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SPECIAL SECTION:

LENDING TECH GUIDE

10 FIRMS CHANGING THE LANDSCAPE OF THE MORTGAGE MARKET

THE TECH REVOLUTION

HOW INNOVATIVE TECHNOLOGIES ARE CHANGING OUR INDUSTRY FOR THE BETTER

Star Tech

Necessity is the mother of invention, but much more drives innovation in the high-stakes mortgage marketplace.

By **Brian A. Lee**

"Good, Better, Best. Never let it rest, until your good is better, and your better is your best." Used by basketball MVPs and motivational moms, the credo is not readily associated with the mortgage technology sector, but it definitely could be. Great in size and effect and vast in its volumes of data, the housing industry constantly demands bigger, better, faster in the way business is done and tech service providers continue to answer the call.

"Effectively leveraging technology to combat an ever-increasing cost to originate, while continuing to drive risk out of the loan manufacturing process, is critical to the long-term success of [lenders]," said **Andrew Higginbotham,** SVP, SF Strategic Delivery, at Freddie Mac.

Kevin Brungardt, chairman and CEO of Charlotte, North Carolina-based RoundPoint Mortgage Servicing Corp., said, "The days of servicing mortgage loans with a mainframe to send out monthly statements and an envelope slitter to process the payments are long gone."

The one constant for the mortgage industry is change. Just look at the past decade. Whether new cycles, regulations, initiatives or platforms, mortgage services and technology companies are constantly addressing new demands from lenders and servicers. Of course, the goals remain the same: technology that helps maintain consistent, efficient, integrated mortgage operations.

As seen during the housing downturn, everything in the mortgage industry is more interconnected and therefore affected, from Main Street to Wall Street. Thus came the increased regulatory demand from G Street.

"More so than demanding new features and functionality, we are responding to our customers' demands to generate reports, often on hourly intervals on a daily basis, to help them prepare for upcoming audits or respond to an audit need," said **Angela Hurst,** SVP of USRES and RES.NET.

Risk management has always been a key part of the mortgage modus operandi. The implementation of the TILA-RESPA Integrated Disclosure (TRID) rule in late 2015 created a heightened risk environment for lenders in an industry already loaded with potential liabilities.

"As a result, technology vendors whose clients are affected by TRID have been laser-focused on developing software and/or making adjustments to their existing software in order to effectively support the new rule," said **Vladimir Bien-Aime,** president and CEO of Lansdale, Pennsylvania-based Global DMS.

Dominic Iannitti, president and CEO of Torrance, California-based DocMagic, Inc., said, "We're going to continue to hear more about TRID throughout 2016. Currently, there are roughly over 30 TRID portal solutions of varying degrees of functionality. Most, however, are sorely lacking. We believe the industry will see the bulk of those not surviving with only a handful of the more feature-rich [ones] remaining."

Regarding product enhancements and innovation, DocMagic added to its SmartCLOSE technology the capability to eClose loans, which gives clients speed and documentation advantages when dealing with TRID's three-day delivery and receipt requirements. "Having an electronic date and time stamp audit record to show what you did and when you did in full compliance is paramount," added Iannitti, whose company worked closely with the CFPB on its eClosing pilot program. "It will greatly aid lenders to protect themselves in any future CFPB audit, or anyone that may contest the loan and request proof of compliance."

In 2016, a key focus for Ernst Publishing Company, which processed its 1 billionth transaction last year, is providing tools that help lenders and settlement agents stay TRID compliant and thus stay together. The Albany, N.Y.-based company has created a program that enables settlement agents to guarantee their fees and lenders to approve and integrate those fees into quotes even before generation of the loan estimate.

"We've seen lenders move away

from their local settlement agent relationships because they haven't had a way to keep those relationships compliant," said **Gregory Teal,** CEO and president of Ernst, which creates automated fee management and integration solutions for the full range of government and third-party fees that go into mortgage lenders' fee management, loan origination software (LOS) and closing systems.

Genworth Mortgage Insurance, a leader in managing mortgage credit risk, has partnered with leading technology development firms to create Genie, a new proprietary underwriting platform, to deliver customers "the speed they need and the accuracy they expect," said **Rohit Gupta,** the company's president and CEO. In addition, Big Data and the rapid evolution of Cloud-based technologies enable quicker, deeper insights into residential loan portfolios with the goal of more accurately evaluating risk for mortgage clients.

