



AI-FIRST MORTGAGE: 10 WAYS FOR A CUSTOMER-CENTRIC APPROACH

Home ownership is a critical step in wealth generation for Americans, and the US mortgage industry has played a key role in helping Americans achieve a high rate of homeownership. As per the US Census Bureau¹, the homeownership rate in 2023 was 66%, down from a peak of 69.2% in 2004. The mortgage banking industry has seen a lot of volatility over the last few years due to many factors such as interest rates, housing prices, available inventory, and affordability. From a peak of \$5.4 trillion in 2021, mortgage originations have dropped to \$1.6 trillion in 2023 due to the sudden spike in interest rates in 2022. Fortunately, the tide is expected to turn with inflation cooling and anticipated interest rate cuts in 2024. In the absence of another black swan event, growth is expected to return² with strong pent-up demand, which can be an opportunity for lenders.

Looking into the future, banks and lenders still need to address a few areas to remain competitive in this tough market. Due to a fragmented technology landscape, and in many cases antiquated business processes, many borrowers faced a disconnected experience across the life cycle of originating and servicing a mortgage can be expected. Today's consumers have very high expectations and technologies such as artificial intelligence and machine learning are critical as banks look to the future to provide a best-in-class experience to consumers with the most competitive pricing in the industry.

Infosys is an AI-First company that helps clients navigate their next in business transformation, especially in an AI-driven technology world. We have identified an AI-First mortgage blueprint across 10 areas of the mortgage life cycle which banks can use as a reference to provide best-in-class customer experience with industry-leading digital technology and operations platforms.

We have identified how an AI-First mortgage can help businesses across four outcomes:



Best-in-class customer experience



Increased revenues



Reduced cost of operations



Reduced risk



While some of the leading financial services firms have already made progress in some areas, there are many more opportunities and possibilities to expand to new use cases, especially with the onset of generative AI. Let's explore these 10 areas where an AI-First mortgage can benefit businesses.





SALES

Borrower Nurturing

Buying a home is one of the biggest financial transactions of many people's lives, especially for a first-time home buyer. Homes have become very expensive due to appreciating house prices and low inventory, which have been persistent for over a decade and forecasted to remain the same for the foreseeable future. This is where borrower nurturing becomes a critical aspect for banks and lenders to help potential homebuyers prepare for their home buying journey. Traditional calculators can be now enhanced using GenAI to create a co-pilot in their journey to prepare for buying a house (or if they need to refinance to reduce their monthly payments or take cash out for expenses given the historic high amount of home equity that exists today³). This will also provide stickiness to engage with customers which is historically an under-invested area for mortgage originators.

Homeownership is the primary way most consumers build wealth, and Infosys stands at the forefront of driving innovation and efficiency in mortgage banking. Their AI-First mortgage blueprint, crafted across 10 key areas of the mortgage life cycle, including borrower nurturing, offers strategic opportunities for mortgage lenders, banks, and credit unions to engage with prospective homebuyers throughout their homebuying journey. Giving prospective borrowers AI-enhanced tools that use their consumer-permission data can empower them to attain a perpetual state of mortgage readiness so they can quickly convert when the market or their life circumstances shift.

Henry Cason
CEO, Finlocker

Lead Conversion

With the shift of the market from refinance to purchase, personalized marketing and lead conversion is now critical for lenders to grow their business in a highly competitive market. Banks have a wealth of data on customers and combined with data acquired from lead sources and external entities, AI models and analytics can empower loan officers and sales teams to help increase conversion rates. This can also leave a lasting impression on customers, especially those who expect same day turnaround in approvals while competing with other buyers in tight inventory markets.



LOAN ORIGINATION



Loan Processing

The application process has seen the most innovation in the last decade, as the move towards digital mortgage is reflected in the fact that majority of the applications (80% or more) are initiated digitally for some banks. This can now be further turbo-charged by AI-driven automation, direct to source integration, and automatic ordering of appraisals. A GenAI-based co-pilot can keep borrowers abreast of their loan status while providing banks the ability to increase their pull-through rates and ability to cross-sell other products and affiliates such as insurance, title, warranty, etc. With a task-based workflow, self-service functionality for borrowers, faster turnaround time to close a loan, and higher productivity of processors, banks can process loans at a much lower cost than industry average with a better customer experience and reduction in complaints.

Loan Underwriting

While many other industries have adopted straight through processing, mortgage underwriting continues to be a highly manual process due to various reasons such as high value transactions and regulations. However, many aspects of underwriting can be automated using AI techniques which will help in reducing risk by system checks eliminating or minimizing human errors and reducing fraud. The industry has seen great advancements in using machine learning for document data extraction over the last few years which has helped automate tasks such as income, employment and asset verifications. This will lead to much higher underwriter productivity translating to direct cost savings.

