The "Digital" Mortgage: Reality or Sci-Fi?

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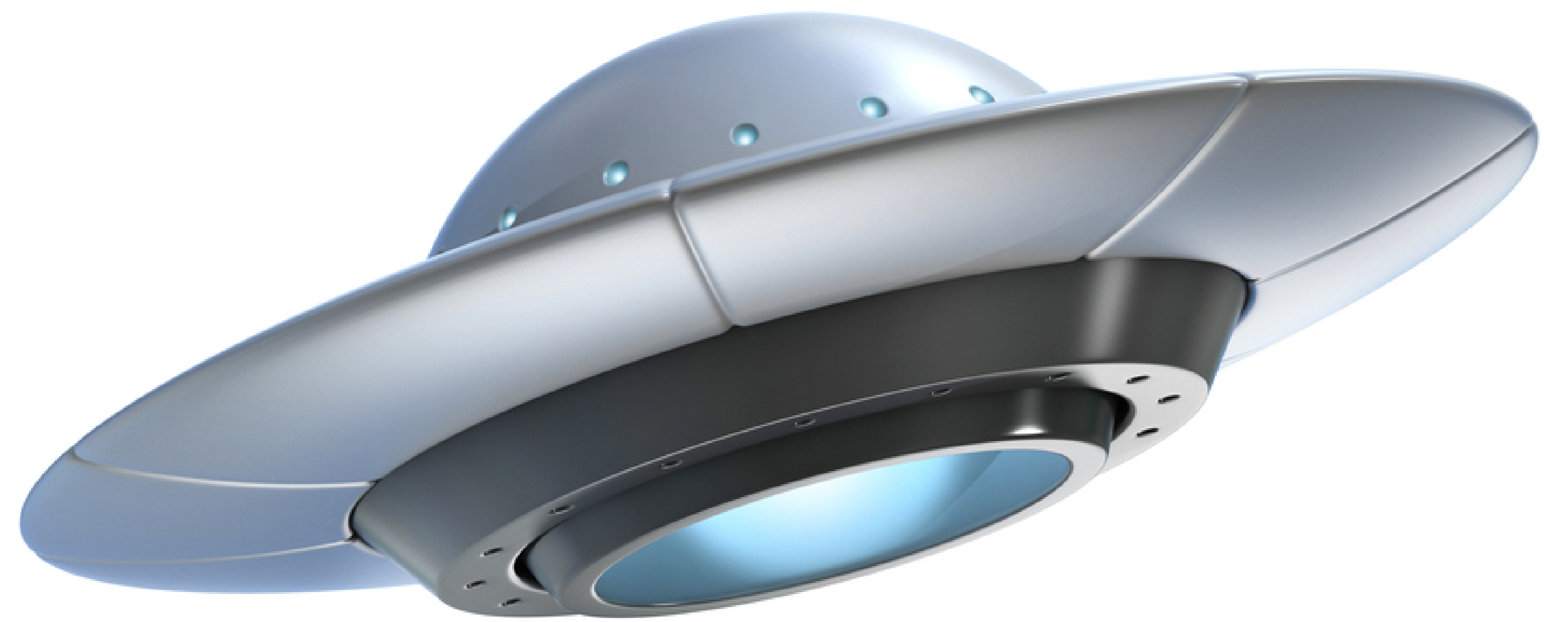
BY GREG HOLMES

One of the defining characteristics of American life, from the end of World War II, through the 1980s, was a focus on the future. Running parallel to the U.S./Soviet space race, children's television programs like Buck Rodgers and The Jetsons envisioned a utopian future that included everything from ray guns and jetpacks to meals in pill form and push-button solutions to everyday challenges. While I'm still waiting for my own flying car, those of us who have spent our careers in the real estate finance industry have been excited to see seismic shifts in the business in recent years, and with each new product or service, we inch closer and closer to a truly digital mortgage experience. "Digital mortgage." That's a term that you've likely heard repeatedly over the past few years, and may even connect with existing companies or products ("Rocket Mortgage," for instance). But what really is a 'digital' mortgage? Is it reality or still a sci-fi fantasy that's years away from realizing?



To answer the question, we need to start with defining what we mean by 'digital' mortgage. A true digital mortgage is a home loan (or refinance) that you can apply for, submit documents (paperless), be approved, and close, all from the comfort of your living room couch. By that definition, we are basically there. The mortgage industry is in the midst of a tech boom, and we have made huge strides towards the goal of fully digitizing the mortgage process. As I see it, we have two main challenges remaining: built-in manual steps in mortgage underwriting and closing; and state/federal policymaking.

In many ways, it makes very good sense that so much of the mortgage process is deliberate, slow, and manual. After all, consumer and corporate risk on a $30,000 car loan gone bad pales in comparison with a $500,000 mortgage that ends up in default. The good news here is that at the front end of the mortgage loan process, digital lending platforms like Quicken's Rocket Mortgage, or white-label solutions from companies like Blend, Roostify, and Mortgage Hippo, have transformed the application process. Consumers now have a smooth, mobile-friendly way to connect with lenders, and the loan process has shortened considerably (shaving off 12 days by some estimates) thanks to these new innovations.

