

A Framework for Achieving Positive ROI on Mortgage Technology Investments

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Abstract

Using technology to improve profitability is a proven and well-established story in most industries, and yet in home finance the reported results are mixed. Here we will present the findings of our experience with the ability of technology to deliver positive ROI because the need has never been greater.

The answers to achieving and maintaining positive ROI in mortgage fintech investments have to do with context. Failure to obtain improved profitability is rarely attributable to the technical solution itself but rather to the context in which that solution is implemented. The keys are found in identifying and agreeing on the correct purpose of the solution, in engaging the appropriate people in advising on and implementing the changes that arise from the solution, and in the position the technical solution occupies in the process of producing and servicing the mortgage loan.

We offer a framework for achieving positive ROI based on the purpose, the people, and the position engaged in the mortgage technology investment.

Background

Fintech advances have transformed the financial services industry across consumer experience, cost, quality, and risk management. The mortgage industry's ability to exploit the innovation in FinTech has been spotty at best, and complexity is merely the most obvious reason. While it is true that the number and variety of data points required for a mortgage, as well the heterogeneity of sources present a degree of difficulty, other reasons too have delayed the full deployment of financial technology into mortgages. The high stakes of the mortgage loan – the risk and duration to the lender and the sheer size and scale to the borrower – are one plausible reason for the relatively slow adoption of technology in mortgage production and servicing, but there are other considerations in play

Determining the Pace of Adoption



We see two cultural characteristics of the respective industries, banking, and technology, playing an important part in determining the pace of adoption. Substantially regulated, systematic, and responsible to a variety of stakeholders, banking has naturally taken a conservative view of changes. Technology, on the other hand, moves rapidly and has been impatient with fully appreciating the many complexities in our industry. The difference in these two lenses presents an ongoing obstacle to efficient and effective tech solutions in the mortgage industry.

One advantage of the mortgage industry's relatively slow adoption of technology – deliberate and incomplete – is that much of the available technology has been proven over time. How that technology is curated, assembled, and deployed becomes the playing field for achieving positive ROI.

The Urgency Today

The urgency of moving forward effectively and gaining the advantages of efficiency promised by digital technology in mortgage production is heightened by the profit squeeze we feel in the industry today. Losing an average of \$624 on all loans originated in the Third Quarter of 2022 – down from \$4,202 profit just two years ago¹ – this is not a situation that could be remedied solely by a rebound of loan volume.

Investment alone is clearly not the answer either because lenders not only have acquired stacks of technology but also have become stymied by other earlier investments and engulfed in the data and processing dependencies they create. In fact, the answer to achieving ROI includes seeing through this avalanche of data and deciding which forms of measurement really matter.

The good news behind this urgency is that it brings with it potentially a greater-than-ever willingness among team members in production and operations to put tech solutions to good use, particularly for the sake of greater speed to closing and increased borrower satisfaction.²



¹ IMBs Report Losses in Third Quarter of 2022, MBA News & Research 11.18.22

² © 2022 STRATMOR Group Technology Insight® Study 2021

Key Issue

The key issue in forming a framework for positive ROI in technology investment is context. The purpose of the solution is too often not thoroughly explored, specifically articulated, and substantially shared. The desired outcomes toward which the solution is aimed and on which it is to be evaluated are allowed to evolve, rather than clearly specified. The people affected on all sides of the solution are not sufficiently engaged in the formulation and deployment. And the position of the tech solution, relative to upstream and downstream steps in the process, is sometimes poorly integrated.

Clarifying the Purpose

The purpose of a technology initiative might seem obvious, particularly when technology is applied to profitability. Still, it can be remarkably difficult to define and maintain the exact objectives – as well as how the success of the new technology initiative would be measured. The previously existing procedures and stacks of technology, for example, exert a powerful gravitational pull, and this can include prompting the new solution to be directed toward and measured by the same results as the old solution.

Drowning in Data



The sheer abundance of data that arises from technology solutions can in of itself be an obstacle to articulating the exact purposes of the initiative and maintaining focus on them. There is a parable that illustrates the problem graphically.