Loan Closing and Quality Control

Once the loan is underwritten, AI-driven automation can help reduce a lot of the manual activities such as preparing closing package, identifying and resolving documentation issues, escrow account processing for tax and insurance, in the quality control process for reviewing against checklists, and addressing gaps. This will help in reducing costs and better loan quality and compliance.

Due Diligence for Third Party Originations

Up to 50% of loan volumes for large lenders can come through third party originations such as correspondent lending and wholesale/broker lending. When buying large portfolios of loans, banks can use AI technologies for underwriter due diligence, especially when dealing with large volumes of data and documents. This will help in reducing costs of manual processing and also lead to better risk management with increased quality of loans funded.



Loan Boarding

Banks and servicers actively buy pools of loan for their mortgage servicing rights and recurring revenue. The entire loan boarding process can now be significantly faster by using AI-driven processes to automate the highly manual task of reviewing data and documents. This can not only help servicers increase their ability to onboard loans faster at reduced cost, but also provide a much better experience to borrowers, who have in the past experienced a lot of friction when their loans are transferred across servicers. Servicers can adopt GenAI-based chatbots to help customers in a seamless setup of features such as autopay setup to convert a disruptive experience to a positive outcome and even cross-sell new products

Customer 360°

Many modern servicers provide digital tools such as mobile apps for borrowers for various self-service functions such as setting up autopay, payments and viewing statements. However, they still maintain large call centers for handling customer support queries. By using contact center AI technologies and GenAI you can look at reducing call center volumes, providing a much better experience for borrowers to interact on their loan details and use these opportunities to cross-sell relevant products and services.

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Compensation expense continues at 60% or more of the total cost to originate. The productivity, cost and customer satisfaction opportunities offered by AI suggest that one needs to consider AI as a top ROI opportunity.

Jim Deitch
CEO, Teraverde

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Customer Communication

While banks today offer customers an ability to view their statements in a static manner, by using AI, banks can generate dynamic statements not just in text but in video formats, giving the borrowers the ability to simulate various financial scenarios of pre-payments, explaining complex scenarios such as escrow for tax and insurance. Banks can also use this as an opportunity for cross-sell, for e.g., home equity loans to tap into the historically large equity today's borrowers have. This can also help reduce customer complaints by taking a more proactive approach towards communicating with borrowers.

Default Prevention and Management

In the unfortunate event of borrowers getting behind in their payment due to difficult circumstances, banks can look at AI technologies in the default management cycle to provide a better customer experience. It can also help in reducing risk. In the very complex and regulated environment of bankruptcy, foreclosure, loan modifications, and other default related processes, a Generative AI based co-pilot can help both borrowers in distress as well as associates navigate through these complex scenarios through the curing process of loans in default. Machine learning-based document extraction can reduce significant amount of manual effort in this document intensive process. Using advanced AI analytics, banks can move towards a predictive customer servicing approach by identifying borrowers at risk and taking early loss mitigation steps.

An AI-First Future for Mortgages

Banks and mortgage firms currently have a golden opportunity today to differentiate themselves with AI/ML technologies taking a center stage in transforming all businesses. These 10 areas identified provide a blueprint for banks to dive further into their processes and use this period of reduced volumes to double down on their strategy, whether it is looking to re-build their business or expand into new markets and products. At Infosys, based on our large scale and breadth of experience working with leading global financial services firms, we have created detailed playbooks across these 10 areas to help our clients in their technology and operations transformation. With our strong technology capabilities, industry partnerships and alliances with leading technology & fintech firms, we are excited to help our clients navigate the digital future and be ready with an AI-First approach to provide the best-in-class customer experience at the industry's lowest cost to operate.

References

¹ <https://www.census.gov/housing/hvs/files/currenthvspress.pdf>

² https://www.mba.org/docs/default-source/research-and-forecasts/forecasts/2023/mff_dec23.pdf

³ <https://www.cnbc.com/2023/09/07/americans-have-almost-30-trillion-in-home-equity-how-to-tap-it.html>

Author



Vivek Bakshi
Portfolio Head, Financial Services
Vivek_Bakshi@infosys.com

Vivek is the Mortgages Lead at Infosys where he manages a US portfolio across regional banks, independent mortgage banks and fintechs. With more than two decades of experience, Vivek is a trusted advisor and strategic partner for clients' in their digital transformation journeys. He is a strong advocate for collaborative partnerships across a connected ecosystem. Vivek is an experienced public speaker, author and mentor who is passionate about the intersection of technology and business domain in the digital future.

For more information, contact askus@infosys.com



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