A BRIDGE Over Troubled Waters

Integrated "smart" point-of-sale origination technology is a solution whose time has come. The branch, the call center and the Web site may never be the same.
When you’re weary, feeling small,
When tears are in your eyes, I will dry them all.
I’m on your side
When times get rough
And friends just can’t be found,
Like a bridge over troubled water
I will lay me down.
—Paul Simon, Bridge Over Troubled Water
© 1969, Paul Simon

The year 1969 was marked by political upheaval—the Vietnam War, nationwide protests, college unrest. It was also a year of striking new technological advances—men landing on the moon, e-mail, the automated teller machine (ATM), the artificial heart, the Boeing 747 and the Concorde all debuted in 1969. Many pop-culture icons were also launched in 1969, including Sesame Street, The Brady Bunch and Wendy’s® Old-Fashioned Hamburgers. And in New York City, singer/songwriter Paul Simon wrote one of the best-selling and most award-winning songs of all time: Bridge Over Troubled Water. Simon’s plan was to craft a simple gospel-style song about comforting a friend. But when it was released on the Simon and Garfunkel album of the same name, Bridge Over Troubled Water skyrocketed to the top of the charts—becoming a multi-platinum hit that won six GRAMMY® awards. In many ways, 2009 is a lot like 1969—a time of uncertainty, crisis and change. And at many of today’s banks and credit unions, many mortgage lenders are looking for a bridge over the troubled financial waters that are out there—a set of practical strategies they can use to compete, grow, reduce cost and stay profitable.
Today's banks and credit unions are facing a serious challenge: how to increase mortgage volume, boost efficiency, improve service and reduce costs—and do it all despite being caught up in the most unsettled economic environment since the Great Depression.

One of the problems that too many lenders face—and the topic of this article—is a lack of efficiency, productivity and borrower convenience right at the beginning of the mortgage process, when the consumer is shopping and applying for a loan. Many lenders find themselves dealing with a cumbersome mishmash of point-of-sale (POS) automation solutions for providing mortgage quotes, taking applications, and pricing and approving loans.

Most lenders have a set of discrete POS silos: one for consumers to use over the Web and another for the call center (that is, if the call center even takes mortgage applications), as well as a completely separate tool set for professional loan officers. And the idea of using branch staff to take complete and accurate mortgage applications for most lenders is just that: an idea.

As a result, borrowers are often forced to deal with frustrating inefficiency as they plod through a time-consuming mortgage origination process that locks them into a single application channel.

Did you start your loan on the bank’s Web site? Don’t bother contacting the call center, then, if you have questions—call-center staff typically won’t even know you’re working on a loan application, and they can’t answer any application-related questions.

And what about lender impact? POS silos can contribute to poor productivity, borrower dissatisfaction, higher per-loan costs, lower pull-through rates and—ultimately—reduced loan volume. So when interest rates fall and mortgage applicants stream into the branch, busy loan officers are forced to make borrowers wait. How long will customers sit around before they get up and take their business elsewhere?

Today about 70 percent of mortgage shoppers begin their search on the Internet, regardless of whether they apply online or in-person, according to The Silver Lining in Lending: Turning Doubters into Online Believers, a May 2008 report by Annette Tirabasso and Kimberly Spears, published by Deloitte Development LLC. In fact, writing in a Mortgage Banking article in August 2008, Tirabasso stated, “Most consumers who applied online have become online believers.” But while the last 10 years have witnessed the emergence of the Web as a low-cost yet efficient way to reach “self-serve” borrowers, it is now time for the next big step forward.

That’s because today’s consumers expect the same application convenience via the Web, over the phone, in the branch or when they sit down with a loan officer. Regardless of the channel through which borrowers apply, lenders must be able to deliver the same convenience and efficiency that online borrowers routinely receive. But especially in today’s uncertain economy, adding staff is a pricey path to better service.

Knowing this, we at Mortgagebot LLC recommend a new point-of-sale business model—a holistic, borrower-centric, enterprisewide approach that uses intelligent software solutions to unify and streamline the mortgage point of sale. Let’s call it the integrated point-of-sale (IPOS) strategy.

Industry call to action: Integrate, streamline, accelerate

This new call to action for the tight integration of mortgage applications, pricing and approval throughout the lender’s organization to create a seamless, efficient and satisfying borrower experience across every mortgage point-of-sale channel.

For lenders, the IPOS strategy can expand their mortgage business beyond what just loan officers or Web sites can produce, providing borrowers with the same streamlined, high-quality application experience regardless of the channel they select. And the efficiency of an IPOS solution can help lenders gain more new loans, reduce per-loan costs and increase loan volume—but without having to add staff.