Hurst said, "When we think about innovation, to us that represents providing our customers technology that virtually fades into the background, that they do not have to think or worry about, and neither do their investors or auditors. Understanding that in today's demanding environment, industry executives certainly do not have time to micro-manage their technology… they can count on our portals and remain focused on their core operational and regulatory responsibilities."

In the intensive, high-demand operational landscape of the mortgage industry, the USRES and RES.NET senior vice president emphasized the importance of not only fulfilling customer needs, but also predicting them. Intensive research and improvement on the vendor side should equate to simplicity and seamless integration for the tech user.

"We look for commonalities in our customer base and adjust our platforms accordingly," Hurst added. "This approach allows our systems to inherently account for many of our customers' shared, mutual needs so we can then turn our attention to accommodating individual needs. As our customers find themselves managing operational shifts along with changing regulations, our objective is for them to have technology that adapts quickly and remains flexible, despite the complexity of any given transaction or regulatory demand."

Freddie Mac's technology suite is designed to remediate costly manufacturing defects as they occur, well in advance of the actual loan close and delivery, according to Higginbotham. Mortgage technology innovation that facilitates easy installation, increased customization, simplicity of use and seamless integration capabilities will boost business for the vendor and the lender.

Tech's Next

It makes sense that the U.S. housing industry, the largest consumer market, would get together with Big Data. Add to that the fact millennials, which just last year became the biggest generation in the country at more than 75 million, have really only begun to dip their collective toe into homeownership and one can see the essential and ever-expanding role of technology.

"We're entering a new time now, driven in part by a new digitally native generation, where technology is no longer a separate issue from the consumer or business use case that it relates to," said **Michael Harris,** president of Glencoe, Illinois-based Exceleras. "Everything we touch has some form of technology associated with it."

Gupta at Genworth added, "As more millennials become homebuyers, their expectations of the process will need to be addressed. There will be less reliance on an in-person or phone call interaction with an originator. The desire to self-serve from a mobile device will be the expectation of this customer and the industry is moving to fill that need. We see a continuing evolution of mobile, Big Data and Cloud utilization [in the industry]."

By leveraging the Cloud and Big Data technologies, tech service providers will be able to process a wealth of information that could substantially change system design, business processes and customer offerings. Gupta endorses earlier and thus greater collection of customer data.

"Pushing the collection of borrower data further upstream in the origination process will provide lenders with operational opportunities," he said. "New analytics tools will provide lenders with greater pre-close risk assessments on origination pipelines."

Bigger data could ironically come with fewer players in the industry. Bien-Aime of Global DMS predicts more industry consolidation, for both technology vendors and lenders.

"We've already seen this happen with some tech giants entering the industry and acquiring multiple types of technology platforms," said the leader of the valuation software provider. "The mortgage industry is doing considerably better than the post-crash years and is thus a more attractive market for new entrants to penetrate. That trend will continue."

Flattery aside, imitation is one of the most traditional forms of advancement in the business world. Gupta broached how technology has changed the retail, cable and transportation industries in a short period of time. Even the notoriously slow insurance industry is getting up to speed.

"By using telemetric, Big Data and mobile technologies, the auto insurance industry is changing how their customers file claims and get quotes," Gupta said. "Technology is changing so rapidly and it has the potential to disrupt all industries over the next five to 10 years, so we have to constantly be looking outside the mortgage tech sector to see how technology is being utilized. We've seen data play an important role in other areas in financial services such as credit cards and auto insurance, and foresee it playing a very significant role in mortgage originations. We believe the role of smart uses of data in mortgages is just beginning."

Hurst says that much of future technological innovation in the mortgage industry will be driven by regulation. Government is the mother of invention doesn't have the same ring to it, but Uncle Sam does have a thing about making mandates.

"What's next in mortgage technology will be an expansion of enterprise software as opposed to individual, custom-built systems that have become antiquated and unable to accommodate what is necessary as an ongoing, top priority: compliance," the USRES & RES.NET executive said. "Instead, mortgage technology will lean toward systems that offer customization options and individualized modules within single platforms—all from the same technology provider."

Eric Egenhoefer, president of Waterstone Mortgage Corp., maintains that using systems with open interfaces is critical because they allow customization to fit his company's unique business needs. It's a new era in that way. In a prior housing cycle, customization meant that tech companies would be brought in to build from the ground up a unique, comprehensive mortgage solution for a client's specific needs.

