Homebuyers embrace digital lending in COVID-19 era

Finastra survey results

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Introduction

It's been a wild ride for mortgage lenders in 2020. A year that opened on tremendous spikes in refinancing applications, combined with a stagnant housing market, drastically changed course and defied expectations as the COVID-19 virus spread around the world.

Since then, the housing market has been on fire, with continuously new record-breaking interest rates fanning the flames. Also behind new buyer activity, is a rapid migration toward the suburbs as buyer priorities change due to the impact of the pandemic.

In the midst of this environment, we conducted a mortgage survey of both consumers and financial institutions. The purpose was to gauge consumer attitudes toward homebuying as well as mortgage lending and to see how well financial institutions were navigating the trends.

The results, drawn from respondents across the U.S., confirm what industry experts already suspect. The COVID-19 pandemic has had an immediate impact on the mortgage industry that will continue to reshape the market for months to come. How financial institutions respond now will determine their competitiveness as consumers adopt a more virtual lending model.

> ***"The COVID-19 pandemic has had an immediate impact on the mortgage industry that will continue to reshape the market for months to come."***

Buyers are seeking guidance from lenders

> *"Those who already own a home have a good understanding of the process, but first-time homebuyers are desperately in need of more information about the homebuying process and the process to obtain a mortgage."*
>
> **David Lykken**
> President and Founder,
> Transformational Mortgage Solutions

According to survey results, the majority of consumers think they know enough about the home-buying process to make a purchase. However, knowing enough isn't the same as being educated, and homebuyers are looking toward mortgage lenders to fill in the gaps.

Only 11% of potential homebuyers felt they understood everything there was to know about the home buying process. Nearly 30% of respondents welcomed guidance from their lender.

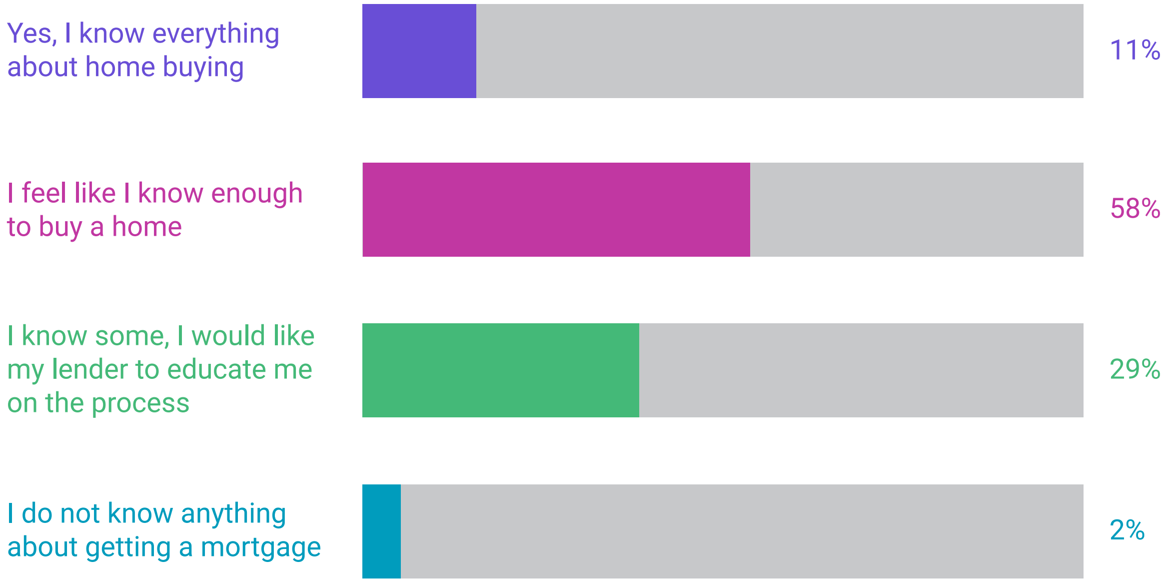


Figure 1. Consumer survey results. Do you feel as if you are educated about the home buying and mortgage lending process?

It's more important than ever for mortgage lenders to be the navigating beacon to homebuyers

"Borrowers purchasing a home or refinancing their current property are looking to be educated on the process. This is one of the greatest financial decisions many will make in their lifetime. Banks who are able to provide tools online as well as in a branch see the best results as they are trusted advisor."

