The State of Innovation

The 2017 PROGRESS in Lending Innovations Award Winners talk about the future of mortgage lending.

EXECUTIVE INTERVIEW

Over 100 mortgage executives came together to attend PROGRESS in Lending Association's Seventh Annual Innovations Awards Event. We named the top innovations of the past twelve months. After that event, we wondered what would happen if we brought together executives from the winning companies to talk about mortgage technology innovation. Where do they see the state of innovation? And what innovation is it going to take to get our industry really going strong? To get these and other questions answered, we got the winning group together. In the end, here's what they said:

Q: Some say innovation has to be sweeping change. Others say innovation can be incremental change. How would you define innovation?

LEONARD RYAN: I would define innovation as more of a process improvement over current methods. Sometimes major breakthroughs happen after a lot of thought on process improvement. Today when we talk about innovation, it often means computer programs and their contribution to making the mortgage process faster, more secure, less complicated or instant. Thirty years ago an innovation was printing a 1003 on a laser printer. That would hardly qualify today since that is now an everyday process. In terms of your awards, it seems the more significant the process improvements, the more likely to be recognized.

REBECCA MAYERSON: No change in mortgage banking can be sweeping due to the layers of regulation and compliance by federal, state, GSE, and big banks. So innovation must be incremental due to the risk/reward.

TIM ANDERSON: Incremental. Because the mortgage business is a highly regulated one consisting of a multitude of participants each adding a step and receiving their cut of revenue to get from point A to Z it is a hard business to affect sweeping change. Still too many players, steps touching too many different disparate systems in the process to affect sweeping change or significant impact by itself. Because of this I don't see a company developing something like the iPhone coming into the mortgage space with a whole new app or mobile device that is singularly going to revolutionize this business.

The GSE's because of their critical role in financing and market share (aggregator) have been the ones to affect real change in this business. If you look at their Uniform Mortgage Data Program, (UMDP) it's a phased in approach at developing systems to better evaluate critical data elements to reduce risk. They moved the traditional post-closing pre-funding QC process to pre-closing QC and leveraging their new technology and regs like TRID (with three day delivery rule) to support this trend. Also because the mortgage process has very distinct processes with siloed departments dedicated to the mortgage manufacturing process, (POS, origination, processing, underwriting, closing, secondary marketing, servicing) each re-entering the same data that introduces a lot of steps, divisions, (overhead, operational costs and risk) vendor players and participants all have to agree to change their processes and automate to affect real change and ROI in this business.

CURT TEGELER: Innovation can be both sweeping and incremental. Innovation must be persistent and a mindset. It is a necessity to remain relevant in any industry and to enhance the products and services we offer. This involves implementing new strategic ideas, creating dynamic products and improving existing services. In having an innovative approach, you are increasing the probability of success and development in your business.

CRAIG ZIELAZNY: Innovation is creating an impactful solution to a problem. The innovation process can't be boiled down to just listening to customers, though. Only through continuous and meaningful engagement can you identify real problems and execute effective solutions. It doesn't become an innovation until the unmet need has been overcome by an appropriate and well-executed solution. Rarely is innovation the product of an individual person experiencing an "aha" moment. Ideas are easy, execution is hard and it is what makes any idea tangible.

RICK TRIOLA: I think we all want sweeping change that solves problems quickly and delivers on the promises technologists have made and that consumers all want, but unfortunately we don't see that, at least not in our industry. Most innovation fails because it never gets to the end user because the innovation can't get passed through all the gatekeepers and entrenched stakeholders.

For example, the mortgage industry had the opportunity to adopt eSignatures as soon as the Federal ESign Act was signed into law in June 2000. Instead of leapfrogging over the antiquated paper processes and skipping a generation by heading directly to digital lending, too

With millennials becoming a large percentage of homebuyers, being able to complete the mortgage process online is important.

— Curt Tegeler
WebMax

From the lender's perspective, we desperately need technologies that will reduce their costs and increase their profits in an environment with tightening margins.

