ACHIEVING THE TRUE DIGITAL MORTGAGE

Front- **and** back-office mortgage innovation for distinction, efficiency and profitability

Bank leaders know that being the lowest-cost producer of a mortgage loan while maintaining a differentiated customer experience is the basis of competition today. As such, many are moving towards offering a digital mortgage, starting with a digital front-end. That's smart. It tells the market that you're listening. But, is it enough to cut costs and raise margins?

Based on our experience, a profitable digital mortgage requires banks to do more. They must consider the entire ecosystem, incorporating both customer-facing and back-office digital capabilities to drive automation, quality and efficiency. This is how banks will get the most value out of their digital mortgage loan fulfillment process and borrower interaction.

Digital disconnects?

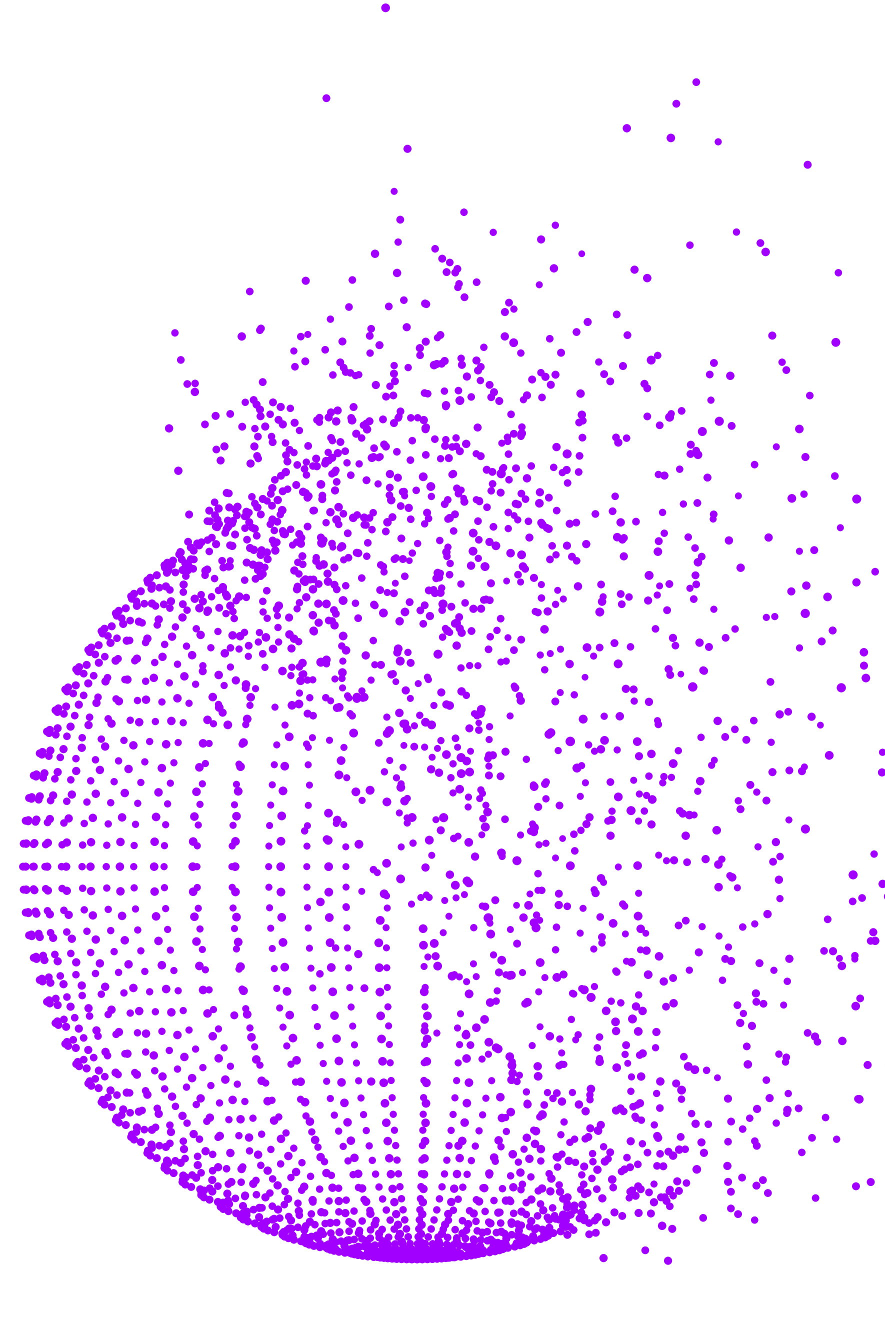
Mortgage lending faces pressure from all fronts to go digital in their business.

