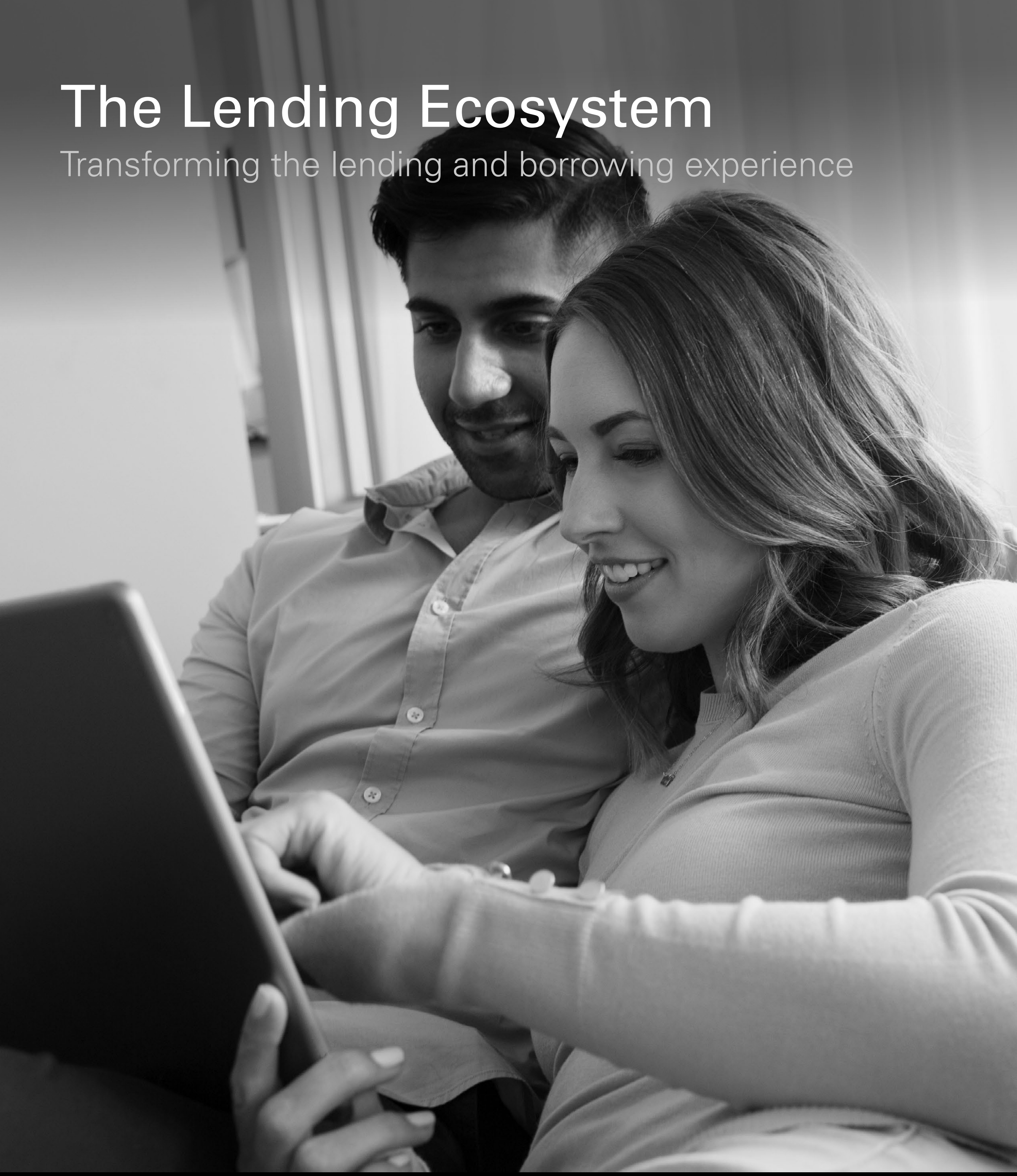
The Lending Ecosystem

Transforming the lending and borrowing experience



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Mortgage lenders are coming to terms with the reality of operating in a fast-changing landscape.

The transformation of the industry's operations and compliance controls since the passage of Dodd-Frank has dominated the lending environment. Coupled with advancements in technology and evolving consumer expectations, today's lending landscape is as complicated as ever.

Lenders that seek to leverage new technologies to improve service levels, streamline operations and reduce costs are better able to respond to the rapid pace of change.

Borrowers are looking for, and in many cases expect, a smooth lending and borrowing process that is delivered in a single experience that can be accessed wherever they are, whenever they want. While that is typically a digital experience first, it also underscores the importance of the branch experience.

