

# Frictionless Lending

*Lenders Must  
Learn to Harness  
Technology, or They  
Risk Being Left Behind*

By Finicity and MortgageHippo

**O**riginating loans is time-consuming for both borrowers and lenders.

Borrowers have to print statements, complete forms and photocopy proof of identification before physically submitting the documents to the lender.

Lenders then have to manually process the documents, making sure the information provided is accurate--or at least hoping it's accurate.

However, digital solutions are transforming the finance industry, and the lending industry is no exception. With greater access to a rich set of data, mortgage loan origination can move from weeks to days, information will be more accurate and up-to-date, and the experience for borrowers and lenders will be radically improved.

Customers in general are increas-

ingly turning to financial institutions (FIs) offering the most convenient apps and tools. Lenders need to learn how to harness technology so they can embrace a digital lending experience, or they risk getting left behind.

## A DIGITAL WORLD

According to Jim Marous, a top financial technology ("fintech") influencer and publisher of the Digital Banking

Report, removing friction from the customer journey is one of the top banking trends in 2017. In a recent edition of his report, Marous argues that FIs, including credit unions, must employ digital technology to address customer pain points, such as streamlining the user experience.

This effect can be observed in the service industry as a whole. After all, we complete a range of transactions on mobile devices these days, from ordering a ride to booking a hotel room. And this trend is set to continue: PricewaterhouseCoopers reports that an entire generation, which they refer to as Generation C (for connected), will have grown up in a digital world by 2020.

Consumers expect the same level of convenience from their FIs. 11% of respondents to Accenture's 2016 Consumer Digital Banking Survey



who switched financial institutions in the previous year said they moved to an online or virtual one. The survey also reveals that one of the most common reasons for switching FIs is to simplify the process of purchasing a home. And clearly, this is just the beginning.

For loan origination, digitization means the process is poised to become quicker and easier for both lenders and borrowers.

### FOR THE LENDERS

**Increase Efficiency:** Automating the input and verification of documents speeds up the loan origination process--up to 12 days in some cases. Access to deeper and more accurate information also positions lenders to

make better credit decisions and ensure greater accuracy, and the GSEs are reacting to this. All of this frees up loan capital to be deployed elsewhere.

**Reduce Costs:** According to the Mortgage Bankers Association, the average cost of originating a loan jumped from \$5,779 in 2013 to \$7,845 in 2016 and has continued to climb to \$8,957 in 2018, while the net income per loan dropped from \$1,772 to a net loss of \$118 in Q1 of 2018.

Lenders using digital solutions don't just save time, they can cut costs and boost their bottom line, turning a loss into a gain.

**Combat Fraud:** Doctoring a paper copy of a document required to support a loan application is easy. CoreLogic's latest Mortgage Trends Report found that U.S. lenders received 12,718 fraudulent mortgage applications in the second quarter of 2016 alone. Digital solutions pull data straight from the financial institution, reducing the borrower's involvement to give permission to the lender to access their accounts.

### FOR THE BORROWERS

**Convenience:** Today's borrowers demand a smooth and intuitive experience. To compete, lenders must meet this expectation and provide a digital point-of-sale system that centralizes

the loan process in one easy-to-use space for borrowers.

A digital platform can,

and should, do so much more than complete a 1003. Borrowers can benefit from automation by giving permission to lenders to access their financial data directly from their FI, rather than spend time tracking down paper copies of documents like bank statements and submitting them to the lender.

A web app can condense this process into a few easy steps taking a matter of minutes while accessing a variety of accounts.

**Broader loan availability:** Borrowers who are thin or "no file" shouldn't automatically be excluded from securing a loan. For instance, they may only have a poor credit score because they don't use a credit card. Digital solutions allow lenders to make a loan decision based on a person's income, assets and cash flow along with their credit score. The result is a more robust and real-time view.

### DATA-DRIVEN DECISION-MAKING

Data is at the heart of digitization, so the financial sector is uniquely positioned to harness this trend.