The demand for home loans and refinances is cyclical; most recently, increasing in the last year, given lower interest rates and higher employment. According to a June 2019 CNBC report, volume is up 32 percent from a year ago and refinances are up 80 percent.[1] At the same time, higher labor costs—from commissions and compensation to occupancy and equipment—are increasing the cost to produce a loan. Not to mention, there is more competition from non-banks and constant new regulation requiring greater compliance mandates.

Altogether, it points to a challenging environment for lenders, one characterized by increasing costs, longer cycle times and increased competition from fintechs that are giving borrowers the opportunity to go elsewhere based on price, convenience and experience.

Some bank lenders have already started to respond to the market drivers by implementing digital customer experience solutions, such as a digital front-end. But are their efforts leading to lower origination costs as well? Not necessarily.

Based on the Mortgage Bankers Association, even with an increased push towards digital mortgage offerings, lenders still face a slow increase in loan origination costs, now at a year-to-date average of $8,512 for 2019 compared to a $8,404 average in 2018.[2]



So why aren't banks' efforts towards digital mortgage equating to more profitability and competitiveness? We see two main reasons.

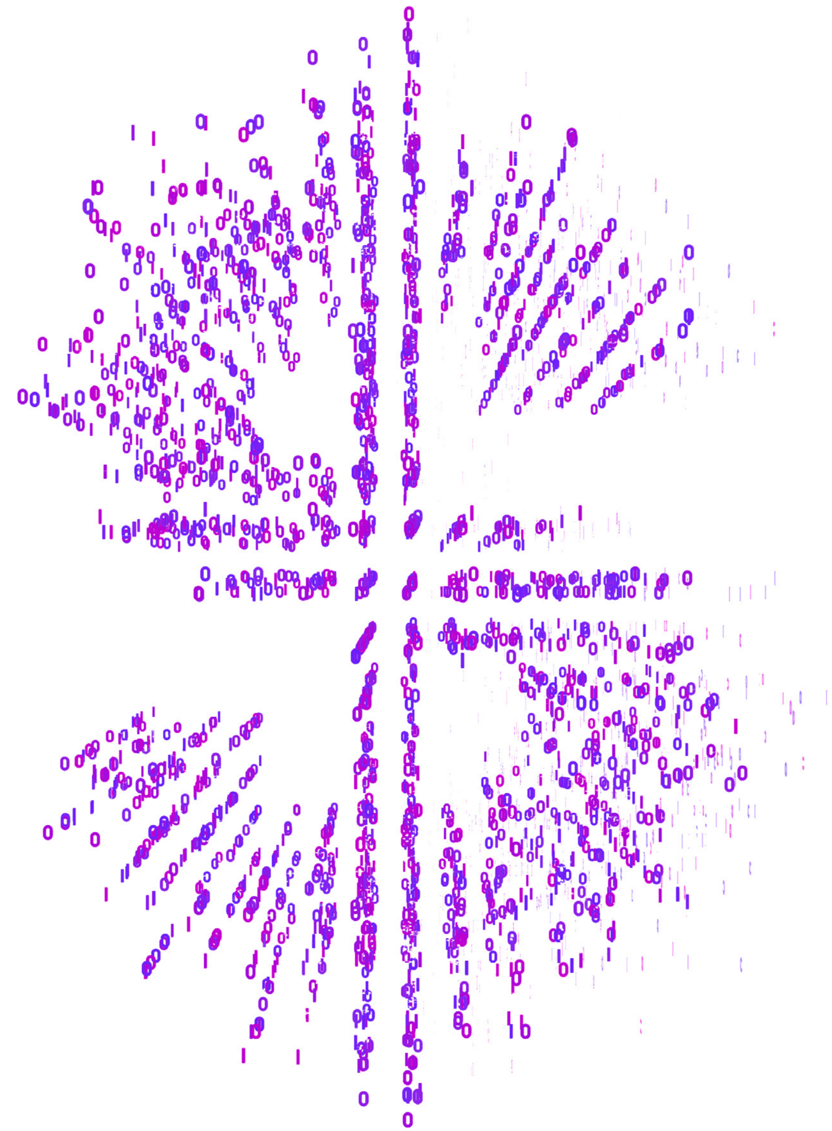
First, there's the value-cost balance. A digital front-end provides bank customers with a simplified experience that enables digital completion of a loan application, including the digital submission of documents. Not only does this improve customer experience, it also introduces digital collection of application data and documents. This is a significant change from the traditional model of completing paper loan applications and submitting paper loan documents.