Dan Putney
Managing Director, Finastra

Mortgage lenders see a similar picture when working with homebuyers. 72% of banks responding to the survey indicated that their customers needed educational advice and guidance in order to complete the process of purchasing a home and securing financing.

Buying a home is one of the most important and costly investments people make in a lifetime. In the current environment where social distancing is becoming the norm, it's more important than ever for mortgage lenders to be the navigating beacon to homebuyers.

Banks who are able to provide online tools in conjunction with in-branch services, where permitted, can become a trusted advisor, opening doors to future product and service adoption by satisfied customers.

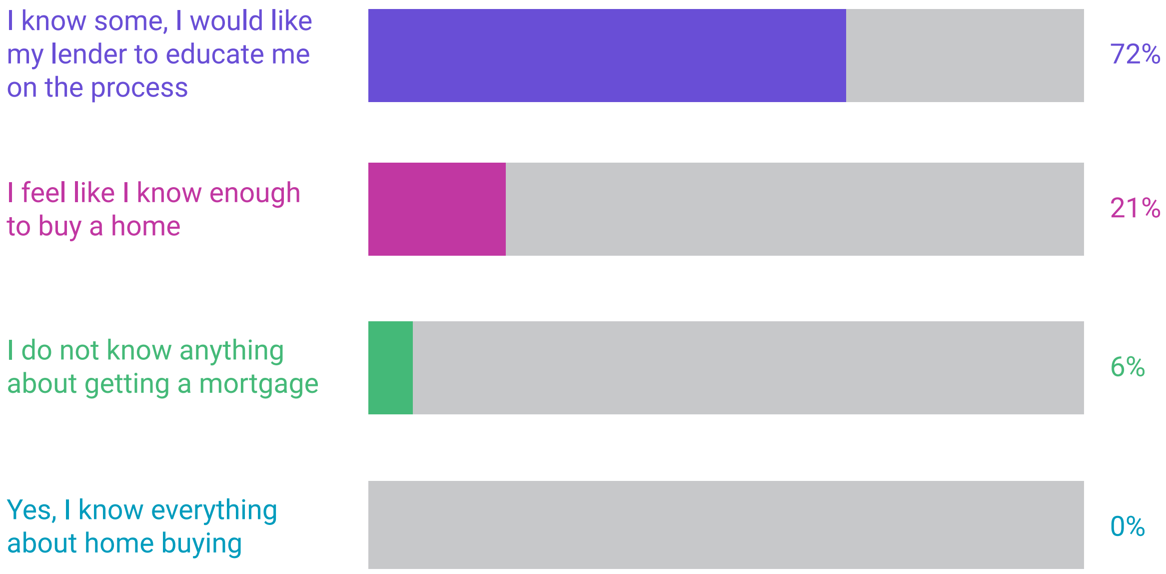


Figure 2. Bank survey results.
Do you feel as if you are educated about the home buying and mortgage lending process?

Ultra-low interest rates entice homebuyers

As homebuyers navigate the often-confusing process of purchasing a home, most consumers responding to our survey indicated that they would be taking their time to make a purchase. The majority (38%) say they are looking at least 24 months out to buy. 29% of participants don't ever plan to purchase another property.

However, the continuation of ultra-low interest rates is swaying many hesitant buyers into the market. For instance, in the U.S., mortgage rates hit record lows nine times throughout 2020.[1] As a result, most areas of the country have witnessed a home buying spree. The National Association of Realtors reported three straight months of gains in the number of home sales in the third quarter of 2020.[2]

"There is an interesting dynamic that results from the combination of COVID-19 and extremely low interest rates. We are seeing people who originally were looking 12-24 months fast forwarding their decision based on the ability to lock in on historic low rates."

Dan Putney
Managing Director, Finastra

The banks responding to our survey agree that the low-rate environment is encouraging more buyers to purchase. The majority expect their current customers to make an offer over the next 12 months before interest rates can rise again.

Figure 3. Consumer survey results. When do you expect to purchase your next property?

