

## Actualizing Success: Technology and Origination

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Welcome to Actualizing Success. In this podcast series, our in-house advisors discuss today's finance and technology topics, with an emphasis on solutions that embrace tomorrow.

Matt Seu: Well, thanks for tuning in to Actualizing Success. In this episode, I'm joined by Rick Hill, Vice President for Industry Technology from the Mortgage Bankers Association. Rick and I have known each other a long time, we're veterans go back, way back in Freddie and Fannie and we've been working together lately, especially as it relates to MISMO. And today, we're going to talk about our thoughts on technology, and origination costs, as well as some other things. We're going to go through why companies are so slow to move to a digital model. But we're also going to take a look at trends that are coming up over the next few years and why we believe that certain things will take place over that period. So Rick, thank you for coming on our show and kick it over to you.

Rick Hill: Certainly, and thanks for having me this morning, I'm looking forward to chatting with you. And we'll see where this conversation goes.

Matt Seu: Yeah, thanks. And, you know, like I mentioned, we've been in the, in the industry for a long time, I think if you added up both of our years of experience, we're about 60 years combined. And, and we both have some gray hair, Rick's got a whole lot more hair than I have. But, you know, that's what happens if you've been in the industry for so long. The thing that that fascinates me is there's more going on in the mortgage industry, from a technology view than ever before. And that's been that's been driven by a lot of different things. Rick, what do you think, has been the main drivers for change? And the reason why so many tech providers are entering the market?

Rick Hill: So, it's interesting hearing you talk about 60 years that that really is a long time. It, you know, there are times I think, when it really does seem like we're using the same technology. As when I first started, I started, I was at Deloitte and Toosh, and audited my first lender in 1988 so that tells you how long. It does sometimes seem that that we're still using some of the same things. But you know, we talked about trends. The whole move to, to digital and to mobile is a big, pretty big deal. Verification services is another one that, you know, we can talk about a little bit. You know, not many years ago, I remember talking to folks, and you know, we're talking about the trends with mobile devices and mobile phones. And there was this huge consensus, oh, we'll never do mortgages on phones. And, you know, the answer is, uh, yeah, that's true. But not to, you know, think about changing the process. So, folks, were thinking of some little key information on a phone. Well, of course, they aren't going to key in all their loan applications on a phone, but you change the process. And I think that that's keepings. You know, this whole focus on mobile devices, I think really is important. There's a Pew study that's out there, that I've talked about a couple of times in the past, that shows that mobile devices are the only access point to the internet for a large percentage of certain demographic groups. And so, if you're not really focused on mobile, you run a big risk of losing out on this potential set of customers. Now, certainly as we get and have more competition, you know, after such a great year in 2020 and early 2021, that that's going to be important. You know, the move to digital, you know, if that's all based on early, two big, big parts that are based on some Nismo standards, remote online notarization is a big one. It's been out there a couple of years. COVID really excels created a desire for organizations to utilize something like remote notary hybrid, that permits the social distancing, and all of that it has a lot of

other facets to it. But COVID really helped with that need. I think a lot of people don't realize we talked about digital, and we've talked about it from the female perspective, and folks were saying, oh, my God, or are we ever going to, you know, go digital throughout the process, and our electronic notes ever going to be a large percentage of our volume? Well, in 2020, we were and still are, we're doing 50. Not us but our industry but that's \$50,000 loans, 50,000 PLUS loans a month, that are e- notes. So that's a that's a pretty good jump considering it was perhaps in the several hundred, you know, just a couple of short years ago. I would have expected, you know, perhaps even a higher number. But one of the things that we were hearing, which was kind of an interesting thing, with COVID, was we want to do remote notary, we want to deploy some of these new technologies, but we're so busy with the volume and we don't have enough time, or we don't have the people who can test out these new technologies. So, it's kind of a kind of an interesting thing when you think about some of the activities going on. But I really do see, you know, mobile, digital, really continuing to, to increase their adoption across the industry. And you

