Expert Mortgage Assistance

WHITE PAPER

Mortgage Automation

The Silver Bullet to Profitability in a Post-Pandemic World

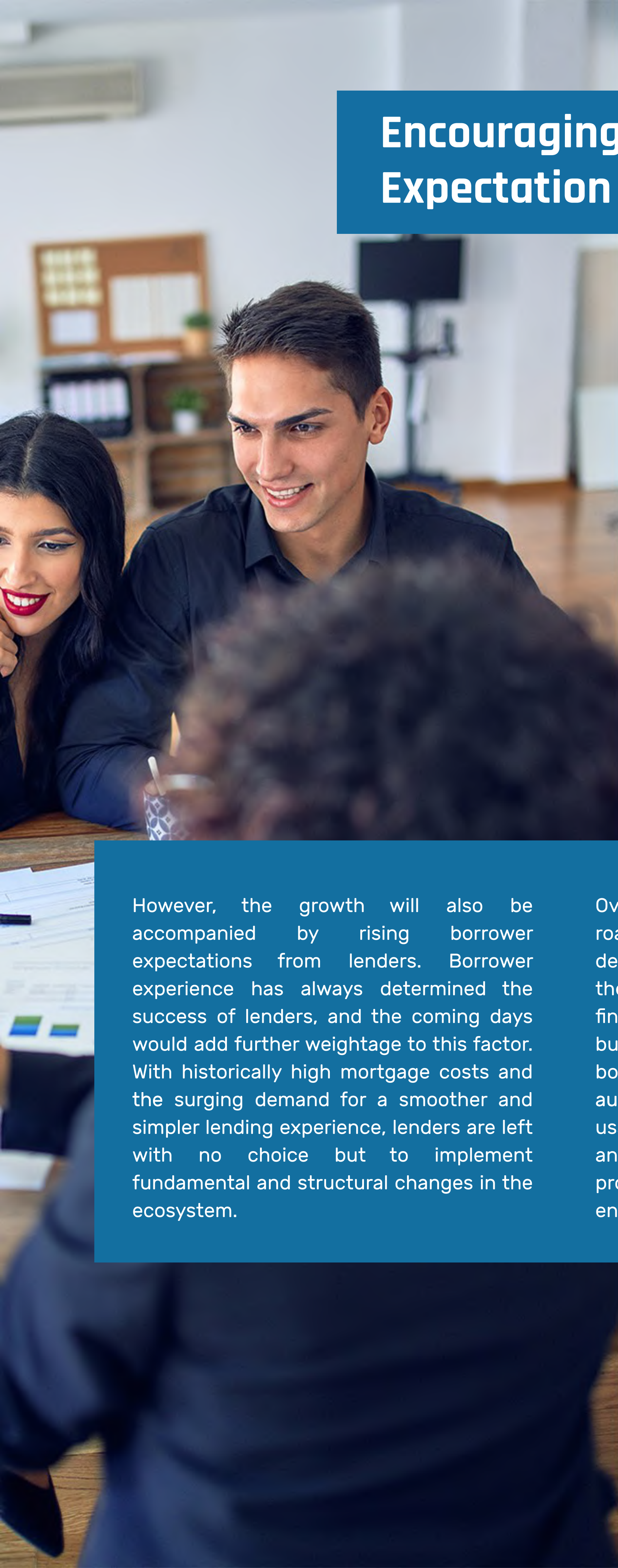
Mortgage Automation: The Silver Bullet to Profitability in a Post-Pandemic World

The mortgage industry has learned its lessons from the Covid-19 pandemic the hard way. With the crisis invading and disrupting every touchpoint of the mortgage lifecycle, the need for automation was desperately felt by lenders. It is now evident that in the coming days, digital technology would be at the forefront, reshaping the industry for withstanding the pressures of a recurring pandemic. While 2020 was a period of a reality check, 2021 would see the implementation of large-scale changes by lenders to set themselves up for the future.