By creating a holistic ecosystem around the lending experience, lenders have the opportunity to streamline processes and exceed borrower expectations. In this white paper, we will explore ways lenders can make the kinds of changes that are needed to operate successfully in a fast-moving world.

The Challenges for Lenders to Overcome

Mortgage lending is a collaborative venture. Lenders partner with an array of service providers including credit, flood protection, fraud prevention, compliance, appraisal, title and insurance providers, along with income, employment and asset verification providers. Each delivers an essential element to ultimately create a loan that can be closed and sold into the secondary market.

Traditionally, this has been paper-based work, with information passed between partners in documents and forms. This process created significant time delays and mistakes that led to inconsistent and inaccurate data resulting in low quality files and higher loan origination costs.

Digitization presents opportunities for lenders to streamline the process in ways that benefit both lenders and borrowers. The digital mortgage removes paper documents and speeds up the collaboration process while reducing data errors, leading to higher quality loans at lower costs.

The current approach to mortgage lending often finds lenders attempting to connect a front-end point-of-sale (POS) process or third-party vendor solution into their existing loan origination system (LOS). This can lead to a host of problems that attract the attention of regulators, affect borrowers and cost lenders time and money.

Improving the Lending Process

Lenders need a road map to success that will guide them through the process of digital transformation. Any such map will include the following three waypoints: system integrations, borrower satisfaction and outdated processes.

System Integrations

When lenders partner with third-party providers to complete the loan origination process, the data moving through third-party systems must flow into the lender's LOS. These system integrations can be difficult, expensive and time-consuming undertakings to implement and maintain.

Disparate systems are often poorly connected, negatively impacting data quality and increasing the risk of security breaches. In an environment where application programming interfaces (APIs) make it easier than ever for third parties to gain access to the data in industry systems, embedding security and data integrity best practices into the process is essential.

In many cases, the connections only provide for the automated placement of orders, leaving loan processors to manually key in the data from the reports their partners send back. Rekeying errors are one of the leading causes of poor loan quality and can result in loans disclosed incorrectly or reaching the closing table in a manner that makes it impossible for transaction participants to execute. Errors can also create post-closing audit issues or prohibit delivery to a third-party investor.

But it's not just outdated processes and technical integrations that stand between lenders and digital mortgages. An ideal solution also takes into account the complexities of bringing together the other parties involved in the mortgage process, including Realtors®, settlement services partners, borrowers and ultimately secondary market investors.

Borrower Satisfaction

Failure to provide accurate loan status information to applicants is one of the leading causes of poor borrower satisfaction. Disparate systems often prevent applicants from quickly and easily obtaining accurate, real-time loan status information. When loan status automation is lacking, staff may be unable to confirm precisely where the loan is in the process when a borrower contacts the lender directly.

Frequent requests for information previously submitted can make applicants feel like the lender is not taking adequate care of their sensitive private information. And, this wasting of the applicant's time is another of the most often cited complaints among consumers who responded to J.D. Power and Associates' annual consumer satisfaction surveys.

In an age when federal regulators actively gather information from consumers about the financial services companies they patronize, lenders can ill afford borrower complaints hitting the government's public databases. The risk to the lender's reputation is simply too high for issues created by poorly managed vendor integrations. As even more technologies are added to lenders' processes, risk increases and problems, where they exist, can become even more pronounced.

Outdated Processes

An especially serious concern lenders face when implementing new technology is that it will simply speed up – but not fix – a flawed process. This often happens because staff trained on existing workflows are slow to give up a legacy process, perhaps because they are not trained on it or, for whatever reason, they do not trust it.

Because staff members are responsible for the work that lands on their desks, they will often gravitate toward the approach they are most familiar with, even if a new process offers the promise of great improvement.

In addition to comfort with legacy systems, the other reason lenders will often automate a broken process is because reengineering carries unknown risks that may be associated with past failures.

Many lenders recall spending too much money and receiving too little benefit from previous attempts and this inhibits their ability to reengineer processes now.

However, reenvisioning processes allows lenders to meet expectations from a variety of stakeholders in today's environment – regulators encourage it, borrowers demand it and competitors are already doing it. The most successful lenders are willing to make the time and increase resources to reengineer processes in order to win market share. New technologies enable this, but only when they power effective processes.