When someone points to the beauty of the moon, we look at the moon and not at the index finger doing the pointing. It is a simple and obvious image, and yet it is a worthwhile reminder when we regard the puzzle of discerning and maintaining focus on our true objectives, to achieve ROI on our investment in technology.

Survival Instinct of Systems

Conversely, the amazing tendency for technology to seem at the same time “too much and not enough” can also be attributed to a great extent to organizational behavior. A recent Technology Insight® Study on Digital Innovations conducted by the STRATMOR Group reported that the number-one barrier to employee engagement and adoption of digital mortgage technology advances is the difficulty of getting loan originators to change processes and behavior.²

Throughout the initiative, from project definition through every stage of execution, opportunities present themselves to achieve cost savings or revenue opportunities, if we stay curious and willing to try to seize them. Removing or retiring older systems and following through on identified defects and enhancements with the vendor might seem obvious, and yet they require sustained effort. Being willing to invest in upgrades as they become available and refreshing the team’s skills as needed are among the opportunities that companies must not overlook.



Consulting with the Right People



In many cases where ROI remains uncertain, we find that the process was guided by a single viewpoint. The importance of consulting people from a variety of connections with the mortgage process when a technology solution is developed lies in the result that fewer costly modifications are required, a more efficient function is achieved, the results are more satisfactory to stakeholders, and the conclusion includes greater return on investment.

Industry leaders, loan originators, operating executives, real estate professionals, and borrowers themselves share the desire and the incentive to improve efficiencies and increase borrower satisfaction. Keeping these stars in alignment and squarely in view plays a key role in vendor selection, project design, and metrics for success. What we have in common can be the starting point and an effective means of being sure that the viewpoints of key stakeholders are considered and satisfied in the tech solutions we devise.

These viewpoints also offer keys to deciding what's important to measure in determining a positive return on investment.

The effort required for transition might be more difficult to project. Yet it must be a factor carefully accommodated in tech solutions, and the effort must be viewed from the standpoint of users. The added work of adoption is too often lightly considered and overshadowed by the potential benefits. This is like imagining that the improvement comes for free, and it reflects a top-down decision, almost always a false economy.

The execution might well depend more on the enthusiastic adoption of technology, stemming from a clear understanding of the benefits, than on the brilliance of the tech design.

Position in the Process

For the memorability of a “three P’s” answer to forming a framework for achieving positive ROI in mortgage technology investments, it would be tempting to make the third P simply signify Process. Yet what we see and what we urge others to recognize, is that the key involves not the process alone but rather the position that the technology solution will take within that process.

The functional meaning of this is the most obvious. Certainly, the function of the tech solution involves converting upstream information efficiently and effectively into useful downstream factors. The function alone is not the key, however.

The position within the process also implies the importance people place on the solution. From leadership through operations and production, it is vital that the solution engages stakeholders and inspires their support and cooperation. Without it, even the best technology solution will fail to deliver its full potential.





Reasons for poor ROI on Mortgage Technology investments

The sheer variety of operational environments in which technology solutions for mortgage production and servicing are sought is one reason there are no easy answers to achieving ROI that fit industry wide. Yet beneath the seemingly unconquerable complexity of mortgage qualification, with its many sources, fields of data, and degrees of reliability, there are certain factors of commonality on which answers can be based.

Goals and issues are what we have most in common. From these we can find a foundation for achieving positive ROI that is useful to us all. What we have in common can be the starting point for ROI and an effective means of being sure that the viewpoints of key stakeholders are considered and satisfied in the tech solutions we devise.

The Goals We Share

What industry leaders, loan originators, operating executives, real estate professionals, and borrowers all have in common is the desire and incentive to reduce time-to-close, increase pull-through, increase borrower satisfaction, and repeat and referral business. Keeping these stars in alignment and squarely in view plays a key role in vendor selection, project design, and metrics for success.