For lenders to stay viable and profitable, digitizing the end-to-end process can help them eliminate many a bottleneck that can potentially bring processes to a standstill. This whitepaper focuses on a few critical factors, including the business, market, and customer imperatives for automation in lending, the current state of technology in the sector, the processes to automate, and the future of end-to-end digital lending.

Freddie Mac claims that the 30-year fixed-rate mortgage will be around **2.9%** in **2021** and **3.2%** in **2022**.

Encouraging Growth Outlook and Expectation from Lenders



With the coronavirus being beaten back, normal economic activities are resuming steadily in sectors such as travel, housing, lodging, entertainment, and hospitality. Considering the expansion of remote working, experts are expecting a high rise in the number of households moving to suburbs and upgrading their houses. With an exciting rise in the projected home sales and the continued growth of home values, mortgage lenders can expect 2021 to be an eventful year for business.

Home sales are expected to come in 3.8% higher in 2021 than in 2020.

However, the growth will also be accompanied by rising borrower expectations from lenders. Borrower experience has always determined the success of lenders, and the coming days would add further weightage to this factor. With historically high mortgage costs and the surging demand for a smoother and simpler lending experience, lenders are left with no choice but to implement fundamental and structural changes in the ecosystem.

Over the last two decades, technology has made in roads into the mortgage and banking workflows, delivering a plethora of gains to the players. Among the list of cutting-edge technologies, automation finds special mention in the context of the lending business. Industry leaders are already leveraging both traditional automation and robotic process automation (RPA) big time to save on resource usage. In the coming times, automation would form an integral part of the workflow, handling critical processes at multiple touchpoints in the end-to-end mortgage cycle.

Vulnerabilities of the Traditional Mortgage Workflow

The mortgage sector has traditionally been characterized as manual process-intensive, with traces of technology in select aspects. The high reliance on the analog processes and legacy applications to execute different tasks has led to the slowdown of workflows, long turnaround times, inefficiencies, and resource-hungry operations.

Slow

The mortgage lending cycle comprises a plethora of time-consuming processes and sub-processes. For instance, during the underwriting phase, the lender checks the credit, income, employment status, and other loan qualifying variables, which invariably stretches the approval process. Underwriters going through loan applications take their own sweet time to approve or disapprove loan requests. In the case of incomplete or inaccurate data, they have to connect with the applicant and request for the same, delaying the loan closing procedure.