Matt Seu: You know, what's interesting to me, too, is, when you look at a lot of what you've talked about, in terms of remote online notary and things of that nature. And COVID, it really was the scenario, the situation forced lenders to do things a certain way, or if not, they weren't going to close the lungs. And, you know, we understand where that pain point is in relation to solving other things in the origination process. I mean, bottom line is, if you can't close the loan, and can't do it successfully, using digital or electronic techniques, you're not going to be around very long. But you know, the piece that that everybody, I also hear all the time, is the cost of origination is going up. And it just seems to me to be so contradictory in that there's better technology available, but companies are still looking at a cost burden that's going up. And so, you know, when I look at that, and look at companies that I talked to, there's a handful of things that exists that really could be solved, I think, the first is, is that folks really are not taking a step back and looking at their business processes. They're not looking at them in relation to how they may be able to optimize what they do. For the most part, lenders are following the same structure and process that's been in existence for 30 40 50, even 100 years, and where some technologies have helped to automate pieces of it, the fact that things are done over and over again, duplicate work reconciliations, just screams loudly, to processes not being optimized. And of course, both you and I are cut from the data cloth. And what I see is that companies don't do a real good job of understanding what data are the golden copy? How to manage that data throughout the process. And, and because of that, folks that take information via data documents, etc. into the next part of the process, the first knee jerk is as well, I need to make sure that it's that it's clean and correct and, and so I think that when you look at other industries, maybe say the securities part of the mortgage lifecycle or trading, the data are very accurate. It's just very, very, very tricky to me to see how companies could move towards a more optimized approach, looking at data as you know, as the valuable asset that it really is and understanding Why they don't have to keep checking it all the time. And, and again, companies that outsource that's one thing but in a retail environment, especially when you're in control of most of the information, it seems like there's a, there's an end in sight that way. And then the last thing that I wanted to bring up in relation to technology as I see companies who purchase a lot of technology, but I don't know that they understand the difference between investing in technology and buying technology. And so, I'll give a real specific example. So, we're a company made by a loan origination system. They may not think about it in terms of, well, how much other effort, technology or business process Do you need to spend to accommodate the fact that this tool may or may not integrate with other tools in the ecosystem? And so I think if companies would step back, and where I see companies entering the market now, they actually are looking at potentially building more of the technology and integrating in a strategic manner, hopefully using MISMO REC, but, you know, I think there's, I think that companies have gotten into a model where they just keep adding more and more

things and haven't taken a step back to look at their strategy on what's an investment in technology versus, versus just buying software. And so, I was wondering, Rick, you know, you're talking to a lot of the CIOs across the industry. And I know you've had forums for that in the past, what do you see in terms of some of these, either FinTech lenders, or just lenders that are a little bit savvier, in terms of what they're doing in terms of their technology, and why you think some of those models might be the better one takes a look at?

Rick Hill: You talked to some of the points you made, are so important. You know, I think the key is your last one there, where you talked about Technology is an enhancer to a business process. And I think a lot of organizations historically, and I'm hearing about several late, like, they've bought new technologies, but they haven't changed their business process to take advantage of it. So that goes back to I think the first item you said, which is pull up, I bought technology, but I haven't changed my business process to take advantage of it, all I've done is increase my costs, right? One of the ideas of technology investment, not always, but the one of it is it gives you a different control, or a different way of doing things that can hopefully improve your business process, perhaps so that folks don't have to check and recheck work. But if folks are still rechecking the work, even if the technology is trying to help you with that, you know, you've just increased your cost with without the savings. But to your point, some lenders are up are really rethinking a lot of that they're, they're rethinking their workflow, but they're also rethinking it from a consumer perspective. And that that's kind of real exciting. You know, we think about the mortgage process and how complex it is, from a consumer's perspective, you know, contact, you know, potential lenders, you can talk about rates, you know, let me provide information, okay, we lost your, you know, your documents occasionally, you know, this whole process that goes through and me time, often, right, someone is, is buying a home, that's not just right. So, they've got all this added stress of buying a home as part of this, and I got the moving van out in front of the house and things like this. And so, you know, rethinking that, that process from that consumer, we started several years ago with a point-of-sale apps, and that, you know, that was advantageous, right people, the online loan applications and things were included there. And, you know, that was major, you know, for our industry, you know, it's today, table stakes that, that have a good point of sale. But you know, that wasn't several years ago, and that's why we go you know, through the whole thing, you know, folks look at and say okay, well what are all the things that a consumer has to sign or view or whatever throughout the process? And, and rethinking that and saying, well, geez, if I can have them view certain of these documents, you know, perhaps some of them I can view on the phone, right, I can view and then e-sign a particular document, you certainly then get your evidence that someone has seen a document, like the disclosures and things like that so there were reasons we started going down this redesign path. But I think, you know, some lenders are really taking it very far and saying, how do I rethink this process? can I look at the closing package and have a consumer review and sign some documents prior to the closing ceremony, which makes it a lot easier to get some time and understand a document is in time to answer certain questions, very consumer friendly, right. So that actually closing itself might be a very short of that, if you've designed a different light, you can put education and chatbots in it, you know, all of that process to, to improve it. One of the areas that I think we still haven't quite taken advantage of, at least from an adoption perspective, I think, you know, the technologies are there. But the verification services, you know, verification of assets and employment and things. You know, today, we asked the consumer for all this information, you know, I've, I've had to upload tax returns, things like that in my refinances last year. And, you know, you think about it, well, geez, I'm going to go out and get that tax information anyhow. Or I'm going to have to get the bank statement information anyhow. Why don't we transition this and say, hey, consumer, give me permission to go obtain this information? I'm going to have it; I'm going to get electronically. Jeez, I'm not going to lose it, I'm not going to have to ask you for a

document you've already provided a few times to me. And those are real scenarios, right, the loss documents and having to ask a consumer and I, again, my more recent refi, just in December, I had somebody asked me for documents that I had already provided. So, you know, a lot of that rethinking it rethinking that workflow, designing it in the sense of, jeez, it's not about us lending and elbow, borrower, you know, come to me, it's, hey, I'm competing for business, let me redesign with this consumer in mind. And I think that's, that's a big, big change to the process that we have. Eric, I

