Top Tech Trends for the Mortgage Industry

2023

accenture

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Introduction

The mortgage industry is facing a new year that will test its mettle in a variety of ways. The headwinds of inflation, increased interest rates, and a potential recession have many lenders cutting employees, and some closing their doors. While there is still volume to be had, the potential is much less than before. The predictions from the Mortgage Bankers Association (MBA) of record low volumes in 2023 indicate that competition will remain fierce[1].

All is not lost, however—innovative lenders see purchase markets as a time to create gains in efficiency and reduce costs more widely and positively than by just reducing headcount.

How can lenders best do that? With technology.

Technology has long been at the heart of the mortgage industry and is its best hope for long-term health. The drop in volumes creates a great opportunity for lenders to review and adjust their technology and data strategies in preparation for the next wave.

This paper captures our perspective of the technologies that are likely to have the greatest impact on the industry in 2023 and beyond. Our aim is to help you navigate this small window of opportunity—to buckle down, get prepared, and take advantage of the remarkable proliferation of new technology to transform … while you have the time.

1. Data alchemy helps lenders strike it rich

Competition for borrowers is never more intense than in a purchase market. Marketing companies are quick to advise loan originators to focus on their referrals and existing clientele, create a niche and draft new email campaigns. All sage advice. But will it survive the test of time?

Like alchemists, fintechs have combined a potent mix of ingredients from AI to cloud computing, and have turned data into gold. Innovative banks, credit providers and lenders have taken notice and begun building data strategies to capture the power of AI. This has enabled them to anticipate consumer needs and identify potential borrowers, which in turn has filled their marketing pipelines. By predicting buyer behavior, lenders can plan and execute more precise marketing campaigns that save costs and expand wallet share.

Banks with diversified portfolios that include products such as deposit and credit accounts, auto and personal loans, and mortgage origination and servicing, are well positioned to take advantage of this trend. By gathering a consumer's data across their accounts, products, and services, banks can curate the data to predict loan shopping behaviors and steer marketing campaigns toward those specific opportunities.

A $82.99 billion industry in 2021, big data and analytics is predicted to reach $146.71 billion by 2027[2]. In 2023, we expect early innovators to begin to reap the benefits of their data strategies. Also, watch for banks to invest in more targeted data strategies that include both existing and purchased consumer data.

2. Mortgages meet the metaverse

It started with video games, then expanded quickly into shopping, social events and travel. In September 2022, the hottest topic of interest was music, with 68% of consumers seeking virtual experiences[3]. Welcome to the metaverse.

While still in its infancy, this trend has rocketed to prominence for three reasons. First, consumers are seeking complete experiences and are turning to the metaverse to get them. Second, at the end of 2021 the metaverse was already valued at $14.8 trillion globally[4]. Finally, virtual properties are being purchased with real money in the metaverse, and mortgages have been created and accepted.

Really? Yes, really.

In February 2022, a 4-bedroom house in Gulfport, Florida, sold for $653,163 in ether currency. The winning bidder in the metaverse auction now holds an NFT, signifying ownership on the chain[5]. In September, United Wholesale Mortgage (UWM) announced it had accepted its first cryptocurrency mortgage payment on the blockchain. The next month it received, evaluated and accepted five more cryptocurrency mortgage payments[6].

While we know that lending in the metaverse is still a bleeding-edge concept, this is not a short-lived fashion trend. Given the speed at which technology is evolving, and the voracity of consumer appetites for an easier, faster and more transparent lifestyle, lenders will have little choice but to respond. In short, they will be under severe pressure to meet the same expectations that their borrowers, members, and clients have of service providers in every other industry.

Lenders still have time to plan their response—they are unlikely to be expected to offer fully-fledged virtual services in 2023. However, we believe the metaverse, as a marketplace, is here to stay. Consumers certainly do, and have started to visit, browse and buy. Many banks do too—some of the biggest names have set up their shingle and started to flex their muscles. It's inevitable that mortgage lenders, before long, will see the wisdom of establishing a presence and a business capability. The year ahead is a good time to learn more about the metaverse and its components, investigate its potential, and start developing a strategy to take advantage.

3. Blockchain claims its place at the table

Since the very early days of blockchain, banks and real estate and title companies have been giving a lot of thought to how it might revolutionize their industries. Much has been said and written about this, but little has actually been done. This is partly due to other priorities, and partly because blockchain is … well, intimidating. Then the pandemic arrived. Overnight, innovation became a requirement to stay in business. Small circles of lenders, realtors and title companies began collaborating for the benefit of their shared customers, and suddenly blockchain held promise.

Late in 2021, Fannie Mae carried out a survey about blockchain among senior mortgage executives. More than four out of ten said their firms planned to adopt the technology in the next three to five years[7].