For borrowers, the IPOS approach delivers a consumer-centric mortgage shopping and loan application experience. For example, with IPOS technology a consumer can easily start and complete a mortgage application in minutes from the comfort of home. Or the consumer can start an application online and finish in the branch with the help of a call-center rep or loan officer.

In recent years, industry experts have been calling for lenders to integrate their mortgage POS channels so borrowers can be served more cost-effectively, and through the specific channels and in the specific ways in which today’s borrowers want to do business.

One of the clearest voices promoting this kind of integration is Deloitte Consulting, whose report The Silver Lining in Lending identifies a lack of channel integration as one of the major challenges currently facing both borrowers and lenders. In her August 2008 article in Mortgage Banking titled “The Online Opportunity,” Deloitte Consulting’s Tirabasso writes: “Study results suggest that lenders need to make it seamless for a consumer to begin an application online, talk by phone to a representative to have questions answered, and then complete the application whenever and wherever they feel most comfortable—online, by telephone or in a branch location. This is only possible if a lending institution tightly integrates data across channels. That allows consumers to be recognized when they switch channels, so they will not have to provide the same information again and again and will receive consistent product information.”

Consulting firm TowerGroup, Needham, Massachusetts, has written much about the need for channel integration. In an October 2008 report, 2009 Top 10 Business Drivers, Strategic Responses and IT Initiatives in Retail Banking, TowerGroup analysts Robert Hunt, Kathleen Khirallah and Tom Brogan stated, “Consumers around the globe have demonstrated they prefer multi-channel delivery of products and
services. Ensuring that customers reach the right person to answer an inquiry and equipping that person with the right workflow-management tools are critical."

In a separate study also from October 2008—2009 Top 10 Business Drivers, Strategic Responses and IT Initiatives in Consumer Lending—TowerGroup analysts Craig Focardi, Bobbie Britting and David Hamermesh noted that now is the time for lenders to “break free of old systems and constraints . . . [lenders should] actively seek channel enhancements to serve customers more cost-effectively, and in ways that they want to do business. . . .”

The IPOS strategy
Here is the three-part strategy we recommend for point-of-sale channel integration. But first, it is important to note that as an outsourced, software-as-a-service (SAAS) strategy, the IPOS concept has a number of inherent business advantages: It is affordable and scalable to financial institutions of every size, it can be implemented surprisingly quickly and easily, and it requires no new investment in hardware or infrastructure.

1) Provide an intelligent, interactive online channel
Before the World Wide Web was introduced in the early 1990s, most homebuyers completed cumbersome paper mortgage applications, either across the desk from a professional loan officer or by mail with phone support. Those paper applications then went into a back-office processing center, where manual data entry transformed them into computerized data files. There was much shipping and mailing of documents, and it took weeks to apply for a mortgage and get approved.

In the late 1990s, the first Internet-based mortgage POS systems appeared. But in 1998, only 26 percent of American households had Internet access (mostly through slow dial-up connections), according to “Digital Divide Facts,” an article in Economic Development Digest, (volume 12, No. 3; December 2000/January 2001), published by the National Association of Development Organizations (NADO) and the NADO Research Foundation, Washington, D.C.

The first online mortgage POS systems that debuted around that time were lender Web sites that took applications directly from consumers.

Today, the most effective online, consumer-direct POS tools employ intelligent, interactive, question-and-answer-based application technology that enables a borrower to complete a mortgage application over the Internet in just a few minutes. The “smart” nature of this type of POS automation uses business rules to interactively guide consumers through the mortgage application process.

Sad to say, Mortgagebot research indicates that as of May 2009, only about 20 percent of banks and credit unions had implemented a truly smart system for taking mortgage applications.

Smart loan-application technology enables a borrower to obtain pricing, receive accurate disclosures and correctly complete an entire mortgage application without having any specialized knowledge of the mortgage process. And because the overall cost of taking an online application is negligible, lenders are using these solutions to reduce business costs and gain a reliable way to take applications anytime, anywhere.

“With subprime lenders out of the way and fewer mortgage brokers on the street, more mortgage applications are coming straight to the credit union,” says Dean Clark, real estate lending manager at Tampa, Florida-based Tampa Bay Federal Credit Union, a full-service credit union with $279 million in assets and eight locations.

