

Toward customer-centricity in the US mortgage landscape: Blockchain shows the way



Abstract

The US mortgage industry revolves around an ecosystem where several players collaborate through various technologies and tools to help customers achieve their home-ownership dreams. As mortgage involves sensitive financial transactions, the uncertainties arising from the complicated landscape create a dissatisfied and frustrating customer experience. The current lending business model is still product- or process-centric and not customer-centric, emphasizing the need for a relook at the existing business models from the customer perspective. This paper discusses the challenges in the current scenario and explains how a simplified landscape can enhance customer experience and make the entire business model customer-centric.

Current US mortgage landscape

Mortgage is one of the most complex financial instruments in banking and financial services. Lenders need to assess the borrower's financial DNA, including employment, income, expenses, assets, liabilities, and court judgments to ensure there is no risk before deciding on the loan application. All property details, including assessment value, clear ownership, insurance coverage for all types of hazards, any previous lien or tax liabilities, are also required to ensure there is no encumbrance with the property. For this, lenders access more than 250¹ different types of services from various providers and vendors, based on the loan type and borrower profile. Various stakeholders like brokers, loan officers, processors, underwriters, and closers work with vendors and service providers to avail such services during the mortgage application process (see Figure 1). For this, multiple technology solutions, interfaces, APIs, and gateways are integrated with these service providers, to feed required inputs and receive sufficient responses.

Based on requirements, lenders might have to access the same service multiple times, like requesting multiple credit reports or appraisals based on change in circumstances. Lenders can also go to different service providers for the same service simultaneously, if and when required.

Most financial institutions have a proprietary third-party or in-house solution for the loan origination system (LOS), which receives data and documents from various service providers. Data is either stored in a separate enterprise content management solution or within the core application. In the absence of digital data, lenders go through each document, verify, validate, pick up data, and make manual entries into the system. Although some lenders use document-reading solutions based on optical character recognition to pull data from documents, manual interventions are preferred due to accuracy issues.

On the other hand, customers need to submit documents like pay stubs, W2s, tax statements, rental lease agreements, and bank statements, as evidence of information provided during the loan application. Some lenders ask for documents pertaining to the last six months and some for two years. Also, if a customer applies for a loan with multiple lenders, copies of the same documents must be submitted to each lender. The mode of submission also varies by lenders, where some require the documents by e-mail, others want documents to be uploaded in lender portals.

[1] VendorRisk (Skeey Interactive), *Key challenges For vendor management in the mortgage servicing industry*, Accessed September 2021, <https://vendorrisk.com/vendor-management-for-mortgage-industry>

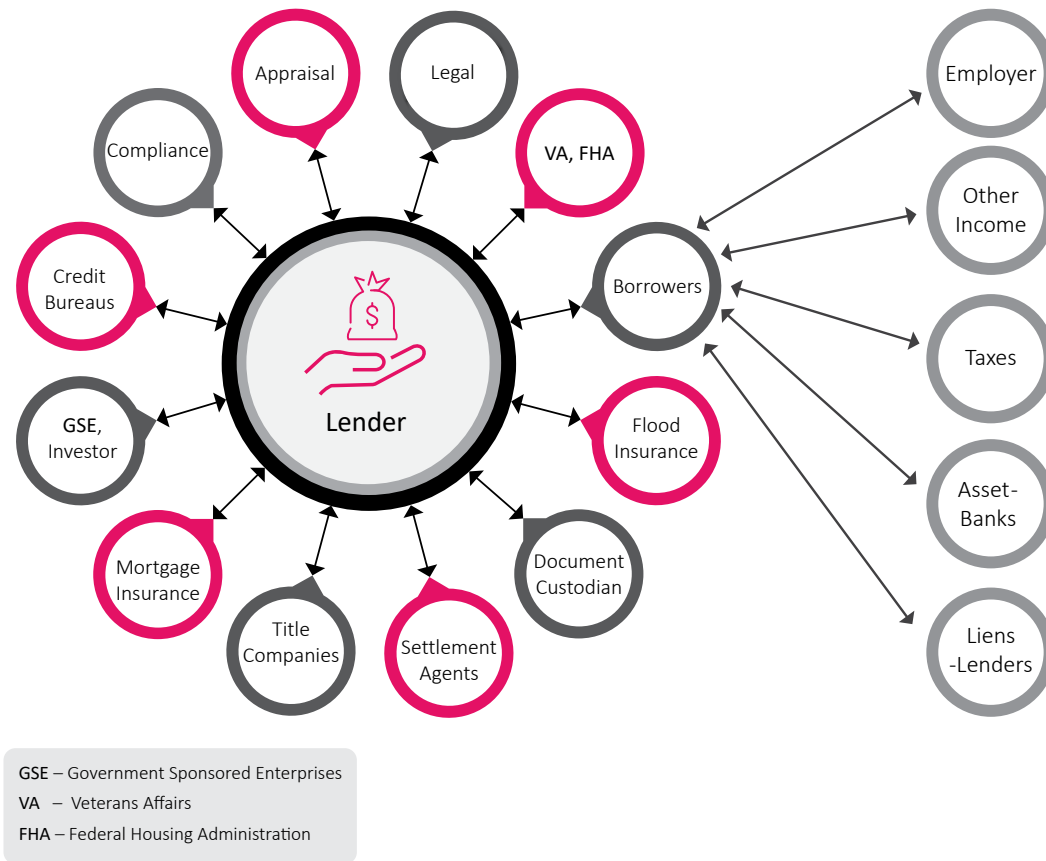


Figure 1 : Current US mortgage landscape

These traditional methods of collecting data and documents have their fair share of challenges, including follow-up for pending documents, tracking the right versions, multiple modes of communication, and missing data and documents. Such issues can cause a significant delay in loan decisions and impact the quality and accuracy of decisions, leading to violation of regulatory compliance requirements. Also, at times when there is a surge in the number of loan applications—as witnessed in 2020 with loan volume hitting an all-time high since 2003²—lenders struggle to handle the volume efficiently.

