



Digital Empowerment: A Transformation Strategy for the Mortgage Industry

As organizations continue to pursue their optimistic growth strategies, leaders are not losing sight of the market uncertainties that may have an impact on their ability to manage risk and make insightful business decisions. This is not unfamiliar territory to seasoned mortgage professionals who have weathered past rate hikes, housing bubbles and financial crises. One of the differences this time is the effect the advancement of digital technology is having on the industry, particularly on the front-end of the mortgage process.

Mortgage industry leaders are beginning to think beyond their normal hunker down tactics to find ways to evolve the end-to-end mortgage process amidst today's competitive market. Modern digital technologies are empowering organizations to gain cost saving efficiencies while taking out the variability of costs. Mortgage industry leaders now have the ability to reach untapped markets by incorporating digitalization into their growth strategy and core operations. Staying competitive in the future mortgage industry will require:

- The Foundation: Risk Management Considerations
- Using Digitalization to Reach Untapped Markets
- A Strategy for How to Approach Your Organization's Digital Transformation



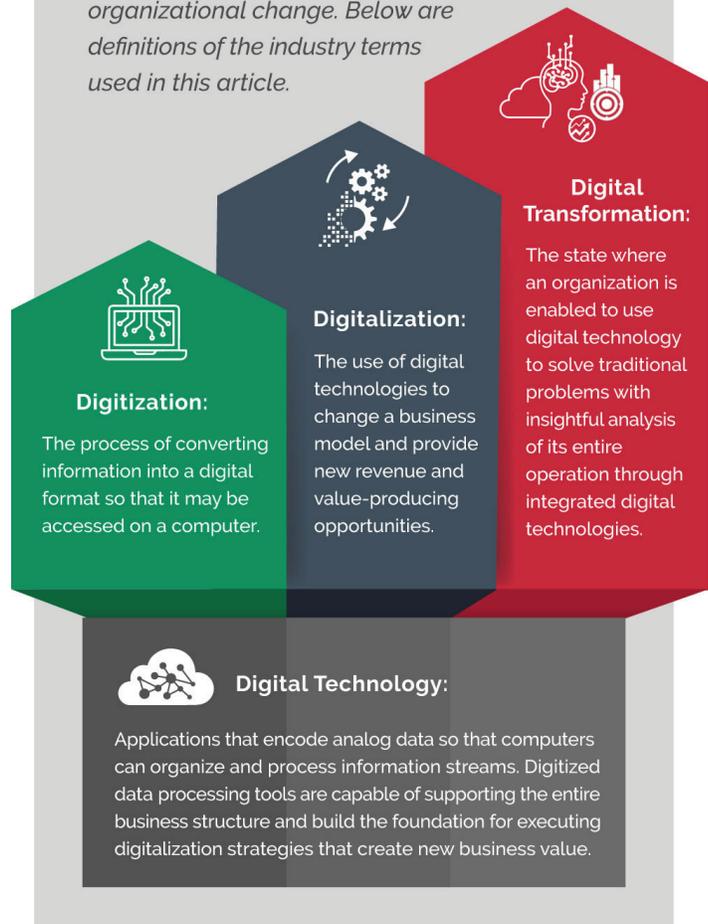
The Foundation: Risk Management Considerations

Consistent with mortgage finance forecasts, the mortgage market has experienced contraction in many areas over the past few years. Total 2018 originations decreased 11% on a year-over-year basis from 2017 resulting in 4-year low. 2019, while forecasted to be slightly more optimistic, promises to be another highly-competitive year with continued margin pressure. Mortgage industry leaders need to continue to actively discuss and identify their biggest risks and apply proactive risk management practices to manage/prevent risks. As mortgage leaders establish strategies for survival and growth over the next five to ten years, these strategies should include specific objectives about what the organization expects to achieve through any technology investment as well as the implementation of automation and digital solutions. As organizations look to transition to digital process automation, management should begin with an awareness of the strategic and financial benefits that are expected as well as any risks that may be involved. Benefits may include gaining process efficiencies and reduction of variable cost uncertainty. Risks may include undetected errors, increased regulatory scrutiny or interface failure with existing systems.

