FINANCIAL SERVICES | EBOOK

THE TECH REVOLUTION IN MORTGAGE SERVICING

Leveraging innovation to avert the next housing crisis

Hyland

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Introduction

The housing industry was hit hard by the Great Recession in 2008, and it hasn't been easy for mortgage servicers to navigate the complex regulatory and economic climate that emerged in the aftermath.

A decade later, overall recovery is still uneven, and some experts see trouble brewing. "Sound economic growth in the U.S. is not possible without a robust residential real estate market. And housing has been anything but robust this past year," warned Bernard Baumohl, chief global economist at The Economic Outlook Group, citing a housing sector squeezed by both supply and demand factors.

But there is good news. The sweeping changes from the housing crisis left the door wide open for new (and more effective) ways of doing things, and mortgage servicers who are adopting digital tools and innovations are seeing more growth opportunities than ever before. According to Ellie Mae executive vice president Joe Tyrell, "This new generation of homebuyers is more diverse and better educated than ever before, so they expect both high-performance technology and automation, along with increased personalized contact with their lenders."

Indeed, a new Deloitte global consumer survey on digital banking noted that 23 percent of consumers in the U.S. use online banking to apply for home equity or mortgage top-up loans — and another 23 percent for mortgage and mortgage refinance. In addition, 45 percent of respondents said they would use online banking more if it allowed them to submit esignatures and complete entire applications online.

Driven by a younger generation of homebuyers who demand better performance from all their service providers, traditional lending is now seen as a commodity. Instead, mortgage servicing is evolving from a **process-centric and legalistic** experience to a more **human-oriented and personalized** experience.

According to an Oliver Wyman report on this new age in mortgage, "The winners in the current environment will be the ones that leverage technology to work both sides of the equation — consumer-facing and internal operations — to stand out from the crowd."

To stay competitive, mortgage servicers need to understand how the marketplace has shifted, as well as the business imperative to improve customer relationships.

DEMAND

The rate of household formation is below the long-term trend, despite rock-bottom mortgage rates, and debt-burdened millennials are showing less interest in homeownership.

SUPPLY

Builders, too, face challenges like new steel tariffs and regulations that account for a quarter of the cost of home construction.

Part 1:
The post-recession reality

The mortgage servicing industry has struggled with two major pains since the Great Recession.

1

INCREASING OPERATIONAL EXPENSES

Servicing costs have skyrocketed for both performing and non-performing loans, increasing by 181 percent and 369 percent, respectively. In fact, it now runs mortgage servicers an average of $2,200 to service a loan from a delinquent borrower.

It's worth noting that more than half the cost of servicing a loan is due to personnel overhead, which is necessary to handle the increase in business processes that involve large volumes of paperwork and back-and-forth communication.

2

CHANGING BORROWER EXPECTATIONS

Today's tech savvier ***customers are more curious, more impatient and more demanding*** of their service providers. According to research by the STRATMOR Group, quicker processes and a commitment to a timeline are the most likely factors in boosting a mortgage servicer's net promoter score (NPS), which is associated with high customer satisfaction and increased likelihood that a borrower will come back for the next purchase or refinance.

Consumer behavior has also changed. Whereas the home purchase process was once owned entirely by agents, the National Association of Realtors reports that these days only 17 percent of homebuyers contact an agent first — 42 percent opt for independent online research, across all age groups.

Borrowers are focused on "the now," personalized services and the ability to research and comparison shop. They expect to seamlessly interact with businesses via multiple channels, including text, email, chatbot and phone.

In response, new and innovative digital services to improve the housing industry are flourishing.

THE NEW LANDSCAPE OF REAL-ESTATE TECH

Homebuying has evolved in the digital age, with a slew of services and tools to improve process and customer channels. While navigating the new landscape can be daunting, the list below illustrates just how many opportunities are up for grabs as companies in the real estate industry embrace the tech revolution.

