about is a different set of architectural principles, right? So, there's three main components to our strategy. One is that we want to deliver the capabilities as very discreet, very targeted services. Right. So, you unbundle capabilities and create services that solve a very specific some of the existing capabilities that we have in our anchor applications so that they can be leveraged at a different point in the process, like point of sale, for example. So, getting to more discrete services is one aspect of the strategy. the second piece is how we architect that. Right. And this is not a technical discussion. But, you know, from a layman's standpoint, we're going to follow what are known as restful architectural principles. And one of the benefits of that approach is to support common file formats like JSON, HTML. These are much easier to build to work with than the traditional XML based solutions and protocols. That's the second aspect is just following a different, more modern set of architectural principles. And the third piece, we've stood up in API management platform, which includes a portal for developers. And this lets our customers and our technology partners, have access to tools that they need to build independently through our API. So those are really kind of the three main elements of the strategy.

Liz Mugavero [00:07:02] That's really helpful level setting. Thank you. So, you both spoke about some of the challenges that you've seen that have led you to create this strategy across the ecosystem. Are the challenges based on the origination side the same on the servicing side? Or are there differences that we need to take into consideration?

David Fulford [00:07:17] You know, fundamentally, the benefits of APIs apply equally, that again, it's less data. You can use it at specific points in time in your process. It's certainly a different experience at that point. It's a loan that's already been originated and it's a different type of relationship that you have with your customer at that point. So, I think it's less about the kind of consumer experience at that point and it's more about the workflow and operational efficiency on the servicing side. But there certainly are a lot of the same capabilities needed on the servicing side then on the origination side. It's just it's a little bit of a different point in time in the process, so your interaction with your consumers a lot different there. But what we've seen, especially, you know, in such a challenging time is we're in right now. These servicers are having to continually look at their book of business and as much information as they can get on those loans, where there's risk, where there's opportunity, they want to do that. And having these quick hitting APIs that they can send minimal data and get some kind of assessment from investors on it is equally as critical as it is upfront. But it works more to their operational process than it does really to, I think, their consumer experience.



Dan Ashdon [00:08:32] Yeah, I think there's been a bit less of a focus on innovation in the servicing space. You think of servicing, they've experienced like two major systemic shocks in the last 12 years. And that's certainly created some economic challenges for the servicers, for the guarantors in that space. But I think going forward, you know, we can take those lessons learned. And it's really all about efficiency. Right? How can we be more innovative, more efficient in terms of how we mitigate credit losses, how we keep distressed borrowers in their homes and to the extent that we can, how do we insulate investors from these types of disruptions?

Liz Mugavero [00:09:06] And so that process led you to building API solutions. And it sounds like what you're saying and please correct me if I'm wrong, that you're looking at a couple of different points in which they pass solutions, but come in. So on the origination side, it would be point of sale and then on the servicing side, it would be decision for modifications. Is that correct? And can you talk a little bit about that process?

Dan Ashdon [00:09:27] So I think I think from a priority perspective, that's correct. But we're certainly not limited from a process perspective. But we do recognize that there are certainly gaps at point of sale that we think we could fill. So let me give you an example of an API that we currently have in pilot in check. So, for the AIM Check API, what we did was reconfigure our AIM service and in essence, unbundle it from LPA so that we could use it to deliver useful feedback at point of sale. How it works is the lender transmits the digital income or ASAC report via the API request and we will render in the response our perspective as to whether or not the report is useful and the amount of qualifying income and assets that we see, right, And what the customer can do from point of sale perspective, is they can use that number to inform the need for any additional documents. So, for example, you make what you might be able to skip the step where the borrower uploads paystubs. If we confirm sufficient income on the on the digital report. So that's part of it. We're also developing a risk assessment API that can be used in conjunction with this at point of sale to take that income number and get a preliminary LPA risk view. So the overall idea is to provide this feedback while the lender is still in an online conversation with the borrower and to give the lender more confidence that they've collected the right level of documentation and they're not going to have to go back for more. I think, the AIM check in combination with the risk assessment, it's good example of how we can influence the borrower experience with API.

Liz Mugavero [00:10:59] So it seems like pretty early on in the process while using these APIs the user and in this case they're the lender is going to see value. Is that a fair statement?

Dan Ashdon [00:11:09] That is that's the intent, right. We don't want to develop anything that doesn't align with what they're attempting to do from an efficiency perspective or a customer experience perspective. Right. So, we do work. Anything that we develop is based on input from our clients.

Liz Mugavero [00:11:22] And so I know you mentioned discrete services before. Can you talk a little bit more about what you mean by that and how that helps business processes?

Dan Ashdon [00:11:28] Yeah, so it can be a lot of things, generally, we're talking about, you know, whether it's data or a decision or a calculation or our view on quality discrete just basically means we will collect the minimum amount of data that we need to do our assessment from Freddie Mac risk and quality view and give you our opinion back real time. The AIM check is an example where prior to an API, you get that perspective through LPA, which is fine, but you're done with the conversation with the borrower at that point. just in terms of the online application collection. So if we can give them the calculation at the point when they're in the conversation with the borrower, then they can react to that from workflow or full perspective and just create a better experience and a more efficient experience.

Liz Mugavero [00:12:13] So really just underscoring our, Freddie Mac in General our focus on our clients as a driving force behind everything that we're doing.

Dan Ashdon [00:12:20] Right. And if there's an insight or a data point or a decision that we can render that influences where they go from a workflow perspective, that's the space we want to be in.

