AS-A-SERVICE

YOUR FAST PASS TO THE DIGITAL MORTGAGE

accenture consulting

Mortgage lenders are moving as quickly as possible toward the digital mortgage.

While each lender defines this product slightly differently, the consumer sees it as an overdue evolution in home finance. There are many advantages for the lender and the industry as a whole, and extend to eClosing, eFiling and eRecording, even if they have to roll out their strategy in stages.

To the consumer, digital lending means ease of access to the loan application, processing, submitting documents, and interacting with their lender up to and through closing. In most cases, this means a mortgage written without paper and without any requirement for voice-to-voice, much less face-to-face, interaction. Instead, communication and support are available on the consumer's schedule via devices they prefer to use for this type of interaction.

While it's true Fannie Mae announced it was ready to purchase eMortgages back in June of 2002, the market has heated up in the wake of Quicken Loans launch of Rocket Mortgage in the fall of 2015. Since Quicken made its move, JPMorgan Chase, Caliber Home Loans, Wells Fargo, United Wholesale Mortgage and Guild Mortgage have all rolled out their versions of the "digital mortgage," each according to its own vision.

Industry leaders are eager to make the transition because they understand that today's consumer expects a fully digital process and they crave the additional benefits digital lending provides to the industry. The borrower will judge the experience, to a large degree, on the ease of the process and the digital communication methods offered. Federal regulators, at least the CFPB, will judge lenders on how well they meet borrower expectations. Other regulators are primarily concerned with seeing a safe and sound process extended into the digital realm. All of this points to digital lending.

The result is a new virtual land rush. The institutions that stake their claim first in the mind of the consumer will have first mover advantage in the new mortgage market. While the largest banks are already in motion, real estate remains a local business and a great many lenders can still achieve a competitive advantage in their local markets if they can find a fast pass to the digital mortgage.

Mortgage providers are intuitively aware of this and want to make the transition as quickly as possible. Despite the significant challenges that all but the largest banks face, lending executives are in hot pursuit of the many benefits that will accrue to them when they succeed.

The time to move is now. As Accenture Operations Lead – Asia Pacific Accenture Growth Markets Sales Lead Anoop Sagoo pointed out in Accenture's as-a-Service blog:

