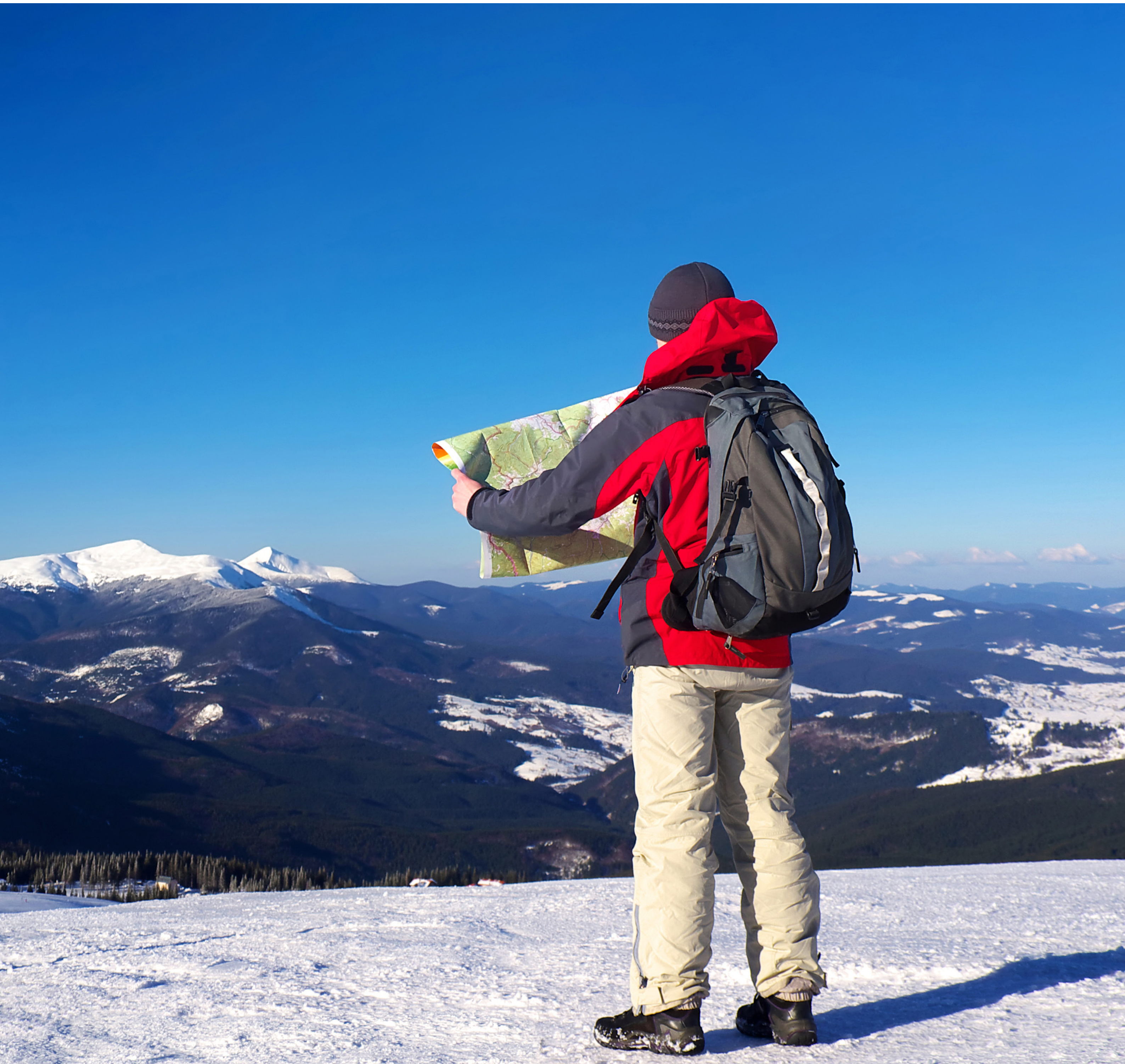
The lender's guide to surviving mortgage market

Why one-size-fits-all lending solutions are pointless



Introduction

As the U.S. economy reopens after a world-changing pandemic, several key factors will impact getting back to a "normal" mortgage environment. Inflation is one of the most critical factors challenging the ongoing recovery. Inflation is usually addressed by raising interest rates, compounding the recovery process. The result is lower mortgage volume and margin contractions. Coupled with historically high home values and record low inventory, lenders are facing an incredibly difficult and unknown future.

Mortgage lenders need organizations that can help them navigate these challenges and provide them with several ways to improve their bottom line, from low-cost operational solutions to forward-looking technology that helps improve business and productivity. U.S. mortgage lenders must transform their operations to address these issues while shifting from fixed to high-quality variable costs.

This white paper will outline the current market challenges for lenders and what lenders can do to rein in costs and provide good customer outcomes.

