Improving the digital lending process from the inside out

Beyond the customer experience

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A fully digital mortgage marketplace is coming for the benefit of all involved. Lenders that are proactive in ramping up digital throughout will reap benefits.

Introduction

Digitizing mortgage lending from start to finish is gaining in popularity, but remains a challenge for many.

The technology exists to enable it—and has for some time—yet, on average, only about half of the mortgage process is currently digitized in the United States, according to new data from SourceMedia Research/National Mortgage News.

A survey of 162 lenders conducted in August on behalf of DocMagic shows that most lenders use some combination of digital and non-digital processes to originate mortgages and see them through to completion. While the focus on applying technology has largely been to improve the customer experience, the benefits of digitizing the backend process represent a considerable untapped opportunity for many lenders.

As more investors become willing to fund digital promissory notes, called eNotes, and key industry investors increasingly seek out digital partners, momentum is building to digitize every aspect of the mortgage process, including those that have thus far remained stubbornly stuck on paper.

By definition, an eMortgage is a loan where the critical documentation—specifically the eNote—is created, executed, registered, transferred and stored electronically. Such loans can be tracked entirely within the Mortgage Electronic Registry System eRegistry, or MERS® eRegistry, with no need for paper documentation or wet signing of any kind.

MERS member institutions, including lenders and originators, registered about 19,000 eNotes in the first quarter of 2019, compared to 17,000 eNotes registered in all of 2018, according Merscorp Holdings Inc., which operates the MERS® eRegistry and is a subsidiary of the Intercontinental Exchange.

Indeed, a fully digital mortgage marketplace is coming, and to the benefit of all involved. Although research shows challenges and barriers remain, they are far from insurmountable, and lenders that are proactive in ramping up digital throughput will reap benefits.

What Lenders Are Saying

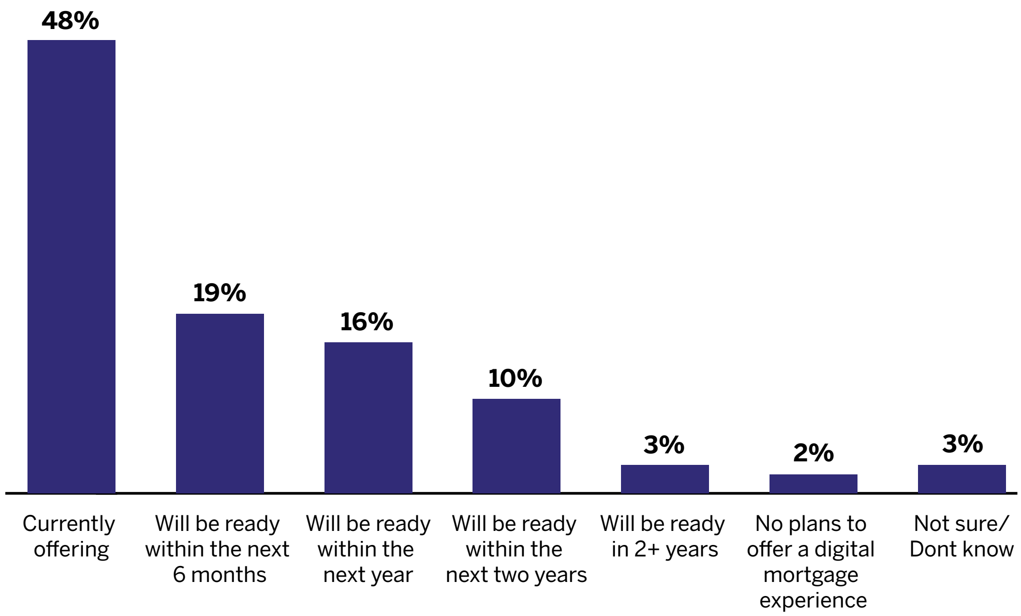
In an effort to better understand where lending organizations are in adopting digital mortgage processes, DocMagic tapped SourceMedia Research/National Mortgage News to take the pulse of decision-makers at organizations that process 250 or more loans per month. What emerged is telling:

While 48% of companies surveyed say they offer an end-to-end digital mortgage experience, lenders are still heavily reliant on paper documentation to complete various steps in the process, with only about 55% of the mortgage lending funnel currently being digitized. (See Figure 1.)

