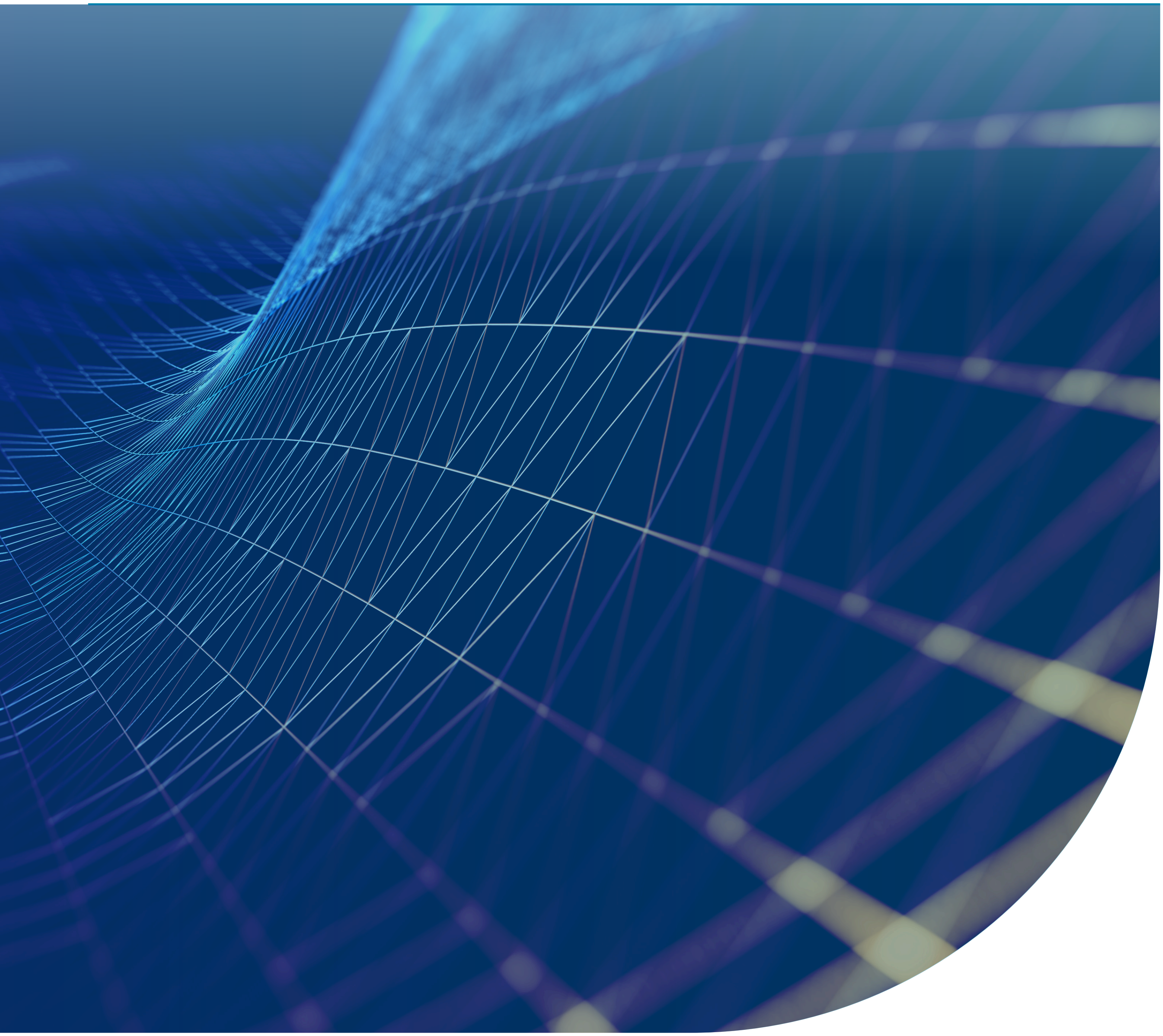
E-book

Experian Mortgage

A pivotal year in the path toward the modern mortgage



2020 was a banner year for mortgage, with an estimated **$3.57 trillion** in total originations.

— **Mortgage Bankers Association**, December MBA Mortgage Market Forecast

Introduction

This past year, the mortgage industry found itself in a unique lending environment and lenders continued to hit origination records, which were fueled by low rates, low inventory and high consumer demand for housing. 2020 was also the year that the industry was forced to accelerate its digital transformation from originations through loan closing.

