

Actualizing Success: Digital Mortgage Roadmap

Matt Seu: The companies that don't follow along and try to reinvent themselves or transform themselves, they're going to get left behind.

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.

Kerry Wekelo: Hi, my name is Kerry Wekelo, and I will be our host today. Welcome to the first episode of Actualizing Success. Today, we have Actualize Consulting Partner, Matt Seu, and Manager Jon Cooper with us to talk a little bit about digital mortgage. How does it feel to be our first guest?

Matt Seu: Oh, well, you put me on the spot, Kerry. But no, it's all good. No, it's fun and can't wait to kick off a long series of these podcasts. Jon, what do you think?

Jon Cooper: I think it'll be fun. It's always interesting hearing what you say on some of these topics, man.

Kerry Wekelo: Okay. Well, Matt, before we jump into the main topic, it might be nice to give some background to our listeners about the history of the mortgage industry.

Matt Seu: Yeah, we can do that for sure. And I think it's interesting when, when you start to look at mortgages and loans on real estate, it goes way back, I mean, back much farther than even the United States and to Europe and other parts of the world. Just talking about more recently, in the US market, if you go back to say, I don't know 1970s. And before that, you really had a very different process and how things were done, but, but it's the same thing. It's just an automated so back then. And there's, I'm sure there's some people listening that are as old or older than I am. But, you know, your big tools that you used back in those time periods were a typewriter and everything was paper was a form that you had to fill out. Believe it or not mean, you know, we didn't even have email back then the stuff was either mail through Google us mail or you went to the bank to get your mortgage or, or what have you. People talked on the phone. Some folks use couriers, especially, are in urban areas, but there really wasn't anything like we noticed today back then. And so, you know, when you got into the 80s, there were some, some more technology, most of them were mainframe, but the biggest tool that entered the mortgage process was the fax machine. And, unbelievably, you could fax stuff and it would arrive instantaneously, wherever, wherever it was being sent. And if you if you worked in an environment like that, there'd be like faxes everywhere stacks of them onto the floor. But it was constant. And that's how information was moved until, you know, companies started in the late 80s into the, into the 2000s starting to get email or and then in the 90s, of course, you know, you saw the advent of personal computers. And so, things like Excel and Word and an email, they all became common in a in a work environment. But at the same time, everything was still very much paper oriented, and forms oriented. And so, you know, all the different contracts that go back to real estate or land contract law, were still in place. And that's why you still do things like notarize documents and why you must have wet ink, it's just very much going back into how it always was. And it really wasn't until the 2000s when we saw first a big movement to web based and what would have been called the.com era, I guess. And then the.com bust happened but that was where we saw the rise of what you would consider to be typical systems that that all lenders would have loan origination systems, pricing systems, things of that nature and yet at the same time, we still didn't do anything other than pave the cow path. And so, your typical LOS's would walk you through the process of completing all the forms and getting all the documents in place and, and all of that and, you know, and that was just the way it's been and so you know what's changing

lately you've seen more so in other industries FinTech coming out of Silicon Valley and elsewhere, really, really trying to make changes to how people do things, disruptive technologies. And so, you've seen that lately, I don't know, in the last five years in the mortgage space. And, and that's been mainly in terms of borrower interaction, there have been some things in terms of regulatory, but things are starting to change. And, you know, we're seeing more activity than ever, in terms of how technologies are being used. And, and reality is, is that we're still a long way off, but there are some decent foundations being put in place now in terms of digital and things of that nature. So hopefully, that helps carry

Kerry Wekelo: Yeah, thank you. And I have a question with all that history, I thought e-mortgages and digital mortgages, were going to be a little more efficient.

Matt Seu: You know, I look, the promise of the mortgage has been around for a long time, it goes back 20 years or even longer. But the problem has been that it's tricky to get everyone on the same page. And, you know, and we'll talk a little bit later about the difference between E and digital. But it might be good to have Jon pick that up because I mean, he's been working on this for a while with us and with our clients. And so, you know, if it's okay, Kerry, maybe Jon, if you want to just give us a little bit of an idea of what's been the challenge and you know, what are what are we doing going forward?

Jon Cooper: Sure, that a lot of points you have kind of the origins of it, right was back in the 80s and 90s, when they started going to the paperless mortgage, right. So suddenly, we got a fax coming in, we got an image coming in. But the process itself really never changed that much. Now you're getting a copy of the document by email, you're still printing it out and to a folder doing the same work you did on that document before. So, it made things a little bit easier. But in the back office, nothing really changed. Around 2000, I believe, early 2000, passed the E-sign Act, which basically gave the foundation toward digital signatures and commerce. Then around 2003 2005, Fannie and Freddie, they started purchasing enough to purchase there, it was about 1% of the volume they first started for the first couple years. Interesting luck, that volume all came from two lenders and each shop right, so it was starting to be adopted, never really got wide round. In around 2008 bond fall pretty much zero, it stayed at zero close to zero for a couple years. And we've really seen that starting to pick up now in probably 2018 they started doing about 3% of their volume. And now it's I think it's up to five 6% of their volume is in digital mortgages.

