



# DIGITAL MORTGAGE: DRIVING PROFITABILITY AND COMPETITIVENESS AMONG LENDERS

## Abstract

Speed, efficiency, accuracy, and ease are what today's borrowers look for when applying for loans. To be in the game, banks have realised the importance of maintaining low cost of mortgage processing and improving customer experience by differentiating their services from those that of the competitors. And, digital mortgage is what is helping them in achieving this goal. In this POV, we cover the benefits of digital mortgaging, its impact on financial institutions, the current challenges faced in implementing digital mortgage processes, and the technologies evolving around it.

## The impact and benefits of digital mortgaging<sup>[2]</sup>

A mortgage process traditionally takes up to 46 days. The whole process is costly for the lending institution and results in a substantial expenditure per loan since it's lengthy, tedious, and prone to errors. The paper-based process consisting of 30+ touchpoints creates unpredictable delays, inefficiencies, cost spurts, and poor borrower experience.

The term 'digital' is becoming synonymous with daily living.\* From entertainment, healthcare, retail, public or financial services and banking, technology and digitisation has permeated our lives. Our quick, fast-food society has given rise to higher customer expectations that have now engulfed all industries and sectors including mortgage. A digital mortgage reduces manual process time, from a few hours to a couple of days, which involves the consideration stage, filling, processing, underwriting, and closing the application.

Statistics show that the volume of mortgages in Q1 2021 amounted to **\$16.96 trillion** in the U.S. The outstanding value of all residential mortgage loans was **£1,584.1 billion** at the end of Q2 2021 in the UK, 4.6% higher compared with the previous

year. In the face of these increasing numbers, digital mortgage, including the customer-facing and back-office capabilities, drives quality, automation, and efficiency. Transforming the entire ecosystem is how banks can get the most out of their digital loan fulfilment process and interaction with the borrower.<sup>[1]</sup>

Digital mortgaging begins with a targeted marketing campaign along with lead generation and closes with post-closure audits. It includes automation at every step with minimal human intervention. According to estimates, digital mortgage solutions can impact KPIs and save costs between 30% and 50%. The solutions can lead to 20–30% top-line growth, in addition to the following benefits:

- Reduction in loan costs and shortening loan processing time
- Lowering underwriter manual touchpoints
- Data intelligence to optimise product solutions
- Instant loan approval
- Increasing sales productivity
- Rise in pull-through rates

The purpose of digital mortgaging is automating the entire customer journey and meeting evolving customer expectations and demands as well as enhance the buying experience. These numbers support the fact that mortgage application landscape is fast moving towards digitisation.<sup>[3]</sup>

- 2.2 billion sheets of paper are saved every year due to digital mortgages. Paperless transactions mean more cost savings for the lending institution.
- 92% of recent borrowers conducted an online research on more than one lending institution before speaking to a lender.
- 29% want to complete a home loan application from a smartphone, and this number is rising as people become more comfortable with technology.
- 67% of existing home loan owners want to complete the application online using a computer.
- 50% of all loan applications involve a digital medium.
- 74% of all lenders use an online portal to interact with their lenders.





## Current mortgage challenges: Are we ready for a digital revolution?<sup>[2]</sup>

The mortgaging industry is an ever-changing profession with volatile rules and regulations that require key stakeholders to be on top of the game. But current mortgaging processes are plagued with the following challenges that increase the lifecycle costs and reduce conversion rates, which require the stakeholders' attention:

- Legacy IT systems struggle to meet expectations of the new-age borrowers.
  - Businesses, operations, IT, and risk management lack collaboration among themselves.
  - There is limited access to data and lack of required skills to meet the heavy reliance of digital mortgaging on data analytics.
  - For many customers, availing a loan is a major decision and they need time to trust an automated system free of human intervention. But the process will be successful only if it's smooth and provides tangible benefits to the borrower.
  - Currently, 64% of lenders say compliance and regulatory requirements are a significant challenge in their digitisation journey.
  - Highly manual and redundant processes lead to wasted man-hours and money.
- To overcome these challenges, mortgage lenders need to assess the credit lifecycle and take steps to automate the process and thus expand productivity.

## Why are current digital mortgaging efforts not working?<sup>[1]</sup>

Fintechs entered the market with disruptive technologies that allowed for lower costs and seamless customer experience. Over the years, new companies launched themselves in the mortgage technology market, taking a share of the market from traditional firms, by offering greater transparency. In the wake of challenges from regulations and non-banking fintechs, banks are moving towards a digital mortgage system. But the results are slow because of the following reasons:

- **Value–cost balance:** A digital front-end provides customers an easy way to fill in the details, upload the documents, and apply for the loan. This is a significant shift from the traditional paper-based loan processing system. It improves the overall customer experience. Whether the system is sourced from a third party or built in-house, there is a cost addition as a standalone service. To offset this cost, banks need to engage in digital opportunities across the mortgage lifecycle. This includes the back-office processes that will help banks process more loans to lower the standalone costs.
- **Employee factor:** Digitisation will be successful only if the team is on board. Without this, digital transformation may not receive adoption and deployment across the lending organisation. Banks must realign their workforces to fit in a digital economy. The transformation journey should implement new capabilities, yield more productivity, and deliver better services.