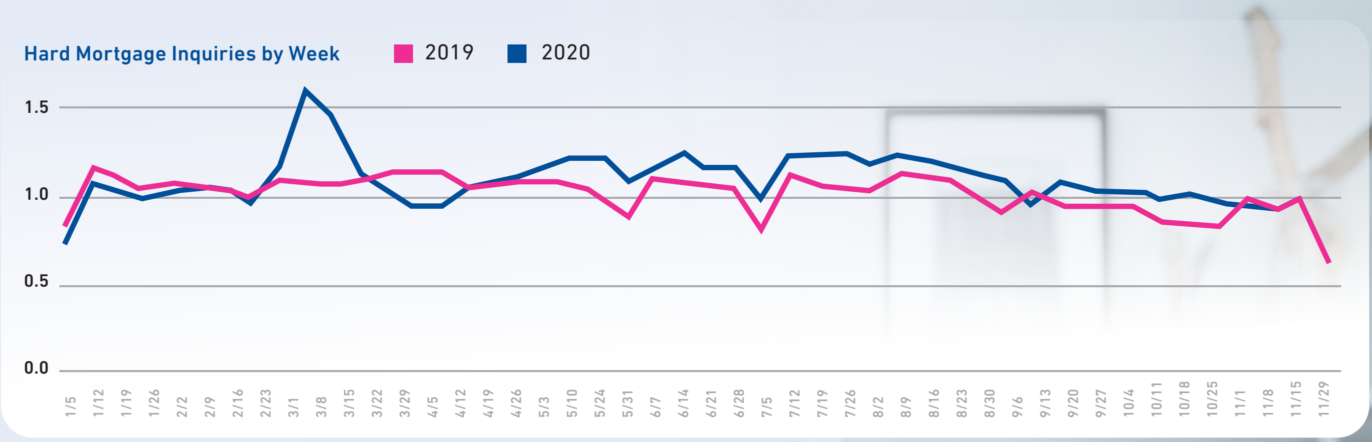
As the global health crisis nears its one-year anniversary, it's clear it has caused a paradigm shift in the way we work, live and think. But if there is a silver lining to the pandemic, it's that it has accelerated innovation and transformation across just about every sector, especially those ripe for change like the mortgage industry. Now, not only are consumers looking for a better experience, the current market demands it. To stay relevant and profitable in 2021 and beyond, leading-edge companies will need to respond to the latest trends, account for a new regulatory environment and embrace new technology and processes so that collectively we can usher in the **modern mortgage**.

Mortgage rates hit record lows **16 times** in 2020.

— Freddie Mac Primary Mortgage Market Survey®

Origination numbers through the roof. Rates through the floor.

One thing was for sure — stay at home orders had little effect on purchase demand. Record low rates consistently fueled the refinance boom, and hard inquires for mortgages were up YOY compared to 2019 levels.



(Ascend Sandbox, hard inquiry weekly trends: Jan. 2020–Nov. 2020)

> At least 8 mortgage lenders in 2020 either filed for initial public offering, announced they plan to go public or went public.
>
> — National Mortgage News

According to CoreLogic's Homeowner Equity Insights report, U.S. homeowners with mortgages have seen their equity increase by **$1 trillion since Q3 2019**, an increase of **10.8% YOY**.

Trends that shaped the industry

Many trends played a part in shaping the industry in 2020. Here are the top trends that consistently made mortgage headlines.

Rising profits but higher costs

Profits per loan rose for lenders, but the cost to produce a mortgage rose as well. Also, despite technological advancements, turnaround times to originate loans increased, contributing to a higher cost per mortgage.

Average net gain per loan was $5,535, with total production expenses increasing to $7,452 per loan

(Q3 2020 for independent mortgage banks and mortgage subsidiaries of chartered banks).

— **Mortgage Bankers Association**, Quarterly Mortgage Bankers Performance Report

Tightened lending guidelines

At the beginning of the pandemic, lenders pulled back to more conservative lending criteria. This was largely due to a high number of mortgages that entered forbearance accommodations and growing concerns around the pandemic's impact on borrowers. Nonqualified mortgage (non-QM) lending essentially took a vacation, making it more difficult for some borrowers to obtain a mortgage. However, toward the end of the year, credit guidelines eased and the non-QM market reemerged.

