

Mortgage lending reaches an inflection point

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Building a better working world





Lenders need to harness their data and leverage innovative technologies to deliver an efficient and personalized home buying experience.

Powerful forces are transforming mortgage lending. From increased regulatory scrutiny and disruptive technologies to changing borrower expectations, record low housing inventory, a shrinking refi borrower pool, and the success and sustainability of nontraditional lenders (FinTechs and nonbanks) that entered the marketplace, lenders are facing one of their toughest tests yet – the ability to remain relevant in the face of rapid, unexpected change.

The COVID-19 pandemic accelerated consumers' migration to, and appetite for, digital channels such as internet banking and mobile apps to conduct their financial transactions – including mortgage lending. Mortgage processes that were once manual and paper-based, like verification of income and property valuations, accelerated the transition to digital e-verifications and digital closings became more commonplace.

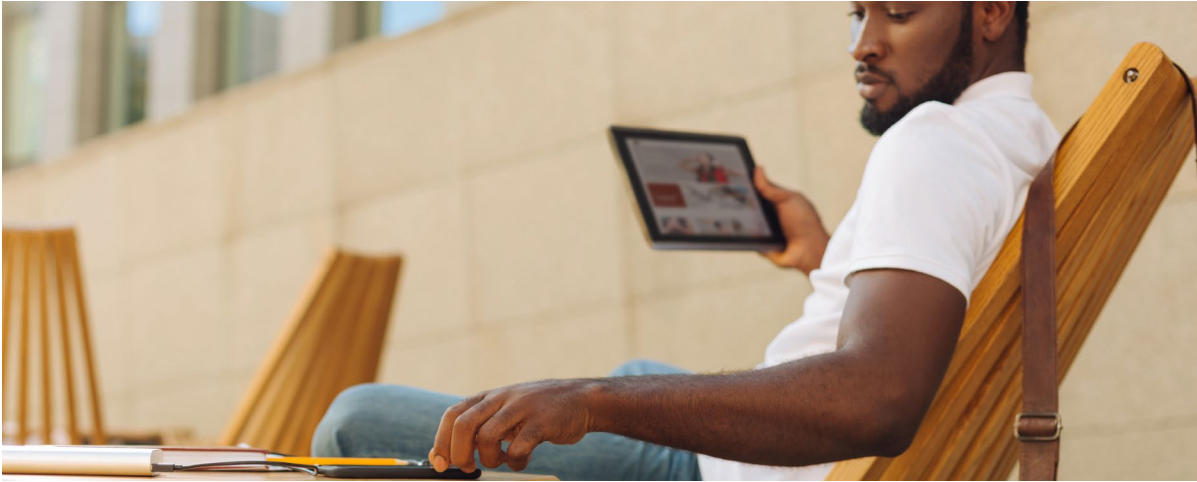
More lenders competing for fewer loans

The impact of the pandemic on the economy seriously impacted both housing inventory and pricing. The pandemic forced households to spend considerable time at home, resulting in increased demand and higher prices for homes with additional space or in suburban locations with low COVID-19 rates. Tightness in the housing market can also be attributed to government stimulus funds and historically low interest rates for the last two years that increased home purchase and mortgage refinancing demand. At present, lenders face a restrained mortgage lending and refinancing market,¹ as most borrowers who qualify for refinancing have already gone through the refi process while purchasers are competing against each other in a market that's characterized by a reduced housing supply.

Besides the shrinking refinancing market and the limited housing pool, banks and other lenders face an increasingly competitive landscape, with nontraditional lenders continuing to take market share² and embedded finance making it easier for them to offer banking-like services. The looming presence of technology giants, if they enter the marketplace, also presents a significant future threat. It's a threat that lies in the advantages they hold over traditional mortgage lenders, including reduced regulatory burdens, expansive nationwide customer bases, established track records of technological agility and innovation, and the accumulation of a staggering amount of data they can leverage to drive customer loyalty and trust.

MBA expects refinance originations will slow further next year, decreasing by 62% to \$860 billion from \$2.259 trillion in 2021. Further, MBA forecasts mortgage originations to total \$2.585 trillion in 2022 – a 33% decline from this year.

Business Insider Intelligence's Online Mortgage Lending Report found that the top five US banks – Wells Fargo, Bank of America, JPMorgan Chase, US Bancorp and Citigroup – only accounted for 21% of total mortgage originations in 2021, which is a huge decline from their 50% combined market share in 2011.