Credit unions, like all FIs, generate a ton of transactional data. And according to the World Payments Report, each person in the United States completes more than 400 non-cash transactions a year. Of course, that figure doesn't take into account other

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payments like utilities, rent and cell phone bills.

All these data potentially provide a financial institution with a rich view of a customer's financial health, which could feed into various aspect of its business, particularly enhancing credit decisioning.

However, too many FIs rely on legacy processes incapable of handling this volume of information, never mind deriving value from it. They need access to the next generation of digital tools to successfully harness the data.

That's where data aggregation and analytics comes in.

A data aggregation solution gathers data from various sources and delivers it in a format which helps to provide valuable insight into the subject. In the case of lenders, it pulls information from different accounts and presents an overall picture of a potential borrower's financial health to help with the credit-decisioning process.

Data aggregation and verification solutions should tie in with the mortgage point-of-sale or digital platform used by the lender. These innovative technologies can work together through open API to create the most efficient mortgage process.

## VERIFICATION OF ASSETS

Verification of Assets (VoA) is the first data aggregation-driven solution currently on the market. It provides a full picture of a borrower's assets that could influence the credit decision by obtaining data—preferably including the Financial Institution Transaction ID to verify each transaction—about balances and transaction details from different account types and from multiple providers.

As mentioned earlier, a web app can streamline this process for the borrower. The app typically sits within the lender's workflow and lets a borrower permission the lender to access a

report compiled from transaction data directly from an FI. It effectively condenses document submission to three simple steps: choose an FI, log in and then select the accounts to share.

## OTHER SOLUTIONS

There are other solutions coming online in the market.

A Verification of Income tool will allow lenders to track various sources of income arriving in multiple accounts at different FIs and to identify gaps and trends in income that could affect the loan decision. Lenders will also enjoy a richer view of a borrower's financial situation thanks to a cash flow analysis which will categorize various types of account transactions data, from income to expenses.

When researching a verification solution, particularly in mortgage lending, it should incorporate protections from Fannie Mae and Freddie Mac and provide a dispute management process for the consumer.

Fannie Mae and Freddie Mac have launched initiatives aimed at streamlining the mortgage origination process for lenders and borrowers.

Through Fannie Mae's Desktop Underwriter® and Freddie Mac's Loan Advisor™ platforms, lenders can verify income and assets and receive freedom from representations and

warranties regarding the accuracy and integrity of the data.

If the provider is registered as a Consumer Reporting Agency, borrowers can challenge adverse actions directly, request a free copy of their verification report and update any inaccuracies hurting their qualification.

## DIGITAL TRANSFORMATION

Financial services are evolving. Lenders have to keep up with the digitization of the service industry in general by making life easier for borrowers.

Data aggregation solutions allow lenders to streamline the origination of loans and reduce costs, while borrowers benefit from a more convenient application process and broader loan availability.

Lenders must embrace the digital transformation of the financial sector or risk getting left behind.

*Finicity provides financial data APIs, credit-decisioning tools and financial wellness solutions by partnering with financial institutions and fintech providers to give consumers a leg up in a complicated financial world. To learn more, email [business.development@finicity.com](mailto:business.development@finicity.com) or visit [Finicity.com](http://Finicity.com).*



*At the forefront of technology and innovation, MortgageHippo partners with lenders to wow their customers and drive efficiencies to their mortgage operations through the use of its consumer-centric digital lending platform. To learn more, visit [mortgagehippo.com](http://mortgagehippo.com).*



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## DEFINING DIGITIZATION'S LINGO

- **Prequalification:** Reviewing a prospective borrower's overall financial health when deciding if they qualify for a loan offer.
- **Decisioning:** Using data to determine a borrower's suitability for a loan and on what terms.
- **Verification:** Streamlining the process for both the lender and the borrower by verifying a borrower's financial situation through automation.
- **Risk Modeling:** Providing deeper insight into the cash flow in and out of a borrower's account.
- **Monitoring:** Ongoing monitoring of a borrower's financial health once a loan has been originated.