MORTGAGE CADENCE

COLLABORATION CENTER

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Going Beyond the Portal: **Why the mortgage industry is going to a secure environment to conduct home finance business.**

A White Paper

There are many parties involved in the manufacturing of a mortgage loan, and more still after the loan is closed, who work to sell it into the secondary market and then service it. After decades of collaborating in this business, there still exists no good way for the parties to connect seamlessly and safely. As the industry strives to move closer to the digital mortgage, finding a way to collaborate effectively will become essential.

In fact, it is our contention that should the industry fail to establish a single secure environment through which to complete the work of home finance, lenders will never overcome the obstacles that stand between them and competing effectively with the next generation of mortgage providers.

In this paper, we'll support this thesis with examples from our former experience as a lender, identify the increasing risks every party faces as we move closer to a fully digital process and show you exactly, in clear language, what a solution for our industry would look like.

But first, what's so bad about the process as it exists today?

The industry's most pressing problem.

For years, mortgage technologists have followed all of the industry's various symptoms back to a single cause: friction. We have heard the smartest people in our industry telling us that friction is the problem for [1] years. And they were correct. The various companies that work together to make it possible for consumers to buy, sell and finance real estate do not have a safe or efficient method by which to work together on each individual transaction [2]. This is the problem we still face today.

But knowing the problem is not the same thing as solving it. So for the past 40 years or so, lenders have been working against a headwind of manual order placement, data rekeying, telephone tag, missed or lost electronic communication, and poor data quality carrying with it a blizzard of unstructured data and paper documents.

Lenders are attempting to navigate their way to profitability, and failing [3], the same way drivers navigate through a winter storm. These white out conditions threaten to take those of us who have been in this industry for the past four decades back to a time when that was literally the stuff we used to correct the errors on our paper forms.

Today, this is the storm that has the industry's cost-to-close at nearly $9,000 [4] per loan (about half of that for Mortgage Cadence users [5], but still too high). With the amount of friction we have in our process today, it's a wonder any deals get to the closing table and no surprise that fully half of all transactions die before they reach it [6].

Friction in our process is the source of our current problems. Until we resolve it, the symptoms and risks inherent in our current process will persist.

The solutions we have employed in the past.

An early attempt to reduce some of the friction in the mortgage loan origination process provided technology that served to streamline electronic order delivery and routing. Billed as the pipes mortgage transactions would flow through and compared to VISA's interchange and settlement system, this was a fantastic innovation and it moved the industry one step closer to all electronic lending. But over time, it proved to be insufficient.

Facilitating secure two-way, electronic communication between business partners was an important first step, but

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[1] *'Consumers want a digitized home purchase transaction': Technology is transforming the mortgage – Tearsheet. (2019). Tearsheet.co.* https://tearsheet.co/online-lenders/consumers-want-a-digitized-end-to-end-home-purchase-transaction-technology-is-transforming-the-mortgage/

[2] *Public Safety Strategies for Addressing Mortgage Fraud and the Foreclosure Crisis. Bureau of Justice Assistance, U.S. Department of Justice. January 2009.* https://www.bja.gov/publications/cci_foreclosure_crisis.pdf

[3] *Mortgage profitability hits all-time low in Q4. (2019).* Housingwire.com. *from* https://www.housingwire.com/articles/48577-mortgage-profitability-hits-all-time-low-in-q4

[4] *MBA: Average Cost to Originate a Mortgage Increased to $8,475 in Q4 - MortgageOrb. (2018).* https://mortgageorb.com/mba-average-cost-to-originate-a-mortgage-increased-to-8475-in-q4

[5] *2019 Mortgage Cadence Annual Benchmarking Study - Executive Summary - Mortgage Cadence. (2019). Mortgage Cadence.* https://www.mortgagecadence.com/2019-mortgage-cadence-annual-benchmarking-study/

[6] *Ibid. 2019 Mortgage Cadence Annual Benchmarking Study*

Lost Time

We know it's possible to close a purchase money loan in 10 days, but poor methods of collaboration between settlement services partners routinely push that to more than 30 days. Every day the industry spends processing a loan costs them money and erodes profitability.

Cost-to-Close

Do we really need to link back to the Mortgage Bankers Association's survey data to convince you that the cost of originating a loan is too high. Every lender reading this feels that pain. Friction is its cause.

Data Security

As consumers and investors drive the industry closer to all electronic mortgage lending, the amount of data exposed to cybersecurity risks increases. As regulators lose patience, the cost of breaches increases.

Consumer Privacy

The European Union's GDPR has driven state regulators to revisit consumer privacy. California has already enacted its law and others will follow. These new requirements will involve increased costs and risk.

Participant Identity

As the security of face-to-face business transactions recedes into the past, we must find better ways to ensure that the people we interact with online are really our partners and customers and not fraudsters.

