Borrower Verification Tasks Should Be Outsourced

Until lenders embrace a new model, the fully digital mortgage remains elusive

By Jon Maynell

It is well known throughout many industries that outsourcing can reduce costs, compress production cycle times and optimize human resources. And although mortgage companies have long outsourced certain functions such as real estate tax monitoring and flood-zone determinations, there still are many functions that do not add to (or reduce) an organization's value and would be best served by a vendor specialist.

These third-party vendor partners can complete certain tasks faster and cheaper than a lender or originator can, but traditionally, these tasks are kept in-house. Maybe the most prominent example is the workload tied to borrower verifications, including employment, income and assets.

Digitizing these verifications means removing these manual tasks from the origination process, having them wholly contained within the lender's digital sphere, and relegating any necessary analog chores to vendor specialists with the expertise and tools needed to optimize workflow around these activities. The digital mortgage movement is all about making the process of originating a mortgage faster, easier and less expensive for both the lender and the consumer.

Imagine how you would feel driving on a highway amid dense, fast-moving traffic with the knowledge that the company that manufactured your car was the same company that manufactured your tires. Would it make you feel safer knowing that the vehicle's manufacturer went so far as to create a division dedicated to making tires?

Industry parallels

There is a simple reason why automakers do not make their own tires — because making tires doesn't make them better car manufacturers. In fact, it's arguably detrimental to their success as an automaker as it would reduce the time and resources they otherwise spend on core functions to establish or maintain a competitive advantage.

The vast majority of auto manufacturers, in fact, don't even make their own wheels. Most people have never heard of Maxion Wheels, but they're the world's largest wheel maker, serving global brands such as Audi, BMW and General Motors. The comparisons to the mortgage industry are striking: As lenders seek to realize a true fully digital mortgage, vendor specialists will play a key and ever-expanding role in managing critical activities such as borrower verifications.

The technologies and services required to produce a digital mortgage are available today, yet the pace of adoption remains emblematic of a margin-conscious industry reluctant to increase spending on digital technologies and services. From late 20th-century transactional systems to early 21st-century business intelligence and today's digital tools, mortgage lenders have a long history of minimizing tech investments by only adopting mature technologies that have become commoditized.

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The digital mortgage concept has been around for more than a decade, yet according to ICE Mortgage Technology, the average time to close a loan (across all product types) was 47 days in September 2021. It took an average of 43 days to close a refinance and an average of 50 days to close a purchase loan. These times have remained steady for several years. Clearly, digital technologies have yet to have a discernible impact on mortgage cycles by reducing the time from application to close.

Costly functions

Mortgage lenders also are facing declining revenues and increasing personnel expenses due to an overreliance on human capital. Although rebounding slightly this past third quarter, profits were down more than 50% on a year-over-year basis after a slump in the previous quarter saw the average per-loan profit drop from $3,361 to $2,023, according to data from the Mortgage Bankers Association. As of Q3 2021, the average net production profit was 89 basis points (bps), down from 203 bps a year earlier.

Employment and income verification are some of the most conspicuous friction points within the mortgage origination lifecycle, alongside related chores such as verifying income taxes, Social Security numbers, rents, mortgages and deposits. Outsourcing these functions allows a lender to reap all of the benefits being outlined, yet mortgage companies remain inclined to keep verification functions in-house with the outdated idea that it's less expensive to do so.

Back in the 20th century, this may have been true, as there were very few vendors in the verification marketplace and obtaining the necessary reports to fulfill loan requirements was somewhat less complicated than it is today. Now loan processors must navigate a complex landscape of changing corporate structures as well as a growing number of third-party verification firms enlisted by employers to outsource their end of the verification process.

Think about it: If employers in other industries are finding it increasingly effective to outsource the employment- and income-verification process so that their human resources divisions are successful, wouldn't it make sense for mortgage companies to do the same? Lenders that outsource these tasks find that costs, cycle times and risks are reduced, allowing them to spend more time on core functions such as client satisfaction and regulatory compliance.

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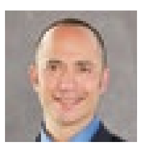

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Demand drivers

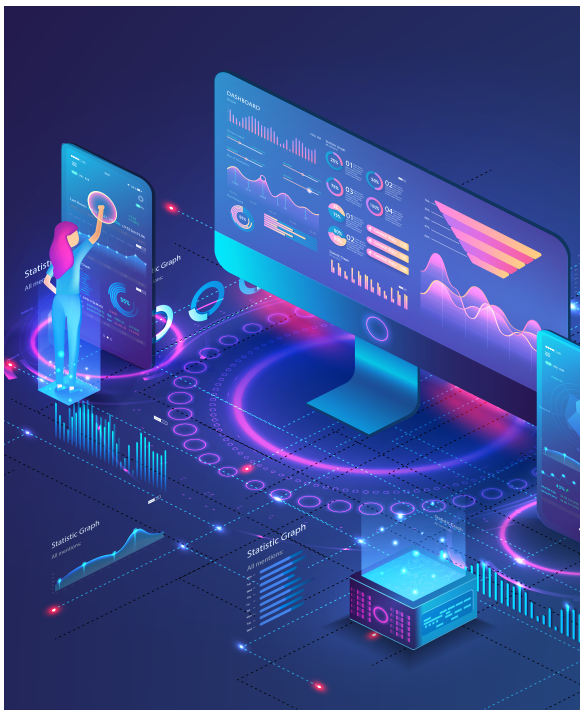
In regard to concerns about costs and quality when outsourcing these verifications, the vendor marketplace has never been better. Fannie Mae, for example, has spent several years certifying a number of third-party vendors (including verification specialists) via its Day 1 Certainty initiative.

Fannie has established and continuously monitors performance standards for these vendors that are part of the enterprise’s Desktop Underwriter Validation Service. The fees for these services are reasonable and can be passed along, in whole or in part, to the consumer.

The economic conditions created by the COVID-19 pandemic opened a sustained window of opportunity for unprecedented growth in mortgage lending. Black Knight reported that a record-breaking $4.3 trillion in mortgages were originated in 2020, which includes $2.8 trillion in refinances (also an all-time high) and $1.5 trillion in purchase loans, the largest yearly volume since 2005.

Fannie Mae, meanwhile, predicted this past November that 2021 would end with $4.4 trillion in total origination volume, although this figure is expected to drop to $3.3 trillion in 2022. Even with this decline, this year’s estimated volume is still well above historical averages. In the decade leading up to the pandemic, annual origination volume for single-family homes loans was typically less than $2 trillion.

Even as the industry is seeing origination levels retreat from their recent and extraordinary high points, the market should remain quite active for at least the next two years. To meet this ongoing demand, lenders and originators are slowly expanding their use of digital technologies and services. The digitization of the verification process is one of the most impactful steps that a mortgage company can take toward compressing cycle times and improving borrower service while reducing costs and risks. ●



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