"We will always need people to sit down and talk over something as important as a mortgage loan. But digital improvements move things along much more quickly and are usually welcomed by customers and mortgage professionals alike."

—Survey respondent

Figure 1: Readiness to Offer Borrowers a Digital Mortgage Experience



Source: SourceMedia Research/National Mortgage News, August 2019

As such, most lenders use a mix of digital and non-digital documentation for the various steps in the mortgage process. Rate locks and promissory notes are most likely still to be done on paper. (See Figure 2.)

Meanwhile, the number of software solutions many lenders use is staggering. Slightly more than a third of respondents (35%) use five or more, with 9% of those having in excess of ten in play. Only 1% have consolidated their digital processes under a single vendor.

The reason you see lenders using so many disparate software applications is because they've been leery of upsetting their existing system, says Brian D. Pannell, senior implementation executive at DocMagic. The mentality is, "I'd rather stick with what works than worry about trying to improve it." So instead of upending legacy systems— loan origination systems, in particular—to create a more streamlined process with a single software provider, many lenders simply cobble together solutions that fit into existing infrastructure. It's a double edged sword: what this strategy saves in disruption on the front end can cause complications later on.

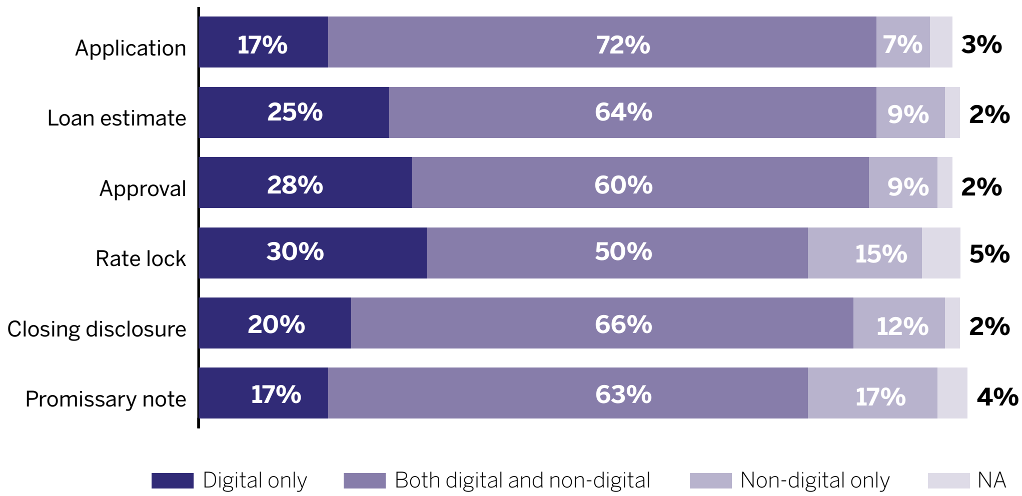
Electronic signature (80%), loan origination systems (73%), and document management systems (71%) are the most used software solutions. "That's just the cost of doing business today," Pannell says. Electronic notary (36%) and point-of-sale solutions (31%) are the least used. (See Figure 3.)

As one survey respondent wrote: "I think we will always need real people to sit down and talk over something as important as a mortgage loan. On the other hand, digital improvements, especially with younger buyers, move things along much more quickly and are usually welcomed by customers and mortgage professionals alike."

"Lenders are most likely to integrate their software solutions with a loan aggregator. The reason being, aggregators can offer better pricing, which helps boost loan volume."

