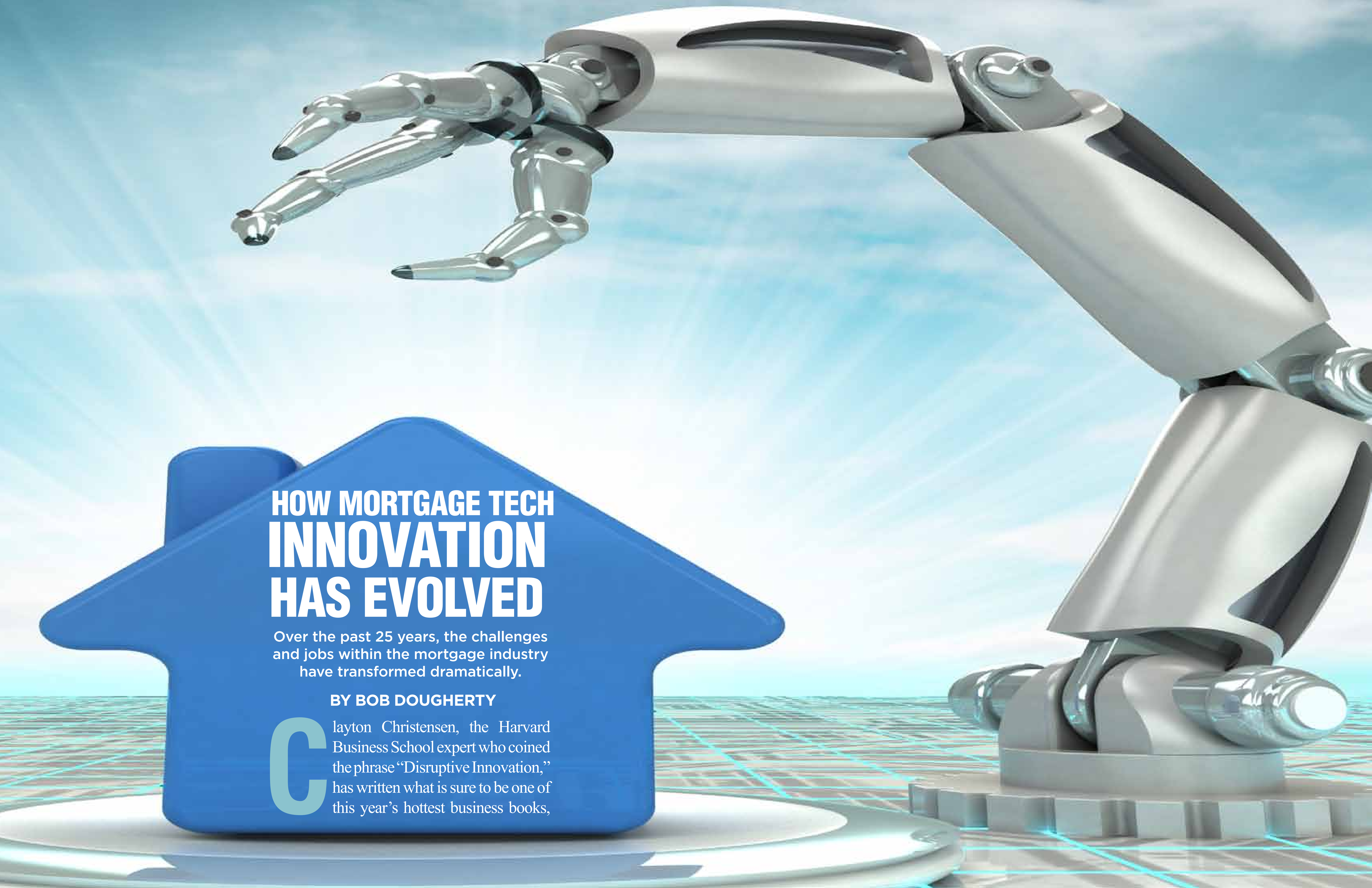

HOW MORTGAGE TECH INNOVATION HAS EVOLVED

Over the past 25 years, the challenges and jobs within the mortgage industry have transformed dramatically.

BY BOB DOUGHERTY

Clayton Christensen, the Harvard Business School expert who coined the phrase "Disruptive Innovation," has written what is sure to be one of this year's hottest business books, "Competing Against Luck." Christensen postulates the key to successful innovation is understanding the "job" your customers are hiring your product or technology to solve. Over the course of the book, he cites examples of how the "Jobs Theory" (in one form or another) has been applied successfully by leading companies, such as Intuit, Ikea and Airbnb.

This created pause for me, and I began thinking about the "job" mortgage lenders and bankers are "hiring" loan origination systems (LOSs) and other technology products to perform. The job has always been: increase productivity, prevent errors, and take time and cost out of the origination process - from the 50,000-foot view. Many of us realize the sands have shifted and over the years and the issues customers have used LOSs to resolve have dramatically changed.

In the early 1990s, our industry saw the **first of a series of $1 trillion origination** years—milestones that would have **been unattainable without technology.**

The Evolution of LOSs

When CalyxSoftware was launched 25 years ago and Point 1.0 was introduced, the mortgage origination process was completely form-driven. Most loan originators (LOs) were filling out loan applications with typewriters using pre-printed forms and carbon paper. Make a mistake and you could not just use "Wite-Out." (Remember those little bottles?) You had to retype the entire form. Even if you were careful, aligning the typewriter or word processor with the fields on the pre-printed forms was a painstaking and painful process.

When you stop and think about it, the first job was to simply fill out the forms. The technology matched the need, and made the lives of the LO and processor easier. The software came in a shrink-wrapped box and resided on a floppy disc (it was totally rigid and contained less than 0.0008% of the computing power of today's average smart phone). Updates came by snail mail, not miraculously from a "cloud."