However, whether that solution is lender-built or delivered via a third-party software solution, it is actually cost additive as a standalone service.

For banks to start seeing reduction in origination costs, they must do more to complement and optimize the value of a digital front end. It means engaging digital opportunities across the entire mortgage lifecycle, including back-office processes, that enable banks to originate more loans at faster speeds and, in the end, lower costs.

Secondly, people are often left out of the change journey. It should go without saying, but it is people who determine how well change is adopted and deployed. Banks must redesign their workforces and employee experiences to fit work in the digital economy. The goal? For staff to make the best use of new capabilities in doing different work, working more productively and better serving customers.

These two points go hand in hand and banks should address both as they advance to a true digital mortgage.



Lenders to embrace digital opportunities, powered by technology and people

Banks that want to generate the most value—highest efficiency, differentiation and margin—out of their loan fulfillment process will need to incorporate innovative digital capabilities across their mortgage operations.

We believe there are five key imperatives to achieve back-office innovation and then apply it to transform the mortgage to bolster lenders' bottom line:

1. Think big, start small—identify simple tasks to automate.
2. Breakdown traditional barriers by empowering technology to do more.
3. Focus on the employee experience, too.
4. Get connected and drive value through an API mindset.
5. Reimagine the workforce to complement the technology.

1. Think big, start small—identify simple tasks to automate

Highly manual and repetitive processes are some of the main contributors to loan origination costs. Lenders should be evaluating all aspects of the loan lifecycle to see what processes they can automate, and how, to increase cost efficiency.

Using robotics process automation (RPA) to mimic human actions in routine tasks is a common starting point. Available to implement quickly and at minimal expense, RPA can be deployed to automate completion of basic tasks for various functions—from loan processing to compliance and report automation.

Let's consider Fannie Mae and Freddie Mac guidelines for conforming loans. Their guidelines dictate the majority of mortgages in the U.S., introducing an opportunity to automate the loan review against those guidelines, using RPA. Ultimately, it allows employees to concentrate on complex loans and associated issues identified from the automated review. It also makes for greater visibility and auditability of processes as all automation activities are trackable, leading to better control over the end-to-end process.

What's possible with RPA in mortgage lending?

Referring back to the Fannie Mae and Freddie Mac guidelines, RPA could be used for the majority, if not all, of the reviews done throughout the fulfillment process. Any activity where an employee is performing reviews against a standard checklist or guidelines, such as underwriting, pre-audit and post-closing, can be automated. This will shorten review time, increase quality and consistency of reviews and allow employees to work on high-risk loans or other activities to speed up processing.

2. Breakdown traditional barriers by empowering technology to do more.

So, what's next after we make machines smart by having them perform repetitive tasks? Making them even smarter. Banks can use artificial intelligence (AI), in the form of machine and deep learning, to not just automate tasks, but to help drive insights and make decisions based on data, experience and interactions, creating more opportunities for process improvement and cost savings.