It's Not the Easiest Market We've Ever Seen

Inflation Leading to Rising Interest Rates

Normally when mortgage rates increase because of inflation, the market will respond with a reduction in housing prices. While refinance activity may level off, the reduction in housing prices will spur new purchase activity, thus continuing the life cycle of the mortgage industry.

This is no ordinary market, however. Double-digit reductions[1] in active home listings are creating a housing shortage that, combined with increasing housing prices, makes it incredibly difficult for most borrowers to find a home. New home starts are at an all-time low due to supply chain constraints and increasing costs for materials. Mortgage rates are increasing, and many current mortgage lenders are just not experienced enough to have the tools needed to overcome the obstacles. Lower Mortgage Volume and Margin Compression Inflation continues to increase (currently at 8.3% after a 41-year high of 8.5% in April), and the Federal Reserve[2] has indicated that there are plans to increase the Fed Funds rate several more times throughout the year to try to control inflation. Mortgage rates will continue to increase in-kind, and volume will continue to decrease. The first step that many lenders take to combat a reduction in volume is to lower their margins, so they can try to offer more competitive rates.

Lower Mortgage Volume and Margin Compression

In addition to margin contraction, lenders saw production profits[3] fall in 2021, due to increases in production expenses. This is likely due to lenders hiring staff to handle the record numbers of mortgage refinances in the first half of 2021. Personnel expenses increased in 2021 over 2020. In a recent survey conducted by Fannie Mae[4], most lenders reported that they expect to see profits continue to decrease well into 2023, as inflation continues to exceed the 2% benchmark. What is especially difficult to gauge is how the economy will fare in the long term, as the signs of recession are evident in a slowing of economic growth. by roughly $900 per loan, or nearly 14% over 2020. In a recent survey conducted by Fannie Mae[4], most lenders reported that they expect to see profits continue to decrease well into 2023, as inflation continues to exceed the 2% benchmark. What is especially difficult to gauge is how the economy will fare in the long term, as the signs of recession are evident in a slowing of economic growth.

During these difficult and speculative times in the market, how can lenders power themselves with the tools necessary to survive?

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[1] https://www.housingwire.com/articles/mortgage-rates-grow-at-fastest-pace-since-1994/
[2] https://www.housingwire.com/articles/the-fed-makes-its-move-and-more-rate-hikes-are-coming/
[3] https://www.mba.org/news-and-research/newsroom/news/2022/04/11/imb-production-profits-fell-in-2021-from-record-2020
[4] https://www.fanniemae.com/research-and-insights/surveys/mortgage-lender-sentiment-survey

So What's a Lender to Do?

Moving from a fixed-cost to a variable cost model

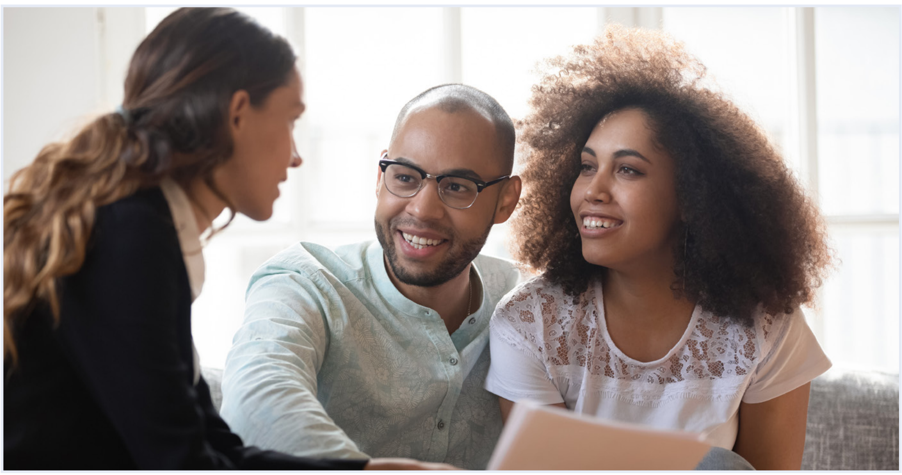
The term "Human Spackle"[5] refers to when companies solve problems with reduced productivity, increased volume and long cycle times by adding more staff (much like you would add spackle to a hole without any stuffing to fill that hole). While adding more staff may fix the problem in the Short term, it is not a permanent solution as to why a company is not able to shift their business model when needed. In addition, compensation is the most expensive cost to running a business and adding more staff will only eat into profit. Of course, when business slows down, the organization will be forced to lay off the very people they hired to get them out of the jam in the first place.

A variable cost model is used to combat the difficulties in relying solely on human expertise, and the underlying fixed costs that accompany it. A variable model is an outsourcing engagement where the company pays for the loans processed instead of maintaining salaries. They only pay for the loans that they have and not necessarily for the staff that they have. One example of a variable cost solution is Business Process Outsourcing. BPO is a way to solve for the fixed cost issues by outsourcing certain parts of the loan manufacturing process to a third party. Most lenders utilize outsourcing services to handle processing, underwriting, appraisal management or closing.