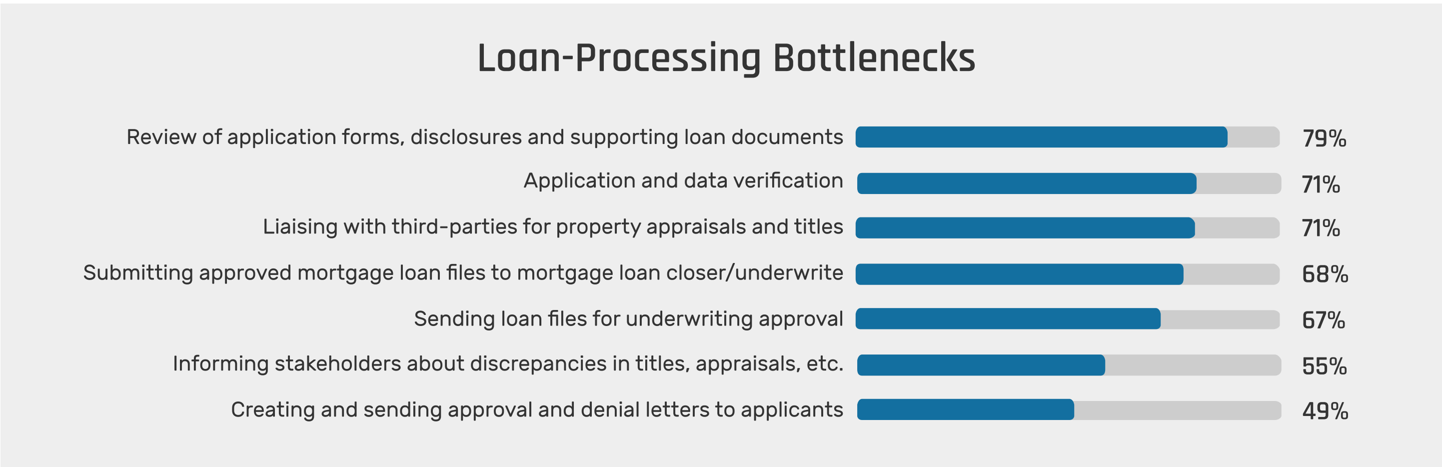
Expensive

Lenders have always depended highly on both in-house employees and external service providers to keep operations running. High reliance on the human workforce naturally leads to soaring costs. Furthermore, with loan activities getting delayed owing to human errors and inefficiencies, lenders have to bear the cost in terms of business and revenue loss. With the growing competition and the need to deliver the best experience to borrowers, lenders are constantly finding themselves in a catch-22.

In2018, the average per-loan mortgage production profit stood at $367. In 2017, that figure was $711 per loan, which, in turn, was well below the number in 2012, which exceeded $2,000 per loan. The worse part is that in Q1 of 2019, the per-loan profit plummeted to just $285.

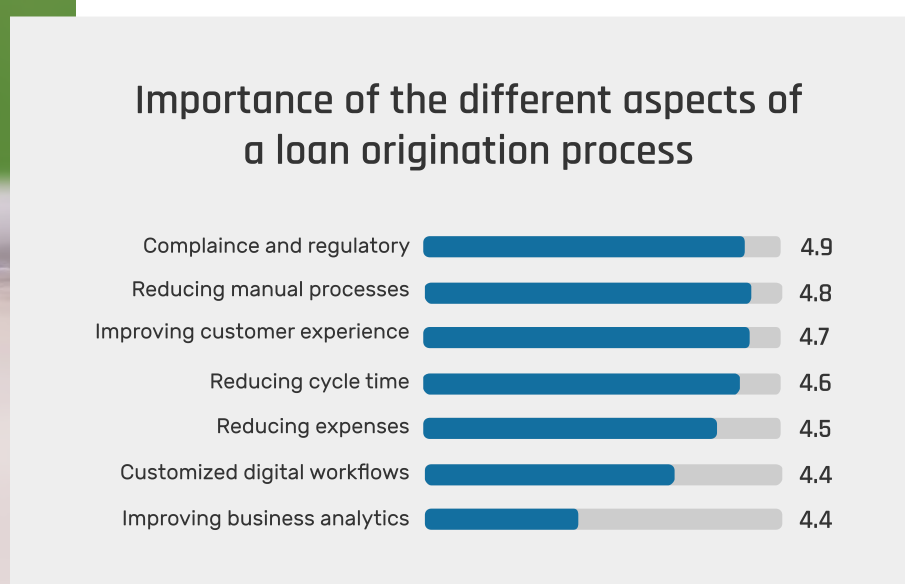
Paperwork-intensive

Until a few years ago, when automation in the mortgage arena was confined to just a few inconsequential aspects of the business, paper documents comprised the lifeline of the industry. With massive paperwork for virtually every touchpoint in underwriting, customer communication, claims management, and others, the consequences aren't difficult to guess – error-prone operations and longer processing times. Also, paper documents are easy to get lost, replaced, or mutilated, adding to the complexities of the lender and the waiting time of the borrower.



