

But Seriously, How Close are We To A Fully Digital Mortgage?

Julian Hebron, Cindy Keith & Brian Martin | May 23, 2019

Featured Panelists



Julian Hebron
Founder
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TODAY WE'LL COVER 3 SEGMENTS

**Know Your History:
Why Digital Has
Taken So Long**

**Know Your Tech:
What Day 1
Certainty® Really
Means &
Why It Matters**

**Know Your
Digital
Customer
Experience**



State of Customer Expectations

GOOGLE ON 2008 vs. 2019 CONSUMER EXPECTATIONS

2008

- Don't get in a car with strangers
- Don't meet people from the Internet



2019

- Literally summon strangers from the Internet and get in their car within 5 minutes

GOOGLE'S 3 TRAITS OF TODAY'S CONSUMER

CURIOUS

>80% more 'best' mobile
search past 2yrs

IMPATIENT

3X more '___near me'
search past 2yrs

DEMANDING

>150% more '___near me
now' search past 2yrs

FIRST IT WAS RIDES ON OUR TIME, THEN ENTERTAINMENT



Source: Jon Erlichman, The Basis Point

NOW IT'S MANAGING FINANCES ON OUR TIME



**PUSH
BUTTON
BUY
HOUSE**

ROCKET MORTGAGE IS A FAST, POWERFUL,
COMPLETELY DIGITAL WAY TO GET A MORTGAGE.

Quicken Loans NMLS #0000. Equal Housing Lender. Licensed in 30 states: AL, TX, 1050 Woodward Avenue, Detroit, MI 48226-1900, (800) 474-0400; AZ: 16425 North Pima, Suite 200, Scottsdale, AZ 85260, Mortgage Banker License #00000000; CA: Licensed by Dept. of Corporations, CA Residential Mortgage Lending Act; CO: Regulated by the Division of Real Estate; GA: Residential Mortgage Licensure #111794; IL: Residential Mortgage Licensure #0027 - Dept. of Financial and Professional Regulation; ME: Supervised Lender License; MN: Not an offer for a rate lock agreement; MS: Licensed by the MS Dept. of Banking and Consumer Finance; NH: Licensed by the NH Banking Dept.; NC/MD: NY: License #05070; NJ: Licensed Mortgage Banker - NJ Dept. of Banking, 1st Lender 2nd mortgages only; NY: Licensed Mortgage Banker - NYS Banking Dept.; OR: License # 00-1302; PA: Licensed as a 1st Mortgage Banker by the Dept. of Banking and licensed pursuant to the PA Secondary Mortgage Loan Act; RI: Licensed Lender; WA: www.rocketsmortgage.com; WI: Commercial Loan Company License C3-3050.

**ROCKET
MORTGAGE™**
by Quicken Loans®
RocketMortgage.com

IRONICALLY, TECH ALSO HUMANIZES FINANCE BRANDS



AND CONSUMERS DEMAND DIGITAL + HUMAN MORTGAGE

Digital channels



72% prefer to fill out the application online

70% prefer to submit documents online

getting pre-qualified/ pre-approved for a mortgage **67%**

filling out the application **72%**

submitting financial documents or information **70%**

Person-to-person



65% prefer a person to explain mortgage terms and options

58% prefer a person to help them review final documents

understanding the different mortgage terms and options **65%**

reviewing final loan documents **58%**

signing final loan documents **56%**



Know Your History: Why Digital Mortgages Have Taken So Long

PHASE 1: MERGER OF WALL ST & MAIN ST, 1979-1985



Fed fixes money supply & floats rates **1979**, triggers golden age of bonds



Congress allows troubled lenders to sell mortgages to Wall Street **1981**



Fannie Mae issues first MBS 1981. Owns/backs 10% of market **1985**.

PHASE 2: BIRTH OF MORTGAGE AI, 1993-1995

Countrywide Loan-Underwriting Expert System

November 1991	Problem stated. Investigation into possible solutions begins.
January 1992	AI Division formed.
February to April 1992	Knowledge acquisition conducted.
April to May 1992	Modeling and prototyping done.
May to June 1992	Coding conducted.
June to September 1992	Internal and system integration testing performed.
September to December 1992	Alpha test conducted.
December 1992	Beta test begins.
January 1993	Beta test ends.
February 1993	Product released to retail branches.