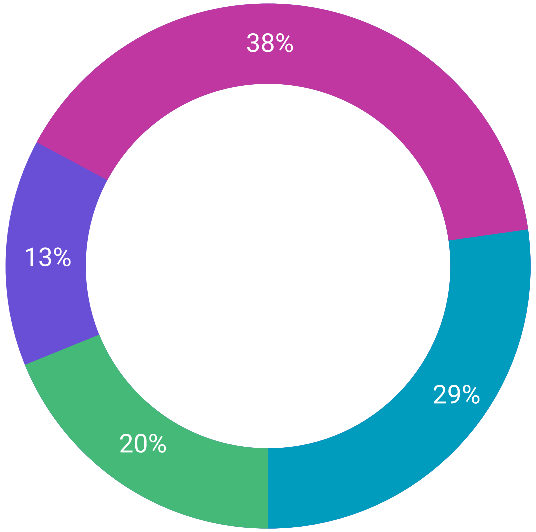
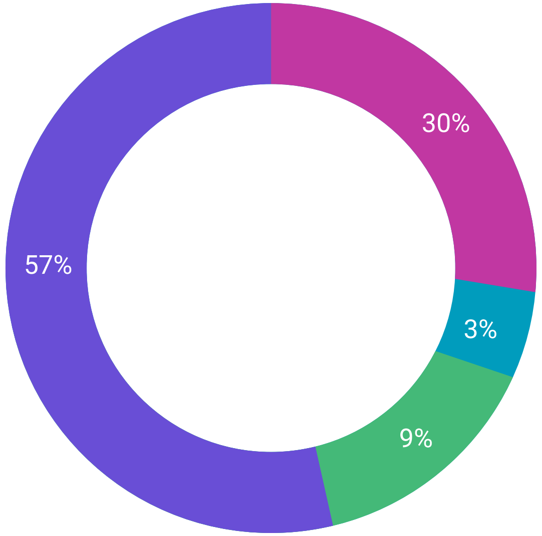


Figure 4. Bank survey results. When do you expect to purchase your next property?



1. "Will Mortgage Rates go Down in October 2020? Forecast and Trends." The Mortgage Reports, Sep. 17, 2020. Web.
2. "Existing-Home Sales." National Association of Realtors. Retrieved from **www.nar.realtor/research-and-statistics/housing-statistics/existing-home-sales**

How consumers select a mortgage lender

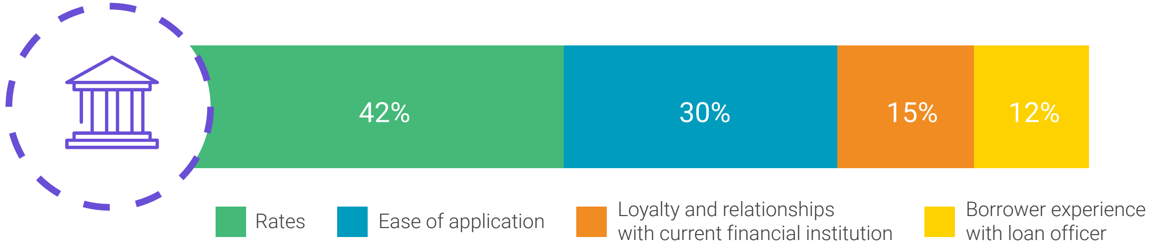
"Mortgage lending has always been extremely rate driven. Buying a home represents a large purchase that is in effect for 30 years. If a bank is competitive on rates while providing the educational resources and tools allowing borrowers to interact according to their preferences, they will be successful. Community banks and credit unions have the ability to provide all three with the hometown advantage."

Dan Putney
Managing Director, Finastra

When it comes to financing a home purchase, rates play the biggest role in lender selection. 73% of consumers selected their lender based solely on an offered interest rate.

However, loyalty also plays a part. Existing relationships with either a financial institution or an individual loan officer were the second and third most common reasons consumers opted to work with a mortgage lender on home financing.

