



MORTGAGING THE FUTURE WITH DIGITAL

Abstract

As the mortgage industry emerges from the shocks and surprises of the COVID-19 pandemic, it finds itself gradually transformed by having had to adopt more digitalised ways of business to cope with the new normal. This point of view traces the causative factors and effects of these changes, examines evolving trends, and predicts the future direction of the industry's ongoing digital transformation.

Out of the blue, and sparing none

The Covid-19 pandemic has left no industry unimpacted, having completely disrupted the old normal that existed prior to 2020. In fact, as Suphachai Chearavanont, CEO, CP Group wrote in an opinion piece for the World Economic Forum recently, "COVID-19 has presented one of the most formidable challenges in recent history to governments, businesses, and society. The pandemic is a wake-up call for companies to have a plan to deal with disruptions to ensure business continuity".¹

While 2020 has been a volatile, unpredictable, difficult and a very challenging year for most businesses, yet, despite all the challenges, it has still driven positive change for a few industries, mortgage being one of them.

¹<https://www.weforum.org/agenda/2020/08/how-digitization-and-innovation-can-make-the-post-covid-world-a-better-place/>



A surprising impact

The impact of COVID-19 was surprisingly positive for homebuyers across the globe. The mortgage industry in the US especially saw a steep increase in the number of people buying new homes. The likely reason behind this rise can be attributed to mortgage interest rates which fell to all-time historic lows in 2020, making it feasible and attractive for many buyers to apply for home loans.

Thus, despite the other ill-effects of the pandemic, many Americans became new homeowners in 2020. And as the interest rate continued to fall to decade-low values in 2021, the number of homes sold in the US economy also continued to witness a steep rise.

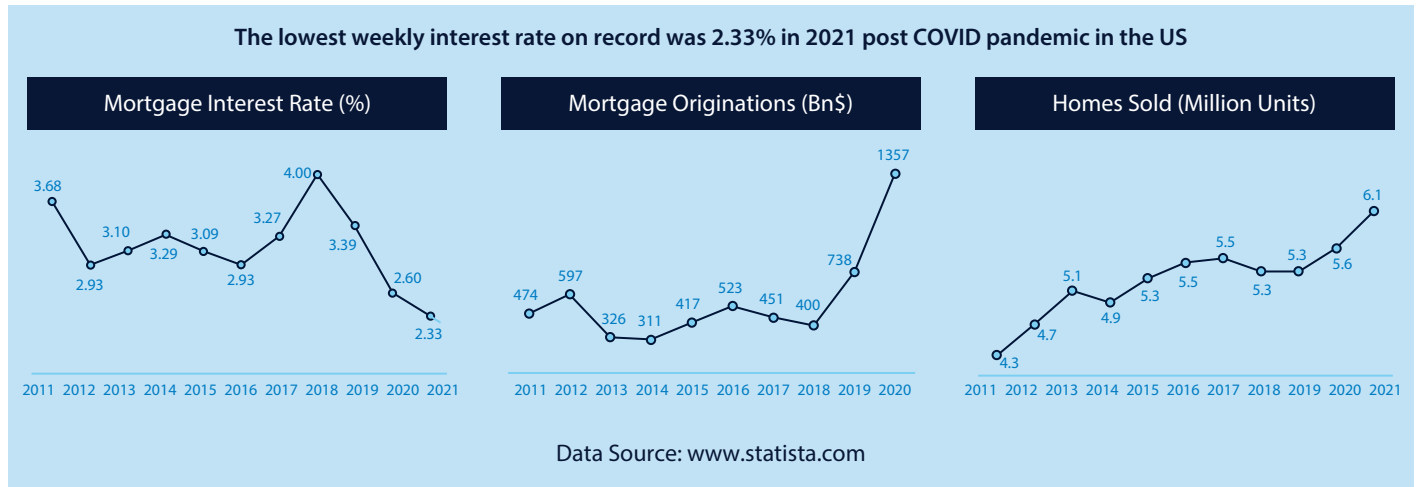


Fig 1: Impact of COVID-19 outbreak on the US mortgage industry

And a transformation enforced

Before the pandemic struck, loan originators were utilising labor-intensive, repetitive and dreary processes for loan fulfillment and servicing. Even though there was the potential to automate over 50% of the tasks across these processes, many lenders either weren't ready or brave enough to go in for transformation. As a result, the industry faced several challenges in fulfilling and servicing loans, as depicted in the graphic below.



Fig 2: Industrial challenges with absence of digital transformation

The failure by the loan originators to transform their legacy processes led to delayed loan cycle times in the face of the increasing demand, which they were unable to cope with. Additionally, lenders had to quickly adjust to and even embrace the idea of a remote workforce. At the same time however, due to the pandemic-influenced lockdowns and social distancing mandates, borrowers could not easily travel to banks and other financial institutions to expedite their applications or resolve queries.

