



Finicity

Frictionless Lending

Originating loans is time-consuming for both borrowers and lenders. Borrowers have to print statements, complete forms and photocopy proof of identification before physically submitting the documents to the lender. Lenders then have to manually process the documents, making sure the information provided is accurate – or at least hoping it's accurate.

However, digital solutions are completely transforming the finance industry and the lending industry is no exception. With greater access to a rich set of data, mortgage loan origination can move from weeks to days, information will be more accurate and up to date, and the experience for borrowers and lenders will be radically improved.

Customers in general are increasingly turning to financial institutions (FIs) offering the most convenient apps and tools. Banks and lenders need to learn how to harness technology so they can embrace a digital lending experience, or they risk getting left behind.

A Digital World

According to Jim Morous, a top Fintech influencer and publisher of the Digital Banking Report, removing friction from the customer journey is one of the top banking trends in 2017. In the latest edition of the report, Marous argues banks must employ digital technology to address customer pain points, such as streamlining the user experience.

This effect can be observed in the service industry as a whole. After all, we complete a range of transactions on mobile devices these days, from ordering a ride to booking a hotel room. And this trend is set to continue: PricewaterhouseCoopers claims an entire generation - which they refer to as Generation C (for connected)- will have grown up in a digital world by 2020.

Consumers expect the same level of convenience from FIs. 11% of respondents to Accenture's 2016 Consumer Digital Banking Survey who switched banks in the previous year moved to an online or virtual bank. The survey also reveals one of the most common reasons for switching banks is to simplify the process of purchasing a home. And clearly, this is just the beginning.

Embracing Digitization

For loan origination, digitization means the process is poised to become quicker and easier for both lenders and borrowers.

Lenders

Increase Efficiency. Automating the input and verification of documents speeds up the loan origination process, by up to eight days in some cases. Access to deeper and more accurate information also positions lenders to make better credit decisions and ensure greater accuracy, and the GSEs are reacting to this. All of this frees up loan capital to be deployed elsewhere.

Reduce Costs. According to the Mortgage Bankers Association, the average cost of originating a loan jumped from \$5,779 in 2013 to \$7,845 in 2016, while the net income per loan dropped from \$1,772 to \$825. So lenders using digital solutions don't just save time, they can cut costs and boost their bottom line.

Combat Fraud. Doctoring a 'paper' copy of a document required to support a loan application is easy. CoreLogic's latest Mortgage Trends Report found that lenders received 12,718 fraudulent mortgage applications in the second quarter of 2016 alone. Digital solutions pull data straight from an FI, reducing the borrower's involvement to permissioning the lender to access their accounts.



Prequalification

Reviewing a prospective borrower's overall financial health when deciding if they qualify for a loan offer.



Decisioning

Using data to determine a borrower's suitability for a loan and on what terms.



Verification

Streamlining the process for both the lender and the borrower by verifying a borrower's financial situation through automation.



Risk Modelling

Providing deeper insight into the cash flow in and out of a borrower's account.



Monitoring

Ongoing monitoring of a borrower's financial health once a loan has been originated.

Borrowers

Convenience. Borrowers can benefit from automation by permissioning lenders to access their financial data directly from their FI, rather than spend time tracking down paper copies of documents like bank statements and submitting them to the lender. A web app can condense this process into a few easy steps taking a matter of minutes (see below for more details) while accessing a variety of accounts.

Broader loan availability. Borrowers who are thin or no file shouldn't automatically be excluded from securing a loan. For instance, they may only have a poor credit score because they don't use a credit card. Digital solutions allow lenders to make a loan decision based on a person's income, assets and cash flow along with their credit score. The result is a more robust and real-time view.

Data-driven Decision Making

Data is at the heart of digitization, so the financial sector is uniquely positioned to harness this trend.

FIs generate a ton of transactional data. According to the World Payments Report, each person in the US completes over 400 non-cash transactions a year. Of course, that figure doesn't take into account other payments like utilities, rent and cell phone bills.

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All this data potentially provides an FI with a rich view of a customer's financial health, which could feed into various aspect of its business, particularly enhancing credit decisioning. However, too many FIs rely on legacy processes incapable of handling this volume of information, never mind deriving value from it. They need access to the next generation of digital tools to successfully harness the data.

That's where data aggregation and analytics comes in.

A data aggregation solution gathers data from various sources and delivers it in a format which helps to provide valuable insight into the subject. In the case of lenders, it pulls information from different accounts and presents an overall picture of a potential borrower's financial health to help with the credit decisioning process.

Verification of Assets

Verification of Assets (VoA) is the first data aggregation-driven solution currently on the market. It provides a full picture of a borrower's assets that could influence credit decision by obtaining data- preferably including the Financial Institution Transaction ID to verify each transaction - about balances and transaction details from different account types and from multiple providers.

As mentioned earlier, a web app can streamline this process for the borrower. The app typically sits within the lender's workflow and lets a borrower permission the lender to access transaction data directly from an FI. It effectively condenses document submission to three simple steps: choose an FI, log in and then select the accounts to share.

Other Solutions

There are other solutions coming online in the market. A Verification of Income tool will allow lenders to track various sources of income arriving in multiple accounts at different FIs and to identify gaps and trends in income that could affect the loan decision. Lenders will also enjoy a richer view of a borrower's financial situation thanks to a cash flow analysis which will categorize various types of bank account transactions data, from income to expenses.

Enhanced functionality

When researching a verification solution, particularly in mortgage lending, it should incorporate Day 1 Certainty from Fannie Mae and provide dispute management process for the consumer.

Day 1 Certainty

At the end of 2016, Fannie Mae launched its 'Day 1 Certainty' initiative aimed at streamlining the mortgage origination process for lenders and borrowers. Lenders using its Desktop Underwriter application to verify income and assets are free from representations and warranties regarding the accuracy and integrity of the data.

Dispute management

If the provider is registered as a Consumer Reporting Agency, borrowers can challenge adverse actions directly, request a free copy of their verification report and update any inaccuracies hurting their qualification.

Conclusion

Financial services are evolving. Banks and lenders have to keep up with the digitization of the service industry in general by making life easier for borrowers. Data aggregation solutions allow lenders to streamline the origination of loans and reduce costs, while borrowers benefit from a more convenient application process and broader loan availability. Lenders must embrace the digital transformation of the financial sector or risk getting left behind.

Footnotes

¹ <http://thefinanser.com/2017/01/top-10-retail-banking-trends-2017.html/>

² <http://www.strategyand.pwc.com/global/home/what-we-think/digitization/megatrend>

³ https://www.accenture.com/t00010101T000000__w__/gb-en/_acnmedia/PDF-22/Accenture-2016-North-America-1 Consumer-Digital-Banking-Survey.pdf#zoom=50

⁴ <https://www.americanbanker.com/news/embrace-the-digital-mortgage-as-a-competitive-advantage>

⁵ <https://www.mba.org/Documents/Research/MBA%20Q1%202016%20Performance%20Report.pdf>

⁶ <http://www.corelogic.com/research/mortgage-fraud-trends/2016-annual-corelogic-mortgage-fraud-trends-report.pdf>

⁷ https://www.worldpaymentsreport.com/reports/noncash_inhabitant