Verify not once, but twice

Part and parcel to tightened lending guidelines, verification of income and employment became especially important to ensure a buyer maintained qualifying status through loan closing. Some lenders added an extra verification of employment check on or within days of closing due to labor market volatility.

Financial inclusion

Key conversations took place around affordability and bridging the gap in homeownership, including at the 2020 Mortgage Bankers Association Annual Conference, and will continue to be a prevalent talk-track as the country looks toward reaching underserved markets.

"If the pandemic lasts well into 2021 and millions continue to stay unemployed, there's real risk that inequality will increase."

— **Edward Seiler**, *Executive Director, Research Institute for Housing America, and MBA's Associate Vice President, Housing Economics*

Movement in the industry

2020 was the year of mergers, acquisitions and IPOs in the mortgage industry, with 2021 gearing up to be equally as active.

High unemployment numbers — unless you work in mortgage

Additionally, lenders staffed up to accommodate overwhelming demand, which can add to fixed costs associated with each loan due to escalating personnel costs.

Some lenders announced plans of hiring over 3,000 employees (each) through the end of 2020.

Got equity?

The pandemic did not slow down home price appreciation, especially in areas with high in-migration numbers (like Austin, Texas). Home equity continued to grow in 2020 for millions of American homeowners.

These trends changed the trajectory of the mortgage industry in 2020 and, for some lenders, brought attention to the need to modernize their mortgage process.

According to Ice Mortgage Technology's Origination Insight Report, the average time to close a loan increased to **58 days** in December 2020.

The road to a modern mortgage

Massive origination volume stress-tested mortgage lenders' systems and proved that adopting a digital-first approach to mortgage is a **necessity**, not a "nice-to-have." Many lenders realized the negative impact of the gaps in their modern mortgage process while dealing with unmanageable origination volume.

Here are three common speed bumps lenders often faced:

Operational efficiency

Although the industry had made moves toward a digital process, the borrower experience during loan origination may still be cumbersome. **Looking at a purchase transaction from end to end, there are at least nine parties involved: buyer, seller, realtor, lender, home inspector/inspection vendor, appraiser, escrow company and notary**. With all those touchpoints in play, it takes a concerted effort between all parties and no unforeseen issues for a loan to be originated faster than 30 days. Meanwhile the opposite had been happening and the average time to close a loan increased to 55 days, per Ellie Mae's Origination Insights Report.

Faster access to fresher data could help mortgage lenders reduce their origination turnaround times. This saves resource hours for the lender, which equates to savings that can ultimately be passed down to the borrower.

According to a recent global survey of consumer sentiment by McKinsey & Company, consumer and business digital adoption vaulted **five years** forward in a matter of **eight weeks** at the beginning of the pandemic.

Digital adoption

There are parts of the mortgage process that have been digitalized. However, the process still has points void of connectivity for it to truly be called an end-to-end digital process. The borrower is still required to track down various documents from different sources and the paperwork process still feels very "manual." Printing, signing and scanning documents back to the lender to underwrite the loan add to the manual nature of the process. Unless the borrower always has all documents digitally organized, requirements like obtaining W-2s and paystubs, and continuously providing bank and brokerage statements to the lender, make for an awkward process.

Modernizing the mortgage end-to-end with the right kind of data and technology reduces the number of manual processes and translates into lower costs to produce a mortgage. A streamlined, modernized approach during the application and origination process not only saves time and money for both the lender and consumer, but it ultimately enables the lender to add value by providing a better consumer experience.

Transparency

Digital adoption and a better end-to-end process are not the only keys to a better consumer experience; transparency is another integral part of modernizing the mortgage process. More transparency for the borrower starts with a true understanding of the amount for which one can qualify. This means when the loan is in underwriting, there needs to be a better understanding of the loan status and the ability to better anticipate and be proactive about loan conditions.

Additionally, the lender can profit from gaining more transparency and visibility into a borrower's income streams and assets for a more efficient and holistic picture of their ability to pay upfront. This allows for a more streamlined process and enables the lender to close efficiently without sacrificing quality underwriting.

Lenders that were focused on digital transformation pre-pandemic were in a better position to handle the wave of refinance demand. Those that weren't found themselves having to navigate unscalable and fragmented processes, made worse by capacity issues.