Thus, the pandemic disrupted the mortgage industry's usual ways of working

and left banks and other lenders with no choice but to review their processes for transformational opportunities, re-engineering possibilities, and business model changes.

Further, while the COVID-era imposed new requirements on collateral and valuation options, yet consumers quickly adapted to digital ways of doing business with little to no handholding. Rather, through using online communication portals and business process automation, consumers had the opportunity to help themselves faster with the new channels enabling them to easily clarify their questions

whenever necessary.

Analysing all these factors, it can be concluded that the pandemic in some sense forced the lenders in the US to recognise the importance of digitalisation and how it could help them meet customer demand, deliver great experience, and reduce operating costs. In particular, the below factors were majorly responsible and made way for the lenders to get ready for their transformational journey.

A difficult road to traverse

Despite all the positives, it was also not an easy road for lenders to suddenly and completely overhaul their business models. There were several factors that had always been hurdles for any financial institutions considering transformation. Thus, although Big Data and smart automation were being discussed in the industry for over a decade, little headway had actually been made for long in terms of implementations and

results.

The major factors of hurdles includes Regulatory Compliance Constraints, Integration with Existing systems, Security Concerns, Cost/ Investment, Competing Priorities, Time/ resources, Training Staff.

Today, even as the industry continues to urgently seek transformative solutions that can address their unique challenges, some

emerging digital technologies appear to be able to completely transform the process of mortgaging from a cumbersome and time-consuming affair into a delightful customer-centric experience.

Myriad opportunities for transformation

Intelligent mobile and cloud-based apps, predictive data analytics, machine learning (ML), artificial intelligence, and robotic process automation (RPA) are some of the digital technologies powering the digital transformation of the mortgage industry. Here are some of the ways they can be used to drive change:

- RPA and AI-driven solutions leveraging data science and domain expertise can accelerate the process of predictive underwriting, including ML and NLP levers
- Mobile apps enabled with imaging and voice capabilities can help field agents capture data and update backend systems seamlessly
- Digital document management and blockchain-based smart contracts can reduce the burdens of manual paperwork and verification processes
- Intelligent chatbots can engage borrowers through asking relevant questions and giving contextual answers
- Digital analytics dashboards can provide visual, easy-to-consume information related to payment gateways, accounting data, and account management

Connecting the dots

With next-generation lenders gradually introducing more-efficient digital platforms, mortgage trends are constantly evolving, especially when it comes to technology. Below are a few that are growing fast and expected to be prevalent in the coming years:

- Interest rates are now steadily climbing toward pre-pandemic levels
- Automation innovation is on the rise with 91% of banking and lending

executives strongly believing that customer expectations for a robust digital mortgage experience are rising due to the pandemic.²

- Partnership and mergers with FinTech companies – as well as their acquisitions – continue at a fast pace as the market tightens
- Blockchains are transforming the way borrowers buy properties, and how lenders take decisions, disburse funds,

and service loans

- Global delivery models are making applications accessible across offshore and onshore locations
- Lenders are using artificial intelligence and machine learning for data analysis, data extraction and validations, credit decisions, and in regulatory requirements making the process of obtaining a mortgage easier and smoother