Clark cites an intelligent mortgage application solution as a key contributor to his organization’s mortgage growth. “Our mortgage Web site has helped us more than triple our application volume and reduce our average processing time by 33 percent, without having to add personnel,” he says. “Our online mortgage department is open 24/7, and its intelligent functionality walks members through the mortgage application process step-by-step. So they get the answers they need to apply with confidence, whenever it’s most convenient for them,” he says.

Clark’s results are consistent with the conclusions of the Deloitte Consulting report (see Figure 1). The Silver Lining in Lending study found that online lending can provide remarkable lender benefits, such as:

- Compressing origination cycle times up to 90 percent;
- Reducing overall per-loan costs up to 80 percent;
- Expending 45 percent less effort to close mortgage loans; and
- Delivering borrowers who are 61 percent more likely to recommend their lender to others.

2) Equip loan officers for speed and success
Despite the increasing popularity of the consumer-direct online channel, many mortgage applications are still taken...
by professional loan officers. According to the Washington, D.C.–based American Bankers Association’s (ABA’s) 16th annual Real Estate Lending Survey, compiled in March 2009, while 3.5 percent of all mortgage applications are taken through the Internet channel, about 86 percent of applications are still taken through the “classic” retail channel—which means loan officers are handling those applications.

James Jones, president of First Wellesley Consulting Group, Wellesley, Massachusetts, agrees with the ABA’s findings. “My perception is that with most banks and credit unions, the vast majority of mortgage applications are still taken by loan officers,” he says.

For borrowers, loan officers can bring real benefit to the mortgage equation. After all, they are mortgage specialists who are trained to provide the advice and counsel that many consumers desire, particularly when dealing with complex transactions such as construction or bridge loans.

But while many borrowers appreciate the help and support of a lending professional, distributing mortgage products through loan officers is expensive. That’s why lenders strive to maximize loan officer productivity, calibrate staff levels to meet market demand and implement compensation structures that balance lender profitability with competitive pay.

Historically, traditional loan officers have used paper-based mortgage applications. Paper is cumbersome, inefficient and error-prone; but loan officers have favored paper because they often had limited access to an easy-to-use loan origination system (LOS) or POS system.

There are now powerful POS tools designed to meet the unique requirements of loan officers and their sales process. These intelligent Web-based application tools employ flexible user interfaces specially designed for loan officers, and are integrated with the pricing, documentation and underwriting services that loan officers need access to.

Such tools free loan officers from having to use paper applications or manually enter application data into a back-office LOS. And, according to a June/July study by First Wellesley Consulting Group of banks and credit unions that have implemented smart online lending solutions in multiple POS channels, the benefits can be significant (see Figure 2).

To make loan officers as productive as possible, some functions that might normally be associated with a traditional LOS can be incorporated into a loan officer tool set, including loan pricing, automated underwriting approval, fraud checking and the production of Truth in Lending Act (TILA) documents, Good Faith Estimates (GFEs) and commitment letters.

A good example of the dramatic results that are possible by properly equipping loan officers and integrating their tools with a consumer-direct Web site can be found in the experience of Mansfield, Massachusetts–based Mansfield Bank, a state-chartered, mutual co-operative bank with $320 million in assets and four locations.

According to Ron Carlstrom, Mansfield Bank’s director of marketing, March of last year was the first full month the bank operated its new integrated Web site/loan officer POS solution—during which the organization took in 164 mortgage applications. About half of that volume came in directly from consumers via the bank’s new mortgage Web site; and the other half was originated by the bank’s loan officers. The loan officers used their new loan officer-specific POS tools to take applications in face-to-face customer meetings.

What’s so remarkable is that just two months earlier, in January 2008, some of the bank’s management team had indicated they were expecting the new POS solutions to bring in only about 15 applications per month.

“We’re thrilled to be able to exceed those expectations,” says Carlstrom. “But it was actually the result of a carefully conceived plan. The new Web site came online quickly, and it wasn’t difficult to train our loan officers to use their new point-of-sale tools. We did a bit of search-engine optimization [SEO] and ran a modest ad campaign, but most of the borrowers who came to us in March were already shopping for a mortgage on the Internet.”

“It’s interesting to note,” Carlstrom said, “that while most borrowers found us on the Internet, about half of them chose to sit down with a loan officer to complete their mortgage application.”

3) Empower the branch and call center

The final facet of the IPOS strategy is what I view as a revolutionary concept—just now beginning to gain market traction—that enables lenders to create an entirely new mortgage distribution channel: the branch and call center.

Branch-based mortgage automation is set to play a significant role in the future of American financial institutions. That’s because, despite the impressive rise in use of the Internet, the branch is still the channel through which most
The call for an integrated mortgage point-of-sale solution is not just American—it’s international.