Defining a Road Map for the Digital Loan Process

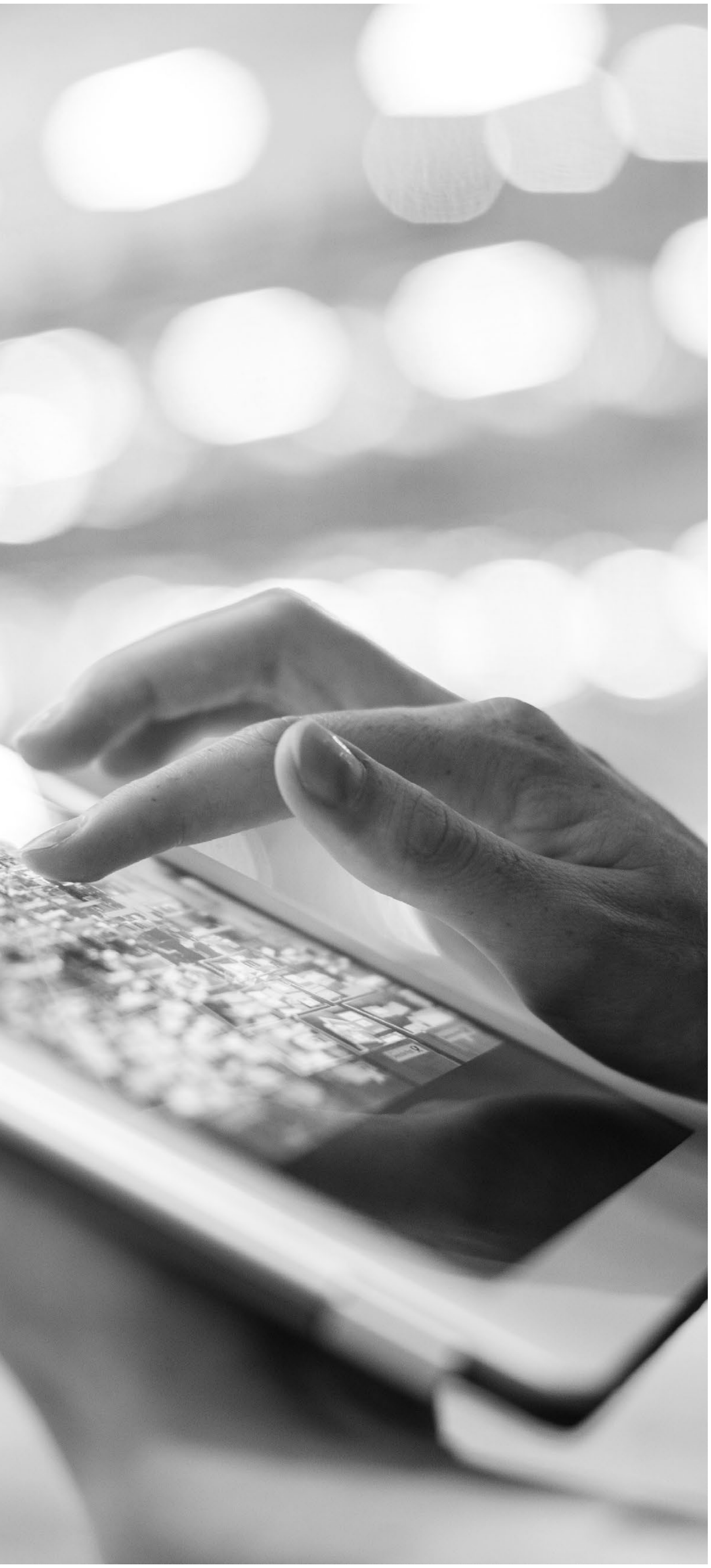
Ongoing regulatory and technological challenges and the rapid pace of change have created a need for a new holistic approach to the digital loan process. Below are the elements of this new approach.

Rules-Based Workflow

A good holistic platform is a high functioning system capable of analyzing loan data, automatically comparing information supplied by a vendor to data already within the LOS and alerting workers if there is a conflict. Such a system also has the ability to move the loan to the next step or auto assign staff in the process, based on validated data and a lender-defined ruleset.

The foundation for the digitized loan process is the automated work queue. This replaces the "stare and compare" file review.

With automation in place, any manual processing is exception-based, with user activities continuously analyzed to identify additional automation opportunities. These systems present the right information to the right user at the right time.



Automation can also make workflows more efficient. For example, if a system recognizes that a particular loan processor goes into a certain screen on a regular basis, it will put that screen on top.

Robust APIs and Data Access

APIs support a lender's needs for a system to be flexible and yet be maintainable for future scope and/or process changes.