Mortgage in 2021 — what lenders should focus on

2020 is over, but 2021 will be equally as uncertain for both businesses and their customers. And at the fresh start of a new year, forward-thinking lenders are evaluating what it means to provide value to their borrowers in this new normal of economic uncertainty.

Some ways lenders can provide value in the new year

Provide a seamless digital process

Many mortgage lenders may not have had the time or resources to update and modernize their processes due to massive origination volumes this past year. Lenders that proactively streamlined technology and focused on digital adoption before the pandemic are leveraging and benefitting from the current mortgage environment. For lenders that didn't digitalize in time, the high-volume environment highlights their inefficiencies. It's not too late for lenders to start looking at their digital gaps and find ways to convert toward scalable processes by leveraging technology.

Provide meaningful customer experiences

Forward-thinking, resilient mortgage lenders are also tracking how effectively they can provide meaningful customer experiences, for both their borrowers and their internal customers — their employees.

For borrowers:

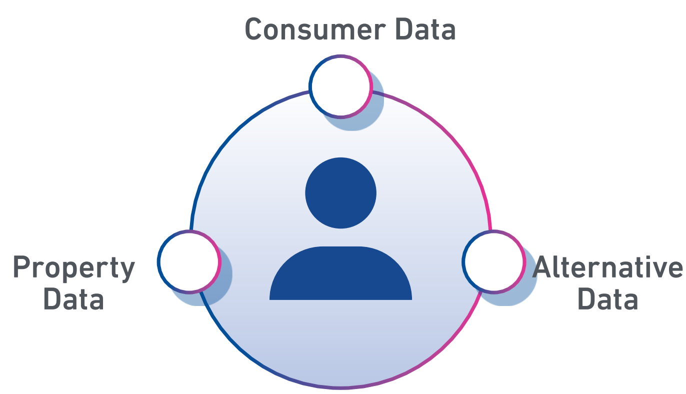
It can come in the form of enjoying a seamless mortgage experience, being proactively kept abreast of their loan status, and the ability to interact and communicate with the lender in a manner that works best for their style. Giving back to communities through borrower education is another way to provide a meaningful experience and to help create sustainable future homeowners.

For employees:

This can come from feeling valued and listened to, with relevant and useful communications and resources to rely on during these uncertain times. It also comes in the form of providing the right resources for employees to perform at high levels and to work efficiently without sacrificing quality.

Using data for the better

Today, borrowers and homeowners can get the information online that traditionally would have been delivered by a mortgage or real estate professional. Lenders should reframe the way they look at data so they can continue to provide value to their customers. One way lenders can do that is by layering data sets to gain a better understanding of their borrowers' lending profiles and using that information to help tailor their borrower experience.



Assessing risk

Mortgage forbearance numbers consistently made headlines, but the true impact of forbearance remains unknown due to the extension of the CARES Act accommodation periods. How many of the borrowers in a lender's portfolio will be negatively affected by the pandemic when the accommodation period is over? Mortgage lenders can try to anticipate this risk through gaining a holistic view of their borrowers by layering multiple data points, including property, consumer and alternative data.

Filling the funnel today and beyond

The adage, "it's cheaper to keep a customer than find a new one," is a mainstay of sales and marketing across every industry, and mortgage is no different. A holistic, lifetime view of a borrower will not only boost a lender's originations today, but also help fill the marketing funnel for future originations across the lifetime of that customer relationship. And when mortgage companies look forward to what's next to help sustain business after the refi boom, marketing will be at the forefront once again. A more targeted approach to marketing and customer relationship management will help increase the efficacy of marketing campaigns, improve ROI and lead to more engaged borrowers. It also aligns with providing the experience that borrowers now need and expect.

