The State of Innovation

The 2016 PROGRESS in Lending Innovations Award Winners talk about the future of mortgage lending.

Over 100 mortgage executives came together to attend PROGRESS in Lending Association's Sixth Annual Innovations Awards Event. We named the top innovations of the past twelve months. After that event, we wondered what would happen if we brought together executives from the winning companies to talk about mortgage technology innovation. Where do they see the state of innovation? And what innovation is it going to take to get our industry really going strong? To get these and other questions answered, we got the winning group together. In the end, here's what they said:

Q: How would you define the state of innovation in the mortgage industry? Is it thriving or in a state of decay?

JEFF BRADFORD: Innovation can be incremental or sweeping. The key is that it is an improvement. It can be a small change to a process that improves efficiency or costs, or it can be disruptive and eliminate an entire category of services or processes.

DOMINIC IANNITTI: In order to gain significant traction and adoption in the mortgage industry, things generally happen in increments, mostly because so many parties have to weigh in and agree on how and when to effectuate change. A good example of that is the slow but sure industry adoption of eSignatures, eNotes and eClosings.

However, universal change and innovation can occur when a major compliance regulation is put into effect. The CFPB's drive to implement the TRID rule created a fundamental shift of seismic proportions in both business processes as well as relationships. This affected so many entities across the mortgage supply chain. The CFPB essentially became a change agent that facilitated never-before collaboration between lenders and title companies. This not only helped the borrower but it also helped develop far greater transparency, much more efficient workflows, and better communication.

So depending on the impetus, innovation can be swift or incremental. But I really define innovation as a process — the process of arriving at new ideas, concepts and approaches to doing things differently — and then bringing all the necessary parties together to execute on and attain adoption.

PAUL CLIFFORD: I don't think it is either. Innovation isn't tossing out the old paradigm completely, nor is it tweaking the old paradigm for incremental change. Innovation is taking what we "know," our collective industry experience, and solving for old problems in new ways. We can't forget our history, nor can we simply amend it.

MARC RICCIO: There is no definite explanation on how to create innovation, which is what also makes it so difficult to define. Considering something as being innovative means that it is one of a kind regardless of how it was achieved. What matters most in today's industry, especially in the software world, is that creating innovation is mandatory in order to stay relevant and competitive. Without the ability to think outside of the box, there is little hope for survival.

BRAD THOMPSON: Innovation must be constant. It's a given, really, for all technology companies, though especially ours. We've built our business around rapidly evolving mortgage platforms to meet the ever-changing needs of lenders and their borrowers. Regulations over the past several years, including TRID, are current examples, though many innovations were less reactionary and more visionary for us, such as the rollout of a true borrower portal in 2001 – it's the combination of both reactionary and visionary innovations that allows lenders and technology providers to stay ahead of the market.

NICKIE BADALAMENTI-KALAS: Innovation does not have to be mutually exclusive to being either sweeping change or incremental change. It depends on the circumstances and specific market conditions in play. Innovation requires a company's commitment to delivering dynamic solutions, technology, new processes, that proactively address current and future market conditions in a way that adds value to all interested parties.

SHARON MATTHEWS: Innovation comes in all formats, including small changes and large revolutionary advances. Being innovative simply means doing something differently than what has traditionally been done. It means not accepting the status quo as a given, but rather looking for new ways to do things. For every disruptor like the smartphone, there are many more that have been the result of multiple innovations over time that have improved the state of the art. Mortgage technology is a prime example.

The longer we remain a fragmented industry of stakeholders and systems, the longer our problems persist and multiply.

— Paul Clifford
Simplifile

What matters most in today's industry, especially in the software world, is that creating innovation is mandatory.

— Marc Riccio
Specialized Data Systems

I think innovation is thriving in the mortgage industry. The amount of venture capital that is pouring into the FinTech sector is huge.

— Jeff Bradford
Bradford Technologies

Q: How would you define the state of innovation in the mortgage industry? Is it thriving or in a state of decay?

BRAD THOMPSON: Innovation is thriving in the mortgage industry! Stronger than ever, in fact. Some of it is, of course, reactionary – TRID for example – yet the most interesting are forward-looking - like the work we're doing around business intelligence and our next-generation borrower portal. Lenders require partners that are innovative, therefore, the best companies will be taking similar steps to stay ahead of industry trends.

MARC RICCIO: If you asked me this question 12 months ago, I would have replied it's in a state of decay because of TRID. Although still weighing some vendors and lenders down, the worst part is over…and we have some exciting and innovation capabilities being released in the next 6-18 months. That being said, there are many new opportunities to embrace innovation. The Millennial generation will need housing, which will push lenders to embrace "their type of technology," including tablets and mobile devices. We haven't even scratched the surface with e-signature and paperless process capabilities. The future is all about speed, efficiency and economies of scale, and it will be driven by providing a seamless and optimizing loan process that provides personal service. The lenders who find a way to achieve this through innovation will be the winners.

DOMINIC IANNITTI: To use a well-known proverb, "Necessity is the mother of invention." I cannot recall the last time I have seen so much innovation in the mortgage industry. Dodd-Frank imposed unprecedented regulatory oversight, introducing new processes and procedures, workflows, increasing compliance costs, along with greater risk while reducing bottom line profit and thinning margins. In order to survive, lenders must turn to eliminating old paper-based processes and automating more of the compliance verification and document process to ensure proof of compliance to protect themselves against future regulatory audits.

The increasingly regulatory intensive landscape the industry has faced ended up forcing a major business change from producing a paper trail, to document compliance in a loan file, to implementing a continuous automated, electronic data verification and compliance audit process. This resulted in ensuring that both the data and the documents which contain them are as current, complete and compliant as possible. Even Fannie and Freddie have moved from a post-closing review process to new pre-closing verification systems in order to verify data before final documents are drawn.