Kerry Wekelo: And that's really not much, right?

Jon Cooper: No.

Kerry Wekelo: So why don't you think the adoption rates haven't been higher?

Jon Cooper: Yeah, we're just in the early stages still, right. So, people are starting to figure out what it is how to work with it. It's been a lot of problems around process, technology available, and locations while everyone's trying to get a feel for the market. Basically, we've got to the stage of let's check everything out and kind of put base processes in place. Now we're starting to see a lot more, a lot more interest in the market. Not long that came around to this year when Ginnie Mae started announced their digital collateral program, kind of a limiting factor has always been that there's not an end investor for it then here's no reason to produce the acid, right?

Kerry Wekelo: When I've seen too, with the pandemic and everything that's going on, I would think that there would be a bigger push as well, because people aren't wanting to be in person right now.

Jon Cooper: Oh, yeah, the pandemic is definitely a big push for being able to do everything remotely at all, I don't want to sit in an office, five feet away from some stranger and signed documents for three hours. So, you didn't see a lot of push that way. I think today, a lot of technology vendors have come to the table kind of enabled these things.

Kerry Wekelo: That doesn't make a lot of sense. How do we think this will play out over the next few years?

Matt Seu: Yeah, let me take that. I mean, I think, you know, given a little bit more context and into what happened, you know, within the pandemic, you did see companies get over the hump. So, like I remember back in March, companies were panicking in terms of how I am going to close loans when I can't do them face to face. And you know, there were firms that had already looked at things like remote online notarization and, and you know, tools and techniques that you use for a digital closing, but a lot of them have haven't and you know, even a couple of our clients that I've considered to be pretty, pretty old school got over the hump and, and what I've learned is that it's really going to be more The mainstream way of doing certain things on a go forward. So, I do think that I did think that we got a lot of firms into part of the digital or the eat process. And so, you know, my mighty senses, I think we're going to see continued momentum, I believe that we'll probably see a movement in the next year where we'll see a little bit of a bump in refires, given some folks coming out of forbearance, and then a fairly flat purchase market after that, but I do think we're going to see continued use of digital techniques and tools, but I think the thing that I think is going to be really different over the next five years, and we've already seen this, come about and for sure, in other lending types is how the borrower is going to be participating in the process more so than the traditional model, and, you know, if you've ever had a mortgage or thought about it, you realize that people are going to cold call you, you'll get postcards and, and then, of course, you can go to your bank, but at the end of the day, the bank, the lender, the loan officer, really controls the entire process. And as a borrower, you're somewhat left out in the dark and, and that's disconcerting to some people. And its a, it's a reason why some folks are leery of doing business with banks in general. But I think you're going to see a big shift to the borrower being more in control. And the way I know that is simply because that's how things are working everywhere else. So, mean, if you're not buying from Amazon, you're probably one of the few. But everybody wants things point of sale. It's simple. The borrower's ability to transact business, buying things, I know, I bought a vehicle about a year or so ago, and the only thing I had to deal with was an iPad, when I went into the, into the dealership, and I was quickly able to understand what I was doing, I signed my name, we left with the car, and people are going to want to do that with mortgages, and so that it definitely spins things around. But I also think that it's something that's inevitable. And so, you know, as we move towards that model, you're really, really starting to get into some thoughts about how the economics might change in that model, and, why it's so critical to have some different technologies in terms of customer service, and borrower satisfaction and so forth.

Kerry Wekelo: And do you have examples of some companies that have been really good at this? And why would other companies struggle?

Matt Seu: Um, let me let me do it more generally, not necessarily call out companies, but some that are somewhat obvious, the ones that are leveraging technology, middle name, I'll name one that everybody knows. And that's Quicken. And I mean, you're, you know, they've, they've spent an enormous amount of time understanding the borrower and being very savvy in terms of, of how they interact with the borrowers making sure that they're comfortable, and that they understand the economics of why

specifically a refinance may make sense for them. But I think the other thing that I would say is that the real savvy companies are looking at the math. And if you know anything about what's happened over the last, I don't know, a dozen years since the fall crisis is that the costs of lending have gone through the roof. And you can argue that a lot of that student regulatory pressure, but the reality is, is that I just think a lot of companies are still sloppy and how they deal with, with, you know, with the lending process and, quite frankly, you know, Jon mentioned this a minute ago, but your real challenge is that the processes need to be reinvented. And you really need to take consideration in terms of what you're doing, and how you're spending your money in order to digitize and make things less paper and get rid of things like checking and checking the checkers, but you know, the one thing I would suggest to is the company should take a look at the return on their investment. So instead of just going out and buying something like up in a sale system that enables a better borrower experience, they probably ought to just go through and take a take a strong look at what they're doing along the way. What are the different parts of the process, what can be automated what data can be, can be checked early and validated, as opposed to the way that it is today? And so, you know, I think, personally, companies that are savvy that way and that are ahead of the curve are going to going to survive and thrive as they move into the new era of FinTech. But I think even more critically is that the companies that don't necessarily follow along and try to reinvent themselves or transform themselves as we would put it with actualize, they're going to get left behind. And the companies that get left behind are really, really going to hurt. When I mentioned, purchase volumes are going to slow, it's going to be tough to make money in this market. If you're not lean and mean and have a strong strategy towards automation and cost reduction.