Matt Seu: Rick, I can't agree with you more on that. And it's just bizarre to me that the borrower hasn't taken as much of a role in the process. And I think that, you know, you can look at other industries. And it's very, very borrower first, or consumer first, I guess, really. And, you know, again, I think that I think that the companies that are understanding that are really going to have a lot of advantage going forward. The other part that I think, folks most mostly don't understand, is where the liquidity comes from. So, when you look at, alone, for the most part, and there's some scenarios where folks put them in portfolio and leave them on their books, but for the most part, the lungs all end up in some type of security structure. And the big money managers, the 10 codes and the black rocks and fidelity's, they're always buying cash flow that are that are backed by mortgages. And, and they do so in enormous volumes. And so, when you think about what they do, and how frequently they're in the market, it makes a lot of sense as to, you know, how the, how rate sheets work, and so forth. But most folks that are that are on the front end of the business don't understand that paradigm. And so, I think for us, you know, we just talked about the borrower is being much more involved. And I know that the money managers and large cash flow buyers are very interested in specific cash flows. And I, I think there's a big chance that over time, we see private label come back a little bit, I do think that there's potentially some pressure that could be implied to aggregators in terms of, of that, and it's all due to technology. The more that you see data exchanges and loan exchange platforms come on the market, the more I think you're going to see that shrink, and I think where the big investors on one hand, have a lot of money they can facilitate things through a path that may be at the end of the day, more advantageous. lenders that maybe the conventional wisdom of today would, would lead you to believe. And, you know, and again, what are the implications of that? I don't know. But it is interesting stuff to ponder. But at least from where I sit, there's, there's going to be less friction. There'll be less steps in the process. And, and what we do know is it's always going to start with the consumer and end with the investor. And so, wreck, you know, I just wondered if you had any, any last parting thoughts today, and, you know, some things that you may want folks to understand about what you're doing and how they may be able to get involved.

Rick Hill: Thanks. And, yeah, from an MBA perspective, there's so many things we're talking about our conversations that we have, inside our residential technology forum, we've got our new group, our vendor group, that is also focusing on identifying issues that perhaps the vendor community is identifying out there. You know, it's not everybody doesn't see the world the same. And so, issues can come up from different angles. And so, we created this this new vendor Technology Group to provide another forum to identify, you know, perspectives on things. So, there's those blood items we talked about, you know, in some that we didn't things like artificial intelligence, and data privacy and protection, those are all issues, I think we're going to start facing more and more of as we go forward. And what I mean by that is, you know, for a number of years, we have focused on things like qualified mortgage, or the disclosures or, you know, various things coming out as regulations, that we're going to just call them more mortgage centric, or, you know, types of things. As we go forward. And technology starts to become a bigger and bigger part of things, you're what you're I think you're going to start to see is more of this technology oriented or, or technology involved, types of things that that we need to

talk about. So, AI, there's, there's a request for information out from joint agencies on the use of AI in the mortgage industry. You know, you think about data protection and privacy, and who can use what information for what purpose? I think, you know, you've got state perspectives and the state approach to some of those things. So, when I look here, today, and into the future, I think you're going to start to see more interest from legislators and regulators on technology-oriented things, more so than we had seen in the past. And that's why I believe it's very important that folks who understand how folks might want to use these technologies or are using them, you know, could be businesspeople, as well as technologists, very important that those individuals start to get more involved with MBA. Because, you know, if we're not right, then then we're going to be reactive to things that are coming up, rather than being proactive and working toward the ability to use these technologies in the appropriate ways. With the right oversight, but hopefully, you know, not excessive oversight. You know, you want, you want agencies to manage the risks that are there. And we all acknowledge that. But I think, you know, collaborating and understanding things is going to be very, very important for everyone.

Matt Seu: Rick, that's a, that's an awful lot of good advice and insight. And I really want to thank you for joining us today, as always, a great conversation. And I'm sure that that there'll be more to come that way. And for folks that are listening, I mean, obviously actualized consulting offers a full suite of products and services in this space. And we would love to talk to you. So that's, it's time to sign off.

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