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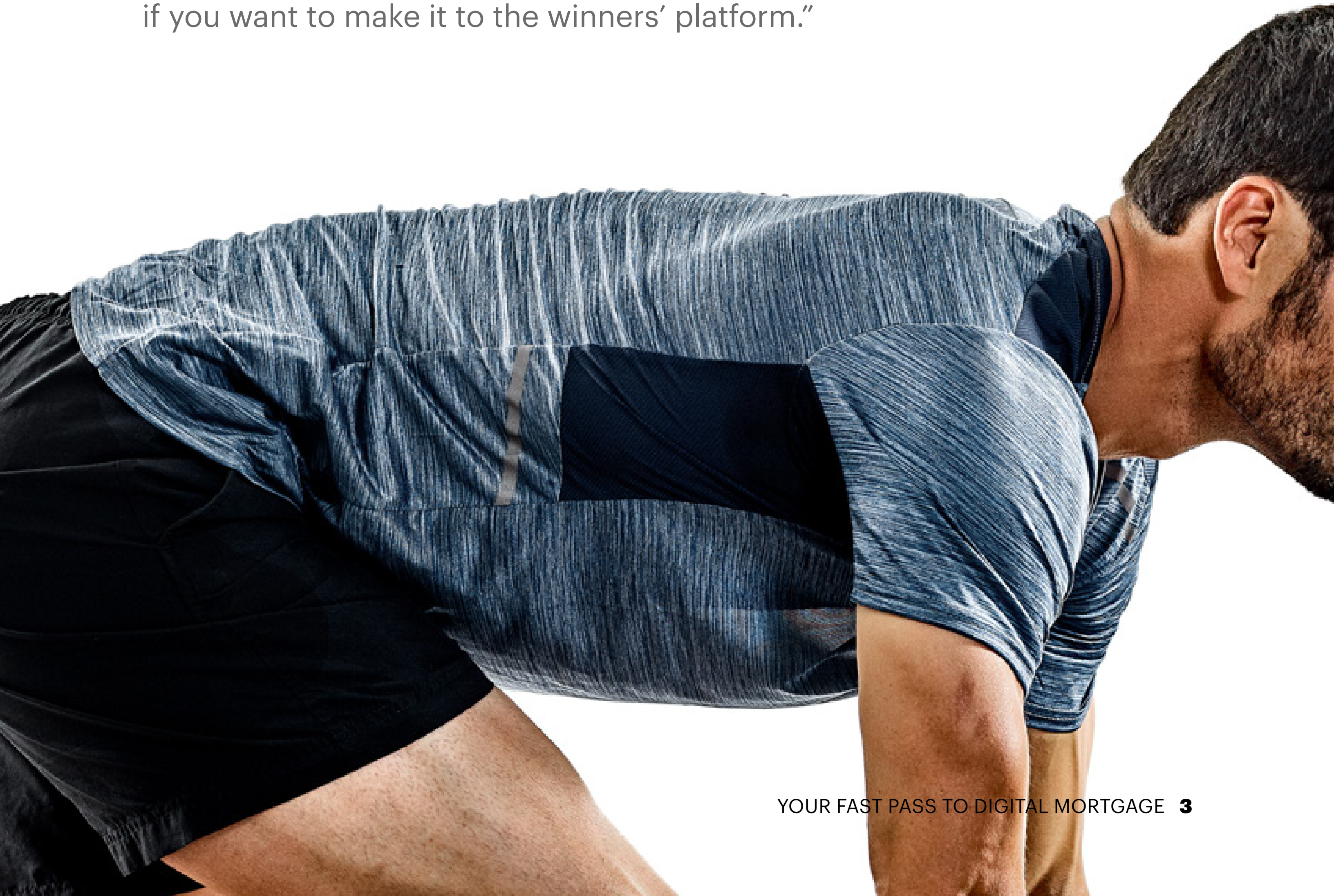
For any particular product or market, one usually finds a first mover (the Gold medalist) who enjoys the greatest market share and the biggest revenues and profits. Then there are a couple of fast followers (Silver and Bronze medalists) drafting behind the leader and making good returns. That leaves the rest of the market trailing the field. (They get the 'Participation' medal.) You've got to move quickly if you want to make it to the winners' platform."



THE VALUABLE BENEFITS OF MAKING THE DIGITAL TRANSFORMATION

The primary reason lenders are eager to make the digital transformation is that it will allow them to meet customer expectations.

Accenture research indicates 87% of consumers begin their home buying experience online and expect their lender to deliver on digital expectations seen across other areas of their consumers lives. With companies like Uber, Spotify, NETFLIX and Amazon setting the standard for the customer's online experience, lenders are driven to meet that standard.

Lenders also benefit from the transformation because digital will finally put cross-sell objectives within reach. Most banks achieve only 10-20% cross sell of a mortgage product to their retail bank customer base. A digital process gives lenders access to first- and third-party data that will make prospecting and cross selling easier.

Larger institutions have been searching for a better way to ensure that their account holders are also aware of their other offerings, particularly mortgages. Digital will give these institutions the data required to better target those prospective borrowers. It would do the same for any lender that goes digital.

Another issue the industry has been facing is the drop in effectiveness of branch networks for mortgage origination. The branch channel has seen a 25% decline in mortgage originations. Opening up the online channel will allow a bank to recapture this business, but only if it is offering an easy-to-use digital interaction.

Finally, the digital mortgage will bring down costs. As the cost to originate a loan continues to hover around $8,000, according to MBA's survey, lenders are desperate to reduce expenses. In our own research, Accenture has found that a digital interaction model can cut costs by 30%, while reducing human errors and risk. Meanwhile, it frees up employees to focus on customer facing activities, boosting the bank's competitive power.

WHAT'S HOLDING MOST LENDERS BACK FROM THE DIGITAL TRANSFORMATION?