Slightly more than half of the mortgage banks recently polled by Fannie Mae see their firms rolling out AI more broadly over the next couple of years.[3] Lenders are expected to tap machines to process and examine data from various sources to better detect defects in the lending process or predict future changes. Still, significant action is scant. According to an American Bankers Association research study, manual processes continue to drive the decision-making process for most traditional banks.[4]

The reasons to act, however, are significant. When the right tools and data are available, lenders can use AI to detect defects early and often, and rapidly assess and remediate them (for example, borrower default risk assessment via spending patterns, assessing credit risk and providing approvals based on customer profiles). It makes for greater process quality and accuracy.

What's possible with AI in mortgage lending?

Mortgage is a highly-regulated, closely-scrutinized business. Machine learning can improve underwriting by automating reviews and supporting staff in accurately providing decisions based on credit policy guidelines, customer data and even alternative data sources. For example, a lender could apply machine learning to enable straight-through processing for credit underwriting of loans—approving more loans automatically with better accuracy and maintaining the same risk appetite. Lenders can also use machine learning to evaluate borrowers and identify their readiness to buy (Are they window shoppers or near-term buyers?) based on historical data of previous buyers, spending patterns and partnerships with third parties for additional data. This allows loan officers to focus on committed customers and, ultimately, improve the bottom line.

What about the complex processes that seem too fragmented to touch? Lenders should not let this discourage them. Opportunities are vast when banks use innovation and design thinking to couple together multiple technologies—from RPA, chatbots and machine learning, optical character recognition (OCR) and more.

For example, Barclays US is taking advantage of unstructured machine learning technology with natural-language processing to conduct text analysis on complaints, helping the bank to better know the underlying reasons for complaints.[5]

Taking this holistic approach will maximize automation potential and deliver even greater cost, control and speed benefits. Banks can then focus on developing strong relationships with their customers and move its employees to more value-based tasks.

What's possible when coupling different technology solutions in mortgage lending?

A mortgage loan servicer might use a combination of machine learning, speech-to-text and text analytics to analyze customer data throughout the process and anticipate customer actions. That way, when a customer calls, the servicer could then better route customer calls to the right employee, reducing wait time for customers and making employees more productive as they work mainly within their areas of expertise. A combination of OCR, text analytics and machine learning can be used to collect, scan, ingest and action loan documentation to their appropriate departments to reduce processing timelines and FTEs needed to sort out those documents.

3. Focus on the employee experience, too.

One of the biggest challenges banks face today has a major impact on cost: productivity. Employees want and expect their work to mirror the experiences they have as a customer. As such, what if banks evaluated digital technology to not only reduce manual work but also to improve employees' day-to-day work experience.