Table 1. Summary of CLUES Development.

Desktop Underwriter: Fannie Mae’s Automated Mortgage Underwriting Expert System

Project Significance

The mortgage industry has been a rich environment for AI applications. Systems such as the CLUES application from Countrywide first utilized rule-based technology to address the underwriting problem. Desktop Underwriter

Countrywide
launches 1st ever
mortgage AI **1993**

Fannie Mae launches 2nd
ever mortgage AI **1995**

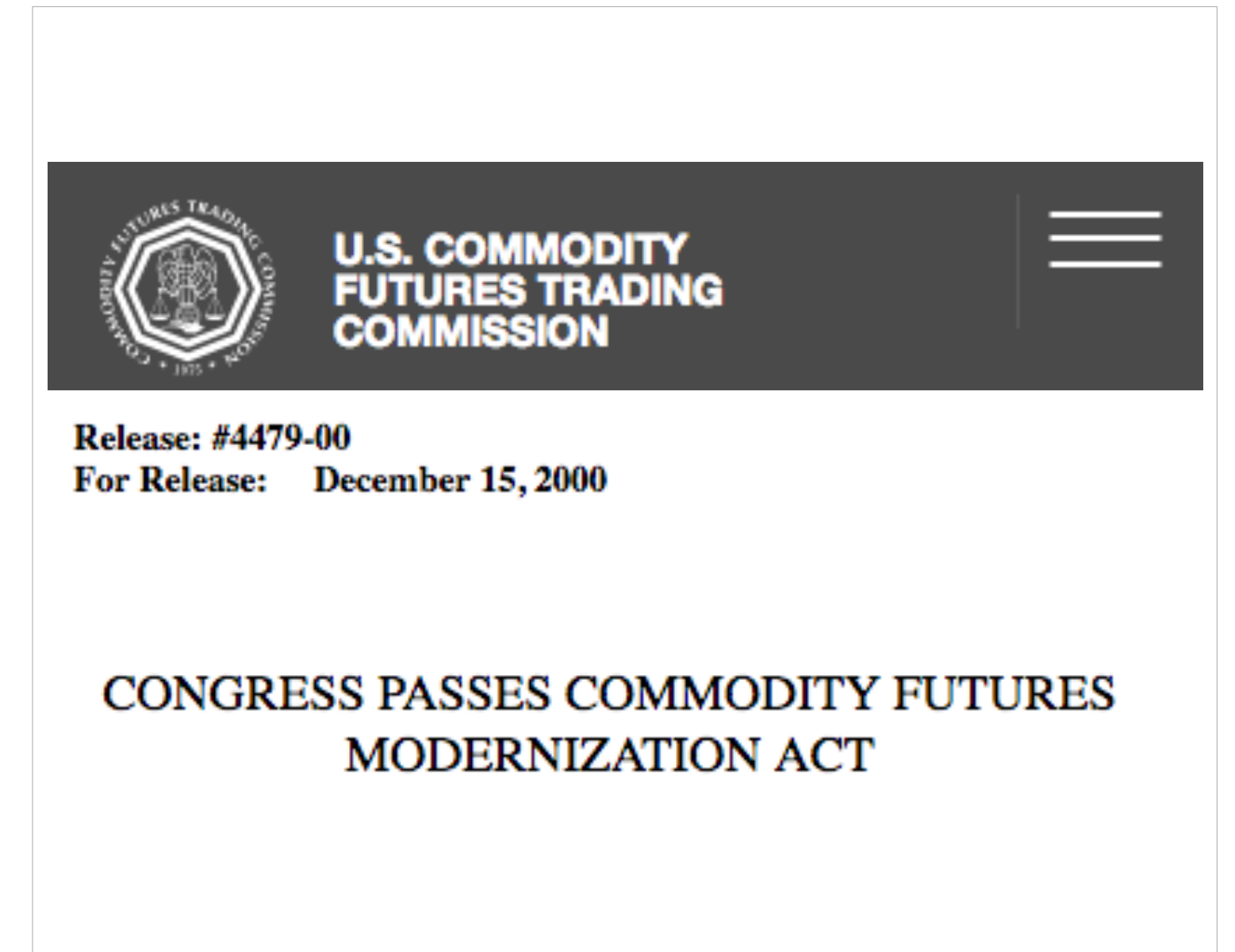