—Brian D. Pannell, DocMagic

Figure 2: Digitization Level at Mortgage Lending Phases

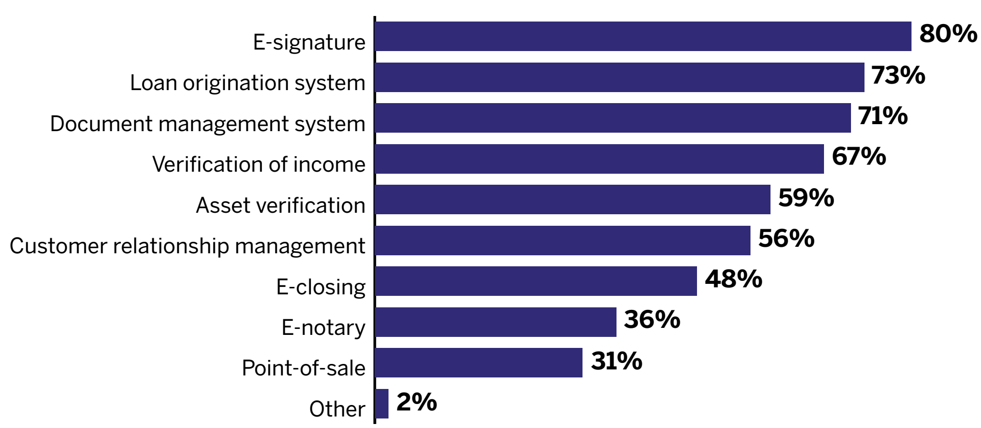


Source: SourceMedia Research/National Mortgage News, August 2019
Numbers may not sum to 100% due to rounding

As far as what moves lenders to digitize, the prime motivator is to improve the customer experience, with 86% of respondents citing this as a reason for adopting new software. This is followed closely by the desire to reduce errors (85%) and improve security (83%). This points to a cornerstone philosophy in the mortgage industry that has far-reaching ramifications to be discussed in the next section. (See Figure 4.)

Lenders are most likely to integrate their software solutions with a loan aggregator, with 58% of respondents saying they do so. The reason being, aggregators can offer better pricing, which helps boost loan volumes, Pannell says, and they also facilitate access to investors, which are the second most frequent partners for software integration (43%).

Figure 3: Digital Solution Usage During the Mortgage Lending Process



Source: SourceMedia Research/National Mortgage News, August 2019

Internal stakeholders are skeptical and often need reassurance that automating processes with electronic documents won't create more potential for mistakes. In fact, the entire point is to cause fewer errors.

Figure 4: Importance of Digital Mortgage Outcomes

Source: SourceMedia Research/National Mortgage News, August 2019

Beyond the Customer: Improving the Lending Experience for Lenders

When asked how effective their digital mortgage solutions are, lenders say they are most effective at improving the customer experience/satisfaction (83%), followed by decreasing loan application time and effort (72%). While reducing costs (60%), producing higher quality loans (60%), and increasing margins ranked lowest in effectiveness (52%).

This appears to expose a critical blindspot among lenders, in that they are overly fixated on improving the customer experience and not realizing the full potential of tech investments to improve other aspects of the mortgage process. This is especially true given that volumes for fully digitized mortgages are still relatively low.

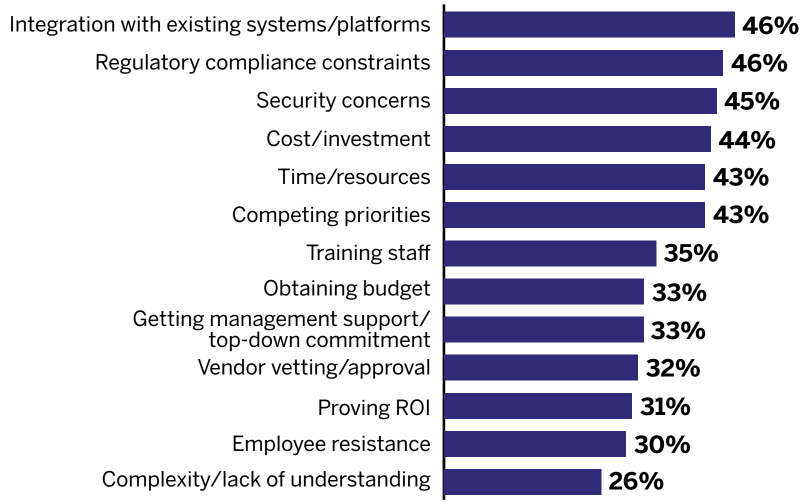
"The pricing model doesn't make sense when you're not doing volume," Pannell says. "So I can get people on board, but if you're only doing two loans and you're telling me that your savings on those two loans are, let's say, $500 from origination of the loan, that's not really going to pay for the cost to install these systems."