More tech-savvy home buyers

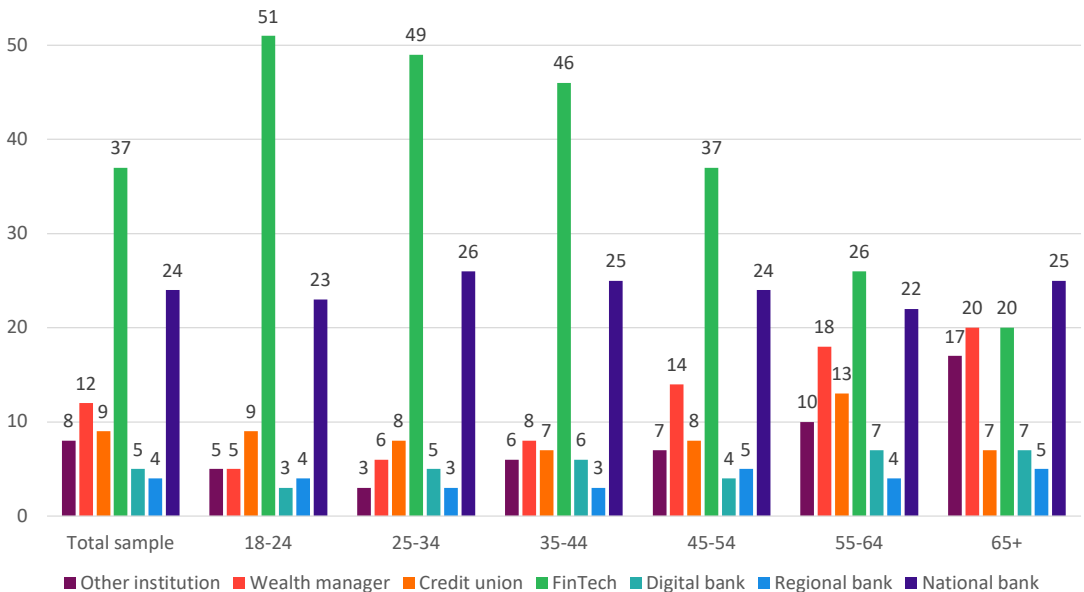
To reach a generation of borrowers who grew up with mobile-first and web-friendly technology, digital enablement of mortgage processes and services is crucial for both customer attraction and retention. For example, millennial borrowers, who experienced the world through their digital devices from a young age, are not satisfied with the paper-based, transaction-driven, bank-derived mortgages of their parents. Having integrated technology into their daily lives and experienced personalized services, these borrowers expect mortgage lenders to provide streamlined, automated and personalized services, too.

As such, millennials and other tech-savvy borrowers are flocking to nontraditional lenders that they perceive as more tech-forward, customer-friendly and transparent – on pricing, fees and the integrity of both the digital lending technology used and the security of their personal data.

It's important to note that trust is a direct corollary of transparency. Building trust with this new class of mortgage borrower won't be created by erecting imposing bank edifices that give the impression of security and strength – but by creating exceptional customer experiences that leverage data and use market-leading technology to help ensure an accessible, seamless and secure lending process. Evolving trust dynamics are also supported by a recent EY research study that found 51% of Gen Z and 49% of millennials named a FinTech as their most trusted financial brand, a sign of incumbent brands' struggle for relevance with younger audiences.³

Most trusted financial brands by age group

Percentage of respondents who trust each company type most in financial services



Source: EY NextWave Consumer Financial Services report

How should lenders respond?

This next wave of borrowers and the others who follow will seek mortgage lenders that can deliver a convenient, seamless, personalized, private and secure digital home buying experience, with access literally at their fingertips. Forward-thinking mortgage lenders can move beyond front-end bells and whistles and embrace dynamic strategies to separate themselves from the competition, including having the ability to:

1. Unleash the power of data to drive personalized customer experiences

The evolution of mortgage lending already has begun, with numerous lenders focusing on meeting the demands of tech-savvy borrowers by using internal and external data sources to streamline application intake, underwriting and fulfillment – effectively “turbocharging” the mortgage process itself by pre-populating application data sourced from data aggregators or ecosystem service providers.

