Process Improvement

So, What's Next?

PROGRESS in Lending is recognizing the top innovations to happen in the past year, but I wonder what the top innovations of this coming year will be.

By Tony Garritano

As we all know, PROGRESS in Lending was developed to be the place for thought leaders and visionaries to come together and share their ideas about how to revolutionize the mortgage industry. The Innovations Recognition Program is an extension of that goal. For the third year in a row, the PROGRESS in Lending Executive Team has come together to name the top industry innovations of the past 12 months. However, I'm not one that likes to look back. I want to look ahead. So, I began to wonder what the big innovations for this year will be that PROGRESS has the privilege of honoring next year.

To get some ideas, I turned to prominent industry experts to get their insight. First, I talked to Randy Schmidt, President at point-of-sale vendor Data-Vision, and he is very big on the impact mobile technology can have on mortgage lending over the course of the next year. "With the explosion of mobile computing, lenders really need to make more of their information and systems available online," he said.

"Consumers now expect to be able to research, apply, obtain loan information and communicate with their lender from anywhere at any time. But the benefits of moving online aren't limited to dealing only with consumers. With the ubiquity of Wi-Fi and wireless data," Schmidt continued, "lenders are beginning to equip their staff with laptops and tablets allowing them to work or meet with customers remotely."

In fact, research as spelled out in the 2013 "Bankers As Buyers" report put out by The William Mills Agency shows that mobile computing is beginning to catch on. Mobile banking is on the rise, now used by 33 percent of mobile consumers, up from 24 percent in 2011, the report says. Of the top 25 U.S. financial institutions by deposits, about half are offering mobile person-to-person (P2P) transfers and mobile remote deposit capabilities, a figure that has more than doubled since 2011, according to Javelin Strategy & Research. Javelin reported that mobile banking added 10 million more U.S. adults in the past year, as smartphone usage surpassed feature phones and tablet adoption surged to 21 percent.

Beyond any one technology being named a top innovation though, the biggest possible innovation may come in the form of a strategy that allows lenders to more easily navigate off of one technology that is outdated in favor of a more modern technology. "Just about every top 20 lender that I talk to has an old origination system that they are tied to," said Scott Stein, President and CEO at loan origination software (LOS) vendor Xetus. "If there was a way to move these large lenders to a new system in three or four quick and easy steps in order to unload the old origination system, that would be a huge innovation. Lenders want to do modifications, subordination, credit cards, auto lending, commercial, all in one system, but they can't seem to move off these older systems that are holding them back."

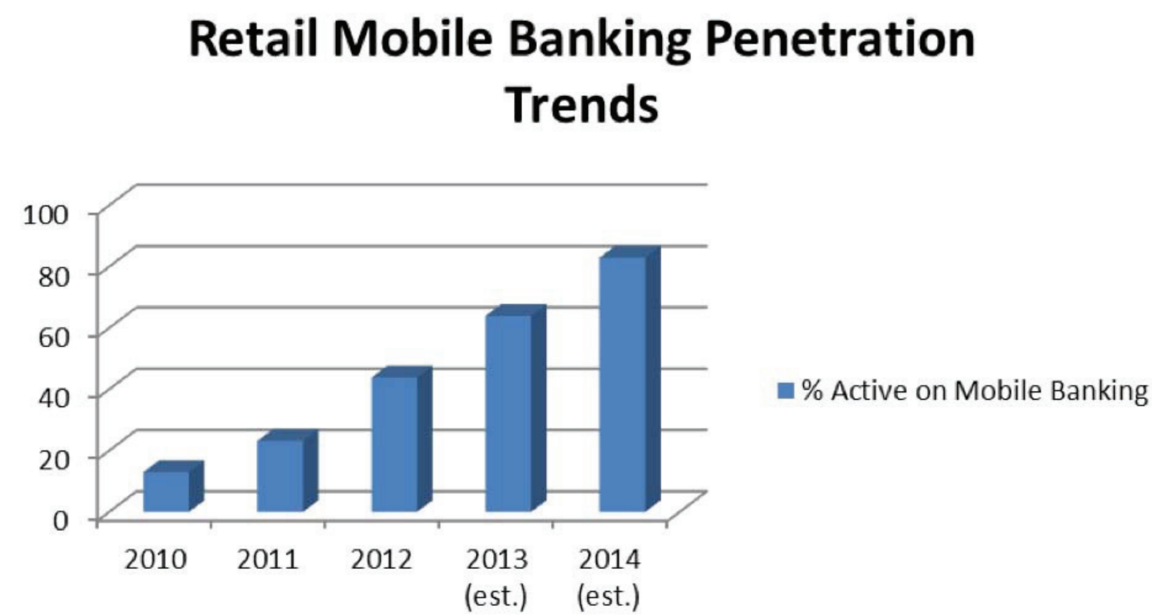
Simply put, as the mortgage industry and economy begin to recover, lenders are increasingly re-evaluating their technology options. According to a QuestSoft survey of 461 lenders nationwide last year, 18.7 percent of mortgage lenders are considering changing their LOS in the next 12 months. This is the highest percentage looking to switch in the six years QuestSoft has been conducting its annual survey.