The short answer is that regulatory mandates to implement new compliance rules resulted in vendors developing better technology solutions to accommodate them. While it has been painstaking, I believe that the mortgage industry is about to turn a critical corner. We're going to reach new heights of efficiency and the truly paperless eMortgage will gain critical mass sooner rather than later.

JEFF BRADFORD: I think innovation is thriving in the mortgage industry. The amount of venture capital that is pouring into the FinTech sector is huge. There are a lot of ideas being funded. We'll see some of these turn into new services and products and enter the market in the next few years. Some may even disrupt the mortgage market. It will be interesting to watch.

NICKIE BADALAMENTI-KALAS: Personally, I know at Five Brothers we view the state of innovation as thriving. The influx of new rules and regulations has forced companies to develop innovation to respond to constantly changing market conditions. The key is developing a culture within the organization that is continually looking for ways to

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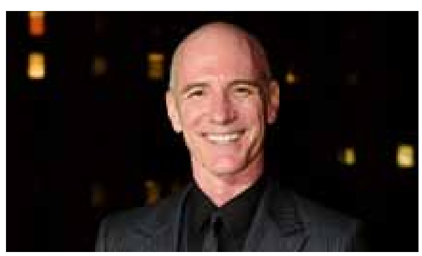
— Nickie Badalamenti-Kalas
Five Brothers



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— Dominic Iannitti
DocMagic

Leveraging the work performed by MISMO, eLynx and others, the Data-Validated Mortgage is an innovation whose time has come and is ready for adoption.

— Sharon Matthews
eLynx

do things better, faster, and more cost effectively.

PAUL CLIFFORD: While it is thriving from a "spot solution" standpoint, I do feel we are still too reactive rather than proactive, preventing us from innovating at a broader, industry level.

SHARON MATTHEWS: Innovation in the mortgage industry is thriving without question. Every phase of the mortgage process is evolving, from the user experience at the point-of-sale, to eClosings, to post-close processes. We see better, faster and more cost efficient approaches coming to market in all these areas. Even data standards – not something typically associated with innovation – are helping to make possible the vision of a data-validated mortgage, in which quality and compliance are more easily assured from beginning to end.

Q: Lastly, if there was one innovation that you would say the mortgage industry desperately needs to happen over the next twelve months, what would it be?

SHARON MATTHEWS: It would be what we have termed the "Data-Validated Mortgage," which refers to a loan whose individual data elements are in an accepted, standardized format and is made available in a way that is useful by stakeholders in every aspect of the business. The ability to assess loan documentation from pre-close to close and then extending through to post-close, especially in relation to TRID disclosures, is a game-changing capability affecting compliance, loan quality and investor salability. Leveraging the work performed by MISMO, eLynx and others, the Data-Validated Mortgage is an innovation whose time has come and is ready for adoption by the industry.

DOMINIC IANNITTI: Director Cordray of the CFPB has gone on record as stating that his number one goal moving forward is to implement a total eClosing and electronic Compliance Management System (CMS) that effectively addresses both compliance and consumer satisfaction. Our participation in the CFPB's eClosing Pilot provided us with keen insight into helping streamline the overall consumer experience from the initial LE and eDisclosure to delivering the final CD and pre-closing package three days prior to consumption.

In order to ensure a truly consistent and compliant process, however, lenders need to document all consumer interactions. Using paper-based or even imaging-based systems aren't going to cut it. You must start and end with electronically creating a completely paperless process to document consumer consent and understanding, acknowledgement, intent to proceed, receipt of delivery, etc. throughout the entire mortgage manufacturing process.

In future compliance audits, the CFPB is going to be checking the source and validity of the data so lenders are going to have to keep an electronic audit trail to document that as well. The only way to effectively accomplish that is to implement a true eMortgage process (eSign, eDisclosure, eClosing, eNotary, MERS eRegistry) and retain electronic proof and evidence of compliance (data, documents and electronic audit trail) that resides in an eVault along with reps and warrants to ensure total compliance with regs.

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— Brad Thompson
Mortgage Cadence

MARC RICCIO: I see the need for providing "picture" documentation that allows a borrower to zoom and click a picture of a borrower document with their cell phone or tablet. They need to be able to securely transmit the document to the lender to automatically be uploaded to the LOS and securely attached to the borrower record. The key is providing a secure delivery that requires no human intervention.

JEFF BRADFORD: Appraisals need to get better. Much better. It's a big bottleneck for lenders trying to close loans when 50% of the appraisals submitted are returned for corrections. Innovation in the appraisal process, in the analysis and in the reporting are desperately needed. We live in a world, which revolves around technology and appraisers are still filling out forms manually. This has to change.

NICKIE BADALAMENTI-KALAS: With the influx of new rules and regulations, property preservation is not just about securing a lock or boarding up a window; it is about preserving the appearance of neighborhoods and maintaining homes as good as the house next door. The speed and accuracy at which servicers can get information from their property preservation company is a critical factor in making this happen. Mobile technology specifically applied to property preservation significantly speeds up this process while also improving data integrity and therefore will have a major impact on the industry over the next twelve months.

BRAD THOMPSON: The digital mortgage is absolutely crucial. Even a hybrid approach where the front-end process becomes digitized is a step in the right direction. With regulations and an ever-changing industry ahead of us, the ability to be agile is critical to long-term success, and being digital is essential to being agile.

PAUL CLIFFORD: Well, I don't think it is a secret that we need to drive to data standardization and interoperability. The longer we remain a fragmented industry of stakeholders and systems, the longer our problems persist and multiply. ❖