Given the advantages and success the nation's largest banks have had with their digital mortgage offerings, why isn't every mortgage lender moving quickly into digital lending?

There are a number of hurdles still in the path of the mid-tier lender, some of which will require outside support to clear.

Perhaps chief among these is technology, which is changing fast and remains very expensive. Recent studies have shown 72% of homebuyers and 80% of Millennials used their mobile device or tablet to search for a home, while 54% of those who seek pre-approvals do so on mobile.

Most firms do not have the internal Information Technology resources to extend their loan origination systems to mobile devices in a manner that is compliant and secure. When they reach outside of the enterprise for resources, the costs are significant. Providing a partial solution to consumers, such as a mobile offering with limited functionality, can be worse than offering none at all as consumer expectations are so high.

In addition to their own technology, the digital mortgage transformation will require the lender to connect directly to outside platforms. Payroll providers, credit repositories and third-party analytical engines will be required to return pre-approvals quickly. If it takes more than a few minutes, the lender will be at a competitive disadvantage.

Another hurdle is trained staff. While the industry is calling the new online, consumer-friendly lending process the digital mortgage, and while much of the data involved is gathered, stored and processed electronically, there are still a great many humans behind the scenes making the machine work. The dream of a completed automated or robotic mortgage has not yet been realized, not even by the largest lenders.

If institutions move forward with the digital transformation without those trained human resources, they run a high risk of disappointing their customers, watching their costs run out of control as well as increased compliance risk.

MAKING THE DIGITAL TRANSFORMATION WITH THE SUPPORT OF AS-A-SERVICE

This is a problem our industry has solved in the past. When lenders made the last transition, from paper forms to document automation, few lenders had the resources to create their own platforms.

The Software-as-a-Service (SaaS) model provided technology that moved the entire industry forward, regardless of the size of the institution.

This came as no surprise as SaaS had existed in one form or another since the late 1990s and had been a boon to many industries. The fact that it worked so well in the highly regulated financial services industry gave rise to some of the most successful technology companies in our economy.

But it will take more than SaaS support to get lenders through the next transition. The transition to digital will require a new breed of as-a-Service offering. It will include software, to be sure, but unlike the past, that software may not come from just one company. It will more likely be a collection of best-of-breed tools that when combined will enable the required processes.

That digital lending process itself will also be part of the offering, as technology alone cannot warrant the lender will meet the high expectations of borrowers and regulators. A proven process will be required that can meet the highest standards for digital commerce, while still achieving full regulatory and investor compliance.

Finally, the digital lending process of today—and likely tomorrow—will still require expert human resources to operate it. Even with the best technology, the machine cannot be expected to run itself in a business as complicated as home finance.

THE MANY TO ONE RULE OF MORTGAGE PROCESS OUTSOURCING

In the past, when an institution contracted with a business process outsourcing firm or SaaS provider, they worked with individual companies that provided specific point solutions.

Over time, each lender was managing many vendors in an effort to take their mortgage customers from application to the investor and on to the servicer. This one to many relationship proved to be expensive and difficult to manage. When the lender became primarily responsible for every vendor's compliance errors, it became a source of significant risk.

The result was an increase in bundled services offerings, where lenders would work with larger firms who would provide many individual solutions. When it worked well, it reduced costs, provided fewer points of contact for problem solving and concentrated risk into fewer relationships. There were often problems with uneven quality across product lines and confusing pricing. In addition, the compliance risk was still present.

The new as-a-Service offering will offer a single solution, the delivery of a digital mortgage. The service will take the lender's customer from application to close and the mortgage asset on to the secondary market.

Most lenders will approach the digital mortgage initially in terms of the consumer's requirements. Those lenders that can will move beyond that such that every process that can begin and remain digital, given the limits of the available technology, will be digital. Regardless of where the technologies or human resources are sourced, the customer will only see the lender and the lender's brand during the process.

Industry leaders must make the digital transformation to remain relevant to home loan borrowers, but they must do so quickly with limited resources and a very low tolerance for risk. This will require a partner, a single provider as-a-Service, reimagined for a digital world, to meet this need.

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