The Future of the Mortgage- Application Process

70 Percent of Mortgage Shoppers Start Online

A Lieberman Research Group survey has confirmed several significant market dynamics and industry trends influencing the mortgage industry, including that with the convenience of the Internet, borrowers want and expect a fast, efficient application experience regardless of which channel they use to apply. By Joanne S. Liu

With about 75 percent of the American population using the Internet these days, the move to establish a strong online presence seems paramount for those companies intent on gaining the competitive edge. For mortgage lenders, too, using the online channel to better serve borrowers is fast becoming essential to loan volume growth. A 2008 report published by Deloitte Development, LLC, confirms the trend of using the Internet for mortgage shopping. According to Annette Tirabasso and Jim Reichbach, authors of “The Silver Lining in Lending: Turning Doubters into Online Believers,” about 70 percent of mortgage shoppers begin their search on the Internet regardless of whether they ultimately apply online or in-person.

The report further confirms that with the convenience of the Internet, borrowers want and expect a fast, efficient application experience regardless of which channel they use to apply.

A new, groundbreaking study conducted earlier this year examines the use of the online channel from a different perspective. The market survey — conducted by Lieberman Research Group, an independent market research company based in New York, and commissioned by Mortgagebot, LLC, a mortgage-technology provider to nearly 1,000 financial institutions — examines the attitudes and preferences of banks and credit unions, not borrowers, toward the use of the online channel to automate the mortgage-application process. Lieberman Research Group, working from a database of 2,391 banks and credit unions with assets of over $100 million, conducted a detailed survey of 330 financial institutions — 251 banks and 79 credit unions — across the nation to better understand lenders’ plans to implement online automation for the mortgage-application process. Specifically, the survey sought to analyze the extent mortgage lenders use the online channel to automate the mortgage-application process by pinpointing the reasons behind lenders’ plans or lack of plans to offer online lending; determining their current adoption rate of online lending; identifying specific lending-channel trends; and ascertaining overall market awareness of “smart” online-lending technology.
The Survey Says…

“The Lieberman Research Group survey has confirmed several significant market dynamics and industry trends that we at Mortgagebot have long suspected to be influencing the mortgage industry, but those influences were unverified by factual research until the survey was completed and the results were analyzed,” says Dan Welbaum, vice president and chief marketing officer of Mortgagebot, which provides an Internet-based, point-of-sale technology for automating the mortgage application, pricing, approval and disclosure process.

In fact, the survey results offer insight into lender attitudes toward the online channel. For instance, survey respondents expect to see a 157 percent increase in their online loan volume from now through 2013. The results also reveal lenders’ urgency to incorporate online applications into the mortgage-application process as well as overwhelming confirmation of the growing adoption of “smart” online mortgage technology by both banks and credit unions. While only 18 percent of lenders surveyed currently provide borrowers with a “smart,” online mortgage application, plans by non-providers to offer the service are expected to turn the Internet into the fastest growing mortgage channel through 2013.

Welbaum says the survey result showing that about one in five regulated financial institutions currently offering borrowers a “smart,” interactive online mortgage application confirms what his company has estimated for years based on its market-share leadership position in the industry since 1997. “By 2009, more than 40 percent of Mortgagebot clients — all of which have advanced Web sites — were already taking over one-fourth of their applications via the online channel,” he explains. However, he adds that Mortgagebot was surprised by the willingness of lenders to embrace the online channel so strongly.

Credit unions, more so than banks, have embraced the online channel, he notes. Welbaum says that credit unions are generally more “Web-savvy” and the survey results confirm this. “For example, the survey reveals that banks currently take only four percent of their mortgage applications via the online channel,” he says. “But credit unions already take 20 percent of their applications online; and credit union leaders expect that amount to grow to 31 percent of total volume by 2013.”

And while financial institutions overall are increasingly recognizing the importance of implementing an online mortgage-application process, many of them are equally cognizant of the type of automation they adopt. Many lenders, more credit unions than banks yet again, view “smart,” interactive mortgage point-of-sale automation as integral to their implementation plans, as a “must-have” technology.