Why is this important? Your market share is at stake as your competition is using digitalization to grow, control risk and expand capabilities. To survive and thrive, today's organizations need to examine ways to build for scale by applying digital advancements in the company's operations, loan decision-making and risk management processes. Introduction of digital enhancements can create the ability to prioritize higher risk activities and automate or eliminate manual, error-prone processes. For example, activities that could result in costly errors or unsalable loans are best to be completed by senior staff, while less

Digital Terms

Establishing a common understanding of terminology is key to any significant organizational change. Below are definitions of the industry terms used in this article.



critical “checklist” activities that today are completed by junior staff members can be automated. These types of changes can produce benefits that provide improved operations, risk management and compliance results.



Using Digitalization to Reach Untapped Markets

In a time when the market competition for new customers is at an all-time-high, digitalization is viewed by many as a major differentiator, a way to provide an improved customer experience or simply a way to stay relevant. As customers look for more convenient, less onerous ways to do business, including conducting business from the comfort of their own home, the focus on the front-end application processes has increased. It is wise for lenders to focus on how to make it easier for potential customers to do business with them and to establish agile operating approaches to be able to adjust as consumer preferences evolve. Embracing digital transformation to improve your business is a key element to survival.

Many have cautiously approached advances in the digitalization of back-end processes due to the complexity of changing legacy operations to include fixed mindsets, organizational boundaries, and system environments. Approaching any change without carefully evaluating the impact and application for your organization could definitely be problematic; however, there are tremendous opportunities in using digital enhancements to address specific operational and strategic challenges as well as to explore growth opportunities in the following untapped markets:

- Reaching the Millennial market – More than 10M Millennials are expected to enter the mortgage market in 2019. The mortgage industry still tends to use a phone-centric business model which relies on potential home-buyers to speak with lenders to initiate mortgage processes. Using digital automation to provide systematized choices for how to conduct business, that millennials can self-select, aligns with their preferred manner for doing business.
- Products tailored for community lending and emerging market needs will also represent new opportunities. For all of these market segments, working with lenders who appear to understand their needs and provide an ease of doing business are important factors. Having modern, digital processes that allow new market entrants to do business in a way that aligns with their high-tech preferences will, over time, become the norm.
- Recognizing untapped market such as immigrant borrowers, borrowers with non-traditional credit, borrowers with non-traditional sources of income, and even non-QM products will be especially crucial for mortgage leaders to identify growth opportunities. Caution is advised though from a risk management perspective. Mortgage leaders should proceed carefully because traditional underwriting methods may be difficult to apply for some borrowers in untapped markets. Digitalization can be an advantage by providing a better customer experience and risks can be mitigated by applying automated risk and quality management tools through the process.

A Strategy for How to Approach Your Organizations Digital Transformation

The mortgage industry, similar to other industries, has long recognized that an overreliance on manual processes can be a problem. Traditional paper-bound and people driven methods within the mortgage process are time-consuming, costly and prone to error and fraud. At the leadership level, limited visibility into individual transactions means that companies must operate with cloudy insight into their overall compliance with regulatory requirements (customer demography, loan information, default management information).



The good news is that many mortgage companies are starting to embrace the digitalization of their customer front-end process which is evidencing an improvement to ROI as well as an enhancement to the customer experience. That said, companies have been slower to tie their front-end to their back-end systems and processes through the use of digitalization methods. While digitalizing more fully across the organization seems daunting, obstacles are not insurmountable when considering the following steps to digital transformation:

- **Digitalization in support of your long-term strategic plan:** As discussed previously, it is important to consider digitalization in the context of adding long-term value to the organization and to resist the temptation to implement new systems, applications or tools as merely technology for technology's sake (for example: adding a costly customer application that addresses an insignificant pain point). To ensure this cohesion, start with the company/line of business strategy and align digitalization requirements to the goals and objectives of the company/line of business. Digitalization of manual or disparate processes and systems carries inherent benefits such as an increase in efficiencies, transparency of data and cost savings which will add value to the organization particularly when it is tied to a strategic goal. This alignment will not only draw leadership support for required executive sponsorship and budget but will allow for early buy-in across key stakeholders who will be adopting the resulting transformation.
- **Take advantage of the areas where you have begun digitalizing that have already gained widespread adoption:** Where there is opportunity for additional enhancement within areas that have begun to digitalize, keep a positive momentum and gain further value from initial digital wins by continuing to transition functional processes from manual to digital. Examples of where to continue to improve core operations include:
 - Digitalization of the TRID review process can lead to lower error rates and an automated process could eventually lead to requiring fewer resources.
 - Manual processes associated with assigning loan files can be eliminated and/or greatly simplified by digitalizing the rank loan file process through workflow automation that provides rule based decisioning for loan complexity and approval requirements to include authority levels and seniority.

As these tangential functions are considered, it is important to prioritize which of these functions will best support the defined strategic objective in order to effectively demonstrate value.

- **Outsource vs In-House:** As mortgage industry leaders think through how best to apply digital transformation practices into core operations, there is the decision where to outsource process components and where to incorporate automation into in-house operations. Use of vendors can be an effective risk management practice to allow the business to focus on business core capabilities, to avoid the need to hire large teams to conduct oversight or other operational functions, and/or to eliminate the need for a large internal technology team. However, it is important that mortgage industry leaders don't become overly comfortable with outsourcing core processes to third-party service providers and continue to be vigilant for innovative ways to improve their own internal processes. For example, while outsourcing to vendor staff and systems may be a useful digital component within the mortgage origination process, automating a company's queuing for loan administration, underwriting and even closing processes can yield great efficiencies, reduce processing time and contribute to reducing costs per loans.
- **Adoption is the key to success:** The journey to digitalization is exciting, challenging and even scary for some employees. They understand the value and the improvement, but they often are nervous about how it will affect their individual role within the company. This inherent fear of change can affect adoption and sidetrack the integration of an otherwise valuable solution. Therefore, it's imperative to consistently and effectively communicate to employees about the digital transformation underway and share information. Examples of key communication approaches include:
 - Transformation Roadmap – publish and continuously maintain the high-level program plan to let employees know when, where, why and how change will be made. This will enable people to understand the purpose of each change along the digital journey and allow them to see the holistic picture of how the change will affect the organization.
 - Executive Messaging – throughout the program lifecycle, leadership should sustain a visible presence through regular company communications supporting the program's developments, rewards and challenges. This will show executive support for the change and will help employees feel a sense of company as the digital transformation takes shape.
 - Change Agents – in addition to leadership level support, including key people within the various ranks of the organization as part of the transformation team will create a group of change agents to help evangelize the benefits of the digital change and gain buy-in. These important team members will also act as super users and help train staff as the technology and process changes roll out. They should be available to staff to answer questions to help them get over any initial adoption hurdles that often come with change.

Conclusion

Mortgage leaders need to approach their organization's digital transformation as part of the organization's strategy with careful consideration of the long-term business value that can be achieved with digital offerings and processes. Changing an organization's strategic mindset during cyclical downturns from a standard cut and slash self-preservation focus to the creation of new market opportunities using innovation is difficult when the uncertainty is high. The trend of mortgage leaders beginning to focus on an improved front-end customer experience is a step in the right direction. Expanding the improvements to the back-office processes, capabilities and technologies must also be addressed to maximize the benefit of digitalization and to build the organization for scale. By implementing a strategy that provides end-to-end digital solutions, mortgage leaders will not only enhance the customer experience, but also increase efficiencies, stabilize cost variances and position their organization to survive through uncertain times.

Are you interested in discussing digitalization in your organization?

The contributing authors of this article want to hear about the challenges you're facing.



Michele Hoffman

Managing Director, Clarendon Partners

Contact me directly: mhoffman@clarendonptrs.com

Clarendon Partners is an operations consultancy that enables growing businesses to scale efficiently, reduce risk and improve strategic results through digital solutions.



Gwen Muse-Evans

President & CEO, GME Enterprises

Contact me directly: g.museevans@gmeenterprises.net

GME Enterprises is a management consulting firm that offers risk management, housing finance and operations management solutions to financial services, government and non-profit clients.