Mortgage Servicing: A Compelling Case for Digitization

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The residential mortgage industry in the US is today characterized by market uncertainties and fluctuations in transaction volumes. On the back of an interest rate hike, surging inflation, increasing housing prices and low inventory, the demand for new loans and refinancing has fallen significantly – the lowest it has been in 22 years.[1]

On the other hand, loan servicing volumes are nearing pre-pandemic levels. With the moratorium ending, tens of thousands of mortgage borrowers have begun exiting COVID-19 forbearance programs. Likewise, foreclosure proceedings have risen by a staggering 132 percent year-on-year in the first quarter of 2022.[2]

For an industry already operating on razor-thin margins, the biggest challenge, as enterprises strive to cut costs and increase revenues, is the presence of labor-intensive and fragmented servicing processes. This results in long cycle times, spiraling costs and low customer satisfaction scores.

Digitalization of mortgage servicing could pave the way for end-to-end automation, enabling lenders to move away from legacy systems, spreadsheets and human touchpoints. Digitally enabled mortgage services are expected to become the norm, with the digitalization of the global lending market expected to grow to USD 84,359 Million by 2030, growing at a CAGR of over 46 percent between 2021 and 2030.[3]

[1] https://www.cnbc.com/2022/06/08/mortgage-demand-falls-to-the-lowest-level-in-22-years.html

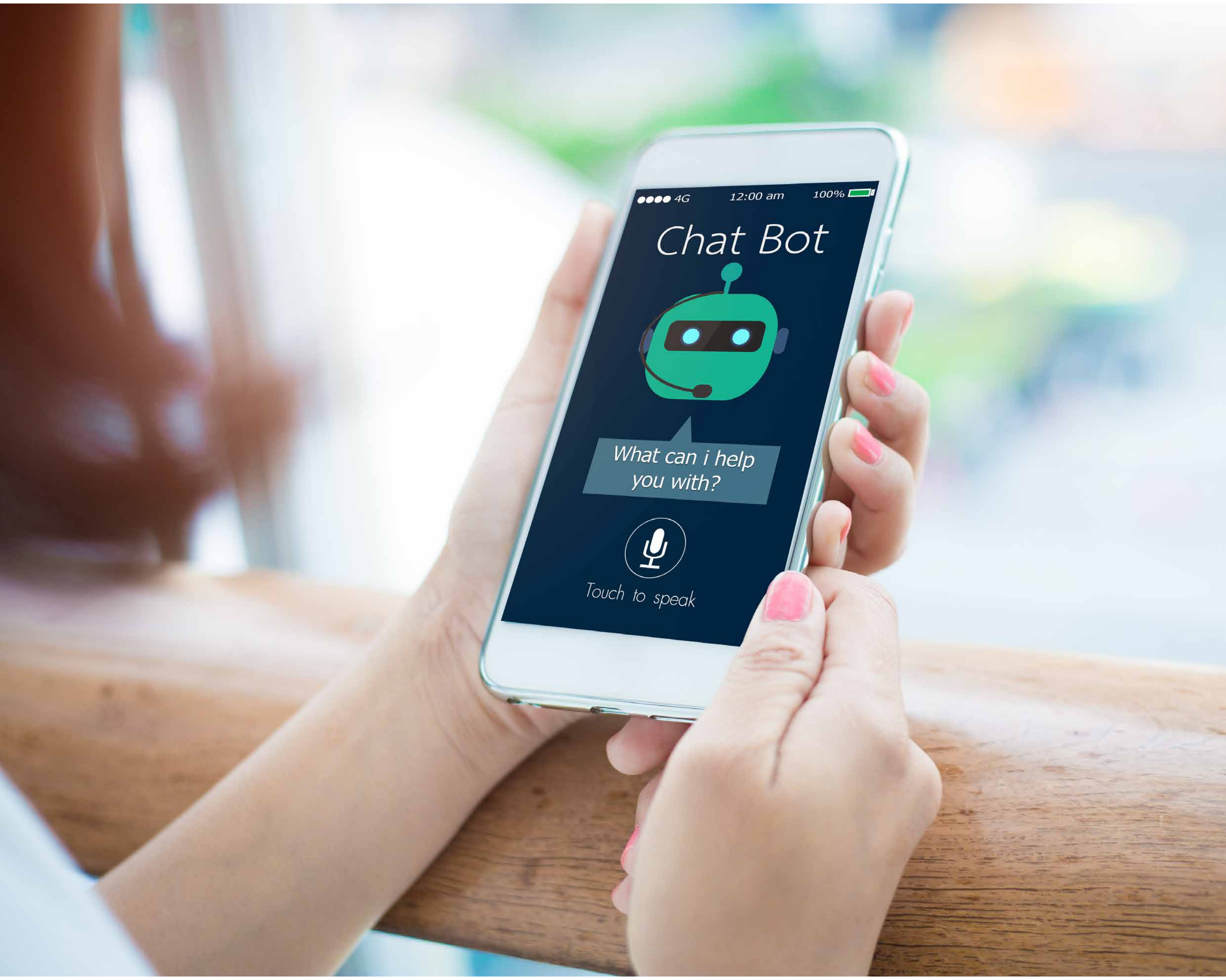
[2] https://www.worldpropertyjournal.com/real-estate-news/united-states/irvine/real-estate-news-2022-home-foreclosure-data-attom-q1-2022-us-foreclosure-market-report-rick-sharga-bank-foreclosure-filing-data-for-2022-13077.php