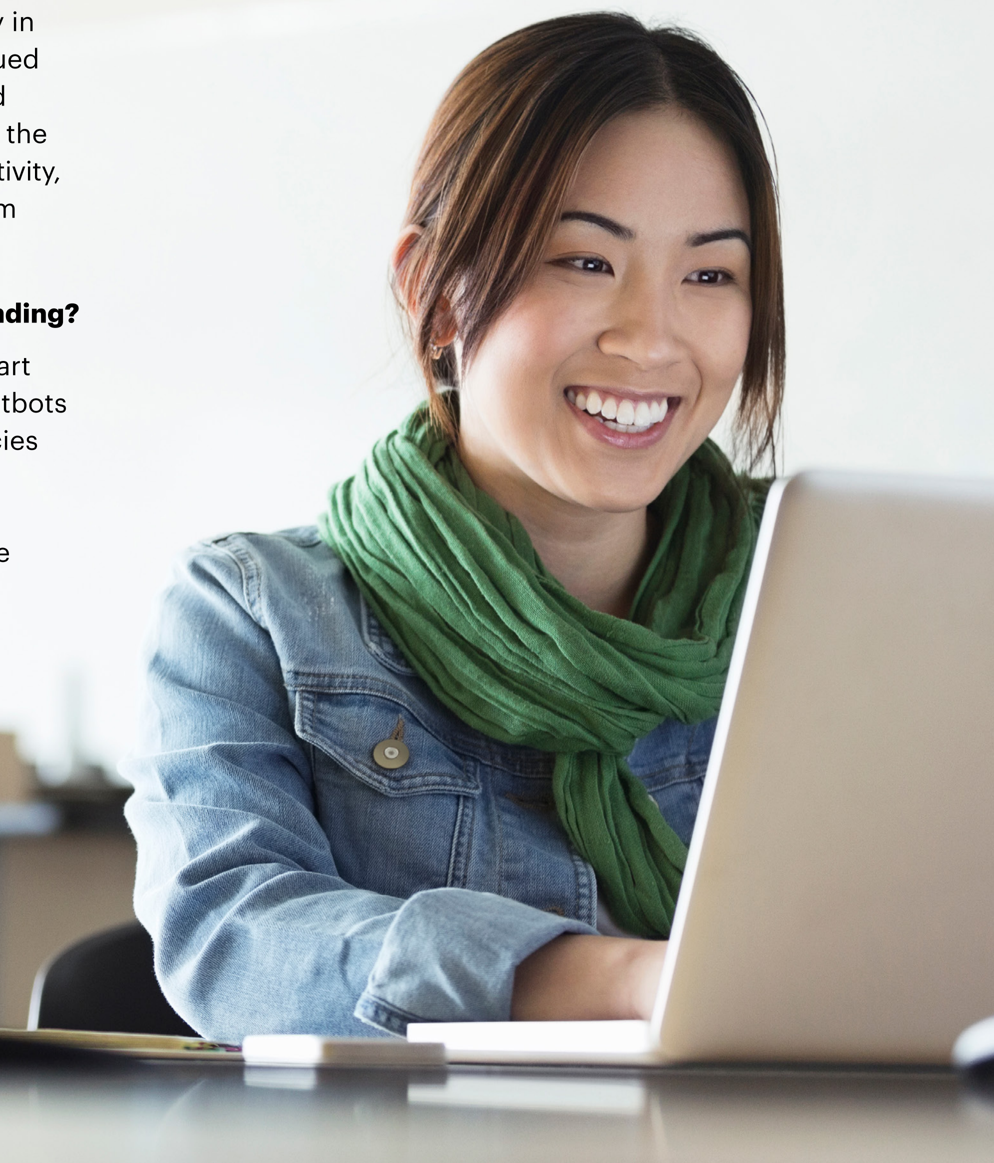
Chatbots are becoming an essential co-worker for the digital age. A Juniper Research study predicts that chatbots in banking will reach an estimate of $7.3 billion in cost savings globally by 2023.[6] Most large, global banks and credit card companies already operate with some type of chatbot, helping perform customer service requests and easing the demand on human agents.

For example, Capital One expanded the skills of Amazon Alexa to let its customers check their balances, review transactions and pay their mortgages and bills—without lifting a finger.[7]

Chatbots allow for 24/7 availability, consistency in advice, improved customer service and continued ability to automate tasks in a more personalized way. Imagine what else can be done to support the employee work experience for enhanced productivity, especially when multiple departments or system of records are involved.

What's possible with chatbots in mortgage lending?

Complex products and changing policies are part of the mortgage business. Lenders can use chatbots to help employees keep up with changing policies to speed up document reviews or understand complex products to provide the customer and the company with the right information to move forward, reducing time on re-work or research.



4. Get connected and drive value through an API-mindset.

Consumers want a seamless mortgage buying experience, like what they get at Netflix, Venmo, Amazon, Airbnb and other digital-based providers. What do such services have in common? They are enabled by application programming interfaces (APIs).

Whether internal-, partner- or open-based, APIs easily connect data, services, products and companies across different systems at high speeds, without user support. Open APIs provide a huge lift to the process by easily integrating across platforms to access information in real-time and exchange compliant data automatically. Not only do they enable a quick and streamlined process, APIs also mitigate security concerns by storing all relevant data on a single network and conducting automated transactions that can easily be tracked. We are seeing this happen at our Mortgage Cadence Collaboration Center where all parties involved in a single lending transaction safely connect to a full-featured API to share conversations and documents.