Liz Mugavero [00:12:31] So in that vein, do you have any examples or use cases or client feedback that you could share about how you've put these practices into action and some of the response we're getting in the marketplace?

David Fulford [00:12:40] Yeah. So, you know, again, so much of what we're doing was driven off of feedback that we're getting from lenders to begin with. So, the feedback overall has been overwhelmingly positive, both from a simplicity to integrate standpoint. So, you know, part of the benefit of doing these APIs, is the expectation that they can integrate to the much faster. And our lenders so far have proven that to be very true. Integrating in some cases to some of our APIs in like less than a day, which just was impossible to do 10 years ago with anything that the GSEs were rolling out. So, you know, I think fundamentally being able to integrate to something so much faster and so much easier is a huge benefit. But to get to the actual benefit of the service itself, you know, if you look at where lenders are going today and really the evolution of the borrower, it's so much easier for a borrower to shop around multiple lenders say there's a lot of aggregator sites out there, like lending tree, where you can go out, put your information in, and all of a sudden, I mean, you will have 20 different lenders calling you within five minutes and then, you know, if you're a really smart borrower, you're probably going to have initial conversations with at least two or three to see what they offer, the rates that you can get, what kind of products they have. And as they're shopping, these lenders are fighting tooth and nail to get what we always term is sticky with their borrower. And so, to be able to get sticky with their borrower, they need to be able to give them as much clarity and certainty upfront in what their loan options are. And without these API services to be able to run these discrete services early in your process, you're not going to be able to compete because you're going to have the other lender saying, hey, you know what, we have already checked, your assets are good, your income's good. Looks like your credit's good. We feel like we can offer you X, Y and Z at this rate. And if the other lender is having to collect information and cannot commit to that type of loan structure until they submit to LPA or two to the other GSE AUS, they're already out of the game. And so, I think lenders understand this in their battle to provide as much meaningful information and as many options as possible to the borrower early in their process, these APIs fit in perfectly. You know, we have a number of customers now that are using a number of our different APIs, AIM check as Dan alluded to, being one of them. And really, I feel like they're just scratching the surface on how much they can optimize around it. But the initial results have been very positive in general, and I think they'll only get better as lenders start to understand how to truly build their workflow around it. This stuff is relatively new in the lending space. As Dan mentioned, API has been out there for a long time. But as far as actually getting discrete services from the GSEs tied to credit and capacity, those didn't exist until the past, you know, 18 months, maybe 24 months. And so, they're really just getting started on how to take the best advantage of them. But the feedback has been very positive. And I'll tell you, we keep a running list of API recommendations coming from our lenders. And that list is like 30 long. At this point, like, we are always coming up with new ideas around APIs that they would love for us to make available to them. So, they're embracing it. They're seeing value in it. And I expect that this is going to be the primary way that they want to do business going forward.

Dan Ashdon [00:16:08] We do have an extensive backlog and we are developing services based on that customer feedback. To David's point, we're just standing up the developer portal at this point, but we'll be exposing just a growing list of services are in our catalog.

Liz Mugavero [00:16:22] So it sounds like there's also a component of self-service here in putting these APIs into practice for our lenders. So can you talk a little bit about why that's valuable to them and how that's going to help them do their jobs more efficiently?

Dan Ashdon [00:16:34] The short answer is it puts them in control, right. We give them a comprehensive set of documentation and a set of tools, and they can build to these to our APIs independently. As you know, as we've talked about, APIs generally our APIs conceptually straightforward and the portal makes it very easy for the client to navigate the catalog, understand what they do, what's available, how to build them. You can always be sure that you're working with the most up to date version of the integration specification. So, I think, you know, as the catalog builds out, there will be a lot of services and it's not really one size fits all right. So, they may work for some, might not work for others. But the portal provides a very efficient way to broadly distribute these capabilities and let the lender be in control in terms of what they want to use and where they want to use it.

David Fulford [00:17:21] You have to remember that our lenders are extremely global now. They have development shops across the world. So that's another reason that these things need to be available at all times. And when you look at how the development world works, they're not used to calling in and asking technical questions. They go online, they do research, there's a lot of great sites out there for the different programming languages that they're working in, etc. And they're not expecting to have to call in to anyone to get information on the technical spec. If they have really in-depth questions, they're going to want to talk to us about them. But honestly, most of the questions that we get were going through an implementation process is more on the business side. Where in their process should they be thinking about something, where should they be thinking about collecting data? The technical folks, they want to get the specs, they want to understand what the work's going to be. Size it out and then really kind of self-serving from there. And if we don't have a way for them to do that, we're not going to be able to compete with all the other tech providers that are out there. And at the end of the day, we really are a technology provider. Obviously, our role in the industry is to, you know, buy these loans, package them up, sell them in the secondary market and keep capital flowing. But it's all done through technology. And I think there's been a real acknowledgment of that over the last few years, that that both GSEs really have to treat their customers as if they are a major technology provider.

Liz Mugavero [00:18:40] Absolutely. And I think that the events of this year have really underscored how important technology and digitization is going to be going forward in the mortgage process even after we get back to normal. If that ever happens, But no, this is great and a great conversation and really is a testament to the innovation that we are deploying here at Freddie Mac. So, thank you both for your insights and thanks to all of our listeners. Don't forget to find this podcast on any of your preferred podcast channels and share and subscribe. We look forward to talking to you again in the next episode.

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