MORTGAGE AND LENDING
Morty, Blend, Lendinvest, Loandepot, Habito, Lenda, Divvy, Path of Land, Loandolphin, Roostify, Uno, Trussle, Mortgagehippo, Maxwell, Approved, Clara, Loftium, CloudVirga, Credit Sesame

PROPERTY MANAGEMENT AND LEASING
Cozy, Rentalutions, Naborly, Tenant Turner, CASTLE, MYND, Goodlord, Onerent, Domuso, Rentify, OpenRent, Rhino, Jetty, Tenant Cloud

BROKERAGE
Compass, Triplemint, Housesimple, Reali, Settled, Houwzer, Emoov, Home61

MARKETING
Matterport, RealVision, HouseLens

INVESTMENT AND CROWDFUNDING
PeerStreet, Homeunion, Property Partner, POINT, Alphaflow, Bricklane.com

DATA VALUATION AND ANALYTICS
HouseCanary, Mashvisor, ClosingCorp, Citybldr, Remine, MeilleursAgents

TITLE AND CLOSING
States Title, SafeChain, JetClosing, SPRUCE, Qualia

DIRECT HOME BUYING
Opendoor, Offerpad, Knock, Nested, Homie

AGENT MATCHING
HomeLight, Vast, OPCITY, Ratemyagent

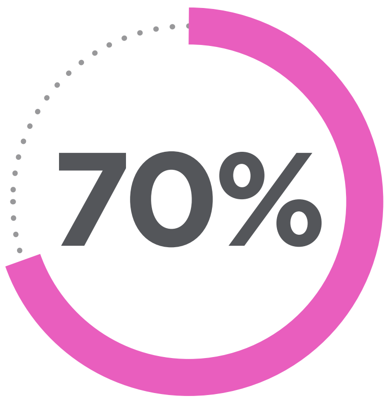
AGENT TOOLS
Dynasty, Smartzip, RealScout, Firepoint, Placester, Amitree, Riley, HomeSpotter, Adwerx, Agentology

LIST AND SEARCH SERVICES
EasyProperty, Zumper, Bayut, Properati, Open Listings, Roomi, Homesnap, ZipMatch, Apartmentlist, Nextpick, 99.co, Settled, LoftSmart, Flip, Rentberry, Casalova

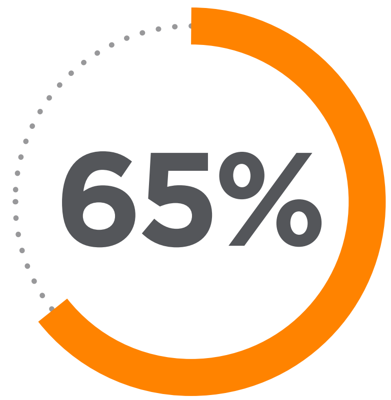
Part 2:
Customer service is the future

In this omni-connected era, consumers are more willing and able to make their voices heard and hold businesses more accountable for performance. In this environment, the quality of customer service will separate industry leaders from the rest of the pack.

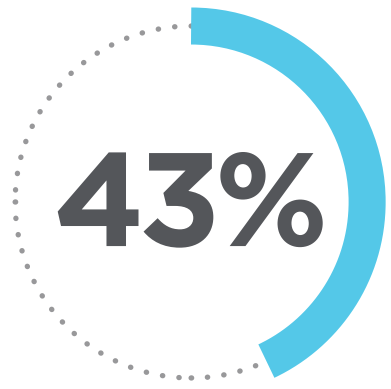
Studies, such as one conducted by NewVoiceMedia, show that in response to better customer service:



of customers would be more loyal

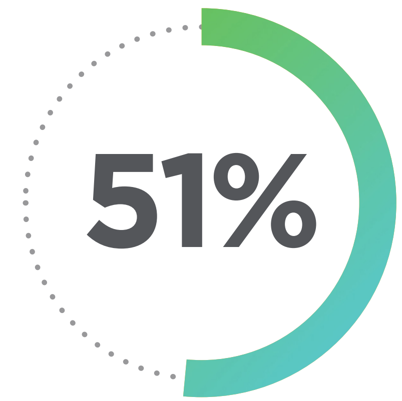


would recommend the business to others



would use the service more often

By contrast,



of customers say they would never return to a company after experiencing bad service

By focusing on customer satisfaction, mortgage servicers can become trusted advisors in the home-buying process and reap the rewards of higher retention and loyalty.