PHASE 3: DEREGULATION, 1995-2000



HUD & White House pave way for subprime **1995**



Congress paves way for commercial & investment banks to combine **1999**



CFTC 'Modernization' paves way for MBS derivatives **2000**

PHASE 4: SUBPRIME SOARS - PLUS A NOTABLE BRIGHT SPOT, 1995-2005

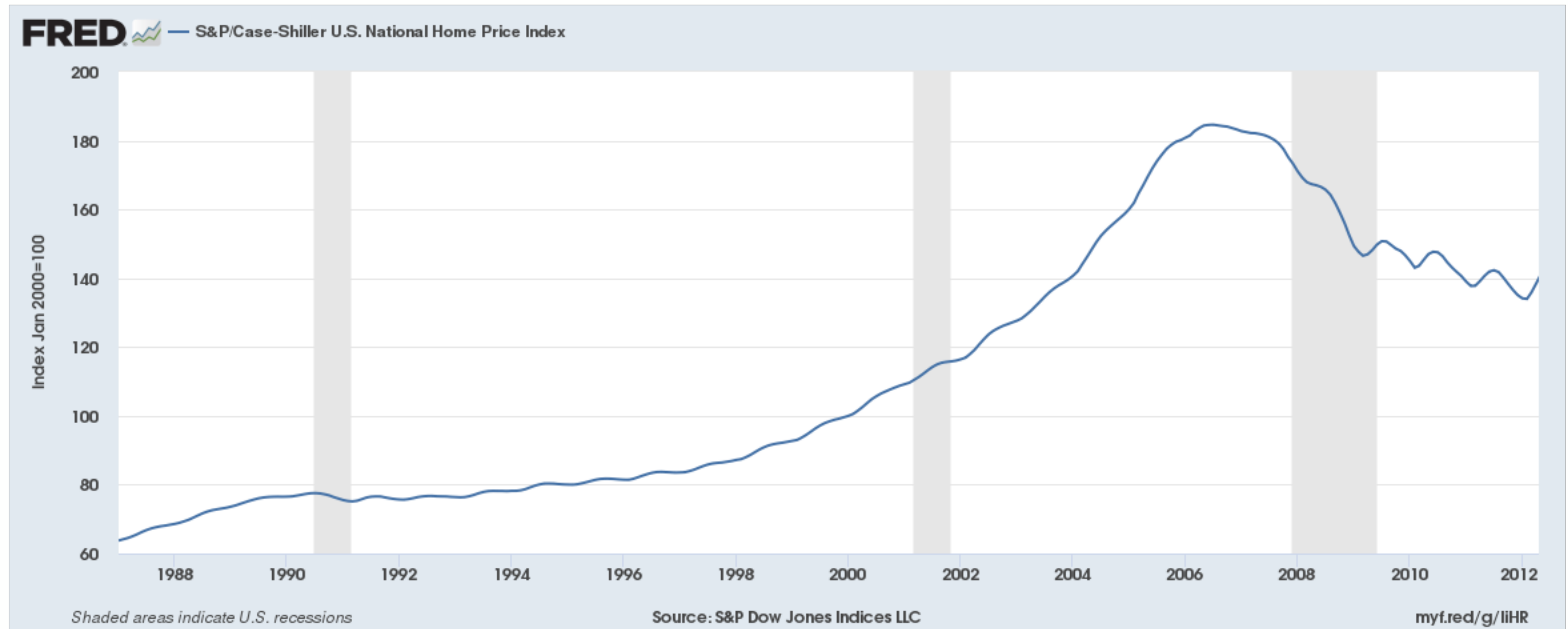


Subprime, much of it disguised as A-paper, grows 3861% **1995-2005**



eSign law in **2000** paved way for Fannie Mae to define eMortgage and pilot in **2001**