Following the financial crisis, the Ability-to-Repay (ATR) rules have taken a lot of the guesswork out of underwriting.

Technology has automated much of the process to verify these requirements, including:

Gathering current or reasonably expected income or assets. Instant verifications are available through The Work Number, a solution offered through Equifax Workforce Solutions, but only if the applicant's employer is included in the database. This is true for borrowers working for more than 82% of the Fortune 500 companies. However, for those that don't participate in The Work Number, manual verifications need to be performed.

Current employment status. This requirement can mostly be met through The Work Number, but again, not all employers are included, so manual verifications are required in many cases.

The monthly payment on the covered transaction. The lender provides via the 1003 form.

The monthly payment on any simultaneous loan. Again, this is provided by the lender, who will provide a copy of the note.

Current debt obligations, alimony and child support. This information is provided through credit reports, undisclosed debt verifications, and 4506-T verifications. All available and able to automate using current technology.

The monthly debt-to-income ratio or residual income. This is also provided through employment and income verifications; and through consistent, auditable manual verifications, 4506-T verifications and tri-merge credit reports.

Credit history. Lenders obtain this by utilizing digitized trended credit data/tri-merge credit reports. However, there are still crucial steps in the process that aren't fully digital yet, including:

Appraisals. These value estimations are key to determining sales prices and loan amounts, and while efforts to incorporate drones or augmented reality show promise, there is simply no substitute for sending a real person (IRL, if you will) to check the condition of a home, and provide a better perspective than Google Earth, Zillow estimate or other AVM models. In particular for homes that haven't sold in decades, it can be difficult to obtain recent and relevant data, necessitating the in-person appraisal. It can take a week or longer from ordering the appraisal to having the completed report in hand.

Compliance. The complex and ever-expanding web of state and federal mortgage finance-related laws and regulations make it very difficult to automate. While there are tech-driven solutions out there, this will always be a challenge for lenders to navigate, particularly multi-state and national lenders with multiple channels.

Non-standard borrowers. If your borrower has pristine credit, an employer who is participating in The Work Number, and is looking for a simple GSE-backed Qualified Mortgage, automation and digitizing the process is much simpler than the alternative. What do you do for credit-worthy borrowers with damaging credit events on their reports who are self-employed and looking for jumbo loans? In order to service borrowers outside of a very narrow range, lenders will continue to rely on some combination of paper and people. **Closing**. This is currently the most paper-heavy part of the mortgage process, with borrowers required to meet in person with a notary and sign/initial a thick stack of documents, plus provide physical fingerprints. Part of the challenge here is that a handful of states (mostly along the East Coast) require an attorney present when closing a mortgage loan. While this part of the transaction may seem lightyears away from being digitized, the future may be closer than you think. Several state legislatures have passed bills authorizing the creation of a remote online notarization (RON) process, and many more are currently considering similar proposals. Not only would RON address the need for a physical meeting, but it would improve security and even do more to protect against fraud.

One of the biggest innovative tools that lenders and industry vendors are utilizing to help make the digital mortgage a reality is the API, or Application Programming Interface. In order to fully understand how the digital mortgage is evolving, it is crucial to have a working understanding of API architecture.

Perhaps the easiest way to define an API is to think of it as a way to connect one networked website or program to another. They are intermediaries that carry information and data, and help programs communicate with each other. The advent of APIs means that companies can take enormous amounts of data, combined with several different programs running various operations and ensure they can all talk to each other, and that LOs, underwriters, compliance officers, and more can all access and update the data as necessary.

There are two categories of APIs, which serve different functions. Public or "open" APIs are created from code provided by companies like Google, Facebook, or House Canary. Developers are encouraged to utilized the code to create new applications to interact with the sites and programs. Facebook's F8 platform alone hosts well over 10,000 applications. Private APIs are used internally at companies to manage multiple programs and streamline communications.

APIs are the key to the future of mortgage lending, both for the lender and the consumer. APIs provide access to all the relevant data for the lender, ensuring that different programs throughout the mortgage process can communicate and transfer that data efficiently. APIs allow lenders to keep borrowers updated with to-the-minute status alerts on their mortgage, provide a heads-up on next steps, and much more. The new sense of clarity that borrowers have will dramatically improve their experience. I believe these changes are not far from becoming standard practice. At that point, we'll be very close to having a true "digital" mortgage!

Until that time, industry tech providers and lenders need to continue to work together to develop the tools and processes to take the next step – beyond the flash and pizazz of the new application-focused programs to a more holistic approach to revolutionizing mortgage lending. A start-to-finish "digital" mortgage is not just what tomorrow's borrowers will demand; it's what today's borrowers expect. Let's deliver it. ❖

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