



## TRANSFORMING MORTGAGE EXPERIENCE WITH DIGITAL

## Overview

The ongoing digital revolution has radically altered the way we live our lives and consequently changed the consumer expectations along with the business models across many industries including retail, transport, entertainment, banking and public services. Seamless experience, flexibility and customized products and services are the order of the day. Customers seemingly expect similar delightful experiences for their mortgage requirements now from the lenders. Fast, efficient and error-free mortgage lending

is the expectation of today's borrowers, who are now accustomed to the anytime-anywhere digital experience that define the modern lifestyle. In fact, according to industry surveys, 80 percent of the potential borrowers have expressed preference for an entirely online loan application process.

In the face of such changes, in the short term, the lenders must focus on service differentiation to enhance competitiveness in the mortgage market. In the longer

term, digitally enabled mortgage experiences are expected to become the norm as firms across the industry continue to invest in digital innovation. For this, a comprehensive look at the drivers behind adoption of digital mortgage is required. It is also important to look at the opportunities that lie ahead for mortgage lenders and the benefits that adoption of digital mortgage will bring. Finally, we will analyze the role which the technology companies like Infosys are playing to bring about this transformation.

## What's driving Digital Mortgage?

There are many challenges in the current mortgage lending process that the stakeholders face. On one front there are issues related to operational inefficiencies while on the other hand, there is pressure on the lenders from the customers' side to streamline the process and provide an enhanced user experience. However, mortgage lending models are have seen increased activity over the last few years, initially led by fintechs and now being driven by quite a few traditional players. The fundamental challenges that are driving adoption of digital mortgage are:

- **Lack of transparency and visibility** – The real estate sector suffers from lack of transparency and visibility with multiple stakeholders involved. The transactions involve a large number of legal, financial and real-estate intermediaries and as such add to the complexity of the mortgage process translating to loss of visibility for the lenders. On the lenders' side, there are other factors to check like the ability to

pay off the debt as well as the willingness to pay by the mortgagee. This involves collation of data from various parties like credit rating agencies and verifying the same. With an ever increased focus on compliance and checks it has become ever more important to comply with the regulations as well as prevent frauds and defaults.

- **High operational cost** – Mortgage cost is one of the prime challenges of the existing lending process. Presently it is estimated that the average cost to take a mortgage loan in the US is close to \$9,000 per loan, according to the Mortgage Bankers Association [1]. Similarly, the closing costs are high as well at an average of \$7,227 per loan [2]. This is due to the fact that numerous disparate systems and hours of manual work is involved in the origination process. Just by automating many of these manual tasks, the cost would drop significantly.

- **Long processing time of mortgage loans** – The existing process for mortgage loans is extremely cumbersome and usually takes a very long time to be completed. Primarily, cumbersome paper work and cross-verification of various data from different stakeholders contributes to this long processing time. Typically, mortgage loan files which exceeds 500 pages have an average processing time of around 50 days from start to finish. For the borrowers, it leaves them frustrated as they have to plan well in advance for the processing of a mortgage — an anxious time for homebuyers.
- **Lack of delightful user experience** - Why can't borrowers get the mortgage process started any time they want? This is one of the most pertinent questions of today's mortgage industry. The customers of today have the choice of buying or enquiring about a product irrespective of the time of the day. Customers today desire for a mortgage process that does not limit itself only to business hours, just like many other consumer experiences of today including banking and retail. Along with the 24x7 availability, lenders demand the same kind of delightful experiences they witness across the broad spectrum of their consumer lives from the likes of Uber, Amazon, Apple and Google.



## How Digital Mortgage overcomes these challenges and adds value?

Digital technologies are promising to eliminate a host of the aforementioned problems. Data Analytics, Artificial Intelligence (AI), Machine Learning (ML), digital content management and blockchain are some of the digital technologies which are powering the digital transformation of the mortgage industry from a cumbersome and time consuming affair to a delightful and seamless experience. Some of the most compelling ways in which digital technologies are creating value in the mortgage sector are elaborated below:

- **Seamless omni-channel experience** - Digital tools can create a smooth, hassle free and seamless loan application experience. Implementing digital solutions improves the customer experience in multiple ways. Expediting the process will help incumbent lenders thwart challenges from FinTechs whose value propositions revolve around minimal processing timelines. It provides banks who provide mortgage lending with a unique opportunity to leverage customers' digital footprint by capitalizing on lead generation capabilities including online scenario analysis and calculator tools and thus, create an engaging experience for the borrowers. Thirdly, customers should be able to interact with their lender via the channel of their choice (online or mobile) throughout the origination process even outside of business hours. Many lenders are taking note of such benefits and coming up with innovative solutions. For example, the Commonwealth Bank in Australia (CBA), wanted a more holistic role in the home buyer's journey. CBA thus created an augmented-reality app which allows users to point their smartphone's camera at a property and instantly see its current price and sales history. It also comes with inbuilt mortgage calculator and other financial tools along with the option to connect with local realtors.

