THE MODERN BROKER'S GUIDE TO
SOURCING SYSTEMS

**ACCORD MORTGAGES**

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INTRODUCTION

It's fair to say that Mortgage Sourcing Systems (MSS) have an incredibly important role in the intermediary market. Used correctly, they can help identify deals that save clients thousands of pounds over the life of their mortgage. Used incorrectly, they can result in clients missing out on deals, or even ending up with an inappropriate product.

A recent article from Moneyfacts showed that the number of residential mortgage products increased by almost 650 in the last 12 months and now stands at over 5,200. Brokers might struggle to decipher which is the best product for clients without a sophisticated tool to offer quick comparisons based on predetermined criteria.

Sourcing systems actually originated some 30+ years ago. Since then, they've morphed into a multi-purpose tool to support brokers in making their recommendations. Systems now incorporate product and lender eligibility, policy and criteria into the sourcing decisions. This can be very helpful if a broker is not familiar with a particular lender's criteria. They can save time and possible complaints if ineligibility can be discovered as early as possible.

Integration will form a key part in the future of sourcing systems with feeds from CRM tools directly to lenders to get decisions faster. Whilst Application Programming Interfaces (APIs) will no doubt play a key part in the integration journey,
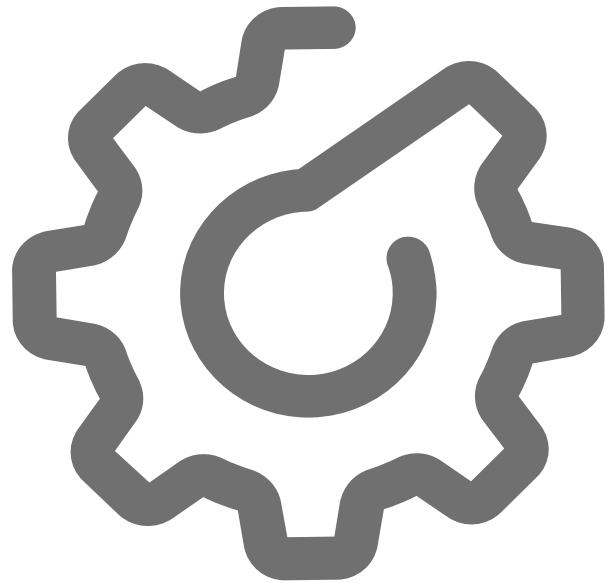
it's worth noting that integration from sourcing systems into lenders is not a new concept. The Mortgage Trading Exchange (MTE) from Mortgage Brain has been around since 2003 and integrated the major sourcing systems directly to lenders for a 'one stop shop' from sourcing to submission of application. APIs will replicate this kind of approach and allow multiple integrations across different sourcing systems with lenders who open themselves up to API integration.

At first glance, the market as it currently stands is a bit of a minefield with a number of providers claiming their system is the best and that they have x% share of the market. In reality, when a broker applies direct to a lender through their website, neither the lender nor the sourcing system know where that application originated and so assumptions are made based on registrations.

Whichever sourcing system you use, there's little doubt that they play a major role in the life of the modern broker. Turning the significant power of sourcing systems to your full advantage can be the catalyst for major growth and significant process improvements.

WHAT ROLE DO SOURCING SYSTEMS PLAY IN AN ADVISORY BUSINESS?

Sourcing systems are incredibly important when it comes to understanding what products are available to clients, and then being able to evidence 'why' a particular product was recommended.

They play a key role in mitigating regulatory risk by providing a picture of what was available for clients at the time of enquiry and allowing brokers to provide an illustration on a product. The evidence of this advice can also be saved, should it ever be questioned.

However, it's widely recognised that the 'top product' might not always be the best option for the client. That's why sourcing systems only work effectively when combined with the expert knowledge that brokers have. Where sourcing systems have developed is in helping to support brokers in determining the true cost of a product for a client and whether their client would be eligible for it.