“Smart” and Other Mortgage Technology

A “smart,” interactive mortgage-application system provides a fully transactional, Web-based solution that intelligently guides borrowers through the application process. Its “smart” characteristics allow the system to adjust the questions for each applicant depending on responses given to previous questions. Using
this individualized method, borrowers can complete the application and receive conditional approval in a matter of minutes. The significance of “smart” technology is becoming increasingly clear, as research supporting borrowers’ expectations of fast, efficient service calls for this technology. Americans, familiar with the convenience of services such as Travelocity and TurboTax, expect the same ease of use with online mortgage applications. Access to an online PDF form, which borrowers print, fill out and mail to the lender are insufficient. “The around-the-clock convenience of the Internet has radically transformed the service-level expectations of today’s consumers,” says Welbaum.

Thus, widespread adoption seems inevitable and imminent. Of the credit unions surveyed, 82 percent said they were either very or somewhat familiar with “smart” technology, compared with 61 percent of banks. Nearly half of those surveyed were evaluating or planning to evaluate a smart solution, and of those, about two-thirds planned to implement the solution before 2012. Sixty-four percent of all respondents considered smart application technology as inevitable and planned to offer it by the end of 2012.

Perhaps another surprising revelation of the survey is the motivation behind lenders’ plans to plug their application process into the Internet. Among the lenders surveyed that already

“The around-the-clock convenience of the Internet has radically transformed the service-level expectations of today’s consumers.”

– Dan Welbaum

Figure B: Reasons why lenders have adopted or plan to adopt “smart,” online mortgage POS technology. Well over half of all lenders who either have adopted or plan to adopt “smart” online mortgage point-of-sale technology say their main reason for doing so is to provide better service (Source: Lieberman Research Group).
offered or were planning to offer a smart, interactive mortgage application, over half pointed to better service as their primary reason. In fact, nearly two-thirds of those lenders with $500 million or more in assets provided that reason. Other reasons, although in notably lesser percentages, pointed to improving efficiency, remaining competitive, increasing mortgage loan volume and staying compliant, among others.

While the survey respondents looked to “smart” technology as a necessary component of their online-channel plans, they also viewed the further use of technology to integrate their mortgage point-of-sale channels – website, branch staff, call center or loan officers – as essential. Credit unions, at 56 percent, viewed integrated point-of-sale (IPOS) technology, which allows borrowers the flexibility of beginning an application in one channel and completing it in another channel, as playing an “important” role in their future business, versus 23 percent of banks.

The Role and Motivation of Lenders

The survey also examined the motivations of those lenders who do not offer smart technology and had no intention or plans to do so. Those institutions cited a variety of reasons for their decisions, including security, regulatory and cost issues. The survey revealed that while some lenders are embracing the Internet for their mortgage application processes, many other lenders remain somewhat hesitant to climb on board. Currently, 39 percent of lenders provide no online application, while 56 percent provide a PDF or simple Web-based form. Yet again, the survey revealed that credit unions are more eager to adopt smart application technology, with 40 percent saying they already offer it.

Despite the trend toward implementing the online channel for mortgage applications, the role of loan officers will continue to occupy a crucial role in credit union and bank lending strategies. Currently, loan officers are involved in 67 percent of all mortgage applications. The survey confirms that loan officers will continue to take the majority of applications in the coming years. Through 2013, loan officers are expected to take 57 percent of all mortgage applications.

Overall, Welbaum says credit unions should be encouraged by the survey results because they have been more eager to embrace and implement online-lending technology than banks have. Only 23 percent of banks rate channel integration as extremely important compared with 56 percent of credit unions. Yet Welbaum cautions credit unions, saying, “However, the survey reveals that bankers are increasingly seeing the value of the online origination channel, and they will be playing an aggressive game of ‘catch-up’ in the near future.”

In fact, banks expect to see their application volume more than triple, a 225 percent jump that will grow their online volume from four to 13 percent. Seventy-one percent of the banks surveyed said they will offer a “smart,” online mortgage application in the near future. “So credit-union lenders must not become complacent about the technology they use to take mortgage applications,” Welbaum says.

The decision to consider using the online channel for the mortgage-application process requires the support of an institution’s executives, according to the survey, which found that lending executives are the primary drivers in 63 percent of online lending-technology evaluations or adoptions. Welbaum encourages lending executives to remain on their toes, saying, “The tide of the marketplace is making a seismic shift toward the online application channel, and no truly competitive credit union will want to be left behind.”