- **Increased transparency and visibility through the use of smart contracts** – Presently, each mortgage transaction involves multiple stakeholders - lenders, realtors, attorneys, credit rating agencies, regulatory authorities making the process inherently opaque and prone to data inaccuracies. The introduction of smart contracts using blockchain technology will eliminate the transparency and visibility issues. At the core of a smart contracts platform is the ability to store verified and immutable digital identities that have been assessed by not just the company issuing the mortgage but the rest of the stakeholders on the network. Thus, it eliminates the need for an overseeing or facilitating agency expediting the process and eliminates players like lawyers and regulators greatly minimizing the cost and time along with building transparency, visibility, reducing fraud and improving credit qualification. Lenders worldwide are already exploring this potential for their mortgage purposes. For instance, the Bank of Communications in China has used blockchain to issue digital mortgages worth \$1.3 Billion in 2018. Similarly, in Russia, a subsidiary of the Raiffeisen Bank International issued an entirely digital mortgage through a blockchain platform called Masterchain, ensuring fast and secure communication between banks and other financial institutions, allowing users to quickly confirm the accuracy of customer data.
- **Bring efficiencies and increase profitability in the mortgage process** – Leveraging digital technologies will result in reduction of operating costs while increasing profitability and efficiency. For example, blockchain can bring down the total settlement time throughout as well as the fund disbursement time can be significantly reduced. Other digital technologies like content and document management

tools can help reduce the overhead of paper-work thereby reducing costs. It can also reduce rework due to erroneous data, human error and verification time. This frees up employees to focus on customer facing activities, boosting the bank's competitive power. It is also estimated that adopting digital technologies can reduce loan origination costs by 25 – 50 percent while 25 – 50 percent reduction can be achieved in the area of loan servicing. Profitability is also estimated to rise as sales productivity is predicted to rise by as much as 75 percent while the pull through rate will go up by 20-25 percent [3]. For instance, a large American financial services company was able to improve its mortgage loan underwriting efficiency by 22 percent by implementing a digital solution.

- **Process automation leading to better user experience** – Intensive use of Data Analytics, AI and ML techniques along with other digital technologies can help in simplification of the mortgage process. By taking advantage of the vast amount of digital data available, including property information, borrower assets, income and credit information and other publicly available data, leveraging technology to automate process and analyze that mortgage application and carry it through the entire mortgage lifecycle and eco-system can drastically reduce the processing time and enhance customer experience. With online verified data (through blockchain based smart contracts), requests could be sent to the relevant authority and consolidated accordingly and further be approved or rejected instantly. Processes like loan advice and enquiry can be automated freeing up vital resources and speeding up the processes. Industry estimates show that consumers now welcome Robotic Process Automation (RPA) based advice as a part of their banking relationship

with almost half of all consumers and nearly all of the millennials willing to use this and such technologies are being leveraged by mortgage lenders today. The Australian home loans sector was disrupted by one of the "Big Four" Australian banks who created a

digital experience in loan origination process. The Do-It-Yourself (DIY) app gives full control to the customer and provides full transparency with respect to the loan application at each stage of the process. This reduced human intervention and footfall at branches

with 63 percent of all applications and 43 percent of all approvals being generated and managed through mobile / tablets resulting in 2.55 million applications within the first year of the launch of the app.



## Conclusion

It is evident that the infusion of digital technologies will fundamentally transform the mortgage loan value chain by thoroughly streamlining the process, making it faster and a delightful experience. From the business point of view, the present processes are quite archaic and need transformation to optimize the use of resources, reduce cost and boost profitability all the while creating a seamless user experience for the customers. Even though, there are a lot of stakeholders involved in the entire process with varied interests, digitization will bring about synergy amongst them and make the entire process more efficient. Irrespective of the geography, the momentum is gradually shifting towards digital transformation of the mortgage industry. Thus, the imperatives for the lenders to create long term avenue for growth are:

- Creating a seamless, omni-channel experience by reinforcing the existing process through digital offerings and through collaboration with other stakeholders to create customer centric business propositions
- Bring visibility and transparency into the whole process to comply with regulations and create better synergy and trust between stakeholders through the use of smart contracts
- Bring operating efficiencies by reducing cost and time through digital document management and block chain based smart contracts to reduce manual paper work and verification processes
- Automating process through the use of better data management, AI and ML and transforming experiences like loan enquiry through the use of RPA

## References

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