A number of systems specifically designed for comparing lender criteria are growing in popularity, with systems such as Criteria Hub, Knowledge Band and L&G's recently announced SmartrCriteria. If we take the latter, L&G state that they have over 390,000 criteria outcomes from more than 95 lenders. Brokers couldn't possibly know or remember every permutation lenders have, so these tools are invaluable and save time for more complex cases. This also gives lenders more visibility on where they're losing cases and

incentivises more policy and rate competition, which can only be good news for consumers as mortgages become more accessible.

It's important to recognise that sourcing systems do have limitations, particularly in relation to outlying lending requirements and specialist products. This has been recognised by the FCA, who stated in their May 2018 Mortgages Market Study report that, 'MSSs are also important tools for intermediaries to identify and compare a large number of products across a very wide range of lenders. However, these have limitations. Brokers should be aware of scenarios where there may be such limitations.'

We also conducted research using an MSS. This indicated that the strength of these tools is in comparing consistent factors across many lenders' products. For example, comparing initial rates, reversion rates, upfront fees and maximum LTV. However, softer, qualitative qualification conditions that may be more specific to a lender are more difficult to compare. These may include income verification required for self-employed, and limitations on properties that will be considered. These factors are also more likely to be important for consumers with more complex circumstances.

FCA Mortgages Market Study - May 2018

HOW CAN USING A SOURCING SYSTEM GIVE AN INCORRECT OUTCOME?

Just one ticked filter can drastically change the results. For example, if you were to tick the 'add fee to loan' having already generated a list for a client then that list (and ordering) of products will change dramatically. Sourcing by rate rather than true cost will also give very different results. And sourcing for remortgages with free legals can exclude some of the cheapest deals available.

Any of these filter options can be fine, but it's important to understand the differences and be conscious of the impacts of what each filter does. When you select a filter, do you know which products are being excluded? In reality, doing multiple searches with different filters can help to make sure all eligible products are considered and discounted.

Sourcing on product rate alone is one of the biggest risks. It may not make sense on a £25,000 loan to choose a product with a £1,995 fee just because it has the lowest rate. That example works out to be nearly an 8% fee on that loan. If you were to source the same loan on true cost, the client could have saved thousands of pounds by taking a fee-free product.

Following extensive analysis of thousands of mortgage transactions made in 2015- 2016, we found that about 30% of borrowers could have qualified for a cheaper, almost identical mortgage. On average, these consumers missed out on savings of around £550 per year over the introductory period.

This takes into account both the cost of interest on the mortgage during the introductory period as well as any up-front fees. Our evidence indicated that one of the main reasons consumers choose a more expensive mortgage was lack of clarity on whether they meet certain eligibility criteria.

FCA Mortgages Market Study - May 2019

How to make the most of a sourcing platform? Watch any training material that's available as this will level you up quicker than 'finding your own way' around the system. It always surprises us how few users actually watch our training videos but the downside to this is that you can miss important time efficiencies and worse, opportunities to place a case.

Criteria Hub

HOW SOURCING SYSTEMS ARE ENHANCING RETENTION

Sourcing is playing an ever increasing role in retention for many brokers.

More lenders recognise the work brokers do at product maturity and pay a procuration fee to reflect that. Many lenders now supply their retention products to the sourcing systems. This means brokers can do a true comparison between the existing lender's products and a competitor's remortgage products.

This has created greater transparency and caused lenders to price existing customer deals competitively with new customer deals in the market.

There's still an element of expertise required by the broker:

- They need to assess what the true remortgage costs would be versus staying with the existing lender.

- They need to factor in the overall ease of the process between sticking with the existing lender versus remortgaging.

With sourcing systems continually evolving, the level of integration looks set to grow further in years to come, meaning brokers can focus even more on developing client relationships.