The key to this disconnect lies in the obstacles lenders face when adopting digital mortgage solutions. Chief among them is a lack of critical mass. "When we begin on-boarding, there's a lot of conversation with regard to, 'How do I get paid, how do I get funded, who am I going to sell my loans to?' Because I'm not in the business of just holding the loans that I make on portfolios," Pannell says.

Fortunately, that seems poised to change as Ginnie Mae and Federal Home Loan Banks are gearing up to launch eVaults. The acceptability of VHA loans and loans that can be pledged to the FHL Banks increases the liquidity within the mortgage industry, thus increasing the saleability of eNotes. With more key stakeholders and investors coming on board, eMortgage volumes actually have a chance to grow. "So it's happening. You just need a recognized name to push the envelope," he says.

Taking a step back and biting off smaller pieces of the mortgage process can often be a better way in. Other areas, which go deep into a bank's guts and require months if not years to change, can stay put, with backend software solutions built around them.

Figure 5: Technology Adoption Challenges



Source: SourceMedia Research/National Mortgage News, August 2019

Challenges and Barriers

But there are other issues, many of them swirling around misconceptions about what exactly it means to go digital. Pannell hears this cognitive dissonance at all levels—compliance, risk, even legal.

"The interesting thing about this all is, eSignatures have been accepted for 20, 30 years at this point, and the context of that is, 'Well, if it's accepted, then this must be further along.' So the question always comes up, 'Why isn't this further along?'"

One reason is that just because something is legal, does not mean that it is accepted. This holds particularly true for electronic notarizations. "When I go to North Carolina, and speak to closing attorneys, they tell me there will never be remote online notarization in NC. The reason? They wouldn't know who the notary is at that point and they want to have the notary there. It also makes sense because they don't want their business to come from outside the state."

Internal stakeholders are skeptical, too, and often need reassurance that, for example, automating processes with electronic documents won't create more potential for mistakes. In fact, the entire point is to cause fewer errors, because rather than having to leaf through reams of paper to triple check signatures, the digital workflow gives an auto-prompt if one is missing. And rather than having to reprint and re-fax or mail corrected documents, they can be regenerated and re-verified at the press of a button. "So a lot of it is just education," Pannell says.

Survey data affirms all of these concerns. Respondents say that the biggest challenges to adopting digital mortgage technology are system integration (48%), regulatory compliance constraints (46%), and security concerns (45%). (See Figure 5.)

eMortgages 101

When considering digitizing a lender's mortgage experience, there are several iterations of eMortgages that are acceptable within the industry today. Hybrid eMortgages are mortgages that contain eSign Documents as well as Ink Signed Documents. Lenders should investigate their potential solution providers to determine if they can readily support the full digital mortgage end-to-end process, or any other variation of Hybrid eMortgages.

There are four common Hybrid eMortgage configurations:

- Paper Note, Paper Notarization and eSigned Closing Disclosures
- eNote, Paper Notarization and eSigned Closing Disclosures
- Paper Note, eNotarization and Ink Signed Closing Disclosures
- Paper Note, eNotarization and eSigned Closing Disclosures

This combination of offerings allow for the lender to align their eMortgage solutions to meet the requirements of their investors and or business partners. For example, there may be a scenario whereby an investor won't purchase a particular product as an eNote but will allow for eNotarization of the Recordable Instruments.