Finastra client/bank results



Consumer/field results

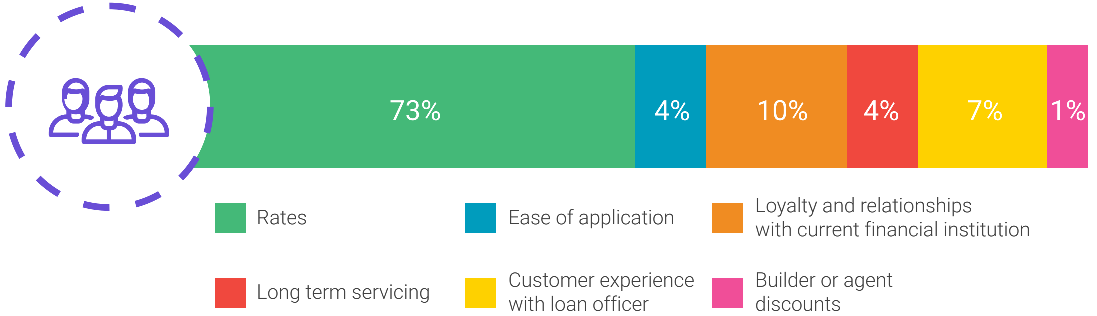


Figure 5. What is most important in selecting a mortgage lender?

Financial institutions, on the other hand, are seeing a different series of events, as loyalty becomes upstaged by the digital revolution underway in banking. 30% of respondents felt that consumers were opting out of relationships where manual processes were high, turning instead to lenders offering an easy online application process. This trend is a continuation of one that began revving up last year.

Heading out of 2019, financial institutions gave up 25% of the mortgage lending market to nonbank players who were capable of meeting consumer preferences for an online or mobile mortgage origination experience.[3]

This likely comes as no surprise to either the consumer or the financial institution, based on the outcomes of our survey. More than half of consumers said they preferred to apply for a mortgage loan online. 57% of mortgage lenders indicated that they were witnessing the same preferences.

As consumers continue to social distance to contain virus spread, either through personal preference or due to local mandates, the ability to complete a mortgage application online becomes a differentiating factor for lenders. While rates will always drive consumer decisions, the COVID-19 pandemic has forced preferences for digital interactions into a rapid evolution of necessity.

In this environment, financial institutions will need to combine superior customer service—including a willingness to guide customers throughout their homebuying journey—with digital tools to speed up and manage the origination process, in order to compete with and ultimately win customers from online lenders.

"We are seeing a significant shift to online applications and those who have an online option are going to have a distinct advantage."