> **!**
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> **The opportunities and technology advances for the future are vast. Our view is that lenders will continue to invest in their platforms, functionality and speed of service. The role of technology should be to enhance the relationship between broker and client and to drive through increased efficiencies in the end to end mortgage processes.**
>
> IRESS

HOW TO GET THE MOST
OUT OF A SOURCING SYSTEM

All lenders have differences in policy, service, rates and risk appetite. A good broker should be familiar with these as it will help you to properly advise your client on which mortgage will be a good fit. But it would be unreasonable to expect brokers to know every detail about every lender. BDM's are sometimes on hand to support brokers with specific queries but when a quick comparison is needed, sourcing systems can help to narrow the choices down.

Some common things to bear in mind when using your sourcing system:

- Don't just source on rate only. Take into account the true cost of a product.

- Don't rely on sourcing for fee free products only. This can exclude lower rate products that may be better for the client on true cost.

- Be careful on adding the fee to the loan. It can artificially underinflate the cost to the client as the cost of the fee is split over the term. This can mean that products with the highest fees look the best when in actual fact, the true cost may be higher.

- Take care when sourcing for re-mortgage products with free legals only. This may exclude products with lower rates or cashbacks in lieu of free legals which may be more cost effective.

- Sourcing for free valuation can be attractive but again, bear in mind that some products may have cashback which exceeds the cost of a valuation and is more cost effective.

- Don't dismiss discounted and tracker products out of hand. These can work out far cheaper for clients. And even though the rates are variable in some instances, it would require multiple base rate changes to become less cost effective. A lot of variable deals are also ERC free, meaning they're flexible. They can let clients make overpayments, transfer to a fixed product internally or re-mortgage externally and redeem in full with no penalty.

HOW TO GET THE MOST
OUT OF A SOURCING SYSTEM CONTINUED

- Not all products are exactly 2, 3 or 5 year deals. Some may be a few months over, such as 2 years and 3 months. When sourcing, best practice is to search for products within a term range. For instance 2 years to 2 years 6 months, to make sure all eligible products are returned.

- It's possible to source with income but not all lenders display the correct LTI calculations. So some eligible products may be filtered out.

- Set the 'total to pay' to a static term, such as 2 years, for a like for like comparison on cost. If the true cost is set over 2 years and 3 months, the system will calculate some payments based on a lender's SVR for those who only fix for 2 years,

- Where a client has savings, sourcing systems can identify offset products. This can reduce the amount of interest payable for clients, whilst keeping their savings accessible.

- Some sourcing systems do allow several comparisons through multiple tab options. So you can simultaneously compare options and look at different scenarios to assess the right deal.

! A sourcing system should ideally get you 80% of the way there, allowing for you as a broker to use your knowledge, experience and engagement with the customer to bring the final 20% to the table.

Twenty7Tec

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WHAT TO CONSIDER
WHEN SELECTING A PLATFORM

All sourcing systems 'do the job', but that doesn't mean all sourcing systems are created equal.

One of the first questions to ask yourself is: 'Will my new technology supplier help me spend more time building relationships with clients and developing the business?', in other words, you want a sourcing system that streamlines your processes and provides the best functional fit to how you work.

Costing methodology

It's worth noting the differences in how they calculate true cost. Some lenders include the mortgage exit fee within the true cost deal even though the customer may not incur that cost. For lenders who have higher exit fees, this can be a disadvantage, making the products look more expensive than they might be.

Twenty7Tec doesn't enforce an approach in which the mortgage exit fee is included, so the broker has flexibility to select which fees they want to include in the calculation. IRESS and Mortgage Brain don't include the exit fee, so the true cost will differ.

Equally important: **what scale of businesses does the sourcing system support?** From small, directly authorised business support through to packagers, mortgage clubs and intermediary networks. Most importantly for those that are part of a club or network, will they be able to get any exclusives or specific fees through the sourcing engine?

Lender coverage

In terms of lender coverage, does it offer a good breadth of choice and are new lenders adding their products to the platform? Do lenders see a good level of collaboration in managing the business today and discussing future development initiatives? Is my supplier at the forefront of technology thinking and delivering solutions that are of benefit to brokers in a timely fashion?