In 2022, the unthinkable happened: MERS (mortgage electronic registration system) was confronted by its first competitor. Even more shocking was the fact that it was a blockchain competitor. With Digital Asset Registration Technologies (DART), lenders can now originate loans as fully digital assets and instantaneously trade them with counterparties on the blockchain as digital tokens.

Still skeptical? We're not. With consortiums among lenders and GSEs alike, applications of the blockchain are here to stay. While regulatory uncertainty will take time to be overcome, we see blockchain as a necessity in the future of the title and mortgage lending industries.

Blockchain start-ups have set their sights on revolutionizing the industry by tokenizing real estate transactions. All the while, fintechs continue to invest in developing applications on the blockchain with the aim of dramatically improving efficiency, risk, and securitization.

We expect that 2023 will see continued forward movement among innovators. They will build and use their applications on the blockchain across the mortgage lifecycle, from the time a consumer shops through to pay-off of the asset. After years of speculation, blockchain will finally make its presence felt in the mortgage industry.

4. AI takes the grunt work out of document processing

One of the most manually intensive activities in lending operations is document processing and review—processors collect documents, index them, and review, compare and extract data to enter in their systems. Technology in this area has improved steadily but slowly in recent decades, with some optical character recognition (OCR) software proving successful in certain niche applications. However, due to the complexity and variability of loan documentation, few lenders have been able to claim broad success.

Finally, we're seeing a game-changer. Recent advances in AI and machine learning technology have greatly improved the accuracy of the newest generation of software that is now hitting the market. The advancement of neural networks is enabling AI-based software models to be trained to look for common characteristics that quickly identify the document and key data fields. And some of the latest tools are doing it with high levels of confidence and accuracy—close to the 90th percentile for even complex, unstructured document formats. This is a vast improvement on their predecessors, which commonly did well to hit the 50% mark[8].

Going forward, we believe vendors of these solutions will continue to mature rapidly. We expect to see more complete turnkey service offerings where entire libraries of standard lending documents are available as pre-built solutions, offered to lenders on a pay-as-you-go basis. This will enable documents to be processed in minutes rather than days. The technology will be accessible by small to mid-tier banks, meaning lenders won't need to beef up their in-house technology staff with data scientists and other specialists who may have been required in years past.

5. APIs unlock the door to more efficient lending

Until now, lenders have been married to a handful of loan origination system (LOS) vendors for all their mortgage processing needs. These systems, together, have served as a Swiss Army Knife™—a collection of tools that facilitate the processing, underwriting and closing of loans in all shapes and sizes. While they generally served their core purpose, clients sometimes struggled to adapt these systems to fit business-specific needs. Their rigid linear workflow, slow and inefficient upgrade cycles, and general resistance to customization were a never-ending source of pain.

More recently, LOS vendors have been adopting open application programming interfaces (APIs) with increasing speed, and we now believe an inflection point has been reached. Lenders have been given the keys to the castle: the ability to design a fit-for-purpose future-proof platform that works ideally for their business. Creativity and process innovation are supported as never before. With the ability to now hook up best-in-class rules engines, low-code workflow platforms, analytics, and data mining tooling to name a few, lenders can achieve much better insights into bottlenecks and can drive continuous efficiency improvements. We believe the maturity and ubiquity of API enablement has reached the point where lenders can supercharge their core LOS capabilities with full fintech innovation.

Research has shown that, over the past decade, firms that adopted API-first strategies achieved double-digit growth in market capitalization[9]. In 2023 we expect lenders to take full advantage of this trend by creating more parallel processing designs with capabilities from best-in-class vendors to augment their core LOS functionality. In time we believe the lines will blur—no longer will the LOS vendor drive the train. Instead, lenders will be in control, building their own future-proof loan processing workflows to close loans faster and smarter.

6. Proptech disrupts the valuation industry

Mortgage lenders have, for more than 30 years, sought to improve the accuracy and efficiency of their appraisal and valuation processes. While automated valuation models (AVMs) have delivered some relief in these areas, accuracy and 'data bias' are still scrutinized and valuation variations add to uncertainty. Still, originators continue to seek innovation, and MBS investors seek a solution that can predict future values.

Is there hope? We believe so. In 2022 we've seen progress and investment by regulators, GSEs (Government-Sponsored Enterprise) and innovators alike. The AVM technology market continued to expand beyond traditional mortgage and real estate industries as i-buyers* entered the scene. The relatively new i-buyer market has resulted in a boom of fintech offerings that bring detailed images and even 360° videos of properties to the public, and potentially the appraiser as well. Not only has this created a new market for AVM providers, but it also challenges the traditional 'black box' approach to current AVM algorithms.