David Lykken
President and Founder,
Transformational Mortgage Solutions

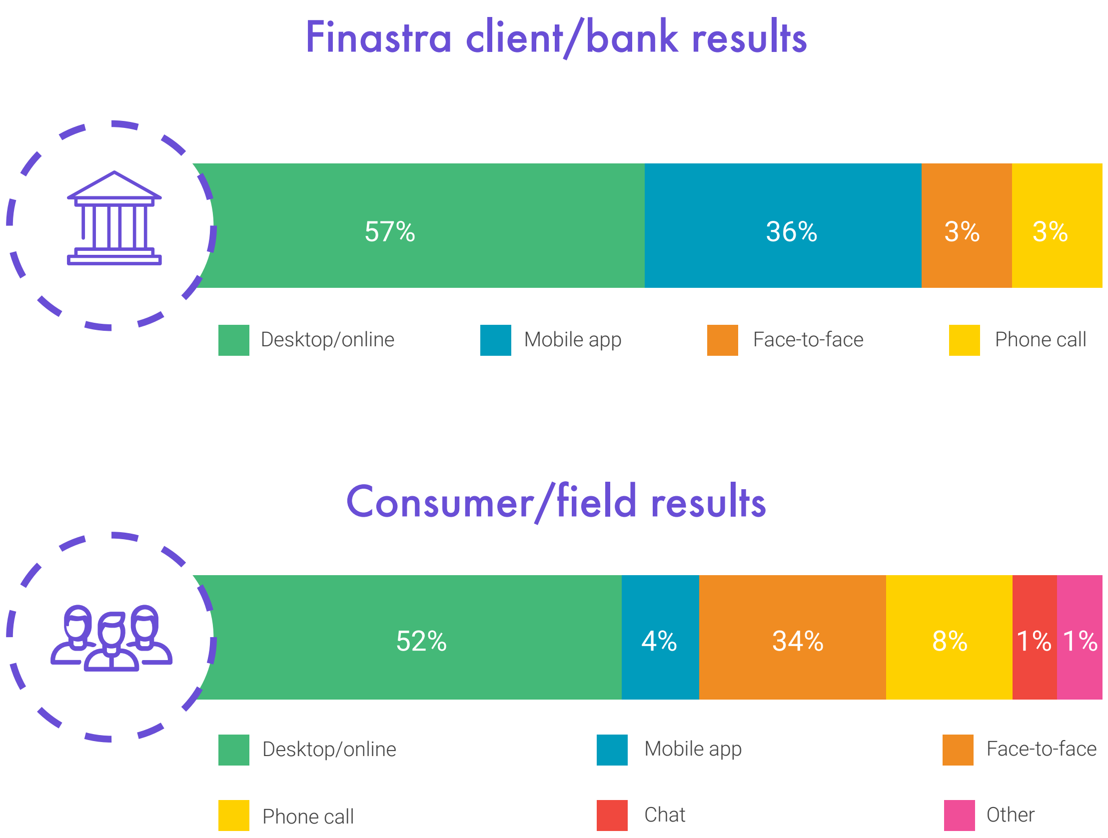


Figure 6. What is your preferred way to apply for a mortgage loan?

3. Ayush Madan, et al. "Competing on Customer Experience in US Mortgage." McKinsey & Company, Dec. 10, 2019. Web.

Consumers say time to close is the biggest problem with the mortgage process

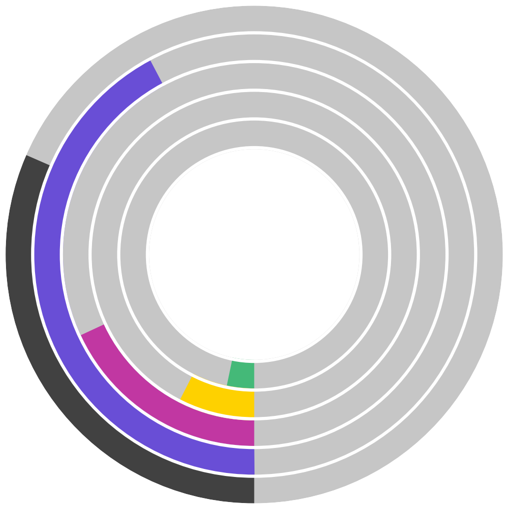
Since the home-buying rush began this year, the average time it takes to close a home has been in an upward swing. Ellie Mae reports that the average close cycle increased 3 days in August, to an average of 49 days.[4] A similar trend was seen in June, when the average 45 day time to close escalated to 47 days.[5]

A difference of a few days matters to consumers whose perceptions differ drastically from reality. Our survey indicates that the majority of consumers expect to close a loan within 15 to 30 days after the application is submitted. An alarming 37% expect a 3 to 15-day time to close.

How long do you think it should take to close on your loan after application?
While only 21% of the banks responding to our survey matched consumer expectations for a 3 to 15 day close, 60% were in line with consumer expectations for a 15 to 30 day time frame. Much of this can be attributed to technology adoption. The banks responding to our survey offer an end-to-end digital lending process or are working toward that end state, allowing for faster times to close.

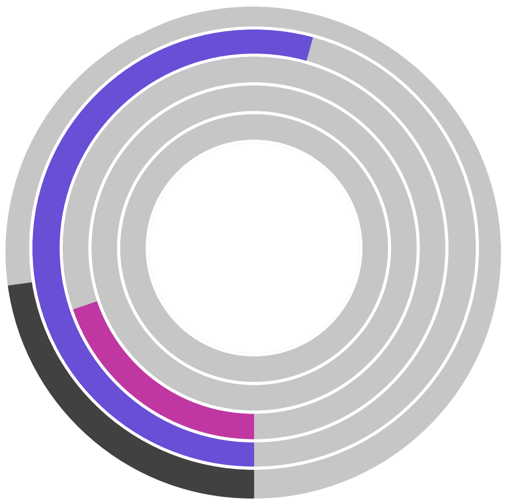
> *"Real Estate contracts and rate lock timeframes create a stress for borrowers who stand the chance of losing a house or the ability to afford one. A bank's ability to compete with fast turn times on approvals and closing is extremely important. Technology with built in workflow and efficiency allows banks to compete."*
>
> Dan Putney
> Managing Director, Finastra

Consumer survey results



37% 3-15 days
43% 15-30 days
17% 30-45 days
3% 45-60 days
1% 60 or more

Bank survey results



21% 3-15 days
60% 15-30 days
18% 30-45 days
0% 45-60 days
0% 60 or more

Figure 7. How long do you think it should take to close on your loan after application?