Depending on your business, you may wish to find a supplier that can work with and integrate to your own technology developments and platforms. For example, do you need to integrate sourcing services to your own CRM and advice platform? If so, how experienced is the selected company in this space and how many firms do they support in the same way? Is the supplier still deploying such services to like-minded, similar organisations?

WHAT TO CONSIDER WHEN SELECTING A PLATFORM CONTINUED

Connectivity

These considerations and more will play into your sourcing system choice. **Some networks insist on using a particular system whilst others will only recommend a particular system and leave the choice to the broker**. A web-based sourcing system may seem like the way to go, but some cannot be used 'offline'. Something to bear in mind when visiting clients who don't have an internet connection.

Many sourcing suppliers today are also creating client portals that allow brokers to offer a digital interface with their clients to help in managing document and electronic signature processes. Ultimately, such services can add much value through electronic capture and sharing of client information necessary for the broker process, thus removing administration time and allowing the broker to focus on client advice and relationships.

! Sourcing isn't just sourcing! A broker should first of all think about how they operate as a business and view the selection process as part of an overall technology approach, not just a single solution.

Mortgage Brain

THE FUTURE OF SOURCING SYSTEMS

As technology develops and APIs become more prevalent in the market, integration to lenders will become key to reducing time and errors made through duplicating data input. APIs are quite simply connections between systems that allow easy data transfer to happen automatically. The good news is that providers accept that not everyone will use their sourcing systems, so API integration will be compatible with any of the major sourcing systems.

Lenders who don't integrate may find that business starts to reduce as brokers and clients opt for those firms who offer a slicker customer journey.

Mortgage Brain has announced it is developing a new approach to sourcing with its 'Multi DIP' proposition. Their claim is that their Lendex digital gateway will secure DIPs direct from multiple lenders in less than 30 seconds. It will allow brokers to digitally complete, submit (together with documents), administer and track full mortgage applications.

Twenty7Tec has developed its MortgageApply system. Their claim is that brokers can complete and submit applications to multiple lenders from one platform without re-keying client data or needing to use the lender's portal. The platform integrates lender and broker through an API connecting intermediary back office and CRM systems to lender servicing and origination platforms. Twenty7Tec also has a criteria sourcing model within CloudTwenty 7.

IRESS (the developer behind Trigold) is developing Lender Connect, a system that uses APIs to collect data from sourcing systems (and CRM systems, whether or not the broker uses the one built into the sourcing system) and transfer this straight into lenders' mortgage application systems. This reduces rekeying, saving time and the likelihood of errors. Lender Connect will also enable progress updates to be sent easily to the broker's CRM system. As anyone can plug into an API, brokers will be able to pick and mix separate CRM, product and criteria sourcing systems to suit their needs and preferences.

> **The advent of criteria searching is a real game changer. We are going to see criteria, affordability and product come together like never before, giving the broker access to "true" sourcing based on all of the factors they currently have to navigate separately to make their recommendation. Additionally, the link either side of sourcing with CRM systems and direct links through to lenders for DIP's and Full Mortgage Applications is going to provide the broker with a much more joined-up experience.**
>
> Knowledge Bank

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SUMMARY

Sourcing systems are a vital part of a broker's tool kit but only add value in conjunction with the broker's knowledge and understanding of how the systems work. Lenders are frequently looking at opportunities to deliver USPs and differentiated products and these aren't always easy to find if sourcing in a particular way. Products such as ERC free, discounted, trackers, offset, retirement interest only and Help to Buy can require manipulation of the filters to return the eligible products.