PHASE 5: HOME PRICES CRASH, 2006

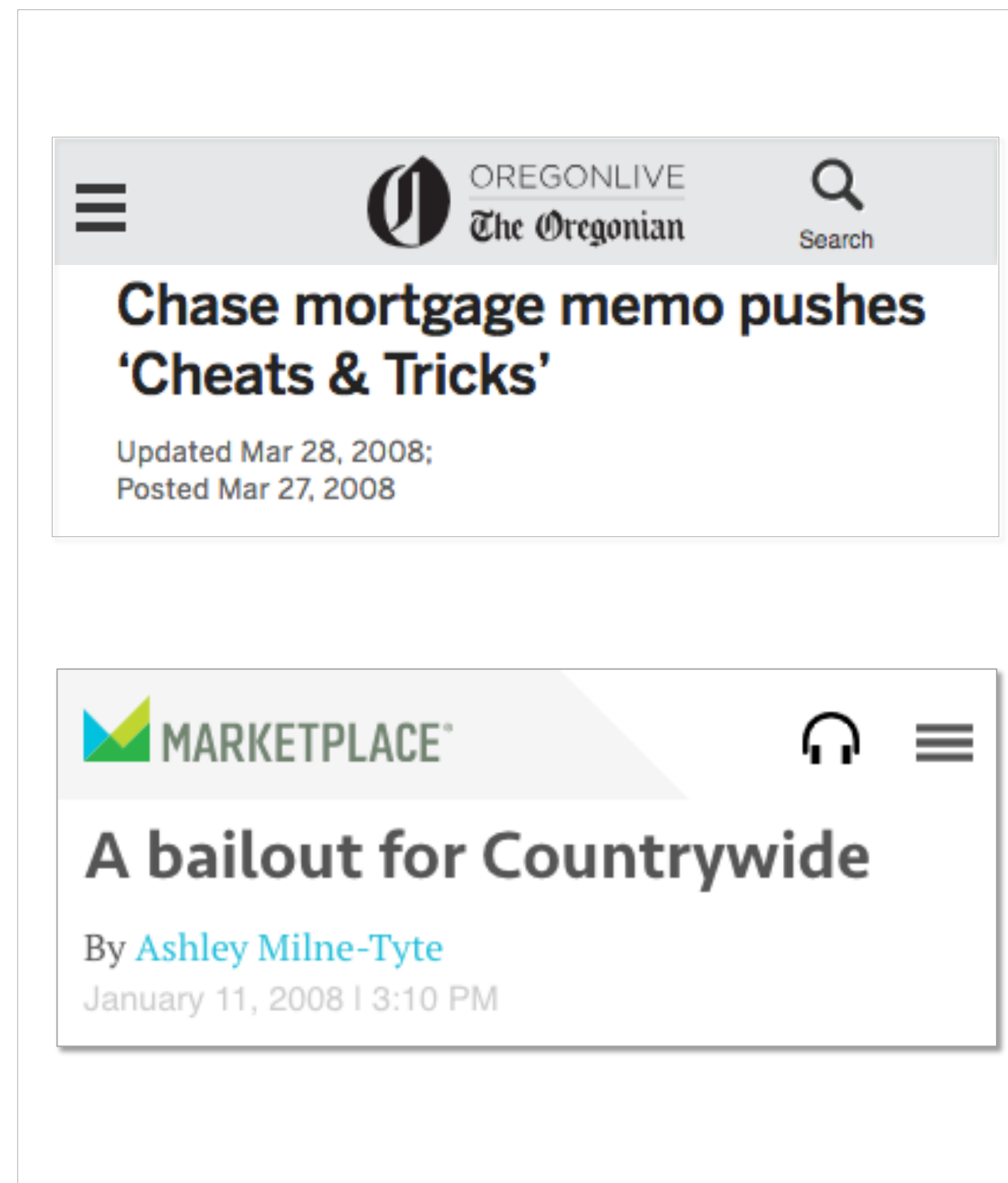


Home prices start falling **August 2006**,
Don't bottom until **February 2012**

PHASE 6: FINANCIAL CRISIS, 2007-2008



Mortgage industry unravels **August 2007**



Subprime reality revealed **Q1 2008**



Global financial system unravels **September 2008**

PHASE 7: SURVIVAL MODE, 2009-2010



PIMCO Says To Buy Mortgage Bonds Before The Fed

Julian Hebron | January 19, 2009

