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Why Mobile in Mortgage is all About the Consumer

By Gregory Teal

Information Technology spending in the U.S. Financial Services industry has accounted for little more than the shadow cast by the dollars spent in most other industries. Doug Duncan, Fannie May's chief economist, when he was chief economist for the Mortgage Banker's Association used to like to quip that our industry spent about 10% of what others did on technology in general and research and development in particular. Of course, asking professional risk managers to invest in risky technology initiatives is 90% harder than selling the same programs to industries that thrive on the chase for the next big thing.

Some have compared selling technology to mortgage lenders to giving medicine to an ill child. It's a fight from the moment you enter the room, even when the industry is excited about the technology and realizes how important it will be to its future. Mobile is a case in point.

Mobile technology is white hot right now for every industry from global travel to ordering pizza. If your business doesn't have a custom app, it's like not having a website 10 years ago; you might as well not be in business. Lenders have long known that home loan borrowers went to the Internet to research rates long before they stepped into a branch. Now, these same borrowers are accessing the Web on a host of new devices, each of which provides its own unique set of advantages to the user.

Even though there have been a number of entrants into this area, including our own customizable app development offering at Ernst, demand has been sluggish as lenders work their way slowly around the issues of privacy and data security.

This is nothing new. Technology has been a relatively hard sell in our industry for as long as Ernst has been selling data and the technology it drives, which is going on 20 years now. Invariably, buyers want any technology they buy to deliver one or more of the following: better processes, cheaper operations or faster production. We, like many vendors operating in this space, became expert at delivering what lenders wanted.

The systems we offer today deliver the data required to populate blocks four through eight on the Good Faith Estimate in less than a second, regardless of the jurisdiction or any of the loan details -- and we offer that through a variety of delivery mechanisms. Like the other vendors that have been successful for as long as we have, we're able to deliver a solution that is better, cheaper and faster...for the lender. In the past, this was like getting the brass ring at the Carousel, a hat trick in the Stanley Cup finals and a leadership position among industry vendors all wrapped up in one. But those days are coming to an end.

Being better, faster and cheaper for the lender will soon mean far less to federal regulators than meeting consumer expectations. That's not me saying it, that is Consumer Financial Protection Bureau director Richard Cordray saying it. He recently told Mortgage Technology's sister publication, National Mortgage News, "We are now examining institutions for how they treat consumers. It's not about the institution itself. It's about the impact on consumers."

This has profound implications for the industry's move into new technologies, including mobile technologies, but it's only one of the reasons the customer has to be the focus of the industry's move into mobile.

The new American home loan borrower
America's homeowners have learned a great deal about home financing over the past 20 years. Those that have been owners for that long bought their first homes when home lending decisions were made by committees with the support of professional underwriters. In those days, errors in the loan file were quickly found and rectified and credit decisions were carefully considered by a number of decision makers within the institution.

As larger lenders became regional and then super-regional powerhouses, loan underwriting was decentralized and technology was employed to allow branch managers to make decisions that were fully compliant with investor and regulatory guidelines without exceeding the institution's appetite for risk. Over time and as these institutions grew larger, the technology became more important to the loan underwriting process and more loans made their way swiftly on to the closing table, eventually with very little human oversight.

The resulting fallout has been educational for American home loan borrowers. Today, they know about the risks of ARM loans, the failure of LIBOR as a adjustable-rate index, about being underwater on their mortgage loans, about default, foreclosure and strategic default. Perhaps most unfortunately for our industry, they have learned to distrust all lenders.

This is a fact that successful lenders in the future will be forced to deal with. New borrowers have been shown to make their buying decisions based on recommendations from people they know and trust. They must be approached in a new way if the originator hopes to gain their trust and move them into the lending pipeline.

Mobile technology that shares information with lenders in the same way they have become accustomed to receiving communications from lending institutions is very likely to fail.

A new competitive landscape

Learning to deal with a more informed home loan borrower is one thing, but when you add to this the facts that fewer loan programs exist for which fewer borrowers qualify and you have a competitive environment in which only the strongest can survive.

Many agree that eventually new secondary market investors will enter the market, making new loan programs available to suit more borrowers. In the meantime, it’s up to the originators that remain in the game to find ways to differentiate themselves in the eyes of the consumer. There is no room to compete on rates and little margin with which to compete on fees.

Mortgage lenders are left to compete on service, a skill in which few have developed an expertise. It’s not like home loan borrowers come to the branch in search of concierge-style treatment. The only service that matters to a borrower is the explanation of the loan program (a task complicated by the fact that borrowers don’t trust lenders) and an efficient closing (i.e. one that doesn’t involve a high variance between the GFE and the HUD-1 to create changes at the last minute).

Fortunately, more efficient loan closings is an area where lenders can get a competitive advantage if they provide mobile apps that provide closing cost data that is guaranteed accurate as early as possible in the loan origination process. A failure here will reinforce the borrower’s natural proclivity to distrust the lender.

On the other hand, success here -- and we know of many lenders we work with who have had great luck providing closing cost data to the borrower via mobile app before the application ever hits the loan origination system -- will build a foundation of trust that will sustain both lender and borrower throughout the lending process.

Of course, this only works if the mobile app that provides the data is built with the borrower as the focal point and with data that is guaranteed to be accurate.

Adapting to a new regulatory climate

Above all of this and of ultimate importance is the new mortgage regulator. If there is a silver lining in this new regulatory regime, it’s that the CFPB has been quite clear about its mission, its focus and the fines it plans to levy for non-compliance. No one in the U.S. financial services industry can claim that they were caught by surprise should a CFPB attorney or auditor show up on their doorstep.

We believe that this is actually an opportunity for lenders, especially if they can take Director Cordray’s statements at face value. If the lion’s share of what it take to please the industry’s new regulator can be delivered by pleasing the home loan borrower, those lenders that put the borrower first will reap huge rewards.

Mobile technologies will be the key to this process because American consumers have already adopted mobile and expect mobile apps from the firms they do business with. With smart phone, handheld computers and tablets, the future of effective lender to borrower communication will be found in the mobile technology world.

How will all of this influence the way mobile technologies build out in the financial services industry? We expect mobile to continue to be leveraged for the pursuit of better, cheaper and faster, but for both lenders and consumers.

Because the companies operating in the home finance industry are varied in the markets they serve, the products they sell and the manner in which they service the resulting loans, mobile and custom will be inseparable. There can be no one-size-fits-all solution and vendors who can’t easily provide cost-effective customization of mobile apps will eventually leave the space.

Putting together the right combination of mobile app, industry data and customer focus will be the formula for great success in the days ahead.

About the author
Gregory Teal is president and CEO of Ernst Publishing, an industry data and technology provider that processes over 120 million transactions involving closing cost data each year. The company offers closing cost data nationwide in a variety of technology formats, including mobile. Teal can be reached at Gregory.E.Teal@ernstinfo.com.