FEATURE

Not-So-Natural Selection

Rendering old operational practices obsolete, today's lending environment is pushing originators to reject a reactive stance and adopt a proactive approach—and surviving the transition depends on top-tier technologies.

By Chuck Green

As mortgage originators and banks double-down on efforts to reboot how they conduct business, companies are tapping into emerging technologies the industry once ignored. Now turning to tools like e-signing platforms and mobile phone applications, lenders are striving to enhance efficiency and heft operations. And for many professionals, new solutions could be the key to staying in business.

Capturing headlines across the financial sector, the Consumer Financial Protection Bureau (CFPB) rolled a slew of significant reforms to start the new year and announced a rapidly approaching timeline for implementation, establishing January 2014 as the deadline for compliance with the latest round of regulations. Among the mandates released by the CFPB in January: long-awaited components of the Dodd-Frank Act, including the Qualified Mortgage (QM) rule.

Despite the critical issuance of QM standards, however, the housing finance industry and its technology providers cited the Ability-to-Repay rule, also set to take effect in January 2014, as the statute most likely to create headwinds. Designed to protect consumers from irresponsible practices by requiring that lenders make a reasonable, good faith determination regarding a borrower's ability to repay a mortgage, companies fear its influence on the jumbo loan market and the correlating trickle-down effects that could impact the broader lending environment.

According to Curt Novy, a California-based mortgage and real estate market analyst, the CFPB wants to ensure the U.S. "never again falls prey to loose lending standards that sunk our economy." And while Novy's statement is unequivocally true, an overcorrection by the CFPB could spell a different kind of disaster for some—but not all—sectors of the industry.

Which entities appear on track to benefit from the regulatory boom? Technology providers. And mortgage banking's leading web-based innovators may offer an advantageous boost to the lenders and servicers they cater to in the process.

A Day Late?

Though emerging technologies for meeting regulatory challenges are abundant, Vlad Bien-Aime, CEO of Global DMS, stated that, generally, the mortgage industry tends to cling to the tried and true, shifting gears only reluctantly and when required.

Noting the industry's inclination to be reactive versus proactive in adopting new strategies and solutions, Bien-Aime continued, "Sometimes, it's hard to get people to change; some lenders assume that what might have worked before, will work again."

On the other hand, lenders are "very good about hard deadlines. If you don't meet compliance regulations, you're pretty much going to be out in the cold," Bien-Aime added.

Not all companies display the reticence described by Bien-Aime, however. Weighing in on the assertion, Novy said that newer, "up and coming" mortgage banking firms seem to be more aware that technology "needs to change, to expand, to meet borrower demand."

Senior research director for CEB TowerGroup Craig Focardi echoed Novy's statement, emphasizing that industry professionals recognize the advantages provided by technology—especially when attached to regulatory requirements. Forcardi said that while "some might say [lenders] won't automate unless they have to, or that they'll do the bare minimum," originators and banks embrace technological benefits when presented with cost-effective, risk-mitigating opportunities for their businesses and their clients.

Speaking from the lenders' perspective, Chris Cash, operations manager for Envoy Mortgage in Houston, recognized the need for new tools to manage compliance and for legislative initiatives, which he called "a reaction to past events, like market fallout."

Underscoring the importance of the industry's evolution, Cash stressed adaptation and advancement, noting that lenders should continue toward a more proactive stance to avoid past problems.

Sign Up for Savings

What technological capability should mortgage companies and banks be investing in now? According to Dominic Iannitti, president and CEO of DocMagic, e-signing should be a critical component in developing a strong compliance and risk strategy. Circumventing the use of paper, the electronic signature process not only enables lenders to instantly deliver initial disclosure documents, but it also provides a way to track and log e-sign events.

For lenders, that means if issues should arise with a loan, log files and other auditing tools are readily available to rebut arguments related to signatures, documentation, transparency, and disclosure timelines.

Iannitti also cited the "somewhat nimbler" process achieved by a paperless environment, a real coup for the industry given the statutory three-day time period by which lenders are required to send out disclosures to the borrower after application. Pointing out pitfalls in the current system, where paperwork such as federal and state mandatory disclosures and notices must be mailed manually, Iannitti added that complying with time frames can get dicey—not to mention pricey.

By comparison, Iannitti estimated that around 70 to 80 percent of the documentation will be delivered and acknowledged in a timely manner via paperless platforms that deploy e-signature capabilities.

When it comes down to it, he said, lenders will benefit from the technology because it ensures that borrowers remain integrated in the process. "It's messy; documents come from everyone—the closing agent, the lender, the borrower—and often one doesn't know what the other's sending," Iannitti elaborated. With e-signing, documents will already exist in the form of an electronic file and "no one will have to scurry toward the end of the process, scanning and imaging to make a file truly electronic; it will simply be that way from the beginning," Iannitti concluded.