Technology developments will no doubt change the mortgage landscape and impact the role sourcing systems play in the broker and consumer journey. There's a lot of noise currently about the pace of change. The reality is that until lenders catch up by opening their systems to APIs, and brokers start to utilise that technology, it could be a while before there's a material shift... and that change is more likely to be gradual.
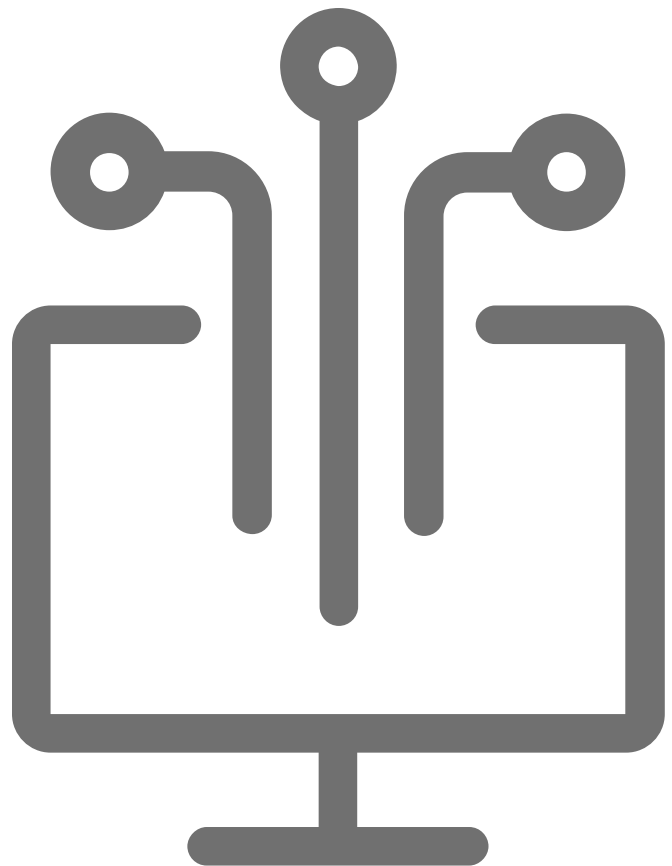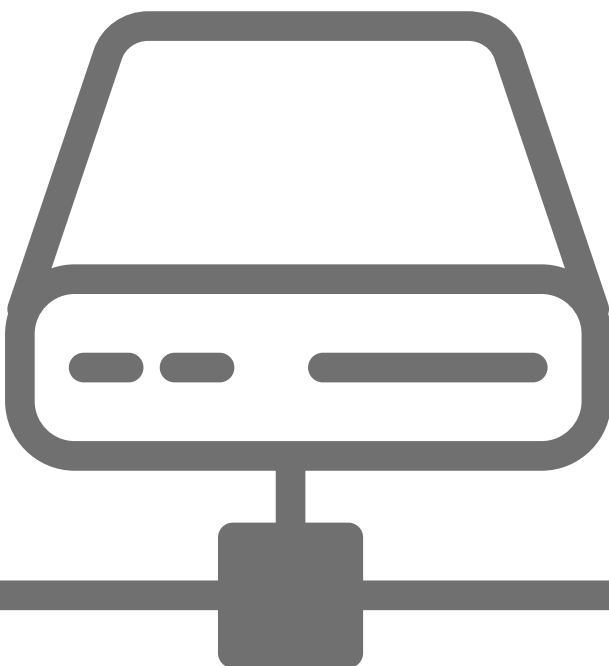
APPENDIX: WHAT SOURCING PLATFORMS AND CRITERIA DATABASES ARE AVAILABLE?

Sourcing Platforms	
Name	**URL**
Trigold (IRESS)	https://www.iress.com/uk/company/products/trigold-prospector/
Mortgage Brain	https://www.mortgage-brain.co.uk/
Twenty7Tec	https://www.twenty7tec.com/

Criteria Databases	
Name	**URL**
CriteriaHub	https://www.criteriahub.co.uk/
Knowledge Bank	https://www.yourknowledgebank.uk/join?ACCORD19
Smartr Criteria (L&G)	https://www.legalandgeneral.com/adviser/mortgage-club/helping-you-grow/smartr-criteria/

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