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Advancing the Modern Mortgage

The Modern Mortgage: A Paradigm Shift?

The mortgage industry is not immune to paradigm shifts. Many industry experts would argue one has already begun.

Paradigm shifts. They happen in our society from time to time to introduce new and better ways of doing things. These significant shifts allow industries to adapt and change over time to ensure their ongoing survival and, ideally, their success.

Consider the automobile industry. It was born from the horse and buggy and evolved into cars with gasoline engines back in the early 1900s. It remained that way for over a century until growing environmental concerns forced the industry to move toward an electric model.

Is there a similar upheaval afoot in the mortgage industry? We believe there is. But first, we must imagine a world where the mortgage process is **truly** seamless:

- Where you can remove barriers to using available and emerging technologies.

- Where you have the ability to interact in real-time with consumers, minimizing the amount of work they must do and maximizing their satisfaction with the experience.

- Where the automation of verification services can be fully customized to suit your needs and specifications—not someone else's—so the data can be turned into meaningful insights.

- Where human involvement coexists with technology—but only when preferred or necessary—to ensure the experience is positive and compliant loans are processed properly.

The mortgage industry is not immune to paradigm shifts. In fact, many industry experts would argue one has already begun. And the pandemic has been a catalyst.

COVID-19's Impact

The pandemic was the real force behind the mortgage industry's accelerated move toward digitization.

Before the pandemic, there was a widely acknowledged need to improve the antiquated procedures that were inextricably linked to the mortgage process. Mortgage industry innovators had begun the slow march forward with the introduction of new technologies that offered more efficiency. However, it was the emergence of the pandemic, and its lengthy grip on our country, which was the real force behind the industry's accelerated move toward digitization.

COVID-19 opened lenders' eyes to many of the inherent shortcomings of the mortgage process. Many stepped up their game by distancing borrowers from that process as much as possible. It was a strategy that the pandemic demanded because of isolation requirements—an unexpected, positive outcome that will surely continue.

As lenders recover from the volume surge, they will continue to review workflows and technologies and adopt even more of them to create a seamless process and better overall borrower experience.

At the same time, the federal government and several state governments took action during the pandemic to allow for desktop appraisals as well as remote and electronic notarizations in an effort to keep the mortgage business moving forward. These temporary measures are likely to become more permanent, even as the pandemic wanes. Consumers want the ease and convenience of signing documents and closing their mortgage loans remotely. It is a significant opportunity for the industry to offer what people have wanted for decades.

The Digital Mortgage vs. the Modern Mortgage

A genuinely digital mortgage leverages technology to interact with borrowers throughout the entire mortgage process. The mortgage is produced, transferred, and stored without human interaction or paper transfers. The goal is to reduce internal costs, eliminate cumbersome manual processes, and streamline the outfacing experience. There is no paper loan file. There is no loan officer. And there is no closing agent.

While 100% digitization is something to aspire to, we believe it must be balanced with practical considerations. We do not view the future as one that is exclusively digital. Rather, we see our role as **advancing the modern mortgage.** We define the modern mortgage as a seamless blend of front- and back-office technologies and workflows with human involvement. It drives a superior consumer experience, and it is delivered more efficiently and profitably than the status quo.

The modern mortgage takes the digital mortgage a step further. It utilizes technological advancements to provide a centralized hub of real-time financial data that is seamlessly entwined into workflows regardless of integrations. At the same time, it incorporates human interaction wherever it is desired or necessary. Our position is that there always was, is, and will be a need for people to be involved in some of the decision-making. In fact, people may be involved in different, better, and more productive ways as we move forward.

The modern mortgage is about reexamining processes, rethinking workflows, and enhancing the exchange of data. It is the ultimate counterpoint to "It's the way it has always been done."

Technology is the enabler to advance the modern mortgage. By automating processes that can be automated, people can focus on constructive relationships

with consumers and perform more advanced problem-solving tasks. The modern mortgage is about blending technology and human involvement and using our human capital to its fullest potential. That is when and how we will deliver the highest value to customers.