An API-based architecture enables lenders to automatically obtain data for the borrower, property and loan by querying data providers and analyzing, validating and presenting the results they return. This allows lenders to close loans faster by automating routine activities and focusing staff time on work that requires human intervention and analysis.

Borrower-Focused, Web-Based Experiences

A holistic lending ecosystem allows borrowers and users to self-serve but remain connected in real time to the loan officer, the loan processing department and closing personnel. By being self-serve but providing the option of getting help at a moment's notice on any device, borrowers are able to be supported while also being in complete control. Communication methods are subscribed to and automated to ensure the applicants are continuously updated with the appropriate information and to the right media.

Optical Character Recognition (OCR) and Intelligent Character Recognition (ICR)

OCR and ICR are common deployments of artificial intelligence in the lending process. Efficient platforms are capable of electronically obtaining necessary information from documents when they are not already digitized to support the process of aligning file documentation with the LOS record. In addition, the platform must offer automated document classification and validation as well as fulfillment options for those loans that cannot be classified by trained systems and/or AI. In any event, automated work queues should route work to the right party and provide status information in real time.

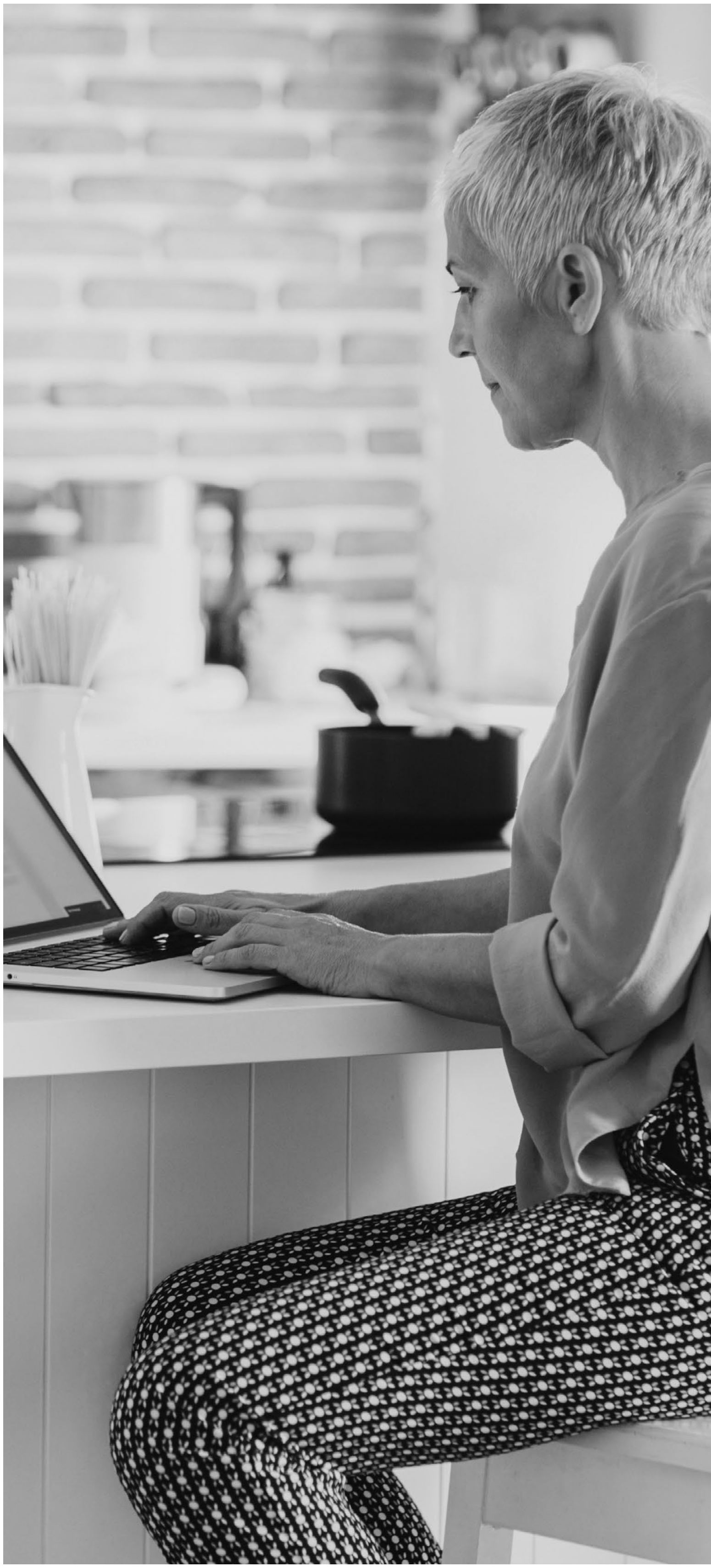
Digital Compliance Analysis

Adhering to compliance rules set by the lender and/or its compliance partners automatically, based on loan file and program characteristics, is an important component of a digital lending ecosystem. An ideal system can automatically generate reports, audit trails and trending data to streamline systems and bring process flaws to light. Forward thinking processes will need to be implemented to support more challenging objectives such as Fair Lending requirements due to the nature of increased future file scrutiny that is sure to come with enhanced regulatory reporting. Specifically, new HMDA reporting data will allow regulators to analyze rate, fee and file decisioning activities against protected classes.

E-Lending

Competitive lenders will embrace a holistic approach that drives every digital process, aggressively removing paper through e-signing and automated document routing systems that ensure accurate data flow to end investors and servicing platforms.

Such an approach can speed up the loan origination process and reduce costs and errors by providing electronic document processing and electronic signatures from end to end, completely avoiding the manual processing of paper forms. This complete e-lending process will also require support for notary, recording, investor delivery and e-vaulting.



Three Reasons to Act Now

There are three compelling reasons why leading lenders should take action now on the digital mortgage process.

1. **Regulators and investors want the industry to embrace digital.**

   The CFPB's eClosing pilot program, Fannie Mae's® Day 1 Certainty™ and Freddie Mac's® AIM programs are examples of key players signaling to the industry that the time for digital is now. In addition, the recent appetite on the part of the government-sponsored enterprises (GSEs) for e-mortgages should encourage all lenders to achieve digital lending as soon as possible.

