



How to achieve Touchless Lending™ for mortgage industry

Core Elements and Success Factors
of Touchless Mortgage

WHITE PAPER

 TAVANT



Introduction

Touchless Lending™ is a reality today for many consumer loan products, including auto, student, and personal loans, but is not for the \$4 trillion mortgage origination market¹. Achieving Touchless Lending™ for mortgage is now more important than ever before. Home refinancings and purchases have experienced a significant uplift in activity, and mortgage providers are scrambling to keep up. This has resulted in numerous industry-wide challenges, most notably a shortage in availability of underwriter talent.

Additionally: mortgage credit availability increased by 2.2% in April of 2021². While the height of the pandemic saw lending standards tighten, recent trends indicate that this will not persist. Several influential depository banks have already indicated that they plan to loosen their mortgage underwriting requirements to take advantage of the rise in purchase business^{3,4}. These factors, along with the post-pandemic home buying and refinancing boom driven by pent-up demand, have increased both the opportunity and level of competition for mortgage lending.

Most industry experts agree – the demand for underwriters, processors and closers has far exceeded expectations⁵. Lenders are being forced to use creative recruiting tactics, such as high signing bonuses and base salaries, just to stay competitive. Other industry experts say that this shortage of underwriters and appraisers could be the thing that inevitably slows down the recent housing market boom⁶.

Increasing the size of mortgage underwriting and processing workforce to accommodate higher loan application volume seems like the logical approach, albeit not the most cost-effective one, especially in a competitive hiring market. However, there is an alternative – one that instead streamlines the entire loan process, from application to close. Due to recent advancements in automation technology, Touchless Lending™ has graduated from theoretical to actual for the mortgage industry and achieving touchless mortgage pathways will set a new standard in accelerating the loan manufacturing process.

What is a “Touchless Mortgage Pathway”?

Touchless Lending™ overall uses straight-through-processing and automated underwriting to manufacture a loan. The term “touchless mortgage pathway” specifically refers to the use of AI, ML, digital transformation and automation designed to usher a mortgage through the entire lifecycle, significantly reducing the time to close and improving the overall experience, all via a Lending-as-a-Service model.

According to Q1 2021 reporting conducted by ICE Mortgage Technology, the time to close across all loan types decreased from 58 days at the start of January to 52 days by the end of March⁷. This decrease is a step in the right direction, but the time required is still much too long for both borrowers and mortgage lenders. A truly touchless mortgage pathway is capable of taking loans from application to close in as few as 10 days.



How to Achieve a Touchless Mortgage Pathway:



You don't need to be an expert in mortgage lending technology to achieve a touchless mortgage pathway. The best way to understand this is to think of it like an automated loan assembly line, similar to the robotic factories Tesla uses to automate their car production. As a mortgage application and its supporting documents are submitted to the lender, AI, ML, OCR, and workflow and rules engines pull the necessary information to create a loan, validate with third-party services, and perform required calculations to make an underwriting decision and manufacture a mortgage.

Obviously, not all mortgages can be automated, certainly not to the degree that Touchless Lending™ is capable of today. Consider this – let's say, on average, 60 to 80% of a mortgage lender's pipeline could be categorized as low-to-medium complexity. Those loans could be automatically underwritten through a touchless mortgage pathway and require only an entry- or mid-level underwriter to provide oversight.

This leaves mortgage lenders with only 20 to 40% of their loan volume requiring a more labor-intensive process with a more senior and experienced underwriter. Touchless Lending™ technology supports underwriters by handling easily automated tasks and flagging those that require more attention.

Today, all mortgages go through the same pathway, and only as loan officers, processors, and underwriters engage with a mortgage are the complexities of and labor requirements uncovered. Using a touchless pathway, a mortgage is directed to an appropriately skilled underwriter, while also automating as much of the analysis and decisioning in the most 'hands-off' way possible. This enables experienced underwriters to focus on more complex loans. With simpler tasks automated, Touchless Lending™ allows all associates to spend more time making data-driven decisions that employ their specialized skills.

Elements of a Touchless Mortgage Pathway:

Like any traditional assembly line, the automated loan assembly line of a touchless mortgage pathway is comprised of multiple elements required to manufacture mortgage with minimal human interaction. Here are how the key elements look:



Document to Data Service

Most loan documents are never in a data format, making it difficult for them to be easily read and analyzed. The Document to Data Service automatically extracts important information residing within these documents and converts it to data within a digital loan object that can be easily stored and analyzed. Once the documents for a loan are properly converted, that loan object, comprised of data, is then ready to move along the assembly line. As trailing documents are received, it will also automatically update the loan object with the new data.



Digital Loan Object Creation

Data pulled from the loan application documents are then placed in a Digital Loan Object. This object then becomes the canonical source for all data pertaining to that specific loan, including the borrower data, collateral data, loan product information and data from other digitally validated sources. The loan object is best understood as the digital representation of a loan. Therefore, that makes Digital Loan Object Creation the element on the line that officially marks the birth of a newborn “touchless mortgage.”



Digital Loan Vault

As documents are processed into data for a particular loan, the assembly line stores the loan object and all supplementary documents in the Digital Loan Vault. Each loan applicant is given their own personal Vault, or intelligent data repository, designed to securely store a full history of the loan application and all origin data. The Vault also comes equipped with versioning for situations when data changes significantly, allowing for painless auditing and a robust audit trail.