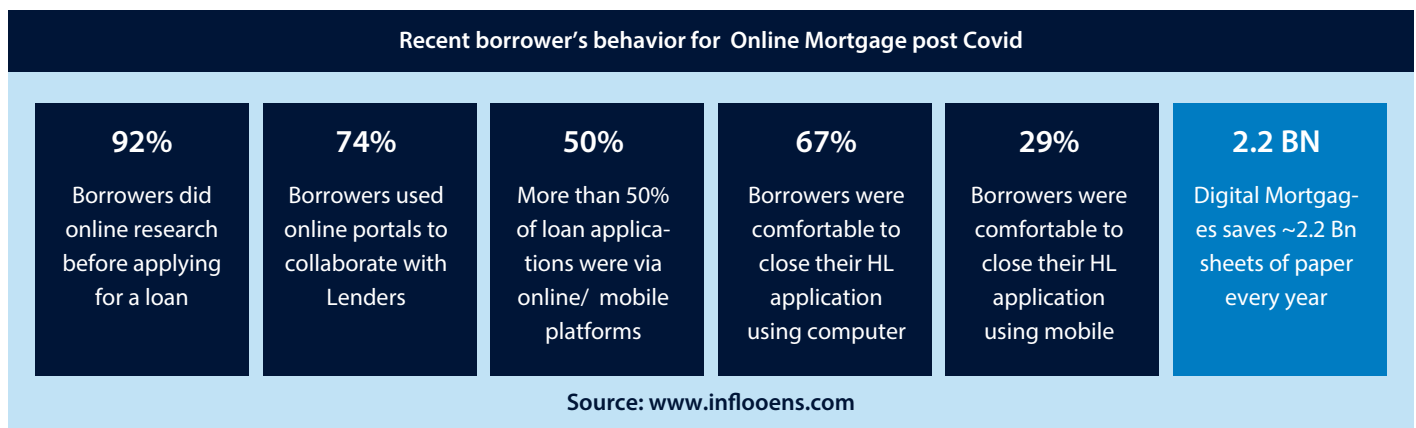


Fig 3: Borrower behavior towards mortgage post digitalisation

The bottom-line: the future of mortgages is digital

With the increasing adoption of digital, the industry is witnessing a slew of technology-driven transformations such as the ability to offer integrated home buying experiences, virtual loan officers and digital assistants, as well as fully digitalised mortgage platforms. The way companies are processing mortgages too is undergoing a sea change with several adopting modern marketing techniques, remote workforces, newer underwriting models, online reviews, and automated data collection and follow-ups.

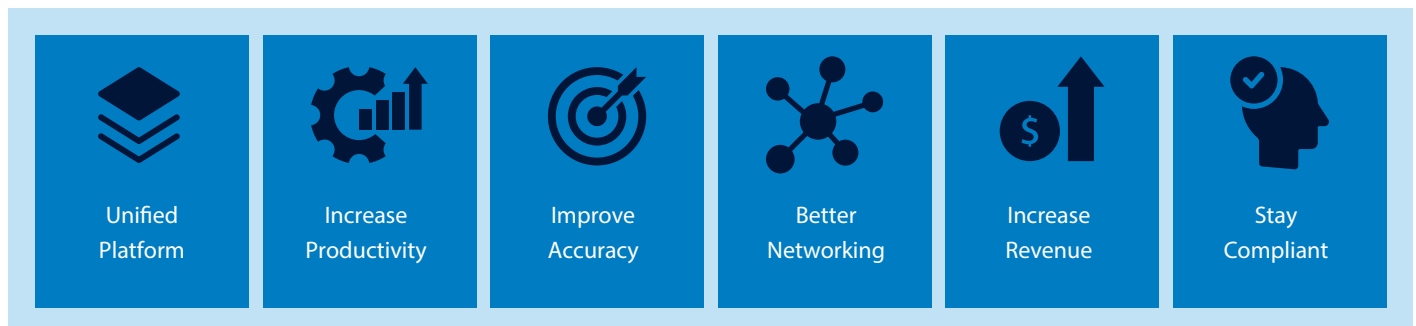


Fig 4: Motives for lenders to invest in digitalisation

²<https://www.evoketechnologies.com/lp/digital-transformation-mortgage>

As companies experience the manifold benefits of these changes, technology adoption will continue to rise. There will be a steady rise in refinance mortgages, increase in home equity accounts (HELOC), and house purchase costs will decrease. There will also be an increase in recasting options for borrowers, steady and normal new loan originations, and more layoffs

in lender's capacity. Digital technologies will also drive an increase in third-party lending channels, brokerage channels, and mortgage insurance.

Thus, the future of mortgage industry involves a focus on customer service through digitalisation initiatives that enable user friendly experiences. As depicted in the graphic below, cutting-

edge digital technologies will empower several mortgage processes right from information research to loan servicing. The main benefits these transformed processes will deliver include speed, transparency, security, and convenience for both the lenders as well as the borrowers.

INDUSTRY INFORMATION	ORIGINATION	PROCESSING	UNDERWRITING	CLOSING	POST CLOSING	SECONDARY MARKET	LOAN SERVICING
<ul style="list-style-type: none"> Real Estate Listings Value Analytics Mortgage Affordability calculations Product and Rate comparison 	<ul style="list-style-type: none"> Automated Pre-Qualification Self-Service Multi platform applications Integrated and Automated Insurance Pricing 	<ul style="list-style-type: none"> Instant Credit pull Day1 Certainty (Income, Asset, Employment verification thru API) Automated Pre-close Audit 	<ul style="list-style-type: none"> Real-time Automated Risk Decisioning Property Valuation tool Ratio Calculators 	<ul style="list-style-type: none"> E-Mortgage E-Notes E-Signatures E-Vault 	<ul style="list-style-type: none"> Digital Imaging and Shipping Document Tracking, Retention and Retrieval Online access to Accounts Automated PC audits 	<ul style="list-style-type: none"> Automated linkage to Investors platform Day1 Certainty (Rep & Warrant Relief) 	<ul style="list-style-type: none"> Multi Channel Account Access Real-time Account Status Pro-Active Outreach and Service Offerings
<ul style="list-style-type: none"> Front-end platform modernization Workflow management Document extraction and management Title Verification 			<ul style="list-style-type: none"> Income and asset verification Employment verification Appraisal Management Automated Underwriting System 		<ul style="list-style-type: none"> e-closings Automated compliance and decisioning Automated audits Automated linkage to Investors 		

As digitalisation adds enormous value, it will increase topline growth, empower a new work culture with upskilled employees, and through its innovative technology collaborations will play a vital role in allowing financial institutions to be more resilient to any future shocks to the industry.

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