The Issues We Must Resolve

Experience across a variety of Independent Mortgage Banks reveals that obstacles to positive ROI stem from some specific and characteristic issues. Identifying and defining these common issues is the beginning of discovering solutions that can apply to various situations.

Make Realistic Expectations

The rapid expansion of ecommerce, online banking, and investment applications has led to frustration from not finding the same degree of automation for the mortgage industry. The complexity is in no way comparable, particularly in mortgage production. Unrealistic expectations arise from invalid comparisons. We must realistically accommodate and account for the variety of data sources, as well as the multiplicity of data end-use requirements that characterize the mortgage industry, extending from marketing to production to regulatory accountability. There is no magic-wand solution, but rather a requirement that we recognize complexity to overcome it.



Fix the Baseline

Often, we find that the Independent Mortgage Bank does not begin with a realistic baseline. Knowing where and how to measure current cost factors thoroughly is vital, including human and process costs. Existing systems tend to remain unquestioned in certain aspects, and as such they can inflate the baseline assessment or obscure opportunities for cost reduction. The current cost footprint should be freshly identified and then questioned. After we see our existing baseline, we can ask if this is the right baseline or if we can redefine it more realistically, thoroughly, and effectively.

Define the Real Reason

The “why” of a technology initiative is too often ill-defined. The reasons we seek a new technology solution are the first opportunity to exercise originality and thereby generate a better answer. The tech industry tends to assume that the benefits are so obvious that they require no further examination. One key to addressing the complexity of applying technology to the mortgage industry is to begin with an original “why” in each case.

Apply the Right Field of View

The evidence of existing tech solutions in the mortgage industry suggests that too many answers were crafted for the questions of one point in the mortgage process, rather than the requirements of the loan lifecycle. Efficiency and effectiveness depend on keeping the whole job in mind. Silos create friction, and friction costs time and money. Much of the answer for achieving positive ROI consists in taking the time and initiative to re-engineer the business process. Jamming a new technology in the middle of the current flow is never the effective answer.

The multiplicity of data sources going into loan origination makes starting a technology initiative particularly challenging. Avoiding the complexity of data normalization that is characteristic of our industry is merely postponing the inevitable. The promise of increased effectiveness and efficiency to MLOs is another reason to cinch up the belt and deal realistically with conforming data to compatible fields.

Continuity is a key reason for considering the process when setting expectations for a tech innovation or devising metrics to evaluate them. Broken process flows and data silos can be the penalty paid for designing and evaluating tech solutions with only one phase in mind.

Include the Full Suite of Stakeholders

Achieving positive ROI from technology solutions calls for us to ensure the right people are at the table when the goals are defined, and the solutions are iterated. Silos and other sources of friction result from not including the right people in the process and consulting the right lineup of stakeholders can be characteristic of each enterprise. We can suggest a good starting point based on experience.

Exercise Effective Change Management

Bringing together the C-suite direct reports, and then asking who might be missing is one way to arrive at a team of change agents, because they have first-hand stakes and know the personnel who have first-hand knowledge. It is not only vital to include people with the right knowledge and skills but also executives who can mobilize the required resources. The third key ingredient in effective change management is to allocate adequate time and attention to the tasks of initiating and managing the change, and to make the effort accountable over time.



A Checklist for Improving Technology Investment Outcomes

- Select a vendor with a major working knowledge of the industry and assign decision-makers who understand the processes that the vendor is trying to solve. The process should include the hands-on personnel who will be responsible for the operation, working closely with the vendor, and management to verify the fit and mobilize the resources.
- Make sure that the technology does not deliver an isolated solution that adds a burden somewhere else, such as needing to expand tech staff for support or needing additional eyes to verify the validity of the data. (UI path and RPA seem to fall into this trap.)
- Explore the potential for small pilots or pieces of technology for evaluation. A full integration takes many hours and tens of thousands of dollars. The opportunity to prove the concept with smaller steps or a portion of the pipeline with key players should be explored.
- Have contingency plans to ensure loans can continue to flow as the new technology is applied and evaluated.
- Understand the vendor's best practices, avoid over-customization or otherwise 'rig-up' the tech to have it do something it was not intended to do.
- Choose vendors who are willing to work with others and yet who can provide layered efficiencies in more than one aspect of the process. Fewer vendors yield greater efficiency and fewer possible points of failure.
- Seek technology that anticipates and accommodates next steps and avoids the need for humans to decide which path is next for the file.