Stimulus starts driving rates toward **record lows**

SFGATE



California gets first crack at new FHA mortgage limits

Marcy Gordon, Associated Press

Published 4:00 am, Thursday, March 6, 2008

Most loan agents were **1099 until 2009**

PHASE 8: RE-REGULATION SCRAMBLE, 2010-2015



Obama Signs Financial-Regulation Bill



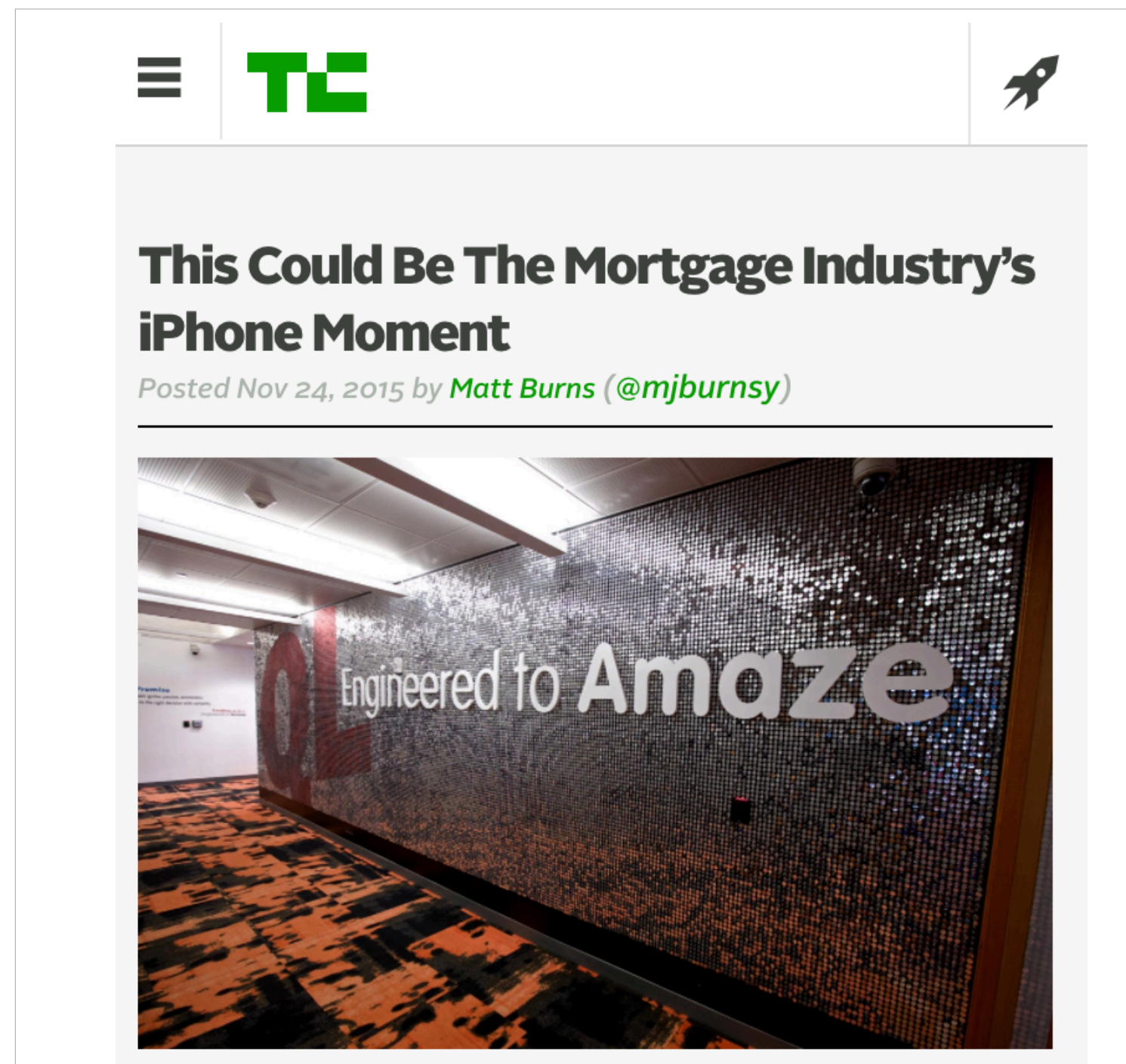
President Barack Obama signed into law the most sweeping overhaul of U.S. financial-market regulations since the Great Depression. GETTY IMAGES