Lenders that use APIs to their full advantage can build on existing platforms to create new solutions without switching or upgrading their current platforms. It's an innovative way to improve flexibility, accelerate implementation efforts and offer a more seamless and competitive experience for customers and employees.

What's possible with APIs in mortgage lending

Traditional business models across industries are changing and customers are going to the businesses that provide a better experience in the connected digital world. APIs enable such for lenders. Think about what API-based connectivity could mean for lenders as they order services from and share data with a variety of service providers—credit scorers, title searchers, insurers and others—while keeping the entire process moving as close to real time as possible. A lender could integrate with a property search service to identify and suggest to house hunters some available and affordable properties that fit their profiles. Such a value-add service would blur the lines between property selection and mortgage purchase, starting the consumer's mortgage journey much earlier than it does now. If the property search service also offers digital valuation services, the lender would also be able to draw on existing trusted data to speed up the underwriting process.

5. Reimagine the workforce to complement the technology.

But wait...lenders need to be cautious. Implementing new technologies to reduce cost only works if users carefully pinpoint where human employees, with their freed-up time, will best add value to the process and, ultimately, customers.

Banks' workforce expenses accounted for more than 67 percent of their total loan costs in the second quarter of 2019, per Mortgage Bankers Association.[8] Industry leaders are feverish to find ways to reduce this percentage.

Infusing digital technologies is proving to be a good way to do so, but only for those mortgage lenders that adapt their operating models and business processes to the digital economy and then fit their workforce to optimize them. According to Glassdoor, companies with highly-engaged workforces are 21 percent more profitable than their peers.[9] It means enabling people with the right technologies in the right places to perform their best and, as a result, help the lender achieve and sustain lower origination cost.

People are just as crucial as the technology in reducing costs and outpacing the competition. Lenders must develop a workforce strategy that:

- Evolves the organization toward an agile, future-ready structure by reimagining the workforce and work and standing up operating capabilities to accelerate the skills and journey.
- Builds a future workforce that values technology and technology skills. This means remaking roles impacted by digital and shifting to exception-driven work, where employees focus on properly actioning technology's output.
- Transforms talent management to include technology while trusting technology to do its job.
- Creates a workforce experience that is human-led and centered around service delivery to delight all employees.
- Views AI and similar technologies as enablers and embraces workforce analytics to measure success and shape the leaders of tomorrow.

In these ways, lenders can create a new way of doing business and effectively unlock the savings that modern technology can provide.

What's next?

To achieve the true digital mortgage and become mortgage leaders in operational efficiency and digital strategy, banks must take a broader view of the mortgage journey.

This is starting to happen on the front end of the process and must extend to the back office. Specifically, we believe lenders should focus on five key actions to transform their businesses:

1. Define the strategy, an integral first step in developing the roadmap and identifying potential challenges. There are many things to consider and decide on during this journey—from a clear aspiration to eliminate back-office manual work to sources of funding for the change.

2. Evaluate the digital solutions that will help drive profitability and eliminate back-office manual work. Determine where in the back office you can best apply digital solutions to enable the strategy and achieve performance aims.

3. Shift to an integrated and connected ecosystem. Carefully investigate all options to simplify your ecosystem for less re-work and enable agility to implement new capabilities today and for the future.

4. Transform the workforce. Create a culture that values technology and makes the most out of your chosen digital solutions. Begin the analysis early and understand the organization changes that accompany each technology change.

5. Continuously evaluate the roadmap as customers and technology evolve. As the mortgage technology landscape constantly changes, so must lenders' digital strategic roadmap. Treat it as a living artifact and adjust it accordingly.

Accenture helps mortgage lenders create their recipes for a thriving future, making the right change happen across their operations to drive automation, quality, efficiency and, ultimately, lower costs. We are the only firm in the U.S. offering a broad, holistic spectrum of mortgage-focused services. Our mortgage consulting, business process outsourcing, and technology capabilities work in whole, in part and in any combination to deliver value to lenders in achieving the true digital mortgage.

About Accenture

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