4. "August 2020 Origination Insight Report." Ellie Mae, Aug. 2020. Web.
5. "June 2020 Origination Insight Report." Ellie Mae, Jun. 2020. Web.

Across the industry, technology adoption is taking a front seat for banks and credit unions. A report issued by Grand View Research, Inc. indicates that the global digital lending platform market size is destined to reach $15.3 billion by 2026, as financial institutions continue to seek the speed and efficiency of technology in lending.[6]

It's a positive movement, considering that 64% of our consumer survey participants, say that the time it takes to close a loan is the most stressful factor in the process of obtaining a mortgage.

> ***"Time is of the essence for borrowers who need to meet real estate contracts or rate lock timeframes in order to secure a property or afford a mortgage."***

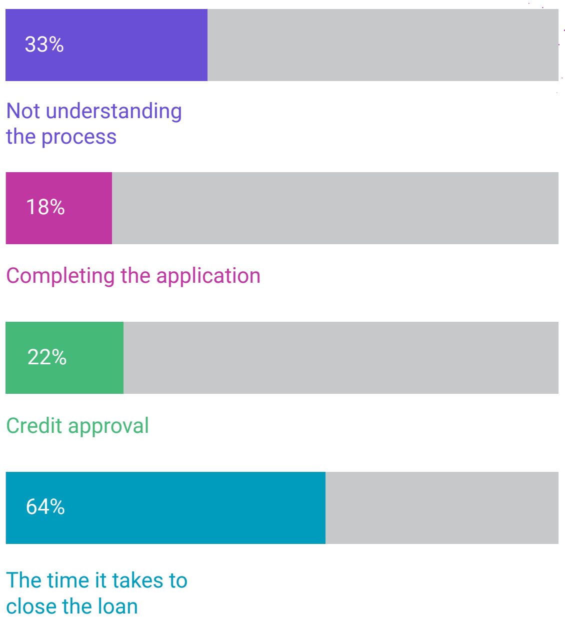


Figure 8. Consumer survey results. What do you view as stressful in getting a mortgage loan?

6. "Digital Lending Platform Market Size Worth $15.3 Billion by 2026: Grand View Research, Inc." Bloomberg Business. Bloomberg Business Press Release, Dec. 11, 2019. Web.

Lenders and consumers out of touch on digital preferences

Despite underestimating the time it takes to close a loan, consumers seem to have a clear understanding about communicating with their lender during the process. 62% expect to interface with their lender up to three times, either through face-to-face interactions, via phone calls or through a website chat.

How many times do you expect to have to speak with a bank employee to complete your loan?

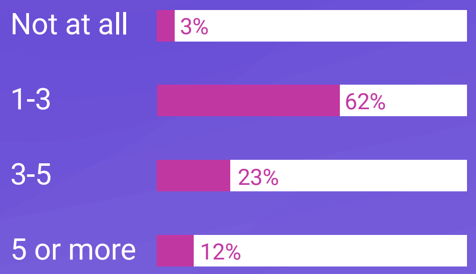


Figure 9. Consumer survey results

Fortunately, financial institutions responding to our survey indicate that most loans require 1 to 3 interactions, in line with customer expectations.

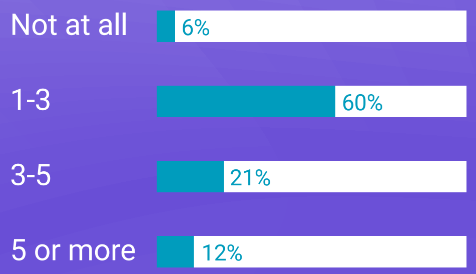


Figure 10. Bank survey results

However, banks and credit unions underestimate the customer's preference for digital engagement when it comes to communicating throughout the process. 51% of consumers said they were comfortable engaging entirely through a website chat, but only 39% of financial institutions felt that customers would be comfortable doing so.