Orchestration Engine

The Orchestration Engine follows each step along the automated loan assembly line, ensuring that everything necessary is completed before triggering the next step. The Orchestration Engine can even course correct. It is intuitively designed to route the loan through any of the other elements on the assembly line and trigger activities when appropriate. This element is key for creating a touchless pathway, as it moves a loan towards close without requiring human intervention between each step.



Decisioning Engine

Data from the Digital Loan Object are then fed into a Decisioning Engine. This element of the assembly line helps lenders make better decisions faster by automatically applying underwriting skills to the loan data, such as the income analysis, credit analysis, title review and more. The Decisioning Engine is also able to resolve conflicts between data that comes from different sources and identify which data can be relied upon to process the loan without assuming any additional unnecessary risk. If the Decisioning Engine completes all the necessary underwriting tasks with no red flags, it triggers the analysis to be sent back to the Loan Object as completed. If there are issues that require a human underwriter's attention, the flagged analysis would then be automatically sent to the underwriter assigned to the mortgage as an action item in their exception queue.



Conditions Engine

Conditions management for income, credit, asset and collateral are time-consuming activities for processors and underwriters today. To truly automate this part of the mortgage cycle, the Conditions Engine reviews all conditions raised by the Decisioning Engine and keeps track of when those conditions are cleared as new data is continually uploaded into the Loan Object.



Underwriter Workstation

Last, but certainly not least – the final element of the automated loan assembly line, the Underwriter View, is a dashboard that allow users to review results processed by the Decision Engine and Conditions Engine. This dashboard displays previously analyzed data and conveniently links that data back to its document of origin for use as reference. If there are issues that need the underwriter's attention, the dashboard flags them as action items within their exceptions queue for the underwriter to clear once addressed.

Benefits of a Touchless Mortgage Pathway

A touchless mortgage pathway benefits the lender from both an operations and marketing standpoint. It also benefits all stakeholders in the loan lifecycle: borrowers, loan officers, processors, underwriters and investors alike.

Manufacturing a mortgage can be complex and labor-intensive. According to Statmor, underwriters are handling just over 3 loans per day with 3.5 to 4 underwriter touches per loan⁸. With touchless pathways, experts believe underwriters can handle 10+ loans per day. Experts also believe these increased efficiencies can save lenders 70-80% of processing and underwriting costs per loan. Additionally, lenders can have more predictable costs as staffing can remain steadier when mortgage demand from borrowers fluctuates over time.

Additionally, a faster, more efficient mortgage experience will surprise and delight borrowers. Stratmor research also indicated that when a mortgage does not close within the expected time, NPS falls by 57 points, turning promoters into detractors⁹. Touchless mortgage pathways allow lenders to differentiate in an increasingly competitive market by advertising their ability to close mortgages faster and delivering on that promise.

However, underwriters might be the biggest beneficiaries of touchless mortgage pathways. They won't need to spend hours poring over documents to extract information, performing simple calculations, and tracking the manual tasks that every loan requires. Underwriters will be able to utilize their specialized skills to handle exception conditions and make the difficult decisions that manage risk.

Finally, investors benefit from the broader adoption of Touchless Lending™ pathways among mortgage lenders. Today, underwriting and origination practices can vary by lender due to proprietary business processes and workflows. The GSEs, Fannie Mae and Freddie Mac especially, as the largest purchasers of mortgages can reduce their due diligence efforts as practices are standardized and normalized via touchless pathways. This reduces repurchase risk for both investors and lenders. Other investors can leverage Touchless Lending™ themselves to re-underwrite loans faster and more efficiently, as well as narrow their focus to complex loans that require more attention.



How Close is a Touchless Mortgage Pathway?

The answer: close, very close. Tavant, a digital products and solutions company, has unveiled the industry's first touchless mortgage solution – Touchless Lending™ – available in-market to lenders by the end of 2021. Tavant is a leading provider of Fintech software and AI & Automation services for a wide variety of clients in the Financial Services sector. This product integrates the best of Tavant's existing core VELOX suite of products (listed below) into a one-of-a-kind Touchless Lending™ solution.

FX^p**FinXperience**

is a point-of-sale solution for borrowers and brokers to work with loan officers while applying for mortgages, which also has a dashboard for underwriters to manage their pipeline and make credit decisions.

FC^a**FinCapture**

is a point-of-sale solution for borrowers and brokers to work with loan officers while applying for mortgages, which also has a dashboard for underwriters to manage their pipeline and make credit decisions.

FV^e**FinVault**

is a solution that stores digital loan objects and documents.

FD^e**FinDecision**

is an automated underwriting and decisioning platform.

FC^o**FinConnect**

is a product that provides automated integrations with internal systems and third-party providers to streamline workflows and accelerate decisioning.

Tavant's VELOX suite of products and Touchless Lending™ solution will offer the capability for lenders to create their own touchless mortgage platform, addressing all the core elements required to create customized touchless mortgage pathways and experiences.

Conclusion

Managing the challenges faced by the mortgage industry will be an ongoing problem. Touchless mortgage pathways, using automation from experienced vendors like Tavant, will revolutionize how the industry views technology and its place in the financial industry.

Automation will give lenders the ability to reduce costs, unleash their staff to perform more missioncritical tasks, close mortgages faster and attract more borrowers with marketing programs that emphasize their superior technology.

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- 2 | <https://www.housingwire.com/articles/volume-hungry-mortgage-lenders-loosen-credit-standards/>
- 3 | <https://www.housingwire.com/articles/wells-fargo-loosens-jumbo-lending-requirements-for-current-customers/>
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