Americans prefer to interact with banks and credit unions. According to a February 2009 study by the Deloitte Center for Banking Solutions, New York, Adapting to a Changing Environment: Evolving Models of Retail Banking Distribution, by Jeff Brown, David Cox, Scott Griffiths, Nita Sanger and Denron Weston, “The good news is that branches are not going away. Over the next decade, the primary channel . . . will likely remain the branch.”

However, the study notes that branches must make “operating model and staffing changes to improve customer service by engaging the customer in new ways.” Deloitte researchers also observed that branches are in need of “technology enhancements to improve the customer experience.”

The study concludes that financial institutions “should [seek] greater levels of integration and more proactive approaches to meet customers’ cross-channel needs.”

But wait a minute, you may say—there’s significant risk inherent with the complexity of the mortgage business. That’s the primary reason most banks and credit unions rely on professional loan officers to handle their mortgage lending.

It is true that loan officers understand the ins and outs of mortgage pricing, documentation and underwriting requirements. They’re familiar with every aspect of the mortgage lending business and they’re trained to minimize their employer’s exposure. Yet when interest rates decline, mortgage demand rises. And too many currently lean-staffed lenders find themselves unable to deploy the number of loan officers they need to meet the demand in the branch or call center.

This is where the IPOS strategy enters the picture. What if frontline personnel such as personal bankers, customer-service staff and call-center representatives could quickly, effectively and efficiently take accurate and complete mortgage applications?

A new class of expert systems—browser-based software tools that are designed specifically for use by frontline staff—now makes that possible.

These systems intelligently prompt users for required information. And because they are pre-programmed to handle nearly all application-related issues, the branch or call-center employee does not need specialized mortgage knowledge. Instead, the frontline employee can personally deliver an effective application experience, thus freeing the borrower from having to wait for a loan officer.

This new type of solution leads frontline staff through a set of interview questions (similar to a Web-based, consumer-direct “smart” application). The software dynamically and interactively adapts to each mortgage applicant’s personal profile and the loan product being considered. Such systems generate loan-pricing options, can be integrated with automated underwriting systems to support instant loan decisions, and can automatically issue the appropriate disclosures.

One innovative lender that has bought into the vision of empowering the branch is Springfield, Illinois–based Illini Bank, a state-chartered commercial bank with $248 million in assets and 12 locations. Gregg Formigoni, vice president and mortgage department manager for Illini Bank, says that equipping branch managers to take accurate and complete mortgage applications has helped the bank increase its mortgage application volume by an average of 70 percent per year over the last three years.

Formigoni is extremely pleased with how his organization’s in-branch POS solution “enables all of our branch managers to take ‘face-to-face’ mortgage applications,” he says. “We employ only two professional loan officers, and some of the rural communities we serve do not yet have broadband Internet access—so we absolutely must be able to take applications in the branch.”

Largely due to the bank’s integrated POS solutions, Formigoni says he and his mortgage team were well able to manage the unprecedented volume of mortgage applications that flooded into Illini Bank during the low-rate refinance boom that began during the 2008 holiday season.

“We were buried in refis,” he says. “Thank God we had this technology.”

Channel integration—a lender imperative?
The entire world is looking for ways to bridge today’s troubled financial landscape. And the call for an integrated mortgage point-of-sale solution is not just American—it’s international. The global consulting firm Infosys Technologies Limited, Bangalore, India, noted in a 2006 study that mortgage channel integration is necessary for lenders to ensure “future competitiveness.”

Citing “stiff competition in terms of customer acquisition and retention,” the firm identified channel integration as one of “five key technology trends that will drive competitiveness for mortgage lenders” worldwide, stating that lenders must “create a holistic customer view to deepen the customer relationship.”

Infosys researchers stated that it is “imperative” for lenders to “provide a similar and consistent customer experience . . . irrespective of [the borrower’s] desired channel,” according to Technology Trends in Mortgage Lending—Mortgage Marketing, a July 2006 report by Amit Mookim and Manoj Ramachandran, published by Infosys Technologies Limited.

The final verse of Bridge Over Troubled Water includes the lyrics, “Your time has come to shine; All your dreams are on their way.” While the IPOS strategy probably won’t usher in all of a lender’s dreams, it offers significant benefits in terms of efficiency, increased volume, cost savings, service improvement, customer loyalty and improved competitiveness. And that adds up to real-world business advantages that can truly make a mortgage business shine. MB

Scott Happ is president and chief executive officer of Mortgagebot LLC, Mequon, Wisconsin. He can be reached at scott.happ@mortgagebot.com.