Unpredictable

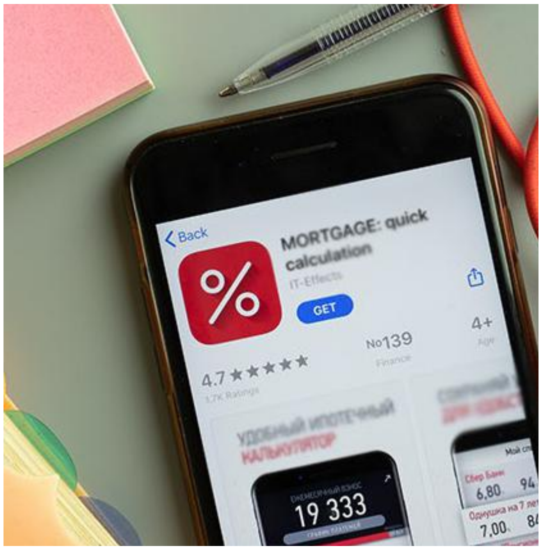
Process and market predictions are the perks of implementing modern technologies such as Artificial Intelligence, Automation, Predictive Analytics, and the like. With manual activities dominating the scene, lenders either don't dare to attempt to evaluate process bottlenecks or get it horribly wrong. As the industry is dictated by stringent regulatory requirements, bringing order to the daily operations and streamlining the various aspects of the business should be the top priority for lenders.



Current Automation Trends in the Industry

Although the mortgage sector wasn't among the first ones to embrace the possibilities of technology, not everything seems bleak when things are evaluated closely in 2021. What's genuinely encouraging is the fact that technologies such as analytics and automation are now more than just topics of conversation in the mortgage landscape. In fact, for the industry leaders and pioneers, automation is an intrinsiccomponentof mortgage origination, thanks to the fintech firms that challenged the status quo and ramped up adoption.

From 2010 to 2016, online lenders saw the number of loan originations rise from $34 billion to $161 billion - an annual growth of 30 percent.



The declining mortgage volume, the challenges it represents, and the competitive market have contributed the most to the growing automation trend in the industry. Another massive push has been from the proliferation of e-commerce models, forcing borrowers to expect the same immediacy from lenders which they expect from online retailers.

Furthermore, the high operating costs and operational errors, traits of the manual setup, have led loan originators to respond with a pro-digital approach. Also, the Covid-19 disaster has clearly exposed the vulnerabilities of the industry, penalizing it for the lack of contemporary elements such as remote work structure, automated customer service, digital loan documentation, and the like.

The cumulative effect of these factors is that lenders, even the ones that used to vehemently defend the traditional operating structure, areacknowledging the real need of the hour. Consequently, they are exploring options such as mortgage mobile apps, online applications, e-verification, and digital paperwork. Going by the digital shift the world is experiencing, the pace of adoption of automation will only multiply exponentially.

Automation and Mortgage Profitability: A Modern Reality

Automation has been acknowledged as the magic wand that turns the otherwise tedious mortgage workflow into consistent, faster, reliable, better-defined, and low-cost functions. The combined effect of such changes reflects clearly in the form of enhanced borrower experience and improved bottom-line.

Reduced Cycle Time

A long loan cycle is a big letdown for the borrower who is usually short of time and wants the formalities to get over in the shortest time possible. But regardless of how hard the lender tries, handling a loan file from start to finish is always difficult. Implementation of digital tools such as M-Suitecan automate most of the repetitive tasks comprising the mortgage workflow. RPA can streamline the workflow by cutting down on process pain points and bottlenecks to shorten the loan origination time.

- RPA can be implemented to capture and process loan application data. Bots can be configured to create and manage loan documents.
- Besides review and verification of loan application data, automation is used for closing and post-closing fulfillment and archival.
- Sending communications to external entities for appraisals and borrower information. Sending loan files and other relevant documents to underwriters or loan closers.
- Besides review and verification of loan application data, automation is used for closing and post-closing fulfillment and archival.

The average amount ofavoidable rework in accounting departments can consume up to 30% of an employee's time.

Reduced Operational Overheads

The steady year-over-year rise in the costs associated with producing mortgage loans has been a source of grave concern for the industry leaders. The total loan production cost includes agent commissions, employee salary, occupancy, equipment, office charges, stationery, and other corporate allocations and expenses. Sadly, instead of leveraging technology, training, and recalibrated workflow to optimize operations for the maximum output, the popular tendency has been to just throw more people at a problem.