Financial Institution's view of consumer digital preferences

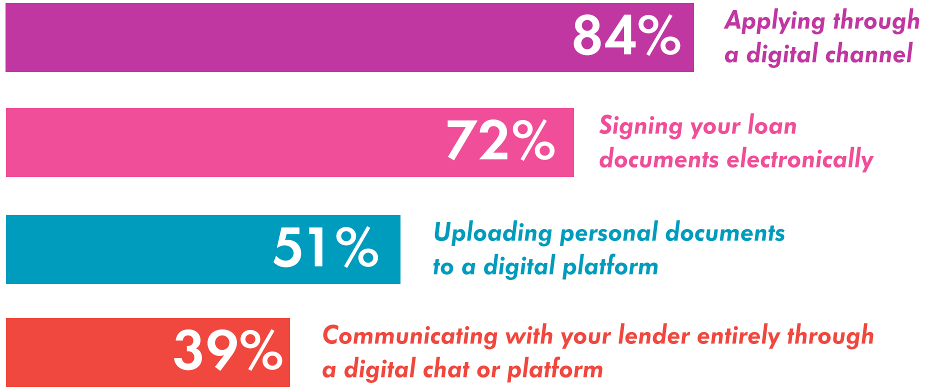


Figure 11.

Consumer view of digital preferences

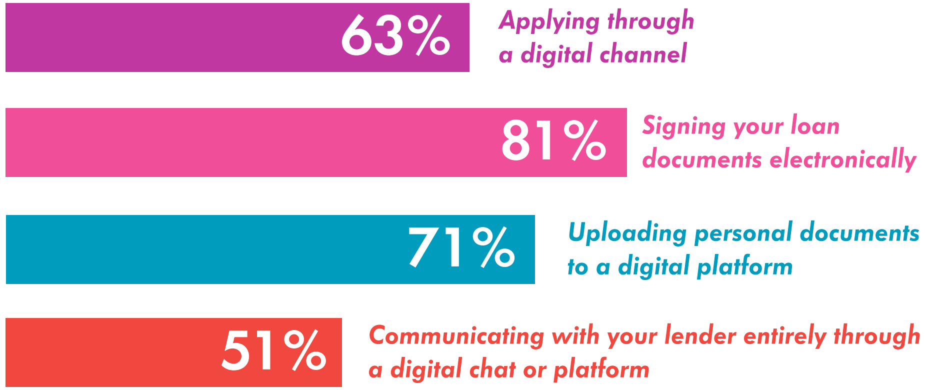


Figure 12.

Conclusion

While both customers and financial institutions expressed growing support for a digital application process, banks and credit unions overestimated consumer willingness to fully embrace the online or mobile application.

Consumer hesitance is likely due to their need for support and guidance throughout the lending process and a view that online applications will lead to the same hands-off approach taken by many startup online lenders.

As indicated early on in this study, the majority of consumers will benefit from guidance and advice, but time to close remains the number one gripe with the lending process. To build deeper relationships that encourage long-term loyalty, financial institutions will need to use the digital tools at their disposal to speed the lending process, while efficiently guiding customers along the way using their channel of choice.

> ***"As indicated early on in this study, the majority of consumers will benefit from guidance and advice, but time to close remains the number one gripe with the lending process."***

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Survey demographics

301

Paid field consumer survey

34

Finastra bank clients

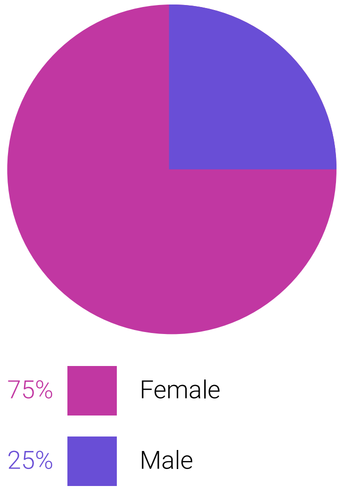

Figure 13. Survey demographic.
Male vs Female.