"These were seemingly ideal—platforms developed for one organization, and one organization only, created for every unique process and nuance of that business," Hurst said. "When they were initially built, they were nearly flawless, until regulatory commissions turned our industry in an entirely different direction. When a change was needed, modifying these completely unique, custom systems was no easy or quick task. Likewise, when inventory and budgets shrank, there were no economies of scale to accommodate development costs."

Enterprise-level mortgage applications with easy startup but also customization options result in significant operational and technology cost savings for today's financial institutions.

Lenders Leverage & Look Ahead

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"Some of the most recent technological advances are really helping move the industry forward in terms of access to data," said **Ray Brousseau,** EVP of Carrington Mortgage Services' Mortgage Lending Division. "The mortgage industry generates an incredible amount of data, from the most popular loan products to which geographic locations are seeing the most activity to when activity spikes throughout the year. This data isn't useful, however, if we cannot pull it together in a meaningful way. The system leveraged for increased data access is the technological advance that has really impacted us the most in the last year."

Gupta added, "Mortgage technology is very focused on the ability to gather and use verified data in residential underwriting."

Harnessing the mountain of mortgage data not only helps a company assess performance, it also enables it to look ahead and pinpoint the next need in the market. Being uninformed is poor form, and, as it's been said, failing to plan is planning to fail. Technology empowers banks and other lenders by aligning them much better with their data.

Despite the many challenges of a high-speed, high-demand industry, Brungardt at RoundPoint Mortgage Servicing maintains the mortgage sector has a good track record of overcoming challenges with technology: "MISMO is a perfect example. When an industry as diverse as ours can come together to set data standards that allow everyone to develop technologies that are easier to integrate and use, that's a real success story."

Of course, the bigger, better, faster advantages of technology never go out of style. MiMutual Mortgage has recently migrated multiple business systems to cloud-based providers, and just last year Silverton Mortgage Specialists launched its mobile app to better facilitate communication between the borrower, the real estate agent and the mortgage company. That's not the Atlanta-based lender's most impactful innovation, however.

"What's most interesting and innovative about [our intranet] is that it has become sort of a 'Wikipedia of mortgage scenarios' for our organization by capturing and documenting each loan scenario and challenge we encounter and allowing loan originators to do keyword searches out in the field," said **Josh Moffitt,** Silverton's president and founder. "Every loan has a different story, and we have accumulated so many different stories of people buying houses over the last 20 years. Now, we are able to give loan originators constant access to the lessons from these stories so that they don't have to rely on calling the operations staff with questions and waiting for a response."

There are many miles to go, however, before mortgage lenders sleep comfortably on their tech platforms. The next wave of mortgage tech advances will be, shall we say, one to document.

"The biggest revolution in the next year will be the move away from traditional documents in favor of usable data," said Moffett. Egenhoefer at Waterstone Mortgage seconded, "Smart document imaging would be the single biggest advance in the industry."

Rather than having a borrower track down his or her last two bank statements, paystubs or W2s, they will be able to do it all online, eliminating the need and time to scan or upload those documents. "If lenders were able to go directly to the IRS for tax information, this would improve the borrower's experience, reduce fraud and streamline our loan process," Egenhoefer added.

One of the biggest challenges still facing the mortgage industry is the lack of integrations between vendors. The resulting delays affect more than expenses and the origination timeline.

"One transaction typically requires multiple service providers, often with various disparate systems," said Brousseau at Carrington. "Better integration across the board will [not only] help consumers and lenders have an improved and more streamlined mortgage process, but also mortgage brokers and capital markets partners."

Emphasizing the importance of interoperability in today's mortgage workflow solutions, **Jane Mason,** CEO of St. Petersburg, Florida-based Clarifire, said, "The challenge with using many single-point technologies is that you begin to experience a lack of oversight and control due to the many silos. The better the business does, the more technologies are acquired and soon you are left with an environment that cannot scale and must be patched together. IT turns to in-house development to hard code a fix which then requires more resources."

Daniel Jacobs, MiMutual Mortgage's EVP and managing director, Retail Lending, doesn't mince words on this key issue.

"Frankly, there are missing integrations from CRM to lead to LOS to AMCs to doc prep to closing agents and CD creation to investor delivery to post-closing quality control to mortgage insurance companies to servicing to servicing transfers," he said. "The list goes on of integration failures that plague our industry and thus rob us of efficiencies and accuracy. These inefficiencies and failures ultimately cost both the industry and consumers a significant amount of money."

Time is money, especially in the mortgage marketplace. Times are much better now in the industry and they will keep improving with relentless technological innovation. **M**

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