— Rick Triola
NotaryCamized

Only through continuous and meaningful engagement can you identify real problems and execute effective solutions.

— Craig Zielazny
Mercury Network

many players decided to invest instead in scanning and faxing devices and processes. Borrowers, buyers, sellers — everyone — would have loved the opportunity to just eSign instead of papering out and couriering documents all over the place, but instead our industry took more than a decade to move in the right direction.

We wish innovation would sweep down on our industry quickly, but the extensive eco-system here combined with and entrenched and outdated status quo results in new innovators being forced to 'stand down' while the industry accepts incremental change.

JOHN VONG: In other industries, change and innovation can happen simultaneously and dramatically. However, because the mortgage origination process is very complex, innovation in our industry tends to be more incremental and less sweeping. Take, for example, e-mortgages. As an industry, we've been talking about doing e-mortgages since 2000. It's seventeen years later and less than one percent of originations are e-mortgages. One of the key reasons for this was that there were differing and competing priorities from parties within the mortgage origination and closing ecosystem including lenders, investors, warehouse banks, county recorders, notaries, and GSEs, among others, and not everyone was on the same page about digitization. Customized closing processes throughout the country is another impediment to innovation. Finally, the average borrower gets a new mortgage or a refinance infrequently compared to other common financial transactions, so they are willing (or at least have been in the past) to put up with inefficiency and inconvenience.

Q: How would you define the state of innovation in the mortgage industry? Is it thriving or in a state of decay?

CURT TEGELER: Innovation in the mortgage industry is stronger than ever. The industry is so far behind in technology innovation that it can only advance from here. There are countless opportunities to embrace innovation and the industry is becoming more and more digital. Every phase of the mortgage process is evolving, from the consumer experience to the lender experience.

CRAIG ZIELAZNY: As is the case in all industries, there are firms which innovate and those that don't but rather choose to follow. The firms which continually innovate maintain close ties with their clients and the market, always searching for a better way to do something or to solve a seemingly unsolvable problem. The state of a firm's innovation status is largely a function of the culture and the value placed on listening to clients and doing the math to unearth needs which are not clearly identified by the client.

RICK TRIOLA: Despite the fact that I feel our industry moves too slowly in general, we're actually at a very exciting place right now. While we had the technology to do end-to-end digital lending a decade ago, lenders weren't ready and consumers weren't pushing for it. Today, consumers are ready at the same time investors and regulators are pushing for it. Even loan officers we're talking to are excited about doing digital.

And they want to share all of the benefits of digital with borrowers, that means closing the loan from anywhere. We know this is possible because we have now completed tens of thousands of online notarizations and cracked the code around the 'last mile' friction of having to appear in person.

I believe that over the next few years, we'll see a great influx of lenders moving into fully digital lending and realizing cost and time savings at the same time they offer better experiences to consumers. In 5 years, no one will deliver a mortgage on paper.

TIM ANDERSON: I think now that we have gotten past TRID this has freed up resources and initiatives to implement some change and innovation. I give Quicken Loans a lot of credit as well because everyone now wants their version of Rocket Mortgage and push to better qualify and verify the loan quicker and faster with initiatives like FannieMae's

Both traditional and FinTech lenders are going to have to find ways to qualify non-perfect borrowers and do so in a more digital fashion.

— John Vong
ComplianceEase

No change in mortgage banking can be sweeping due to the layers of regulation and compliance by federal, state, GSE, and big banks.

— Rebecca Mayerson
Mortgage Network

Innovation in the mortgage industry is "making a comeback." The mortgage crisis and subsequent regulations forced vendors with traditional products to spend resources.

— Leonard Ryan
QuestSoft

Day One Certainty initiative and FreddieMac's Loan Quality Advisor tools to streamline the process. We are also seeing a major rise in finally implementing the Digital Mortgage and eClosings to complete the eProcess and deliver not only a better consumer experience but a replicatable, repeatable automated QC process that provides electronic evidence of compliance along the way.