Industry technologists have been working diligently on these problems for many years, but the solutions presented thus far have fallen short.

it quickly became overly complicated when more parties required access to the data. No current technology has been able to provide a consistent, connected, automated and safe experience, industry wide, when there are more than two parties involved in the transaction. This has left the industry with point-to-point solutions that are difficult to create and expensive to maintain.

As more parties began to take part in electronic commerce related to home finance, loan processors found themselves awash in information, much of which had to be re-keyed into the database of record in order to move the loan forward. To mitigate the risks involved in mis-keying information, companies fell back upon older technologies, like email, and newer ones, such as the portal.

Email is a trap. It's very difficult to secure an email client and the data shared via email cannot easily be transferred into the loan processor's database of record. Often phone calls are required for clarification and that unstructured information never makes it into the file. Email is the weak link and the leading cause of wire fraud and poor data quality in our industry today [7].

The concept of the portal was first advanced many years ago by executives who dreamed of putting the home loan borrower in control of the transaction and driving all service providers required for financing to a borrower portal to transact. While the concept made sense and could have solved some of the problems associated with previous methods of processing a loan, it could not gain traction. The two primary reasons for this were (1) borrowers liked the idea of taking control but lacked the experience or confidence to actually do so, and (2) service providers were not interested in creating software integrations that would allow them to deliver information to the borrower portal at their own expense.

Despite these problems, the concept of the portal is alive and well today, with every major technology provider, wholesale lender, title underwriter and even appraisal management company offering some form of private portal through which they would prefer to transact business. But for the reasons mentioned above, and others, these portals are still not solving the problem.

The biggest problem the industry is experiencing with today's proliferation of portals is that loan officers, loan processors, and real estate sales people will circumvent them via email instead of dropping out of their familiar transaction management software to enter the portal. In the process, the industry is exposed to additional risk.

Mobile apps may seem like a new technology, but in reality are simply a mobile user interface to a private portal. Before an industry professional will spend time engaging with a mobile app, they will just hit dial on the cell phone and call the processor. We have seen this time and time again. It will only take a short trip to your loan processing department to verify this.

[7] *Fazzini, K. (2018). Scammers are tricking people out of enormous payments as they're about to close on a house. CNBC: https://www.cnbc.com/2018/08/31/how-scammers-trick-new-homebuyers-with-wire-fraud.html*

Criminals know that the closer the deal gets to the closing table, the more likely important information will be shared via email, which opens the door wide for wire fraud. What was once an occasional crime that was embarrassing to the victim is now an epidemic that can put a closing company out of business and do irreparable harm to a lender's reputation.

FBI statistics indicate that real estate fraud affected 11,300 victims last year and cost $150 million in losses, a three-fold increase over 2017 [8]. At the same time, we're witnessing millions of client files lost or stolen in industry data breaches, the exact costs to the industry for this are as yet unknown.

The high cost of failing to change.

Anyone who has bought or sold technology knows that the first sale that must be made is the concept of change. If company executives don't feel the need to change, it will be very difficult to drive them to do so. In this case, the costs of failing to change far outweigh any argument against doing so.

The status quo has saddled mortgage lenders with an inefficient process that is too costly and vulnerable to the transactional cybercrimes that erode all profitability. Likewise, settlement agents are forced to dance among the many portals in use by their lender customers in order to collect all of the information required to comply with TRID and close the loan in a timely fashion.

From the lender's perspective, with profitability so low and costs so high, the status quo holds no promise for the future. For title agents, lower volumes from existing lenders and the threat of others leaving the lending business mean that the current process is costing you more business than it's earning you. But all of this is internal to the industry.

Externally, our process falls far short of consumer expectations. Already new fintech entrants are offering borrowers a simple, safe and understandable experience and are winning business because of it. Traditional mortgage lenders cannot keep pace with these new competitors using yesterday's technology.

Worst of all, it is not reasonable to assume that the mortgage industry can achieve a fully digital mortgage lending process without a solution to this problem.

Some have argued that a single massive portal that all industry participants were required to use would solve all of our problems. When one of the industry's largest companies attempted to implement such a solution not long ago, it was a monumental failure. It failed because it did not meet the minimum requirements for a real solution.

Before we can identify any specific solution, we need to take a much closer look at what any real solution would have to offer lenders, title companies and mortgage borrowers.

What a real solution would have to offer.

For all of the reasons we have already covered in this paper, the industry is in desperate need of a tool that enables frictionless collaboration between all parties from the point of sale all the way through to post-close and beyond.

But what would such a solution really look like? We have addressed this question internally and concluded that the following elements must be part of any real solution.

It must be simple.
Layering on technology isn't sustainable. The industry needs a single view into each transaction where all of the data and documents live, every user is verified, and every communication is tracked. It must work with all existing transaction management and loan origination systems, seamlessly. We must do away with jumping between tabs or applications. It must not force users to change the technology they rely on to do their work; it must make those tools more powerful and collaborative.