"The biggest issue that lenders have is IT resources," said Stein. "The IT resources of the average lender are so focused on maintaining old systems in the face of new rules. Their IT folks are just swamped. Lenders can't even think about the next big innovation because they are so focused on keeping older systems compliant."

What is undeniable is that the need to maintain compliance is going to be driving innovation in the mortgage space literally for years to come. "The regulatory and rising interest rate environments will dictate how lenders will be investing their resources during the next 12 months," explained Marsha L. Williams, an attorney with Middleberg

Riddle & Gianna. “Lenders must invest in technology and resources to comply with the myriad of rules being issued by the Consumer Financial Protection Bureau. They must also implement guidelines and techniques for underwriting loans quickly, while determining the applicants’ ability to repay their loans within regulatory restrictions in order to stay ahead of the competition. A lender using technology which results in expeditious processing of loan applications within the regulatory thresholds will be successful.”

Another issue that lenders will be facing over the course of the next 12 months is a rising purchase market. The MBA predicts that refinance volume will fall from $1.2 trillion in 2012 to $785 billion this year, while purchase activity is slated to rise from $503 billion to $585 billion. What does this mean when it comes to predicting the next big industry innovation? It means that lenders are going to need technology to help them process a loan much faster and much cheaper because purchase business is more costly to originate as compared to doing refinances.



Source: IDC Financial Insights

“Twelve months from now, we’ll be poised at the very beginning of the longest sustained purchase-money market those of us lending today have ever experienced. No more periodic refinance waves, just the flat, calm sea of purchase activity stretching out to the limitless horizon,” pointed out Dan Green, Executive Vice President at Marketing at Mortgage Cadence, LLC. “Knowing this, lenders should spend their 2013 energies on three activities, the first of which is updated lending technology.

“A single, comprehensive system that manages a loan compliantly and paperlessly through the entire mortgage cycle is no longer optional and is essential for the second activity, which is focusing on productivity, efficiency and profitability. Closing home purchase loans takes longer and costs more than their refinance counterparts, so the ability to be efficient is now the key to thriving in the years ahead. The third has nothing to do with technology, since buying a surfboard doesn’t mean you can hang ten; instead, it has everything to do with strategy.

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“We have to learn and re-learn how to make loans to people who are buying homes by asking ourselves who our target is, where will we find them, how will we attract them, what products we will offer them, and what will we do to ensure we close their loan and retain them forever,” continued Green. “If we think about it, 2014 and beyond is uncharted territory where opportunity abounds for those who are prepared.”

Everyone I talked to agreed that lenders need to use technology in an innovative fashion to turn any uncertainty that the industry may face into solid success regardless. Dave Stricklen, Sales Direct at LOS PowerLender, distributed by ASC, put it this way when he said, “Most lenders agree that the mortgage market is growing. But as usual, they have no idea the rate, direction or duration of this growth. They harbor fears of being unprepared from both a technological and resource perspective and they don’t know how regulatory factors will impact this growth. Research by the Federal Reserve has confirmed that the burden of regulations falls disproportionately on smaller banks so lenders must invest in technology that provides them with great flexibility, embraces integration with best-of-breed providers and promotes efficiencies.

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“Lenders who prepare their operations to maximize efficiencies while remaining agile will be the ones best poised to take advantage of what may come in the next year,” noted Stricklen. “These technologies must be flexible enough to transition their lending operations from reactive to proactive. These technologies must partner with the best business, regulatory compliance and technology providers in order to leverage their expertise while minimizing costs. They need to be able to maximize their limited resources by relying on technology to do more and do it better.”

Interestingly, when you talk to lenders about future innovation, they agree with the various technology vendors that I talked to. For example, Churchill Mortgages’ Vice President of IT, Dan Jones, said, “Market conditions are still very good for refinances right now, so the biggest change (besides compliance) over the next year or two will be the need to shift new business to the emerging purchase market in order to sustain lending levels most have enjoyed over the last couple of years. There are some great places to innovate such as mobile technology, customer retention marketing solutions and improving business intelligence for a better look into the daily processes.

“Each of these should yield good results if done properly. The key over the next year is to invest in the solutions that couple affordability with the development of purchase business as well as revamp internal processes to support interaction with customers and Realtors in our ever-changing world of new technologies. Once the customer is in the pipeline, making sure your systems and processes are ready to handle the time-sensitive purchase business is going to be a major key to success.”

Daniel Jacobs, President of Retail Branching at Residential Finance Corporation (RFC), added, “Over the last five years, our industry’s technology has been focused primarily on compliance. Over the next year, originators need to focus keenly on what will enable them to best compete in a purchase-oriented market. The two areas to focus on will be CRM and consumer-facing electronic communications and interactions.

“Why do I say this? The CRM will help the originator leverage relationships for more referrals when the consumer-direct lead model wanes. And consumers have become accustom to electronically submitting documents, e-signature technology and real-time status updates and communications online and with mobile technology. Originators who refocus on their core referral and customer relationships leveraging technology will be able to adapt to a rising-rate, lean-margin, purchase-oriented market far better than those who do not,” concluded Jacobs.

The underlying message here is that innovation will happen because lenders are looking for smart technology that solves real business problems. ❖

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