Market leaders in the mortgage industry understand that business value is now defined by the customer experience. And by transforming their focus from a manual, transaction-based, product-centric model to a data-driven, experience-based, customer-centric one, they can deliver the personalized experiences that their customers expect and demand – intentionally designed experiences that drive increased engagement, loyalty and trust. Fiserv’s Pete Radike, Director of Product Lifecycle Management at Lending Solutions, says, “Data can help lenders engage the right customers with the right solutions at the right time, ultimately driving increased loan activity, profitability and efficiency.”⁴

2. Orchestrate every touch point in the customer journey

By tapping into their customer data insights while using digital technologies to support and enhance the customer relationship, lenders can reimagine the mortgage process to orchestrate every touch point in the borrower’s journey while simultaneously enabling agility and speed-to-market. For example, with existing customers, banks and other lenders can proactively use their data insights to predict customer needs based on prior financial behaviors and characteristics and offer hyper-personalized products and experiences, including ancillary services, to help customers achieve their financial objectives. This data can also be leveraged to identify and serve a wide range of customer-related needs, including connection to service providers for related home remodeling, moving, utilities, lawn, pool, solar energy, painting services, etc.

By creating a documented, comprehensive view of customer touch points during the home buying journey, lenders can also identify customer hurdles as well as opportunities for improvement. For example, friction or tension experienced in the mortgage application process will often turn a potential customer in another direction, potentially to another lender. Ideally, defining the customer journey will reveal opportunities to reduce friction that can prevent the mortgage application process from moving forward.

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Pete Radike
Director of Product Lifecycle Management, Lending Solutions, Fiserv

Market leaders, by taking a page from the technology giants, will harness the power of data to understand their mortgage customers from every angle and create a hyper-personalized customer experience while simultaneously transforming their businesses to accelerate innovation and reduce operating costs – effectively transforming their transaction-based traditional mortgage process into a data-fueled, home buying engine.

By tapping into their customer data insights and using digital technologies to support and enhance the customer relationship, lenders can reimagine the mortgage process to orchestrate every touch point within and across the journey, while simultaneously enabling agility and speed-to-market.

3. Develop a culture of innovation

In addition to leveraging customer data and facilitating the mortgage borrower's journey, lenders that have been successfully adapting to and transcending unforeseen disruption have cultivated an innovation mindset. They recognize the need to harness new thinking, organization-wide, to envision and implement a desired future outcome. They understand that they need to do more than just optimize existing operations and processes. They embrace the FinTech culture and begin rewarding those who bring new ideas – and all ideas are welcome, even if they don't pan out. In addition, they implement a scaled execution framework that unites the power of innovation, leading business practices, and enabling tools and technologies to accelerate customer journey development, reduce cycle times and create a more transparent measurement of outcomes.

4. Relentless focus on efficiency to reduce costs and drive scale

Lenders can also reduce operating costs and boost efficiency by transforming additional parts of their mortgage business hindered by paper-based manual processes through focusing on digitalizing front-, middle- and back-office functions. By leveraging AI, machine learning and document processing technologies to enable end-to-end automation and self-service capabilities, lenders can both capitalize on their customer's digital acumen and streamline the document-intensive mortgage origination process.

In addition, by leveraging journey-led design, lenders not only can identify customer experience refinement opportunities but also identify process efficiency opportunities and broader foundational requirements to enable mortgage transformation – all linked to an integrated "mortgage transformation blueprint." This blueprint uses common taxonomies and linkages across processes, technology, controls and service catalogs. It also links agendas and stakeholders, the need for change and decision-making and establishes front-to-back traceability – a key enabler for continuous change.

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Conclusion

Lenders are under extreme pressure to remain relevant in today's rapidly evolving mortgage industry. Borrower expectations are changing, digital transformation has taken hold, the housing market and mortgage refinancing pool are shrinking, and nontraditional lenders are dominating the mortgage ecosystem. But mortgage lending has reached an inflection point, where successful lenders can leverage the power of data to design streamlined, tailored, secure customer journeys that deliver customer experiences that are more intentional, personalized and transparent – effectively making each mortgage loan interaction part of their overall plan to "keep customers for life."



Contacts



Dan Thain
Principal
Ernst & Young LLP
daniel.thain@ey.com



Aditya Swaminathan
Managing Director
Ernst & Young LLP
aditya.swaminathan@ey.com

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