Kerry Wekelo: And, you know, it's always a good process, a good way to run your business is to constantly be looking at your processes, your procedures, and how you're doing business so you can be best in class, how would you suggest that the listeners today might get started with this?

Matt Seu: Well, I mean, here's your shameless plug, right. So, we would recommend, we would recommend that you have a plan and a strategy in place. And certainly, if the company sounded the wherewithal to do that, awesome. But really, I think, you know, when you look at what we do at Actualize with our clients, and how we help them transform, it's really critical that, that you have, you know, a second opinion, or at least, an independent view of that, I think companies really get lost and how they do things and, and just bring in someone like us to take a look at it from an outside view or a fresh view is helpful. And what we would do is we clearly come in and and understand your business objectives. First, take those and try to align that with what you need to do to transform the business. And we're not saying that we want to change how you do business. But we want to, we want to make sure that you're doing it more efficiently and effectively. And leveraging tools and making sure that that data is properly cared for. And that you're very clear on where the money goes. And quite frankly, to leverage technologies in the right way. And think about how you may want to look at it differently going forward. And again, the core thing is, is that you would lay out a several year roadmap and strategy on where you'd want to go, we would certainly help get that moving and guide you through the process. But ultimately, we want you to learn so that we're not we're not necessary after a while and that you're owning your own transformation. So, you know, I think, I think first and foremost have a plan, have an approach, make sure that you're looking at it independently, then the key people inside might be and, and do something because like I said, You're the companies that are hesitating are going to get left behind and the ones that do nothing are going to get left out at the end of the day. So, Jon, I don't know if you had any other comments that you wanted to make? I mean, you're a process guy. Anything else that you would think about that? Maybe we should bring up?

Jon Cooper: Um, no, I think I think you nailed it, I think the internal process is key, right? If you really want to take cost out of the out of the process, right? going out and getting a new pls, where I have a great borrower experience. Once that loan student comes in house, there's still a lot of work you have to do on it. And if you're not, if you're not addressing those issues, you're not really seeing a lot of the benefits that are possible.

Matt Seu: Yeah. You know, one of the things we've put in place to for our offering was we have some tools like calculators, you want to just talk a little bit about our ROI calculator and why that may be something that companies may want to look at.

Jon Cooper: Yeah, it's just it's a, it's a good way to get a view into the actual production process and where the costs are sitting. And you can take that compared if I digitize this process or if I take this workload out of the process. How's it how's it affects my bottom line? Right? It's really, most people know most people How much it cost to produce a loan? Each individual step along the way? I think that's right. And I think, you know, key also, I guess, as we go forward, and money might be tighter, you know, every penny counts. And so, yeah, really being able to, to zone in on where the real pain points and how you might tackle things, you know, the use of the calculator that like that, oftentimes is really revealing for the companies.

Matt Seu: appreciate that Jon.

Kerry Wekelo: And many times, you don't even what I found and working on projects, as many times companies and even us internally, you don't even know everything, you haven't looked at the bigger view. So, taking a fresh view of how what your processes and procedures look like can, you know, just be a really good, best practice? For sure.

Matt Seu: Yeah, Carrie, one thing I wanted to bring up also was a different part of the process, which is really about the change. And you know, sometimes when we go in, and we've got radical ideas about how companies need to do things differently, especially in companies that have done things over and over again, the same way people take it personally. And, you know, maybe a situation where everybody understands that it's the right move to change process or reorganize, or you know, even downsize staff are reallocate staff to different things. Sometimes that doesn't feel so good. So, you know, in terms of what we offer on our culture and fusion side, how would something like that play into a transformation?

Kerry Wekelo: Yeah, that's a great question. And I think, really, when we're going in, and we're actually working on a project right now, Matt, Jon and I, and it's all about communicating throughout the process, and making sure that your stakeholders have the information, what this is, what we're looking at, this is why the "Why" is important, because many times if you tell your team, why you need to make these changes to make your organization stronger, they're going to be on board. So, I say the first step is that open communication with your teams, and then just continuously making sure that they're engaged, their voices heard throughout the entire change management process.

Matt Seu: Yeah. And I think I think when we, you know, we do that you start to build trust within the organization and the champions that, that we have, as our clients that need to make the changes get a lot more comfort in the fact that there's a process that we go through as well. And so, you know, some people are going to be, are going to be asked to do different things or change their skills. But as long as everybody can see the end, and it's a positive end, that's good for everyone, you know, including some of these things that we do, in terms of culture can really go a long way. So, I appreciate that, Kerry.

Kerry Wekelo: Yeah, no, absolutely. Well, I think that that's all that we have time for today. Thanks again, Matt and Jon, for being our first podcast guests. All right.

Matt Seu: Well, hopefully we have set the bar high.

Jon Cooper: That's right. Exactly.

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