- Automation can relieve back-office personnel of their non-fulfilling jobs, facilitating their redeployment to the value-adding aspects, eliminating the need for additional resources.
- By implementing RPA in the point-of-sale system, lenders can automate their document collection via direct-source data providers, guaranteeing accurate and fraud-proof docs.
- Unlike the human workforce, bots can function round the clock by maintaining the same accuracy. Also, they don't demand salary or overtime charges.
- Technologies such as e-Closing cut down on the need for humans to involve in the process, enabling substantial cost savings.

Labor automation characteristics can reduce costs for relevant functions by 40%-75%.

Makes Scalability Within Reach

Business growth is as important as profitability. Lenders must continually meet the evolving demands of the market and adapt to the industry changes and needs in real-time. While serving their existing clients, they must also explore new growth avenues and try out new markets. To this end, they need to develop an ecosystem that can easily be scaled as per requirements. The flexibility associated with the implementation of automation makes it easy to recalibrate operations.

- The number of bots deployed to any particular process can be increased or decreased at will, enhancing the lender's ability to handle high workloads.
- RPA can help the management to train the workforce on the current and new responsibilities that would come with the scaling of the business.
- Automation can be used to evaluate data on new opportunities and identify the risks associated with them.
- With the repetitive processes negotiated by automation, the human workforce can be prepared to take on new challenges without bearing any additional overheads.

Fraud Detection and Regulatory Compliance

In 2019, one in every 123 mortgage applications had indications of fraud. FBI claims that fraud costs the industry at least $1 billion annually.

In addition to the rising competition and operational complexities, instances of mortgage fraud are giving sleepless nights to lenders. Although they are pursuing every possible way to curb the instances of data loss, information mishandling, and financial fraud, it seems they are far away from a reliable solution. Another area of concern is the need for lenders to adhere to strict state and federal regulations. With regulation evolving frequently, lenders have to invest in expensive resources as regulatory experts, adding to the monthly expenses.

- Automation can help lenders catch discrepancies and irregularities early in the loan application process. RPA can flag applications with an elevated risk of fraud.
- RPA makes it easy to comply with the CFPB through a framework of automated tasks. Bots cut down on the non-compliance risks to help lenders with their decision-making.
- Automation can be used to sift through the critical information of fraudulent instances and find patterns to help detect fraud efficiently.
- Lenders can automate the various audit reports which they need to submit on a regular basis, dramatically reducing the time and resources spent on compliance-related activities.

Customer Experience

Borrower experience is supreme and cannot be compromised at any cost, not even profitability. With the market buzzing with new players that are pumping in billions of dollars to temp prospects, every lender must pursue effective ways of customer service to ensure survival. Today, customers want speed, transparency, convenience, and personalization in their engagement with lenders, and RPA enables the latter to offer just that.

As per a survey of over 1,200 residential mortgage customers, only 42 to 67 percent of respondents said that they were satisfied with the mortgage process.

- With automation, support executives can free themselves from the regular and commonly arising customer queries by helping borrowers with self-help functions.
- With RPA, lenders can optimize the customer feedback cycle, discover actionable insights from customer suggestions, and work out effective ways to implement those.
- RPA helps customers with near real-time visibility into the loan cycle and keep them updated about the change in the status of any pending action item.
- Service managers get a detailed view of the customer support cases. They can identify the bottlenecks in the service process and gauge the satisfaction level of customers.

Which Processes Should be Automated First

Every touchpoint in the mortgage lifecycle offers ample scope for the implementation of automation. However, the best practice for a lender is to zero in on a few areas to start with and then proceed to the other aspects gradually. Here are a few most-widely automated processes in the typical mortgage lifecycle.

Origination and Processing

Automation is being aggressively pursued by lenders to integrate disparate systems and facilitate unhindered information exchange, provide reliable and consistent dataflow in the loan origination process, and expedite the overall workflow. RPA can automate routine tasks such as data extraction and increase the speed of data processing by recognizing documents and data from scanned papers using an Optical Character Recognition (OCR) solution.