"Changes in one system often negatively impact another system," says one survey respondent. Others cite siloed data, re-keying errors, disrupted workflow from switching between software solutions, and kinks in data compatibility due to compliance architecture.

Fortunately, there is recourse for all of these and more.

Future-Proofing Your Strategy

Though a seamless, end-to-end digital mortgage solution with as few software application handoffs as possible would be an ideal scenario in a vacuum, integrating with legacy systems dictates otherwise.

"Usually my first few questions are about, How digital do you want to be right now and how far are you planning to go in the future?'" Pannell says.

"Because a lot of the backlash comes in thinking, 'Oh, my god, I've gotta do the whole thing.' And when an organization starts hearing what the whole thing entails, then they start backpedaling, with responses like, 'Well, I don't have time for that.'"

Taking a step back and biting off smaller pieces of the mortgage process can often be a better way in. "Maybe it's just your initial disclosures," he says. "We go through and push that immediately out the door, because that's something that's an immediate uptick and it doesn't really require a bunch of backend pieces to be in place. … You're already printing documents today, I'm just making them electronic, so it's not like you're doing any additional work there, except identifying what loan packages you want to put together and then we'll generate those for you."

Other areas like loan origination systems, which go deep into a bank's guts and require months if not years to change, can stay put, with backend software solutions built around them. Using the loan origination system as a pivot point for new systems integration can be effective—capabilities like eSigning, eNotary, being able to still manually upload documents, having the flexibility to interface with lawyers and title companies. With so many crucial details in play, finding the right technology partner to begin with is one of the most important steps on the path to digitization. One mistake Pannell sees in that regard is lenders going with a vendor because of a pre-existing relationship. Take time to find a partner with a proven track record of performing the specific tasks in question. To do that, requires asking the right questions. "Do you have an eVault? Do you have eSigning? Do you have eNotarization? Do you have relationships with the MERS® eRegistry? Can you do transactions with the major investors that are out there? Can you do transactions with the major warehouses that are out there? Those are the types of questions that you need to make sure you include in all of your questionnaires," Pannell says.

As to whether it's necessary to find a vendor with the capability to handle every stage of the process themselves depends on individual circumstances. There are ways to integrate disparate systems, where one software application generates documents and another handles the eSigning and another provides the eVaulting. "In those instances, you have to have all the traffic signals in place and all the validations in place to ensure that it makes it all the way through," Pannell says. "Whereas in our system, it stays within the system so we're just pulling that data from an eNote that we already have, to generate the request to the next segment of the process."

Conclusion

There is a lot to consider when digitizing mortgage lending processes. The industry is at an inflection point: What to do next, now that most lenders have achieved the goal of improving the customer experience.

Taking a circumspect view of your business and being brutally honest about what your goals should be can help focus future efforts. Regardless of where your business is today, rest assured that there are digital solutions that can help improve it, whether it's opening up avenues to new investors, or something as mundane as requiring fewer reams of paper and printer ink.

"Where you're going to see that margin increase is going to be when you have a loan officer, instead of being able to handle 10 to 15 loans, what if that number becomes more like 50 to 60 loans," Pannell says, "because they're not spending time doing all the things that they had to do manually before."

Methodology

DocMagic partnered with SourceMedia Research/National Mortgage News to better understand where lending organizations are in the transformation to a digital mortgage process. The online survey was conducted in July and August 2019 among 162 lenders. Respondents are employees working at organizations that process 250 or more loans per month and have some involvement in mortgage solutions/technology decision-making.

About DocMagic

Founded in 1987, DocMagic provides Document Generation, Compliance, eSign, eDelivery and comprehensive Digital Transaction Solutions for the mortgage industry. With compliance experts and in-house legal staff consistently monitoring legal and regulatory changes at both the federal and state levels to ensure accuracy, our suite of technology solutions is designed to advance the mortgage process at every stage, improving the experience for lenders, settlement service providers, investors and borrowers. For more information, visit **www.DocMagic.com**.

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