The modern mortgage also customizes experiences based on consumers' preferences. For example, some people may prefer a phone call and using an online tool to schedule a conference call. Others will prefer to chat online or through a video conference call. Still, others may prefer to upload a video of themselves confirming information. The modern mortgage gives lenders the flexibility of scalability and adapts as volumes fluctuate.

Ultimately, the modern mortgage examines the historical way things have been done. It takes the best of those previous practices and combines them with new technology. This emerging process is more than a digital mortgage, it truly is a modern mortgage because some of the components involved will not be digital.

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What Technologies Will Advance the Modern Mortgage?

The modern mortgage evolution will be driven by the increased use of four core technologies: APIs, blockchain, AI, and bots.

For the modern mortgage to be achieved, there must be an evolution in terms of how data is analyzed, synthesized, actually used, and then turned into meaningful insights. This modern mortgage evolution will be facilitated through the increased use of four core technologies: application programming interfaces, blockchain, artificial intelligence, and bots.

- **Application Programming Interfaces (APIs)**

  APIs have been positively changing the mortgage process for several years now. Lenders and industry vendors are increasingly using them and moving the industry one step closer to a truly modern mortgage. APIs offer and deliver an enormous amount of flexibility that allows lenders to customize the user experience. They also help with scalability by enabling lenders to explore different ordering mechanisms and workflow options. APIs help programs communicate with each other so that loan officers, underwriters, compliance officers, and others can all access and update data as necessary.

  We see the modern mortgage shifting away from limited APIs to much more comprehensive ones. The ultimate goal is to provide borrowers with increased transparency and communication throughout the mortgage process.

This addresses one of the primary complaints—borrowers feeling "in the dark," especially during the time that elapses between approval and closing.

For lenders, using APIs more broadly will enable them to access all the pertinent data they need and ensure that all the various software programs used throughout the mortgage process can communicate with each other and transfer data effectively. Their expanded use will also allow lenders to regularly update borrowers with real-time status alerts, inform them of next steps, and more. APIs have dramatically improved the borrower experience and are becoming a standard practice that is at the heart of the modern mortgage.

- **Blockchain**

  Blockchain is an information recording methodology that makes it difficult or impossible to change, hack, or cheat a system. Therefore, it is a faster, more secure way to transfer data. It is essentially a digital ledger of transactions that is duplicated and distributed across a network of computer systems on the blockchain. Before they are given a "block," the transactions must be verified in order to ensure the data is correct and has not been modified since it was originally entered.

  As the implementation of blockchain records expands across the industry, it will become increasingly easy for lenders to access and view data such as property assessments, liens, ownership information, and taxes. What's more, it will reduce the amount of money and time spent verifying and cross-referencing information.

While blockchain helps store accurate, unaltered information, machine learning can use that information to identify patterns and make informed predictions. This is especially helpful for mortgage professionals who need factual data to make confident lending decisions. With machine learning, you can also monitor industry trends and assess how customers are responding to them to stay current with your loan offerings.

- **Artificial Intelligence (AI)**

  AI is defined as a wide-ranging branch of computer science that is concerned with building smart machines capable of performing tasks that typically require human intelligence.[1] By incorporating an unbiased approach with AI and embedding it right into a lender's workflow, technology, or process, objective decisions can be reached more easily and confidently.

  Increasingly, AI is being used to gain predictive insights into analytics, especially in the area of fraud prevention. AI protects against ransomware attacks that have a patterned behavior.

- **Bots**

  While APIs have been widely embraced across the industry, the use of bots has been more limited to date; however, we expect that to change quickly. A bot is an autonomous, internet-based program that interacts with computer systems and users to streamline loan processing. Bots are generally used for repetitive job functions where human decision-making is not needed. For example, when a bot receives a creditor name, it can identify that the creditor only accepts a trade-line update request by fax. It will then automatically fax out the request without human intervention.

[1] https://builtin.com/artificial-intelligence

Going forward, the mortgage industry needs to work closely with regulators to optimize technology solutions as well as to protect consumers.