By Victoria McGrane
Updated July 21, 2010 12:01 a.m. ET

LENDERS WERE MORE FOCUSED ON DEADLINES THAN INNOVATION

- Dodd-Frank signed into law 7/10
- GFE changes and Know Before You Owe proposed, 5/11
- CFPB officially starts, 7/11
- Richard Cordray appointed head of CFPB, 1/12
- CFPB's first enforcement action (on credit cards), 7/12
- ATR & QM laws become effective, 1/14
- TRID becomes effective, 10/15
- CFPB makes 45 mortgage enforcements 7/12 to 12/15

PHASE 9: INNOVATION CONTINUES, 2015-2019



Quicken launches Rocket Mortgage **11/2015**



Fannie Mae lays digital infrastructure to enable and fuel innovation **10/2016**



Blend validates digital mortgage category **8/2017**

The True Vision & Purpose of Day 1 Certainty®



Fannie Mae®

Empowering the digital mortgage

We've listened to what lenders need:



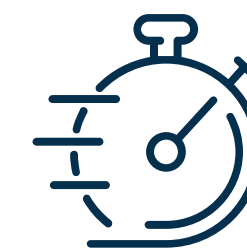
Certainty

Give lenders certainty on Day 1 by receiving freedom from representations and warranties



Better borrower experience

Enable borrowers to save time, reduce paperwork and get the keys to their home faster

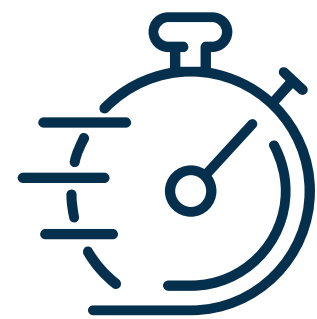


Process efficiencies

Focus on streamlining the mortgage process for lenders



So we created Day 1 Certainty



DU[®] Validation Service

Freedom from paper-based processes with validation of income, assets, and employment through third-party data vendors



Appraisal Waiver

Freedom from appraisal requirements on eligible transactions



Certainty on Appraised Value

Freedom from reps & warrants on appraised value with the power of Collateral Underwriter[®](CU[™]) when the CU risk score is 2.5 or lower



Helping lenders close more loans faster

Lenders who have successfully integrated the DU validation service and/or Appraisal Waivers into their loan workflow are seeing cycle time reductions from application to close of up to:

8 days

when income and
employment are
validated at the loan-
level.

5 days

when assets are
validated.

12 days

when an Appraisal
Waiver is exercised.

In the last year, **63 percent** of eligible loans delivered to Fannie Mae received an appraisal risk score of 2.5 or lower, and were eligible for relief from representations and warranties on appraised value.

These numbers contain data from April 2018 through March 2019. Note: Many lenders realizing best-in-class savings had extended cycle times when not using DU validation service, typically about 50 days from application-to-close.



How lenders can get started



Learnings from real lenders

Delmar Financial

Built a custom landing page in their LOS to assist their underwriters with using the DU validation service

The Mortgage Firm

If a loan originator experiences a road block, trainers are available to help work through obstacles and answer questions around the process

Police & Fire Federal Credit Union

Started with a small income and employment verification pilot with experienced loan advisors

Guild Mortgage

Focus on reducing touchpoints for customers to improve borrower experience

First Citizens Bank

Pilot group found that using the DU validation service as early as possible in the loan application process provided the most cycle time reduction

“We made training our core team a priority. Once we had key folks on board and educated, implementation challenges were eliminated.”

Tawn Kelley, President and CEO of Taylor Morrison Home Funding



Q&A



Thank You For Attending



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