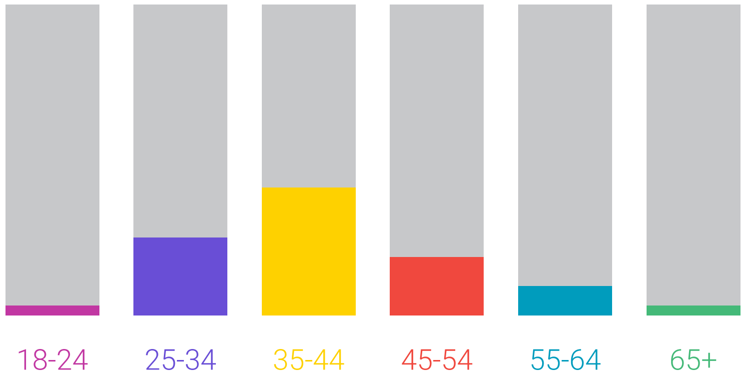

Figure 13. Survey demographic.
Age range.

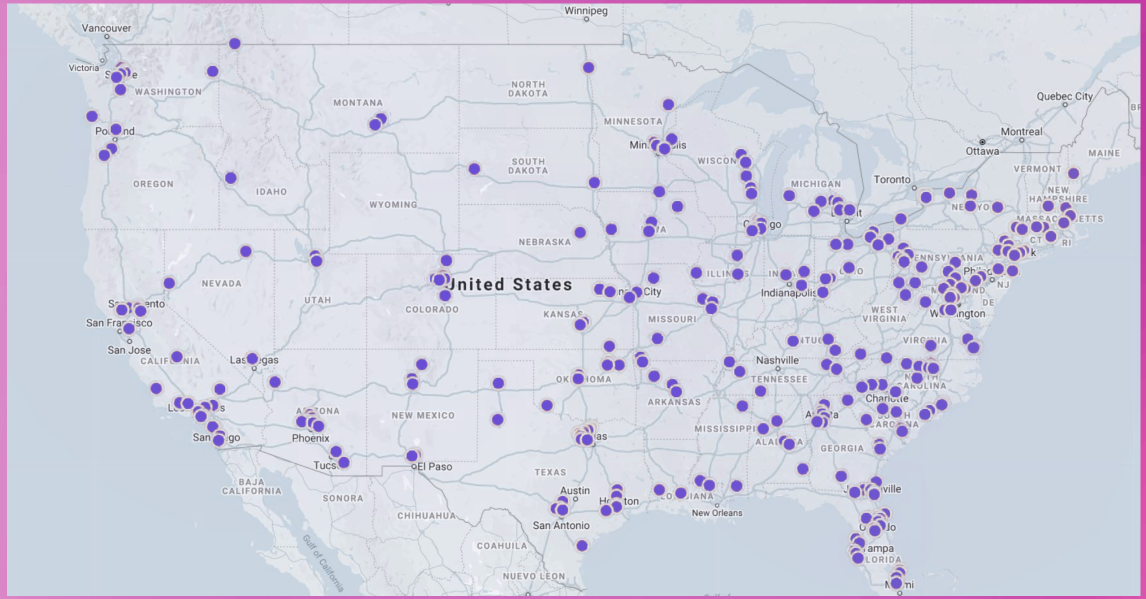

Figure 14. Survey demographic.
Mortgage survey map.

About the Author

Dan Putney,
Managing Director, Finastra

Dan manages the sales strategy for Finastra's mortgage solutions in the U.S. and has been with Finastra since 2011. He has more than two decades of hands-on mortgage-related industry expertise with banks, mortgage insurance and in sales leadership roles with global software providers. Dan earned his Bachelor of Science degree from Saint Bonaventure University where he also played basketball. He is an active member of his church and community.

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About Finastra

Finastra is building an open platform that accelerates collaboration and innovation in financial services, creating better experiences for people, businesses and communities. Supported by the broadest and deepest portfolio of financial services software, Finastra delivers this vitally important technology to financial institutions of all sizes across the globe, including 90 of the world's top100 banks. Our open architecture approach brings together a number of partners and innovators. Together we are leading the way in which applications are written, deployed and consumed in financial services to evolve with the changing needs of customers. Learn more at **finastra.com**

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