THE BUSINESS CASE FOR CUSTOMER SERVICE

According to The Money Source, the average cost of acquiring a new customer acquisition is a staggering **$3,500**. Meanwhile, servicer retention rates have hit a 10-year low, with servicers losing business from nearly 80 percent of their borrowers — an estimated **$400,000+** in missed revenue per customer, according to Black Knight.

Great customer service, however, can increase retention and lower marketing and customer acquisition costs.

9% of borrowers return to their originator, according to the Mortgage Bankers Association

>> Result: Increased customer satisfaction means upsell and cross-sell opportunities

Bain & Company reported a 5% increase in customer retention can return a 25 to 90% increase in profit

>> Result: Increased customer retention means more revenue that can be reinvested into the business

A STRATMOR Group survey revealed a high NPS score of 83 can yield a 19.3% increase — an additional 16 borrowers — in a servicing portfolio

>> Result: Keeping customers happy drives new business and helps mortgage servicers stay competitive

BOTTOM LINE: According to NewVoiceMedia, businesses are losing $62 billion every year due to poor customer service — up more than $20 billion since 2013. Investing in great customer service could be the key to averting another housing crisis.

HOW DIGITIZATION DRIVES MARKET COMPETITIVENESS AND BUSINESS

Digitization >> Faster processes and streamlined workflows >> Increased customer satisfaction and loyalty >> Business growth

=

- Reduced costs of marketing
- Improved brand
- Higher retention and repeat business
- Better cross-sell and upsell opportunities
- More referrals

Part 3:
Moving ‘beyond the loan’

The future of homebuying is moving toward an Amazon.com model — a one-stop shop for information and buying and selling services.

Fortunately, mortgage servicers are uniquely positioned to take advantage of these new growth opportunities.

To help prevent delinquency and default post-Recession, regulators created processes and systems that drove servicers to become the single point of contact for borrowers. This new position is a powerful one: it allows the industry to own a more personal relationship with home loan customers, stemming portfolio runoff and generating more leads on the loan origination side. For instance, servicers would be in a first-to-know position about borrower interest in a new home equity loan.

> *To stay relevant and competitive now that customers have the ability to shop for and obtain a loan on their own, mortgage servicers must move "beyond the loan" and add more value to borrowers.*

Leveraging technology is the most effective way to maintain and improve ongoing relationships with borrowers. Esignatures and compliance checkers can reduce the burden of administrative duties. Property appraisals are going digital with the rise of public-record integration, mobile inspection apps and data analytics. Mortgage companies are also reaping the rewards of software and service integrations, which streamline processes and reduce errors and duplicate data entry.

NEW OPPORTUNITIES FOR THE DIGITAL CUSTOMER'S JOURNEY

According to Home Captain Realty, a technology-enabled real estate platform

Customer Journey

> Decide to buy a home

START
Assess options

- Mortgage Portal

> Research mortgages on the internet
> Determine budget and location

DISCOVER
Define needs

- Data Warehouse
- Enterprise Architecture

> Engage a real estate agent
> Search for a home
> Shop for a mortgage

SELECT
Pick partners

- Point of Sale (POS)
- Scenario Builder
- Pricing Engine

> Get pre-qualified
> Make an offer
> Sign contracts

INITIATE
Pick a home

- Chat
- Portals
- Point of Sale (POS)
- Edisclosures/ Esign

> Apply for the mortgage
> Submit all documents
> Respond to all information requests

VERIFY
ID, data and documents

- Data Aggregation
- Document Management
- Origination System (LOS)
- Scanning/ OCR

> Get loan approval
> Close and get keys

PURCHASE
Completion

- Closing Collaboration
- Eclosing
- Data Quality

> Move in

FINISH
Move

- Servicing System
- Eregistration
- Online Payments

Opportunity

Part 4:

Leveraging digitization and automation to achieve a competitive edge

More than anything, satisfying today's borrower means offering faster performance and speedier transaction times. A modern mortgage company needs speed and accuracy — and digitization and automation provide both.