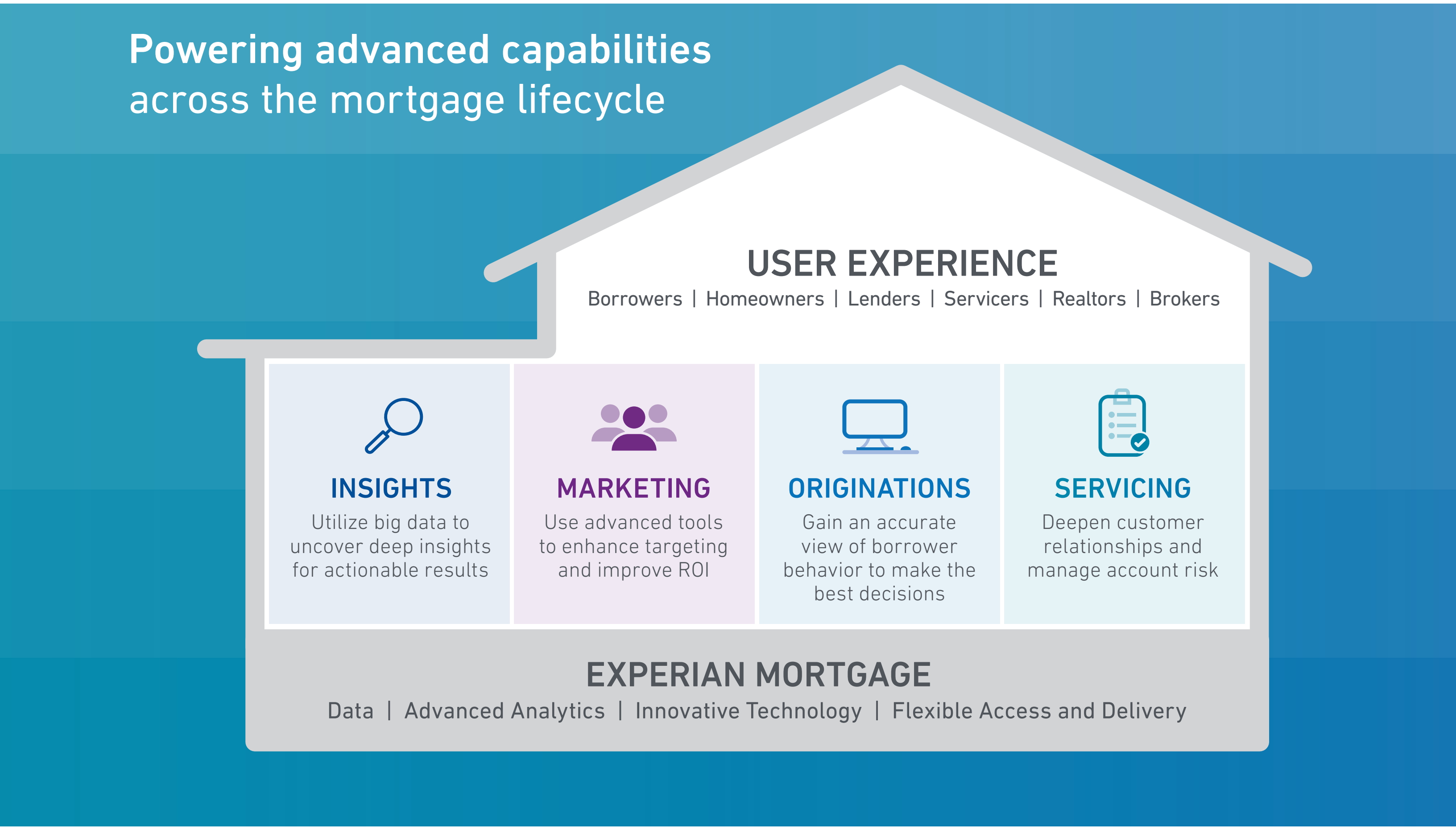
Conclusion

As the industry looks toward 2021 and continued uncertainty, lenders should focus on what they can control. Investing in technology and their greatest asset, their employees, is how forward-thinking lenders are continuing to stand out among their competition. And as the refi heyday starts to show signs of impermanence, these differentiators will become more important than ever — all lenders should be taking a proactive look now at how they can bridge their digital gaps.

Many have come out of 2020 with strong earnings and should look to allocate a part of these earnings toward future-proofing through scalable technology that will ultimately reduce costs and continue to bring in qualified volume.

Creating operational efficiencies through faster, fresher data can be the key for a lender to remain relevant and successful in the new year. At the same time, a digital-first approach enhances the consumer experience and makes way for a frictionless, transparent mortgage process. With technology, better data and the right kind of innovation, there can truly be an end-to-end digital process and a more informed consumer.

Join Experian Mortgage in accelerating the mortgage evolution. Learn how we can help bridge technology gaps, provide value to communities, and help lenders focus on operational efficiency and reduce costs.



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