We are now seeing innovators looking at the designs of property appraisal and valuation solutions—or proptech as we call them—and applying them in new ways to AVM technology in the real estate industry. Expanding on the traditional AVM model, products like Procision are deepening their algorithms to include automated surveillance systems that monitor both valuation data and valuation quality, and to incorporate results into AVM estimates[10]. Opendoor has enabled digital real estate agents to deploy AVM technology for i-buyers who purchase homes from sellers seeking to sell quickly[11].

The winning algorithm? There isn't one—yet. Ultimately, advancement of the AVM market will come when successful innovators partner across multiple markets including the mortgage (origination and secondary), appraisal, housing and real estate industries to deliver more accurate valuations.

In 2023 we expect to see innovators begin integrating multiple sources of data into their AI strategies to increase the accuracy of appraisal valuations across various geographic territories. Algorithm owners will be seeking to add local market data (MLS) and niche property data with their existing AVM, digital appraisal and public tax data. More good data and smarter systems are putting us on the path to significantly more accurate future values.

** I-buyers are property investors who make use of technology such as AVMs to quickly and accurately calculate the optimum price for their cash offers.*

7. Lenders start to allow customers to do it themselves

Loan servicing for borrowers in mortgage has trended behind some of the more advanced POS technologies we see in loan origination. However, this is finally changing. Consumers continue to demand a digital self-serve experience across their entire financial portfolio, which includes auto and personal loans and mortgages—and lenders are finally responding.

In recent years, loan servicers have faced pressure to keep their customers happy as they sought to increase wallet share and maintain strong MSPs. Today, consumers expect to easily access important records like mortgage statements, tax forms and escrow balances, make payments, and request hardship help—all from one location.

Times they are a-changing, however, as servicing becomes the life raft for mortgage lenders through to 2024. Digital-first servicers are finding that technology paired with behavioral science is driving efficiencies and improvement in customer and consumer experiences[12].

Where will this lead in 2023? Fintech providers are thinking outside the box and innovating by delivering more than mortgage servicing statistics alone. Look for POS tools to drive education and information to the borrower by answering questions such as "how much equity do I have in my home?"

It goes without saying that with low volumes and high competition for borrower business, lenders need to protect a performing mortgage servicing portfolio. While borrowers locked into low interest rates will think twice before making a move, there's still a strong argument for giving customers the peace of mind that comes with transparency and a digital banking relationship.

Improving the customer experience is a sound investment in retention and compliance that will pay off over the long haul. Lender servicers, investors, banks and credit unions that introduce next-level digital servicing capabilities during the lull in volumes will come out on the other side in a market-leading position, ready to accelerate the growth of their business.

8. Home equity benefits from an automation boost

With all the talk of an impending recession, chances are you didn't need a spoiler alert to guess that home equity would be ranked among the top trends for 2023. It's an industry truism that when markets contract, every mortgage lender instinctively shifts to home equity.

In the past, most lenders treated home equity loan processing in the same way as they did first lien mortgages, and the time to close was similar. For those who still do, there are now compelling reasons to consider changing. It's no longer necessary to treat home equity like a conventional loan, so the time is ripe to adapt credit policy.

As usage expands and competition in this market heats up, we believe there's a growing trend towards redesigned processes and streamlined technology to speed up the closing of these products. The pack leaders are showing it's possible: some lenders are now advertising home equity approval in as little as five minutes, and funding in five days. With industry averages at about a month, and wait times stretching to as much as 60 days, there is still time to get ahead of the curve[13]. Step changes in performance can be enabled by increases in automated underwriting decisioning that include more tailored business rule sets, streamlined credit policy, full adoption of sophisticated AVM models, as well as greater reliance on e-closing services.

Where is this leading as we head into 2023? In our experience, most lenders' efforts to use automation to improve their lending operations are constrained not only by a lack of technology capability, but also outdated credit policies and processes, and simply inadequate access to the right third-party data. If they are to capture and retain customers in the uncertain market that 2023 is shaping to be, lenders will need to sharpen their pencils and tackle these issues head-on. Speed and quality of service are going to play an even more decisive role as competitive differentiators in the future, and we predict speed of closing home equity loans will be foremost among these.

Conclusion

We hope this perspective has got you thinking critically about the ways technology trends are impacting the industry and shaping your business in 2023. We understand how tempting it can be to avoid investment and, instead, to hunker down through this mortgage maelstrom.

Don't fall for it.

Across virtually all industries it has become clear that businesses that intend to stay relevant five years from now will have to significantly transform, using the technology innovations we have discussed. The mortgage industry is no exception. Invest now or think about it as your fortunes wane.

As the history of the industry has shown, now is the ideal time to take action. Clarify your business vision and objectives, build a thoughtful technology strategy coupled with an optimized operating model, and execute.

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