There are benefits for servicers, too. After an initial investment, technology adoption lowers operational costs and increases business potential. Streamlining transaction pain points can eliminate a host of inefficiencies caused by business processes that rely heavily on physical paperwork, ultimately helping companies achieve an edge over the competition.

Myriad digital improvements to mortgage servicing workflows can be made, including:

- Putting legacy (i.e. paper) borrower solicitation packets online or in digital form for quicker approvals and communication
- Allowing customers to link their accounts and pay stubs
- Tying borrower account information to loss mitigation to increase efficiencies
- Leveraging optical character recognition (OCR) and machine learning to detect fraud and speed up processing times of non-uniform pay stubs
- Making it possible to do on-demand appraisals

MAJOR CHALLENGES FOR HOMEBUYERS

The majority of borrowers agree: more automation, please.

Biggest Challenges	Buyers
>> Finding the right property	54%
>> Paperwork	22%
>> Understanding the process	16%
>> Getting a mortgage	9%
>> Appraisal of the property	5%
>> Potential for integration/automation	**52%**

Part 5:

A digital solution for the industry’s pains

Many mortgage companies struggle with inefficient business processes. They lack the ability to onboard incoming mortgage packages automatically, and loan documents must be read, separated and routed accurately with tedious, manual effort.

One solution is a robust content services platform that can electronically process incoming documents — even in bulk — and then digitize, classify and accurately capture that data, creating a complete document package to deliver to the servicer.

This technology allows mortgage loan officers to safely and securely store loan information, handle exceptions and route documents to the archive or another system for further processing.

THE RESULTS WITH CONTENT SERVICES

- Improved data and loan package accuracy
- Faster processing and approval times
- Significantly lower overall processing cost per loan (even for non-performing loans)
- Better compliance and risk management
- Higher customer retention and satisfaction
- Fewer lost business opportunities

ONBASE FOR MORTGAGE SERVICING

A content services solution like the OnBase enterprise information platform from Hyland can help increase efficiency and customer satisfaction while lowering processing costs.

Industry Pains	Digital Solution	OnBase Features
Mortgage and loan documents are lengthy and complex, and processing them is slow and inefficient; bulk imports are often poorly organized and in various formats	Streamline processes and set up automated workflows to manage the information flow	Automated document processing systems utilize machine learning and intelligent capture to process large volumes of documents accurately and quickly, classifying and extracting information accordingly
High potential of errors when importing or transferring data into internal systems and workflows; a manual and labor intensive process for verification	Create digital checklists and automated processes to verify information as it's imported	Validation processes that reduce the likelihood of human error and can also highlight exceptions and unexpected inputs for manual review
Stricter regulatory environment demands greater accuracy for compliance—a labor intensive process	Institute automated workflows with multiple checks and reviews to ensure no mistakes	Systems that ensure data that's entered meets specified regulations and is stored indefinitely without errors or loss of information
Slow and complex loan processes that frustrate customers	Use automation to speed up loan processing and communicate with customers in a timely manner	Automated workflows to encourage speed, and allows digital data to easily be transformed and represented in a customer-facing form as vitally useful information

Conclusion

Mortgage servicers who embrace digital transformation and leverage technology to build stronger customer relationships will gain an edge over the competition.

Digital solutions like OnBase can make the entire loan process less cumbersome and help mortgage companies gain a deeper understanding of their customers, fueling better business decision-making as the housing industry moves to a one-stop, end-to-end shop.

Hyland®

Learn more at **Hyland.com/FinancialServices**

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