[3] https://www.globenewswire.com/news-release/2022/06/03/2455805/0/en/Digitization-in-Lending-Market-Segments-by-Deployment-by-Type-and-Region-Global-Analysis-of-Market-Size-Share-Trends-for-2019-2020-and-Forecasts-to-2030.html

Curbing Costs with End-to-End Automation

Notably, even as the cost of servicing a performing loan has increased, the cost of servicing a non-performing loan has become almost ten times more expensive.

Though organizations have made some headway in adopting digital, the efforts have been primarily directed towards the front end of the value chain. The back office continues to be dominated by manual servicing and legacy processes. Many lenders still rely on spreadsheets to track and manage borrowers' records. While the immediate impact of such practices manifests itself through elevated costs and extended cycle times, the lack of scalability means companies cannot respond to an increase in demand.



Creating Scalable Value with Digital Technologies

Digital technologies can transform the mortgage servicing value chain by streamlining processes, improving business agility, reducing costs and enabling higher revenue generation through strategic work.

Smarter Document Processing with AI: By leveraging Artificial Intelligence (AI) and Optical Character Recognition (OCR), servicing firms can improve data extraction and processing of data-intensive functions. Algorithms can extract data from documents of different formats, read the data after contextualizing it, point out gaps and help improve decision-making. 55 percent of mortgage executives feel AI will make their firms and the industry more competitive.[4]

Efficiency Gains Through Robotic Process Automation: There is an opportunity to automate processes based on pre-defined rules – thereby improving accuracy, and speeding up and streamlining activities. Repetitive tasks that currently take hours can be accomplished in seconds. Companies can also instantly increase processing capacity, which is of great use when transaction volumes experience sudden spikes and dips.

Cost Benefits of IVR and Chatbots: Advanced Interactive Voice Response (IVR) and chatbots can relieve pressure on service staff and transform customer relationships. Chatbots can speed up response time and guide borrowers through the entire process. Businesses, including banks and financial institutions, can expect cost savings of USD 11 Billion annually by 2023, up from an estimated USD 6 billion in 2018, by adopting chatbots.[5]

Improved Insights with Default / Collection Analytics: Businesses can leverage analytics to understand customer behaviors better, predict borrowers likely to default and better handle collections. Data-driven insights can help in maximizing collections and reducing risks.

[4]https://www.forbes.com/sites/insights-roostify/2020/07/07/digital-lending-key-takeaways-on-the-rise-of-ai-in-the-mortgage-industry/?sh=2565e2ad39cd

[5]https://www.juniperresearch.com/press/chatbots-to-deliver-11bn-cost-savings-2023

Re-thinking Mortgage Servicing as Regulators Tighten the Leash

The mortgage landscape continues to get complicated. While several borrowers have normalized their payments after exiting the forbearance program they had enrolled in during the pandemic, many customers are still struggling with financial problems and cannot make payments. The problem has been exacerbated in the absence of a loss mitigation strategy during forbearance exit. Almost 330,000 borrowers, by the end of 2021, had delinquent loans – having come out of forbearance without a loss mitigation plan.[6]

As foreclosures rise, the Consumer Financial Protection Bureau (CFPB) has sprung into action, issuing new and stringent rules that require mortgage servicers to help borrowers and provide them with foreclosure alternatives. With the emphasis on fair lending and protection of consumer interest, these rules will grow in significance in the coming days. The onus is on lenders to strengthen their operational and compliance environment. Regulators like the CFPB want enterprises to adopt mature self-assessment and remediation practices. Thorough review and modernization of operating and compliance procedures are the need of the hour.

This also allows lenders to leverage technology to assess their compliance and quality control landscape in line with the fair lending regulations. With a robust audit technology, lenders can drive self-auditing, proactively identifying and remediating any failings in their findings. An agile, technology-led approach to compliance and servicing will position lenders to navigate shifting regulatory demands.

There is no doubt that a spate of changes is compelling enterprises to re-think mortgage servicing. With complexities and costs constantly on the rise, operational transformation through digitization is paramount. Strategic collaborations with agile partners can help enterprises tap into the immense potential of new tech while circumventing the need for capital injection. Such partners can combine their expertise in domain, digital innovation and data-to-insights to drive step changes, reduce costs and harness an outcome-centric focus.

Though lenders have shown a willingness to invest in mortgage technology, a lot more needs to happen for companies to find the next level of savings and efficiencies in an unpredictable market. The upside of digitization and automation is that even the smallest initiative could trigger a significant change, leading to improved customer experiences and a healthier bottom line.

[6]https://www.consumerfinance.gov/about-us/newsroom/cfpb-releases-report-on-mortgage-servicing-metrics/

About WNS

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