The Role of Focus and Leadership

Returning focus to the impact of what we are trying to achieve with a technology solution enables us to keep the development on track and render the results useful. This focus is also vital to encouraging the adoption of the technology among team members. There will be conflicts in priorities, as seen by team members down the line. Leadership brings the focus back to those aims we all share and makes clear its commitment to achieving them through the contributions of everyone.

Accountability for performance at all levels, starting with executive responsibility for providing leadership, is critical. The inevitable priority conflicts that arise in large complex projects do not resolve themselves—it takes leadership to help people cope with change and guide them over the chasms of misunderstandings. One of the best concrete examples we've seen of senior line executive leadership in a successful project can be summed up in four words: 'walk the talk weekly.'

Len Tichy, STRATMOR Group



A Refrigerator Analogy

Imagine, if you will, that we have launched a brand new super-innovative refrigerator on the market, and you are amongst the first 100 people to buy it. It's the first true stainless-steel double-door, with a water and ice dispenser, with a see-through glass door and touch screen, with Wi-Fi-enabled monitoring and controls. Higher efficiency works for the modern kitchen, efficient with space and your time – all being this new device's value prop points. You bought this thing... because it is really cool, the Jones' bought one too, this has so many functions and all.

If you are the one that sold the fridge to the homeowner, you realize after a few sales quarters that most of your customers didn't quite get the 'benefit.' Their utility bill is no lower, their kitchen space is no less cluttered, and the fridge is somewhere else on the other side of the one they intended to replace. Why so? Well, a lot more goes into a fridge, being useful in the kitchen than itself. Did it fit the 'space' I have in the kitchen? Did the new stainless steel door jive with the microwave and the oven, or does this stand out in the color scheme? Is the water supply at the right level & spot for this fridge?

This is the problem of looking at a 'point solution' (as in the fridge does its job well) vs. an 'end-to-end' (the fridge makes my job in the kitchen easier). Point solutions have a place, but often, for our industry, they create friction and add one more step to a long list of steps our mortgage professionals have to deal with.

Back to the fridge analogy, did we mention that the old water cooler was still in the kitchen/dining area? The utility bills were no lower because the customer's water cooler is still around – since they couldn't get the fridge hooked up to the water supply right, the water dispenser doesn't work, and so the old equipment still lies around.

This is the consequence of not following through – and retiring redundant solutions that eat away at your ROI.

Conclusion

Mortgage technology investments are fraught with complexity and uncertainty. Realizing a positive ROI is not a given for most enterprises. Deliberate and intentional actions well before you procure new tech, diligence in implementation, and discipline in following through are the not-so-magic magic ingredients in maximizing your chances of securing a positive ROI

About

Christy Soukhamneut, CMB, CMPS is a Mortgage Executive with Texas Capital Bank focused on industry innovation, housing affordability, and is presently serving on the Board of Directors for Trained.AI and Voxtur.

Prabhakar Bhogaraju (PB) is an Executive Vice-President, Head of Strategy, Product and Application Development with FinLocker, LLC.

Sue Woodard brings over thirty years of financial services and fintech experience to her roles as an independent consultant, Senior Advisor to the STRATMOR Group and industry “Evangelist At Large!”

Collectively, they bring a combined 80+ years of experience in the mortgage banking space and have led dozens of large-scale enterprise mortgage technology projects.

Christy & PB both serve on the Technology Committee of the Certified Mortgage Banker (CMB) Society. Since its inception in 1973, the CMB has been the highest professional designation for the real estate finance industry. The CMB community is made up of outstanding industry professionals and leaders.