The Year of Online Lending

The time for mortgage-loan automation has come at last, again

By Trevor J. Gauthier

Back before online lending caught on, borrowers had to spend an anxious and opaque 60 days or more as their loan was poked, prodded and examined for even the slightest hint of a problem before learning — often at the last minute — whether they could actually move into their dream home. This process wasn't much better for mortgage companies, either.

Fifteen years ago, technology was barely applied to, let alone integrated into, the mortgage process. The manual process required to originate a single loan was expensive, time-consuming and required a lot of natural resources and physical storage space. Industry veterans will not soon forget the boxes and boxes of mortgage files scattered everywhere.

Things are better today. Mortgage companies have access to excellent, innovative technology. Best-in-class borrower-facing web tools not only allow borrowers to self-originate, but they also lead to higher customer satisfaction because of real-time status up-dates, easy document uploading and faster communication. While things are much better than they were, the mortgage industry remains far behind where it could be in terms of automation and customer service.

Tap here, close now

A funny thing happened on the way to 2017. In the early 2000s, a group of lenders partnered to pioneer online lending. This was revolutionary at the time. Borrowers eagerly supplied personal financial information online for the promise of practically immediate credit approval. They could — for the first time — check the status of their loans online, which removed some of the opaqueness of the origination process.

Borrowers were happy and lenders were ecstatic. For the first time, true automation made a difference in efficiency, which in turn lowered production costs. Things, in terms of mortgage nirvana, were looking up. Then along came the housing crisis and the subsequent increase in complexity of the regulatory environment, which wiped out all advances in efficiency and added significantly to processing times and production costs.

Here's the funny part: Never in history has the mortgage process been more prescriptive. With so little room for deviation of any kind, the industry should be ripe for total automation. The rules are set by regulators and investors, and mortgage companies work with providers of loan-origination systems to program these rules into the existing available technology. In theory, out of this effort should pop ready-to-close, fully compliant mortgages. Yet we could not be further from "tap here, close now."

Twenty nickels

If the industry was close to "tap here, close now," the cost of producing a mortgage would be much lower than it is today. It currently costs about $7,000 to originate a loan. This is roughly equivalent to about six months of PITI (principal, interest, taxes, insurance) on the loan itself. In other words, the cost to produce the average mortgage would cover the first six months of payments. Prior to the housing crisis, the average loan cost was no more than two months of mortgage payments.

Process, not technology, is to blame. There are 20 nickels in every dollar. If we look at loan costs in terms of nickels to the dollar, technology would consume about a nickel or a little more. Direct and indirect costs, like buildings, furniture, fixtures, equipment, and corporate overhead, eat up roughly seven more nickels. Direct-labor costs to pay the people who manufacture loans consume the remaining 12 nickels.

This is not to point any fingers at the many fine people who work hard to close loans and put borrowers into homes. People are, in this case, a proxy for cost of process because we use people to execute the loan process when we could be using the less-expensive and capable technologies available today.

Twelve nickels out of every 20 is a lot of nickels. We must reduce the cost of getting a mortgage over the finish line. The cost-to-close to PITI ratio is way too high, and this cost is

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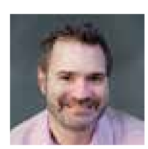

Trevor J. Gauthier is president and chief operating officer of Mortgage Cadence. He leads the development and execution of the company's strategies, while ensuring alignment between long-term vision and dedication to providing superior customer experience. Gauthier's previous roles at Mortgage Cadence included leading global software sales, account management, professional services and marketing teams, with a focus on developing and executing strategic approaches to maximize sales activity and returns on investment. Reach Gauthier at (303) 991-8200.

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ultimately borne by the borrower. Automation is the ultimate answer to getting this measure back in line.

Ray of hope

Accenture Research completed a survey of more than 1,500 mortgage borrowers in late 2016. Sampling was representative of the overall borrower population, including lower-, middle- and higher-income respondents, as well as first-time, repeat, and home-equity participants. This survey showed some interesting results, particularly about what borrowers expect from the mortgage process.

About 50 percent of respondents are not only willing to originate their own mortgages, but they now expect to. This expectation transcends age and income groups. It also holds true regardless of borrower experience with the process. No experience at all? Bring it on. Numerous past mortgages? Absolutely.

Even more telling is how willing these online borrowers are to provide sensitive personal and financial information to get the process rolling. They are even willing to provide the information necessary to allow mortgage companies to dig into their financial lives and gather the information required to manufacture their loans. Borrowers don't want to spend time digging up financial records. They want originators to do it, and these borrowers will give originators the keys to the vault, so to speak.

The Accenture Research study has far more data, but the summary provides a new ray of hope for the future of online lending. We aren't waiting on technology to make the "tap here, close now" mortgage a reality. It's already available in a cloud near you. "Tap here, close now" is really up to the mortgage community at this point. Borrowers are ready. So is the technology. Saving nickels — a lot of nickels — is up to you. ■