## Front-end automation in digital mortgaging<sup>[4]</sup>

Through intelligent front-end automation, digital mortgaging helps lenders engage with customers and generate more leads. It allows them to process loans on an exception basis and reduce the overall origination cost. It also allows the lender to gather behavioural, transactional, and performance data to make smart decisions and conduct predictive analysis. Front-end processes that organisations can automate are:

- CRM
- Point of sale
- Processing

The above processes involve one or more of the following components operating in a cycle:

- **Predictive analysis:** Uses consumer data to make automated recommendations
- **Custom content:** Provides automated recommendations with custom content that automates marketing
- **Machine learning:** Engages the customer through automated marketing
- **Pattern recognition:** Communicates the information on demand
- **Integrated services:** Uses the steps

mentioned above to automate the workflow and integrate all services

- **Data validation:** Validates the information in the applications
- **Data lake:** Updates the customer data for future automated recommendations

Once the customer engagement, point of sale, and processing steps are complete digitally, banks can perform these steps (if required) in person:

- Underwriting
- Closing and funding
- Post-closing and shipping

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## Back-office transformation in digital mortgaging<sup>[1]</sup>

Customers today demand a seamless digital experience. This includes both front- and back-end offices. Statistics show that 41% of lenders invest their resources primarily on the front end, but ignoring the transformation of back-office functions is a missed opportunity in terms of unleashing the true potential of digital solutions. The increase in technologically savvy customers amplifies the need for exceptional customer experience. And, digitally transforming the back office facilitates that, as described below:

- **Take it one step at a time:** First, identify simple tasks to automate. Manual and repetitive tasks are the primary sources of high-origination costs. Use robotic process automation (RPA) that mimics routine back-office tasks such as loan processing, compliance, and report automation. Any activity where the employee follows a pre-set checklist for underwriting, pre-audit, and post-closing can be automated. All automation activities can be tracked for greater visibility. This allows employees to spend more time on other high-risk loans.

- **Overcome traditional barriers by empowering technology:** Once you automate mundane tasks, use AI, machine learning, and deep learning to drive insights and make data-, experience-, and interactions-based decisions. This leads to process improvements in the back office and delivers cost savings. RPA, chatbots, machine learning, text analytics, and optical character recognition (OCR) simplify and automate complex processes that seem fragmented. These technologies can collect, scan, ingest, and action loan documents to the relevant departments and reduce processing times.
- **Focus on employee experience:** The employee experience needs to be significant as the borrower experience. Digital mortgage technology not only reduces manual work but also improves employees' day-to-day work experience.
- **Drive value using the API mindset:** APIs easily connect data, services, products, and companies across systems without any human intervention. They enable

quick and streamlined processes and exchange compliant data automatically. Lenders can use APIs on their existing systems without upgrading the platforms. This improves flexibility, speeds up implementation, and offers a seamless experience to customers and employees. In the mortgage world, lenders can pull information from a variety of service providers, such as credit scorers, title searchers, and insurers, without disrupting or delaying loan processing.

- **Reposition the workforce to complement and work with the technology:** Lenders need to adapt their operating models and business processes to the digital economy and fit the workforce to optimise them. According to a study, companies with highly engaged workforces are 21% more profitable than their peers. This is possible by enabling people with the right technologies at the right place so that they can perform their best.

## Technologies driving the future of digital mortgages<sup>[2] [3]</sup>

Data is the new-age gold. The conventional wisdom that more applications mean more loans is no longer valid. The mortgaging landscape is crowded, and generalised marketing efforts struggle to get the required pull-through rates. A smart lender chooses quality leads over the number of applications. By augmenting rich data with public records, current market information, servicing data, and psychological/social media data, the lender can perform

predictive analysis. This analysis tells exactly which customers are ready to avail loans. Major technology trends in the mortgaging sector that engage with the customers earlier in the process are:

- Smartphone-based design for easy access
- Minimal viable product (MVP) and agile development to avoid multiple transformational challenges early on

and helps in rapid testing and iterations

- Big data and analytics offering real-time insights
- APIs and connected ecosystems that offer end-to-end experience to the customers
- Automation through OCR and machine learning to enhance customer experience, accelerate the process, and eliminate errors

## Conclusion

Millennials form the majority of the mortgage market. They own a smartphone and are familiar with cutting-edge technologies. Their expectation is clear – customised and readily available mortgage services with less processing times. To achieve this, it is critical to put the processes and stakeholders together in the mortgaging world. The stakeholders include loan originators, legal teams, underwriters, and the IT team to generate true value for the borrowers. Digital mortgaging technology allows borrowers to quickly apply for and avail loans from primary or secondary markets.

\*For organisations on the digital transformation journey, agility is key in responding to a rapidly changing technology and business landscape. Now more than ever, it is crucial to deliver and exceed on organisational expectations with a robust digital mindset backed by innovation. Enabling businesses to sense, learn, respond, and evolve like a living organism will be imperative for business excellence going forward. A comprehensive, yet modular suite of services is doing exactly that. Equipping organisations with intuitive decision-making automatically at scale, actionable insights based on real-time solutions, anytime/anywhere experience, and in-depth data visibility across functions leading to hyper-productivity, Live Enterprise is building connected organisations that are innovating collaboratively for the future.

## References

1. [Achieving the true digital mortgage](#)
2. [How digital mortgages are reshaping the lending system](#)
3. [Achieving true digital mortgage using emerging technologies](#)
4. [Elliemae digital mortgage ebook](#)



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