Using Forward-Thinking Technology

Technology continues to evolve in the lending space at lightning speed, and terms such as artificial intelligence, robotic process automation and machine learning are becoming more commonplace in tech stack discussion. Artificial intelligence uses machines that can mimic human cognitive functions. Tools that use AI are dynamic, in that the output changes based on the input. Robotic process automation, or RPA, uses structured rules to automate workflow, much like robots building cars on an assembly line. Chatbots using RPA to deliver information to consumers quickly. This technology is useful in automating lower level, repeatable tasks, but are not dynamic. Lenders can use RPA to minimize steps in the underwriting process, reducing manual entry needed.

Machine Learning, or ML, uses algorithms to conduct pattern recognition to identify and codify the "next steps" in a process. The machine builds models based on the platforms identified by the algorithms.



[5] http://www.mortgagebanking2020.com/technology/2016/6/25/automating-toward-the-future-human-spackle-syndrome

> Mortgage rates are increasing, and many current mortgage lenders are just not experienced enough to have the tools needed to overcome the obstacles.

Inflation

Currently at

7.1%

after a

41-year

high of

8.5% in April

Personnel Expenses

Increased in

2021

by roughly

$900

per loan

14%

over 2020

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Hyperautomation is a relatively new term, with principles deeply intertwined with the philosophy of making processes faster. It is a business-driven, disciplined approach that organizations use to rapidly identify, vet and automate as many processes as possible. Successful lenders have been able to leverage hyperautomation lending solutions to not just control expenses, but to accelerate business growth.

It is important to understand that utilizing hyperautomation is not meant to replace humans, but rather to empower and support the people and processes that improve productivity. Adopting automation processes allows lenders to eliminate bottlenecks in the loan manufacturing process and identify areas of weakness in the workflow.

Conclusion

Lenders are facing a number of unknowns right now as inflation and rising interest rates lead to lower volumes and margin compression. Many lenders report expectations that profits will continue to decrease into 2023, as personnel expenses increase among those lower volumes. They need new strategies to help them improve their bottom line – and part of those strategies may include reimagining the role of technology in their business to enable both digital innovation and business performance.

Many businesses are leveraging digital technologies to help reduce costs, manage risk and compliance, and create sustained, profitable growth while still providing a superior customer experience. Often, this includes a disruptive technology ecosystem with proprietary RPA, AI, digital workflow and predictable analysis. However, one-size-fits-all solutions are no longer an option for the future of mortgage lending, as lenders must look for the correct solution for their business rather than blindly adopting technology that may not work for them.

"Lenders must prepare for the new lending landscape and use innovative solutions as the catalyst for future success," said Armand Massie, Senior Vice President, Digital Process Operations, HCLTech.

Mortgage lenders looking to deploy the right technology at the right time should consider partnering with technology providers that can empower them with personalized, bespoke lending solutions. The right partner like HCLTech Lending Solutions can help lenders achieve their business goals by creating cost-effective business processes that encompass functions throughout the entire lifecycle of a mortgage.

HCLTech's Lending Solutions helps its clients prepare for the future of the mortgage industry by offering customizable, bespoke lending solutions that address the changing industry paradigm. The company's domain expertise, experience and proven technological capabilities allow the team to address each client's unique challenges and deliver flexibility, visibility and speed, as well as security and personalized support.

"Lenders must prepare for the new lending landscape and use innovative solutions as the catalyst for future success."

Armand Massie
SVP & COO, HCLTech Lending Solutions, HCLTech

About HCLTech's Lending Solutions

To survive the new paradigm, the Lending Solutions team uses its experience and expertise to help lenders leverage next-generation technologies and pivot their business operations. Our Lending Solutions provides indepth expertise across emerging technologies and business domains, along with a product-agnostic approach and flexible service models, offering clients a powerful value proposition that fuels their competitive advantage. Furthermore, their holistic lending solutions and transformation roadmaps are offered via innovative engagement models to ensure lenders remain compliant while staying ahead of customers' expectations with a bespoke and agile lending operations model.

HCLTech is a next-generation global technology company that helps enterprises reimagine their businesses for the digital age. Its technology products and services are built on four decades of innovation, with a worldrenowned management philosophy, a strong culture of invention and risk-taking, and a relentless focus on customer relationships.

Through its worldwide network of R&D facilities and co-innovation labs, global delivery capabilities, and over 208,000+ 'Ideapreneurs' across 52 countries, HCLTech delivers holistic services across industry verticals to leading enterprises, including 250 of the Fortune 500 and 650 of the Global 2000.

Take the opportunity to talk to experts about your lending processes and ways to re-engineer opportunities.

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