It must be secure.
Data breaches and wire fraud cost the industry millions each year. A real solution would provide interactive user role configuration, ensuring that the only parties that can see the consumer's PII are authorized to do so. It must include hardened infrastructure built-in and be completely email-free to protect all parties.

It must ensure data quality.
The framework must offer a reliable and proven structure for exchanging data and documents that is both secure and auditable. It must allow for fast, easy data mapping with no rekeying to increase data quality and produce higher quality loans.

It must scale.
It must be built on a scalable architecture that can handle every loan the industry originates.

It must make integration simple.
There are far too many flavors of integration in the mortgage technology industry. Some workarounds that are referred to as integrations are not. Others go part of the way, but that's all they do. A real solution must either be built-in as simply another feature of the LOS platform or called functionality via APIs. The best solution should provide the industry's best API developer's portal and support, making it easy to not only connect but to maintain those connections over time, and also integrate it into a leading LOS.

It must allow for labor savings.
It must be capable of quickly determining which documents must be reviewed and instantly identify changes between versions so there's no more hunting for the latest version or

[8] *Bondarenko, V. (2019). Too smart to fall for a real estate scam? Wrong. Inman.* https://www.inman.com/2019/05/07/too-smart-to-fall-for-a-real-estate-scam-think-again/

comparing the wrong documents. As a result, labor costs, which make up as much as 65% of the cost-to-close, should fall dramatically.

It must be affordable.
It should not contribute to overall cost to originate but instead create efficiencies that will lower the lender's costs.

Beyond these things, the right solution would go beyond connecting the systems in our industry and connect the people actually doing the work to make these transactions possible. No collaborative technology the industry has seen before creates functionality specifically to connect people in addition to disparate technology platforms.

Fortunately, such a solution exists today.

Introducing Mortgage Cadence Collaboration Center.

After carefully considering the industry problems presented in this white paper, analyzing previous attempts at solving these problems and then focusing on the requirements a real solution would have to meet, Mortgage Cadence created Collaboration Center.

Collaboration Center is a secure private cloud built for the home finance industry that enables mortgage lenders, real estate agents and settlement services firms to work together seamlessly to create digital mortgages. It meets all of the requirements listed above and, even better, is built into the Mortgage Cadence loan origination technology, giving access to all current business partners.

Collaboration Center completely recalibrates an otherwise disjointed closing process by putting all parties into a single virtual room and connecting it directly to the lenders LOS, completely eliminating the need to rely on email or external chat applications. It does this without requiring users to install new technology.

Built to be a web-based industry utility that acts as the private cloud to connect the people and systems in the real estate and home finance industries, Collaboration Center connects people, data and documents and shares them securely between participants in the cloud.

Collaboration Center reinvents the way in which lending professionals and settlement service firms share documents, provide updates and communicate in order to deliver a timely, cost-effective closing. It accomplishes that by:

Fixing the tech stack.
Layering on technology isn't sustainable. The industry needs a single view into each closing transaction where all of the data and documents live, every user is verified and every communication is tracked. It works with all existing transaction management and loan origination systems, seamlessly. No more jumping between tabs or applications. There's a better way to work; we have the technology you need to collaborate.

Providing cybersecurity.
Data breaches and wire fraud cost the industry millions each year, and dilute consumer confidence. We provide interactive user role configuration, ensuring that the only parties that see the consumer's PII are authorized to do so. Our hardened infrastructure and email-free process protects all parties.

Ensuring data quality.
Our framework offers a reliable and proven structure for exchanging data and documents that is secure and auditable. Fast, easy data mapping with no rekeying increases data quality and produces higher quality loans.

Offering scalability.
Built on a scalable architecture that can handle every loan the industry originates. This gets us beyond the challenge of building and maintaining countless connection to the common network.

Making integration incredibly easy.
Collaboration Center is one of the many features of the Mortgage Cadence Platform. Our LOS customers use CC seamlessly from within their present systems. Their partners – title and settlement agents and others – access Collaboration Center via the web. For those who want to do more with it, or use it in different ways, CC includes the industry's best API developer's portal and support.

Delivering fast ROI.
Collaboration Center saves lenders, title companies and others on labor. Users can quickly determine what documents must be reviewed and instantly see changes between versions. No more hunting for the latest version or comparing the wrong documents. Labor costs fall dramatically, which are 65% of your cost-to-close.

Collaboration Center finally makes the end-to-end digital mortgage possible and affordable.

It's time to make Digital Lending easy and affordable. Find out how to become part of the solution by contacting your Mortgage Cadence sales professional today!

About the Author

As EVP and Managing Director of Product Management, Paul Wetzel leads his team managing both customer and industry requirements to drive product enhancements that ensure Mortgage Cadence paves the way in innovative loan origination technology. Through collaboration and partnership, Paul is committed to providing the last lending technology our customers will ever need.

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