Simplifying the mortgage landscape

There are two entities in mortgage transactions, namely, borrower and subject property, and lenders need to get the details of both to ensure complete risk elimination before loan approval. Besides personal details for identify verification, lenders require the five Cs of underwriting:

1. **Credit history:** Track record of credit management
2. **Capacity:** The ability to afford payments
3. **Capital:** Investments and other assets that can help in loan repayment
4. **Collateral:** An asset that can act as security for the loan
5. **Conditions:** The purpose of the loan

[2] HousingWire (HW Media), Mortgage lending volume in 2020 likely to break records, September 2020, Accessed September 2021, <https://www.housingwire.com/articles/mortgage-lending-volume-in-2020-likely-to-break-records/>

The current complex mortgage landscape can be simplified by leveraging distributed ledger technology (DLT) and data aggregation services. DLT is a highly transparent, secure, tamper-proof, and completely immutable protocol that allows decentralized databases to be shared and managed across networks and multiple geographies. Distributed ledgers can be held, organized, and updated by multiple players in different places.

Financial institutions have been regularly sharing data with key credit agencies like Equifax, Experian, and TransUnion for many decades now. These agencies prepare a tri-merged report of every single liability of the customer, which the lenders can pull in real-time and on demand with the borrower's consent. This can be extended to other areas as well.

Similarly, a property bureau can be created where all property-related attributes like ownership title, flood certification, taxes, and appraised value, can be updated regularly for every property. This can then be pulled by the lender as and when required. Such a simplified landscape (see Figure 2) can deliver the following benefits:

- Reduced customer burden for collecting and submitting documents to lenders
- Transparency to customers on documents and data shared with lenders at all times
- Reduced decision-making cycle-time with lenders having access to required data, on demand and in real-time
- Lower operations cost as lenders need not interact with multiple service providers
- Consistent and accurate data sharing with lenders, subject to borrowers' consent, and without irregularities
- No redundant processing, duplicate information, and discrepancies regarding borrower and property information
- Higher efficiency with centralized data and reduced infrastructure and maintenance costs
- Golden source of property and borrower information in property and home owner bureaus
- Tamper-proof borrower information across systems by leveraging DLT systems
- Higher reusability across business lines as certain services can be reused for credit cards, personal loans, auto loans, or even insurance

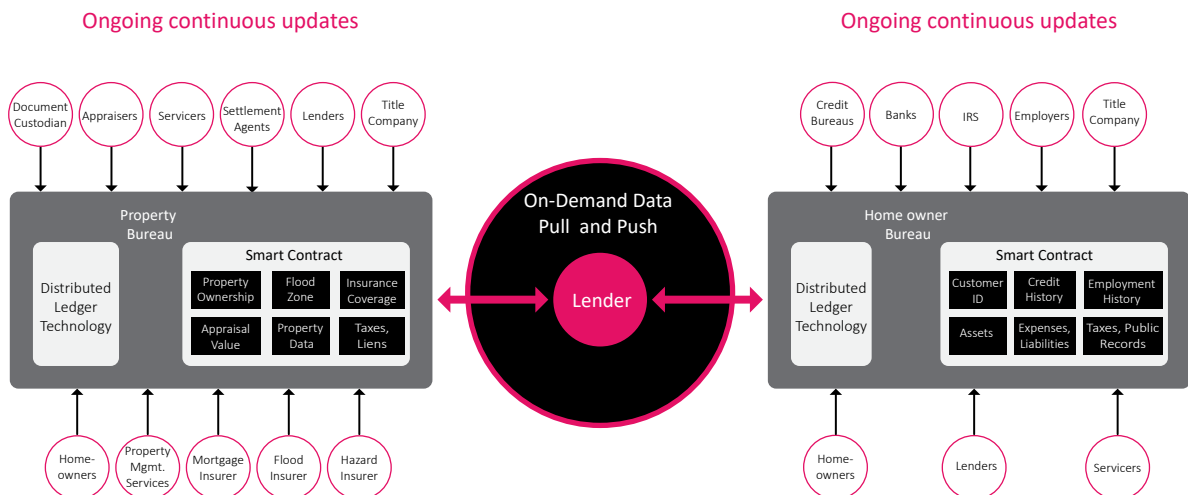


Figure 2 : Simplified US mortgage landscape

Keeping it simple and customer-centric

Leveraging DLT to simplify the landscape can help lenders significantly reduce operating expenses, improved productivity, speed up cycle time, and enable high-integrity data. What's more, it paves the way for a customer-centric business model that allows lenders to pull only borrower-consented data. Thus, customers have more control over their data. Major global banks are exploring DLTs in areas such as property management and payment management. The mortgage industry must take a cue and adopt cross-industry best practices to get the most out of blockchain technologies and move to a customer-centric model that delivers transformative customer experience.

About the author

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Ramani Balakrishnan is a senior business consultant in the Mortgage Practice of TCS' Banking, Financial Services, and Insurance (BFSI) business unit. He has over 30 years of technology and functional experience in the residential mortgage industry. Ramani has led large scale IT transformation programs for several TCS clients across the globe. He has designed, developed, and implemented loan origination and fulfilment systems. Ramani holds an MBA in Finance (Summa Cum Laude) from Rutgers University, New Jersey, USA, and a Master's degree in Physics from Bharathidasan University, Tiruchirappalli, India. Ramani is certified in design thinking for growth and transformation consultancy.

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