In the early 1990s, our industry saw the first of a series of $1 trillion origination years—milestones that would have been unattainable without technology. The timing for innovation could not have been better.

Over the next two decades, LOSs were hired to do other jobs within the mortgage origination process. These jobs included connecting various parts of the process (production, underwriting, closing, QC, pricing/secondary marketing, etc.) and participants (originators, investors, GSEs, vendors, etc.).

Until the mortgage industry crash, speed and ease of use were the benefits users valued most. Post-crash, the wave of new regulations and fear of "buybacks" and penalties created a new job for LOS and tech vendors: automated compliance.

The focus on compliance for the past few years has siphoned resources away from innovation—except for enhancements focused on compliance. Rules on ATR, QM, LO Comp, and TRID (which clocked in at 1,888 pages), and the updated HMDA and upcoming TRID 2.0, have highlighted the importance of tracking and retaining data to stay compliant. This has led to the development of data-driven LOSs.

A data-driven LOS allows originators to input all borrower and property information once, in a logical progression; then uses those data fields to populate multiple forms—simplifying the application process, as well as compliance with new regulations. Additionally, when a new form is mandated, a data-driven LOS only needs to add the new data fields and map them to the correct lines on the new form.

The current landscape dictates the LOS to be the system of record. Smart integrations between the LOS and document vendors now serve greater purposes. The integrations not only provide the resource to create the documents, record changes and chronicle why, but also store the documents, so they are easily accessible to lenders and regulators. This is a compliance-centric enhancement.

Going forward, compliance, accuracy, and transparency will still remain the priorities; however, the balance between compliance and innovation will ideally be a 50/50 split.

Jobs for LOSs

The advent of non-traditional FinTech lenders and imagination-capturing products such as Quicken's Rocket Mortgage, have prompted some observers to question the future of LOSs. These new players and products will create new expectations from consumers, and raise the bar for traditional technology providers to provide enhanced offerings. However, when you look behind the curtain, these innovations handle only a portion of the process in the loan life cycle.

FinTech lenders appeal to Millennials due to ease of use at the beginning life cycle of a loan but the playing field evens up quickly at the underwriting stage. FinTech firms may experiment with new ways to qualify and underwrite loans but loans still need to be funded. At the end of the day, everyone (to and including the FinTech lenders) must still meet GSE underwriting standards.

Early adopters may be willing to give new players unfettered access to their personal accounts in return for less paperwork; however, the vast majority of homebuyers and owners are not there yet. By the time they are, these capabilities will be integrated into LOSs and into the consumer direct channels of traditional lenders.

Despite what the TV and online ads promise, many borrowers, based on their FICO scores and the complexity of their financial situations, will simply not qualify to utilize a Rocket Mortgage-type technology. Juggling early adopters and traditional borrowers will create challenges for FinTech lenders. They will need to offer two separate sales experiences: one for pristine, tech-savvy borrowers and one for everyone else.

Industry surveys continue to show a large percentage of homebuyers are more comfortable working with a LO rather than going alone online. The 2015 National Survey of Mortgage Originations, jointly sponsored by the Federal Housing Finance Agency and the Consumer Financial Protection Bureau, found that 70 percent of mortgage borrowers in 2013 used lenders/brokers “a lot” as a source of information. In addition, 77 percent of borrowers applied for a mortgage with a single lender or broker, instead of completing applications with multiple lenders or brokers.

Will this change over time? Probably. For the foreseeable future, the job of the LO and the mortgage broker appears to be safe. This is particularly true providing the LO continues to offer a high-level of customer service and differentiates themselves by focusing on non-perfect borrowers and non-vanilla lending programs/products.

As originators focus on these opportunities, this will create new jobs for LOSs and tech providers to complete. For example, they will look to product and pricing engines to source non-agency products allowing them to match these programs with their customers.

New technology for non-agency wholesale lenders already allows brokers to provide conditional approvals to their borrowers without having to send an entire package to the lender. This saves several days in the loan life cycle. Additionally, these loans are often more profitable for both lenders and brokers. Best of all, the LO is providing an opportunity for homeownership for unique borrowers that otherwise would have been denied.

The borrower experience, as we have seen, will take on greater importance. Younger borrowers will want to engage with their lenders throughout the origination process using their device of choice. Technological developments will play a major part in enabling this scenario.

The LO will need to ensure they are utilizing technology such as mobile applications, mobile pricing, and software allowing them to share updates with their borrowers or realtors at any given time. The LO will also want to focus on utilizing LOSs that are fully integrated with instantaneous verifications providers, such as The Work Number or FormFree, allowing reduction of time in the loan life cycle.

As vendors become more closely integrated in the LOSs, data integrity will continue to improve and advance the prospect of movement to truly paperless mortgages. This in turn will further enhance the customer experience, particularly the disclosure and closing processes.

LOSs are and will continue to be the hub of the mortgage origination process—connecting lenders with not just borrowers and vendors, but also regulators. True cloud-based computing (think: Microsoft Azure and Amazon AWS), not just today’s web-based solutions, will significantly expand end-to-end origination capabilities as well as workflow, loan review, and delivery options.

Over the past 25 years, the challenges and jobs within the mortgage industry have transformed dramatically. What has not transformed is our industry’s ability to resolve and respond with innovation to tackle the ever changing landscape of the mortgage industry. ❖

About The Author

Bob Dougherty is Vice President of Business Development at CalyxSoftware, a leading provider of comprehensive mortgage software solutions for banks, credit unions, mortgage bankers, wholesale and correspondent lenders and brokers. He can be reached at dougherty@calyxsoftware.com.