As for Cash, he also believes e-signature products are the best emerging technology solutions available because they help unburden consumers by allowing them to complete disclosures or documents from work, home, or on the go via a smartphone.

Safety Not Guaranteed

Mobile technologies—particularly apps—are the latest tools of interest for originators, servicers, and banks, according to Bien-Aime. But that doesn't mean the industry has been quick to adopt smartphone- and tablet-based platforms.

Focardi, who predicted mobile apps will eventually be popularized in the housing finance sector, elaborated on the benefits, stating, "If you want to sell real estate on Sunday and [if your customer is] prequalified and wants to put in a bid that night, you can qualify [him or her] for the mortgage right there on your mobile app and [he or she] can buy the house instead of waiting."

Reiterating that all mortgage professionals' time is at a premium due to market competition, Bien-Aime lauded mobile technology's ability to serve as "an extension of a system outside the workplace; you can get a check and go to a closing, take a picture of a check, and deposit it into the bank that day. It's things like that that help leverage what you already do, but help do it faster."

So why hasn't the mortgage banking marketplace maximized mobile capabilities like other industries? Because lenders fear that potential security issues and fraud risks could cancel out efficiencies created by such tools.

Novy commented on the problems, perceived and legitimate, that can be created by mobile technologies, stating that the risk of fraud is only a key concern when proper safeguards aren't in place.

Though he understands banks' hesitancy to conduct business online due to possible data corruption or disruption, Novy cited Internet-based operations as a necessary tool of survival, adding, "They have to adapt, or they're going to be overrun."

According to CoreLogic's 2012 Mortgage Fraud Trends Report, the company's National Fraud Index has trended upward since early 2012, and CoreLogic estimates that this bounce, along with expected increases in mortgage volumes will ultimately translate into $13 billion in fraudulent U.S.s residential mortgage originations in 2012, an increase from the estimated $12 billion in fraudulent origination in 2011.

Javelin Strategy & Research, meanwhile, debuted its 2012 study on online banking, revealing that consumer reticence about mobile banking is fading rapidly. The number of survey participants concerned about safety issues when conducting transactions online dropped by 11 percentage points during the year, while the number of consumers who now classify mobile banking as "safe or very safe" has nearly doubled between 2010 and 2012, according to Javelin.

Additional information from Forrester Research's report, "The State of Mobile Banking 2012," indicated that the number of U.S. mobile banking users will likely double in the next five years, reaching 108 million by 2017, accounting for 46 percent of U.S. account holders.

One segment of the mortgage and housing industries that's avidly adopting mobile apps: websites for homebuyers, such as Zillow and Trulia. Stating that the sector is paving the way for lenders' eventual gravitation toward mobile tools, Novy cited apps' ability to speed up the mortgage loan process through pre-approvals and an approach that's less "paper intensive" for originators.

Novy's choice among the wide array of real estate apps was developed by Casmy, and he described the platform as one of the best examples of emerging mobile products, due to its aggregation of statistics including open house data and mortgage approval.

"We'll see these types of applications come out that will start to marry the prospective borrower with the real estate transaction. It's a much closer environment than ever; we're starting to see technology where Realtors and mortgage lenders are working closer and getting their information to work for the benefit of the applier," Novy commented.

Unsurprisingly, tablets also are starting to gain momentum in the mortgage process. Iannitti stated that borrowers crave the convenience of integration with their iPad or smartphone, adding that borrowers want a way to monitor the status of their loan 24/7 and desire constant contact to help complete a deal quicker and more efficiently. He also expects an ongoing push toward streamlined, regulated communication with borrowers that will make mobile technology even more important to lenders.

Bottom line: Originators, servicers, and banks seeking to remain ahead of the curve should be actively planning for a very mobile future with strategies and programs that will meet the increasing demand for smartphone platforms and apps.

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>
> — **Vlad Bien-Aime**, Global DMS

Tech's Next Generation

Looking into mortgage technology's next phase of development, Novy predicted a growing appetite for tools that link the full lifecycle of the homebuying process—from sourcing a property for purchase to qualifying for a mortgage, borrowers are eager for more comprehensive, connected tools, online resources, and mobile apps.

For industry professionals, lenders' retention of offsite or virtual personnel for underwriting and approval of mortgage loans will continue to change the way loans are submitted and processed. Novy believes that employees working for field offices might soon experience both the positive and negative effects of current technology advancements. The upside: the ability to work from home or a remote office. The downside: the potential for companies to cut jobs accordingly.

In closing, Cash harped on mortgage industry technology's biggest bonus: a wider pool of borrowers. Online tools give originators the ability to work outside their "normal" market and operate more globally, said Cash, adding, "Your customers don't always have to be in your 'back yard' anymore."