REBECCA MAYERSON: Innovation is at the highest level in over a decade and surging. The need to lower expenses while improving the process for the customer while still protecting risk is driving innovation at a high speed.

LEONARD RYAN: Innovation in the mortgage industry is "making a comeback." The mortgage crisis and subsequent regulations forced vendors with traditional products to spend resources on implementing those regulations. Only new companies or entrepreneurial minds during those times seemed able to develop substantial changes in process. However, I now see the start of vendors looking to make substantial changes to the process. I believe most of those changes will result in vastly reduced lender costs.

JOHN VONG: From the perspective of a technology provider, it's thriving. Every loan origination system and service provider is enhancing its technology or developing new solutions.

From the lender perspective, however, cyclicality trumps innovation. When the rates are low and demand is high, lenders are often too busy to focus on technology and innovation. Instead they throw bodies at the problem. When volume declines, there is often a reluctance to invest. Instead, loan production is the top priority. That's why it takes the mortgage industry a longer time to adopt or upgrade technology than other financial services sectors.

Of course, over the last few years, the risk management and compliance areas are an exception because lenders have more of an incentive to protect their companies from regulatory scrutiny after the meltdown.

Q: Lastly, if there was one innovation that you would say the mortgage industry desperately needs to happen over the next twelve months, what would it be?

The GSE's because of their critical role in financing and market share (aggregator) have been the ones to affect real change in this business.

— Tim Anderson
DocMagic

REBECCA MAYERSON: Any of the Day One certainty steps that would allow All investors beyond Fannie to accept would be great for our industry.

TIM ANDERSON: A closing collaboration system that exchanges the data between the title system of record and lenders not only for TRID or final CD but the upcoming Uniform Closing Dataset (UCD) requirement coming September 25th. Most lenders look at these as separate compliance initiatives but the proper collaboration should start at time of application with the initial Loan Estimate, automatically check for compliance tolerances anytime the data or disclosures change, conduct a final reconciliation and comparison three days prior to Closing Disclosure and keep tracking 90 days after closing of any changes. This should not only include the CD but all the closing documents and then once approved be able to do a full eClosing to ensure data and document quality, integrity and compliance.

CURT TEGELER: Digital mortgages are significant for the mortgage industry. With millennials becoming a large percentage of homebuyers, being able to complete the mortgage process online is important. Bringing the lifecycle of the process from a lead to a buyer is crucial. Essentially, Realtors should have the ability to advertise and turn leads into homebuyers and borrowers digitally. Even a hybrid approach where the front-end process becomes digitized is a step in the right direction. With procedures and an evolving industry ahead of us, the ability to be move quickly is critical to long-term success, and this is done through being digital.

CRAIG ZIELAZNY: Ball games are rarely won because of home runs… It's the team that strings together singles and doubles that will win. Our industry is no different. Each innovation will contribute to the overall improvement of the industry and the benefits delivered to the various members. If we listen to our customers and probe for a deeper understanding, we will all become innovators and help move the industry forward.

JOHN VONG: The existing traditional origination process is not geared to cater to Millennials, who have different expectations and are more tech savvy than previous generations. They don't want to spend ninety days to get a mortgage with a traditional loan officer. Millennials want to go to online, fill out their basic information, and get instant decisioning, as well as shop for competitive rates. Traditional lenders need to significantly rethink the customer experience they offer if they want to be relevant to this growing customer segment. Moreover, both traditional and FinTech lenders are going to have to find ways to qualify non-perfect borrowers and do so in a more digital fashion.

RICK TRIOLA: From the lender's perspective, we desperately need technologies that will reduce their costs and increase their profits in an environment with tightening margins. At the same time, they need tools that will help them compete more effectively as rates rise, refinances disappear and competition heats up.

There has never been a better time to adopt technology that will answer these needs. In my mind, it's going to be all about online closings, anytime from anywhere, which exactly what eClose360 offers. In fact, we just ran the numbers for a new client and found that using the eClose360 platform would add $18 million in bottom line profits over the next 12 months. That's the kind of innovation lenders need now. ❖