   These actions point to the fact that investors will be driving lenders to deliver electronically validated files against source data used to process files. In fact, it's already beginning.

   According to published reports in HousingWire, approximately 19,000 eNotes were added to the MERS® registry in the first quarter of 2019, compared to only 375 eNotes registered in the first quarter of 2018 – a year over year increase of nearly 5,000 percent.

2. **Savvy lenders will seek out a better way to transact business now because consumers want them to.**

   Borrowers want a digital process and are insisting on a better experience. According to Fannie Mae's Q1 2018 National Housing Survey, 72 percent of borrowers prefer to fill out the application and 70 percent prefer to submit documents via digital channels. Expectations & Experiences: Borrowing and Wealth Management 2019, conducted The Harris Poll on behalf of Fiserv found significant increases in digital mortgage activity. For example, 62 percent of recent mortgage borrowers e-signed loan documents via online or mobile, up from 51 percent in 2018. In addition, 64 percent say they prefer loan status updates via email, versus 27 percent who prefer a phone call.

   Home loan borrowers want control, transparency and instant gratification. When they do need help, they want access to a live person immediately.

3. **Smart lenders embrace change in order to compete today and tomorrow.**

   New entrants into the mortgage industry are digital natives and what they lack in secondary market and compliance experience, they more than make up for in the delivery of excellent consumer experiences. These are the experiences most consumers expect.

The Fiserv Mortgage Ecosystem

After carefully exploring current industry problems, analyzing past attempts to solve them and putting significant effort into visualizing a new solution, Mortgage Momentum[SM] from Fiserv is the industry's first lending environment that can become the digital home for every mortgage lending process from marketing and origination all the way to secondary marketing and loan servicing.

Mortgage Momentum is designed to provide optimal benefits including the following:

- A streamlined mortgage origination process resulting in better borrower experiences and higher data quality
- Lower loan origination costs with the aim of full compliance
- Seamless integration with third-party data providers resulting in an ecosystem that ensures success for all parties, including the borrower

The LOS resides at the center of a vibrant ecosystem of settlement services partners, business referral partners and borrowers. By giving such broad access to the lender's database of record, Fiserv has streamlined every process. This can result in reduced costs, improved data quality and security and the creation of a world-class borrower experience.

The figure below illustrates some of the key features that make up the Mortgage Momentum ecosystem.

Connect With Us

For more information about Mortgage Momentum,
call 800-872-7882,
email getsolutions@fiserv.com
or visit fiserv.com

Mortgage Momentum - Managing the Complete Loan Origination Ecosystem

A Mortgage Ecosystem is Essential:

- Streamlined origination process
- Lower origination costs
- Seamless integrations

About Fiserv

Fiserv is driving innovation in Payments, Processing Services, Risk & Compliance, Customer & Channel Management and Insights & Optimization. Our solutions help clients deliver financial services at the speed of life to enhance the way people live and work today. Visit fiserv.com to learn more.

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