Loan Updates and Administration

When the time-intensive administrative tasks are subjected to automation, the entire loan cycle speedsup as a consequence. RPA keeps customers informed about the application status without the need for manual intervention. Whenever lenders need to update key loan attributes, they can rely on RPA. This allows the human staff to stay focused on the other critical aspects of the business.

The number of digital mortgage players is increasing, and direct-to-consumer (DTC) loan originations account for more than 25 percent of the market share.

Post-closing

As per industry regulations, lenders must audit closing documents to ensure compliance with underwriting processing rules. RPA can streamline the post-closing loan review processes which otherwise involve significant resources and expose lenders to compliance risks. RPA can ensure high accuracy in reviewing documents such as the loan application, borrower eligibility, support for the underwriting decision, documents showing mortgage insurance coverage, and others.

Appraisal

RPA solutions collect property-related data, including title information, ownership history, property dimensions, geographical location, and the current market value of similar properties, helping appraisers with accurate estimation. Automation can eliminate the heavy manual effort that goes into reviewing appraiser's data and upload the information in disparate software applications for further processing.

Automation is the Way Forward: Getting Stated

For automation to be a panacea for most (if not all) of the mortgage challenges, there are certain prerequisites that mark the lender's preparation to implement it. A well-thought-out blueprint is critical to realizing the maximum output on the investment. Acknowledging the following factors will not only automate compliance within the implementing organization but will also make the solution adaptable enough to fit the organization's workflow perfectly.

Laying the Groundwork

For a successful RPA implementation, it's important for the decision-makers to have the buy-in of all users. To this end, the management must collaborate with the senior members and team leaders. Managers in direct contact with LOs, appraisers, and underwriters should talk to their teams and seek their expectations and concerns. The management must address these concerns adequately and plan their change management effectively to elicit a positive response from the end-users.

A survey claims that 70% of borrowers don't care about meeting the lender face-to-face.

Identifying Key Tools and Areas

Once the talks are held and insecurities handled, the organization must identify the critical areas of their operations that need special consideration. For instance, the LOS and CRM are critical parts of the technology stack. On the flip side, tools such as the pricing engine may have poor connectivity to the key systems, which creates operational inefficiencies. For successful implementation, a well-detailed plan comprising the processes to automate, along with their dependencies, is a non-negotiable requirement.

As per a study, 75 percent of lenders work with a third-party services provider to implement RPA in their organization.

Evaluating the Automation Partner

Most lenders join forces with a technology partner for end-to-end process automation. Lenders should always prefer working with a firm having expertise in mortgage services and compliance. A detailed background check to assess the abilities and work ethics of the partner can reveal a lot about it. Although the price charged by the firm is one of the determining factors for most clients, they must not solely base their decision on it. A post-implementation support structure is a must-have feature in the engagement plan of the technology partner.

Most mortgage processes are highly repetitive with low levels of complexity, time-intensive, and rule-based, and demand high accuracy. Such traits make RPA a great fit for process streamlining, which ultimately leads to enhanced customer experience and higher profits. As the industry braces for an eventful year and decade after a period of turbulence, starting off on the right foot is critical. With automation as akey aspect of digital mortgage transformation, lenders must have no second thoughts about its relevance or returns; rather, they must embrace it to explore its full potential to gain an edge in the market.

Who We Are and Why Count on Our Mortgage Expertise

Over the years, Expert Mortgage Assistance (EMA) has earned the distinction of being an end-to-end mortgage services provider focused on leveraging cutting-edge technology to deliveroperational and strategic benefits to clients. M-Suite, our home grown document management solution, is turning out to be a game-changer for our clients. The AI-based tool uses image enhancement and statistical techniques to generate documents, expediting process speeds and eliminating the high labor costs associated with manual data entry. Even during the peak of the Covid-19 catastrophe, our unique solutions such as the M-Suite ensured business continuity and profitability for our clients by maintaining high throughput.

EXPERT
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