



Keeping Up with the Evolving Mortgage Business



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Fiserv

Like all mortgage lenders, credit unions enjoyed great success in home financing in 2020, despite the challenges wrought by the global pandemic. The real estate market was red-hot last year for a number of reasons, not the least of which was extremely low mortgage interest rates.

As a result of high demand and relatively low housing inventory, home prices have appreciated markedly over the past 12 months, giving homeowners more equity to borrow against and more reason to sell their homes and trade up.

To keep up with the high loan volumes, many credit unions have invested in additional mortgage process automation. That trend is likely to continue at least for the next 12 to 18 months, as interest rates are expected to remain relatively low and pent-up demand for housing keeps buyers in the market.

The Covid-19 pandemic pushed the industry toward digital lending because health concerns made it a requirement to conduct business, including many

loan closings, remotely. As a result, a vibrant mortgage lending ecosystem arose that served to digitally connect the various parties involved in the loan origination process.

Now, a new administration and new leadership at the industry's largest federal regulator has changed the compliance landscape, especially for credit unions that service their own loans.

In this kind of changing business environment, leading credit unions will

need to make smart choices in order to succeed. In this article, we'll focus on some of the new options lending executives in these institutions have access to today.

NEW TECHNOLOGIES FOR CHANGE

When the pandemic struck and digital lending became a competitive imperative for all mortgage lenders, technology vendors rushed to release new tools into the market. Much of this new loan automation has found its way into credit unions.

These tools come with the ability to either generate Application Programming Interfaces (APIs), make API calls to get information required to process a mortgage loan, or both. These connections are vital to achieve the goal of fast, efficient digital loan origination.

Almost overnight, the industry has seen consumer financial data flying through this network. Technologies that had been in development for the last five

years or more are finally being adopted and implemented out of necessity. The digital mortgage is coming into focus.

This is a great benefit to lending institutions and the borrowers they serve, as it streamlines and speeds up the lending process, reduces costs for lenders and improves customer satisfaction.

From the perspective of smaller institutions, an additional benefit has been the democratization of technology. Tools that had previously only been available to the nation's largest lenders are now available to small- and medium-sized mortgage lenders.

This has been a welcome development because there has never been a better time to have quality software.

RISKS AND OPPORTUNITIES

The risks lenders face today are largely the same as they have always faced. The only difference is that in a digital world where loan volumes are higher, the volume of risks increase, as do the potential costs.

Lenders are held tightly to a specific set of business practices and can only offer products that meet strict federal guidelines. Deviating from these attracts the opprobrium of the industry's most powerful regulator and the cost of non-compliance is very high.

Modern automated underwriting (AU) and Product and Pricing Engines (PPE) help ensure that lenders are offering the right products to the right borrowers. The hard part is documenting the borrower's financial condition and the condition of the real estate collateral in the loan file that is ultimately delivered to the investor. Mistakes here can trigger buy-back requests that are very costly.

Many credit unions will hold the loans they write in their own portfolio, servicing those mortgages internally. The risk here is consumer delinquency or default, which can occur even if the loans were underwritten carefully and

fully documented. When that occurs, accurate data in the loan file gives the credit union options that may either help the borrower get back on track or out from under the property through foreclosure.

These risks can only be mitigated when the lender receives better information earlier in the process. The quality of the data determines the lender's ability to guard against risk and loss.

When document processing is manual and humans are tasked with document classification, data entry and data validation, the potential for errors and other risks increase, especially in a high-volume lending environment.

It is noteworthy to mention that many borrowers' financial documents are often uploaded by the borrower as one large image or BLOB (PDF, fax, etc.), creating more

difficulty in accurately classifying each individual document and data keying. Some lenders never separate these BLOBs into individual documents, causing more work and possible errors for all loan personnel in origination and other downstream processes.

Although most loan processors have a good knowledge of industry standard loan documentation, their interpretation of a document taxonomy may not be the same. Errors are inevitable.

Fortunately, lenders today have the opportunity to solve that problem.

SOLVING A PERSISTENT PROBLEM

The industry's shift to digital has resulted in credit unions gaining access to technologies that could finally solve one of the industry's most persistent problems.

Many of the legacy loan origination systems (LOS) in use today still lack sophisticated capabilities to classify origination documents and extract data required for the underwriting processes. Correct document classification is required before data extraction, which then is compared to existing data

for accuracy or uploaded to the LOS as new data.

Document classification is a critical stumbling block that costs lenders time and money on every loan they close. Of course, back in the days when every document to be sent to the lender on paper or via the fax machine, those documents existed on paper as the loan was processed. Automation was impossible without expensive scanning software.

The pandemic changed all that when it propelled advances in digital lending. Now, these documents are appearing on loan processors' screens, where they are carefully studied to determine whether they are the correct documents and whether they contain the required information.

Better yet, technology is now able to recognize and properly classify documents.

Even though lenders are receiving the information required to underwrite and process a loan electronically, they are still treating it the same way they did when it was on paper. They are tasking people with the job of staring and comparing documents on a set of dual monitors.

This is an incredible waste of resources and prone to error. Fortunately, technologies that were previously only available to very large correspondent lenders or mortgage servicers are now, as a result of the pandemic, available to all lenders.

HOW OCR/ICR CONTRIBUTES

Optical Character Recognition (OCR) and Intelligent Character Recognition (ICR) are two of these technologies. In use for many years by very large players in the industry, such as due diligence consultants, who have to identify, classify and index thousands of digital documents in a very short period of time, OCR and ICR have now found their way into product suites that any lender can use.

And just in time. One of the side effects of a very quick trip into the digital realm is that companies are often flooded with information before they have time to set up protocols to deal with the data effectively. The result is often low-quality information or



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inaccurate data finding its way into the lender's database of record.

Without an efficient way to rapidly process electronic documents, lenders face high risks of underwriting errors or delivering loans into the secondary market that contain errors. This also can result in buy-back requests that can be very costly and damaging to the enterprise.

Today's new data quality suites use advanced OCR, AI-powered document identification software, efficient document tracking and delivery capabilities that reduce errors and risk while they make it easier for the lender to provide an improved borrower experience.

The automation of existing manual time-consuming tasks has been shown to greatly reduce the time required to process, underwrite and close a loan. The number of borrower interactions can be reduced, thus raising the borrower's uti-



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When regulators visit the credit union one of the questions they hope to answer is: Is non-compliance a pattern of behavior with this institution? The answer is almost always no, but proving it is an important part of the audit.

Today's modern data quality software doesn't just handle documents and extract accurate information. It can also be used to easily create document sets to deliver to external auditors that clearly indicate the process and procedures at work within the institution.

Today's mortgage business is evol-

mate satisfaction level.

In addition, the accuracy and speed of automation is greater when compared to manual classification of each individual document. With automation that delivers greater accuracy faster, the time to close a loan is reduced. Profitability potentially increases.

A BETTER PROCESS REGULATORS CAN SEE

ing in response to pandemic-related changes, new regulatory requirements and changing consumer demands. What isn't changing is the need for accurate data and document management within the credit union.

There are many new technologies available to credit unions today. Without technology that facilitates the capture and use of high data quality, the lender may face more risks than ever before.

Fortunately, these new technologies are available today to lenders of any size. Credit union executives who seek them out will reduce their exposure to risk and increase their chances of setting their institution up for success. ▲

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