Bots are especially effective at handling many of the more labor-intensive tasks that underwriters and processors are responsible for. This enables them to devote more time to keeping the mortgage process on track and less time to document-based activities where they compare and analyze data on standardized forms. Bots allow these professionals to focus on the borrower's experience, ensuring the experience is as pleasant and hassle-free as possible.

Emerging technologies such as digital IDs, facial recognition, and biometrics are also being considered as possible future enhancements to the process of delivering the modern mortgage.

While the technologies above will continue to improve and streamline mortgage lending, we want to emphasize the need for human involvement in certain areas. There will always be occasions where human involvement will either be desired by the consumer or needed by the lender for nuances that can only be uncovered through human interaction.

Collaborating with Government Agencies

As of 2020, Fannie Mae and Freddie Mac owned 62% of conforming loans.[2] With such a large percentage of loans being owned by these two GSEs (government-sponsored enterprises), it is critical for the industry to work closely with them to influence policy, review and recommend processes, determine guidelines, and ensure technology is developed to assist in continuously meeting new regulations.

Recent changes to regulations and requirements demonstrate the need for greater collaboration with government agencies so that technology solutions can be developed to better support them:

- Verification of liability: Utilize technology that automates the process to close the gap and verify liabilities prior to underwriting or closing.

- Verifications of assets and deposits: Provide technology solutions that can be adapted for certain programs as guidelines evolve and provisions change.

The modern mortgage experience also takes into account other governmental requirements and regulatory entities such as staying compliant with fair lending and the Consumer Financial Protection Bureau (CFPB)'s rules and policies. The CFPB works fiercely to protect consumers in the areas of privacy, fairness, and access to credit. Service providers must develop new and effective technologies that ensure those protections.

Identifying Bottlenecks, Revisiting Old Perspectives, and Refining Processes

The modern mortgage reveals innovative ways to apply technological advancements.

One of the most effective ways we can achieve a truly modern mortgage is to challenge older, widely held practices that may no longer have merit because of technology.

We should begin by revisiting why certain workflows and processes were adopted in the first place. It is a necessary exercise that can take you back decades and leave you with the realization that some so-called rules are no longer applicable or even justifiable. Some have been passed down merely as a matter of routine. The modern mortgage reviews and challenges the existing state of affairs and uncovers innovative ways to apply technological advancements.

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A few areas that might warrant a closer look:

- The supplement process and the lengthy amount of time that is spent on contacting borrowers and creditors to verify payments when technology could be applied.

- Repetitive processes such as removing the need to enter the same borrower information across multiple products, which involves collaborating more closely with lender systems and utilizing all their features.

- Intuitive, guided user experiences that make it easy for **all** users to navigate, understand and complete their work without extensive training required.

- Uncovering pre-origination insights about applicants by using predictive modeling.

- Expanding how income and employment are verified.

- Workflow consultation and expanding APIs.

The goal of revisiting these perspectives and refining today's mortgage processes is to make them as seamless and user-friendly as possible. Automating tasks that have been executed in an outdated way will transform the mortgage process and make it a more desirable mortgage experience.

The paradigm shift has begun.

The mortgage industry must move beyond the digital mortgage to a place where the **totality** of the lender-customer relationship is improved. Workflows, processes—and particularly how verifications are delivered—need to be reimagined and advanced. The modern mortgage analyzes every silo within each process with a focus on combining efforts, reducing redundancies, and eliminating unnecessary manual tasks.

Simultaneously, the value of human interaction is preserved and enhanced when and where people are needed.

The result is a centralized hub of data that can deliver the modern mortgage in a more thoughtful, practical, efficient, and reliable way. Efficiency is increased. Margins are enhanced. And outcomes are optimized. The modern mortgage **is** a genuine paradigm shift.

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About Xactus

Xactus is the leading verification innovator for the mortgage industry. The company has over 6,500 clients ranging from the largest bank and non-bank mortgage originators to credit unions and mortgage brokers.

With 12 operation centers across the U.S., Xactus works closely with its clients to digitally integrate a 360° approach to verification across their workflows. As a result, lenders can easily access the technology necessary to meet consumer demands for a modern mortgage experience with industry-leading speed, reliability, and accuracy—while also closing more loans more quickly with greater profitability.

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