Future Trends
The Dawn of A New Day

The digital mortgage is not just a new buzzword for e-mortgages, but rather a major shift in perception by moving the focus from documents to data.

By Roger Gudobba

I like the term 'digital mortgage' because it really reflects the concept of data before documents. And I believe the term 'e-mortgage' has suffered from many misconceptions and that it is better to start fresh.

I am one of Garth Graham's biggest fans. Over the years I have attended many of his presentations and read most, if not all, of his published articles. I, like others, have been fascinated by his ability to portray the issues and solutions facing the industry in terms that we can easily understand. He is always spot on!

An excerpt from his article, 'The State of the Digital Mortgage', in the July 2016 issue of STRATMOR Insights stated the following:

Roughly 20 years ago today, I was part of a team that started mortgage.com based on a vision that we could build a better process online, a process that would be more transparent to the customer, lower cost and much more scalable and efficient. At the time, our focus was on:

>> Replacing much of the paper and documents demanded of borrowers with electronic capture of such documents from a variety of sources

>> Moving the loan advisory and selection process to a call center where loan officer functions could be delivered in a consistent, controlled fashion supported by online decision tools

And 20 years later, this vision may finally be in sight.

Graham defines digital mortgage as follows: "… the term 'Digital Mortgage' has evolved to mean much more than just improving or digitizing point-of-sale and fulfillment functions. This evolution is being fueled by overall technology trends, including the growth of smart phones, high-speed internet and big data, which are creating new ways for borrowers and lenders to interact at virtually all points of the mortgage loan life cycle. This interaction includes functions both upstream of taking an application (lead generation) and downstream of closing (loan servicing and retention)."

Graham believes there are three main features of the Digital Mortgage that lenders need to consider.

1.) Consumer Interaction. The Digital Mortgage must support consumer interaction on a level that was not imagined even ten years ago. This is more than a passing nod to our current technology trends. It is an acknowledgement that on-demand consumer communication, and thus consumer engagement, is now the norm.

2.) Automated data verification. The Digital Mortgage must divorce itself from the concept of documents—dated snapshots of data, varying in format and layout, in favor of the data itself. As

Documents are not the starting point, they are the destination.

Graham points out, the data to process loans "is all we ever wanted in the first place." Take a moment to consider all the operational processes that have been created to manage the inherent problems of paper documents. They all disappear with the Digital Mortgage.

3.) Predicative lead generation. The Digital Mortgage, by definition, depends on a big data strategy and creates a data pool of millions of U.S. mortgages. Rather than archive and warehouse that data, lenders can use it to develop sales and marketing strategies for specific targets that are best prospects for mortgage products and services.

Graham concludes with the following. "We see, therefore, that the Digital Mortgage is about harnessing data and technology to generate better leads more efficiently, improving the ability of Loan Officers to provide borrowers with sound advice, eliminating the paper-based gathering of processing and underwriting data and replacing it with direct electronic feeds from credible data sources and interacting with both prospective and existing borrowers in virtually any way they want at virtually every point in the mortgage loan

life-cycle. Innovation and leadership are not always about doing something totally different. It's sometimes just enough to recognize the inevitable and get out in front of it. I believe this view totally applies to the Digital Mortgage. Lenders that accept its inevitability and become early-implementers will competitively thrive. Lenders that don't will lose their competitiveness and decline."

Night is darkest just before the dawn. Twenty-five years ago the Mortgage Banking Magazine cover story was Technology: More systems, less paper. By the way, that was the year the internet was made available for commercial purposes. Back then the solution for paperless was to create the paper documents but scan the images. Later, we transitioned to the use of PDF files. But they were still static images of documents, or more importantly, the data that we need to do business.

In the early days of MISMO, as we were developing the data dictionary, we all had a future vision of the paperless mortgage and the term e-mortgages became part of our vocabulary. I remember when the GSEs first proposed the SMART eNote where the document and related data were bound together with the ability to link and validate the data. It was a response to the lost note, where the original could not be located. It certainly was a major discussion topic and some of us felt it needed to be more thoroughly vetted. The concept was thoughtful. The major problem was that this format was a one-off from the rest of the loan documents and required this document to be handled differently throughout the process. It still is a problem today. But that's history. Let's look forward.

I really like Graham's comments: "Innovation and leadership are not always about doing something totally different. It's sometimes just enough to recognize the inevitable and get out in front of it. Lenders that accept its inevitability and become early-implementers will competitively thrive. Lenders that don't will lose their competitiveness and decline."

So let's examine this from the lender's perspective. The digital mortgage has the potential to really change the loan process by having data be the driver. It may drastically change the way you do business. You need to step back and take a holistic view of your entire operation. Is your current technology solution capable of this endeavor? Whether in-house or provided by an outside vendor, this is not an easy question to answer. Will you be an early implementer?

There is probably no bigger challenge for the lender than the interaction to the consumer. The problem is that it will be different depending on the age of the consumer. The millennials are all mobile while the older generations prefer something they can hold and read. They will need to connect with their consumer in a multitude of ways.

The days of sending Verifications of Deposit and Employment are long gone. That process is automated with data uploads, eliminating the time, expense, and risk associated with re-keying data. Appraisals are also automated. By eliminating paper, we significantly reduce processing errors.

But probably the biggest unknown for the digital mortgage is the potential for data analytics to really change the industry. Imagine what that could entail.

What if you could go back and analyze the loan after foreclosure? What if you could determine if there was something you missed or didn't evaluate properly? You could correct that and make changes to your current process. Sometime loans fail for unforeseen circumstances, like loss of employment or medical issues, but those are beyond your control. One of the problems some lenders faced during the re-fi boom was the inability of the servicing side to connect to the production side and take advantage of the consumer data. The digital mortgage could make such a bridge possible.

The mortgage industry has always been slow to adapt new technology to its processes and more than that, to evolve its processes to take advantage of technology innovations. There are a number of factors to blame, including costs, real and perceived, and the potential process disruptions, real and perceived. Maybe the highest hurdle to overcome is the perception that while current processes aren't great, they are good enough for now and will continue to be good enough until painful, wide-scale change is forced on the industry as a whole. Will you be an early implementer? ❖
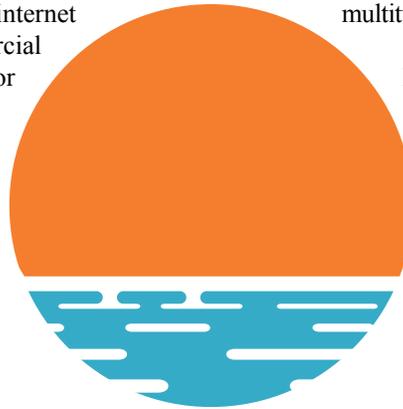
Don't say you can't afford to change. You **can't afford not to.**

Roger Gudobba is passionate about the importance of quality data and its role in improving the mortgage process. He is vice president, mortgage markets at Compliance Systems and chief executive officer at PROGRESS in Lending Association. Roger has over 30 years of mortgage experience and an active participant in the Mortgage Industry Standards Maintenance Organization (MISMO) for 17 years. He was a Mortgage Banking Technology All-Star in 2005. He was the recipient of Mortgage Technology Magazine's Steve Fraser Visionary Award in 2004 and the Lasting Impact Award in 2008. Roger can be reached at rgudobba@compliancesystems.com.