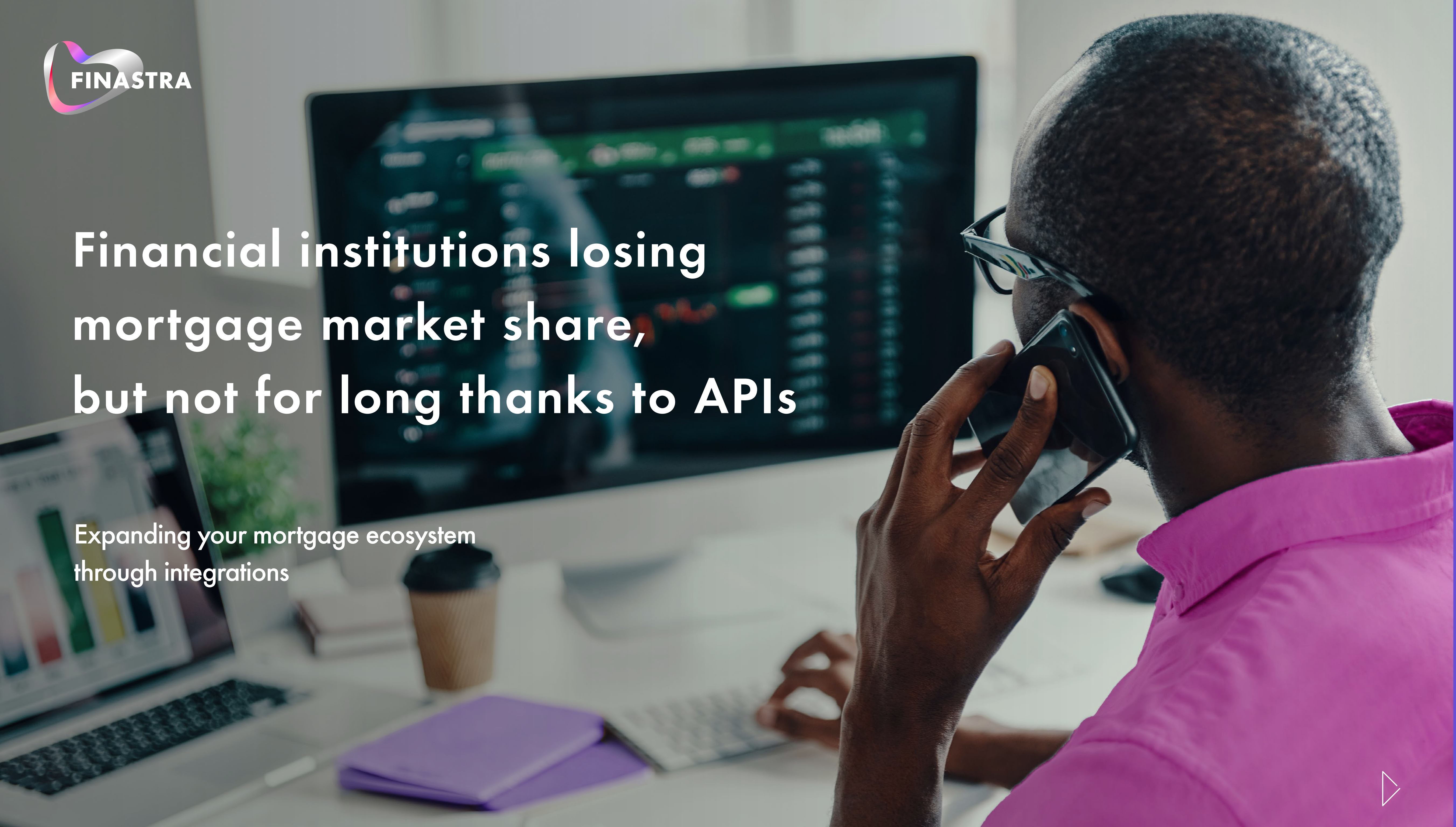

FINASTRA

Financial institutions losing mortgage market share, but not for long thanks to APIs

Expanding your mortgage ecosystem through integrations

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Proprietary research from Aite

Consumers turn toward non-bank lenders in the midst of historic originations

Following a record run on mortgage originations in 2020, where high levels of refinancing activity helped to drive an estimated $13.4 million in demand for owner-occupied home originations, experts predict that historic highs will begin to flatten at slightly exaggerated levels in 2021 and beyond.[1]

For financial institutions, the new era is a time of opportunity but also challenge, as changing consumer habits and preferences reshape how banks must facilitate customers.

Finastra's recent webinar, "Expanding Your Mortgage Ecosystem Through Integrations with Fintechs and Beyond" explored the current homebuying and lending environment, incorporating proprietary insights from Finastra and Aite to reveal bank and credit union priorities as they seek to hold onto market share in the rapidly changing world of mortgage financing.

In this whitepaper we uncover some of the insights that were revealed as experts discussed the evolving mortgage landscape.

1. "Expanding Your Mortgage Ecosystem Through Integrations with Fintechs and Beyond." Independent Banking Magazine. Finastra webinar, Jul. 16, 2021. Web.

Consumers turn away from banks in favor on non-bank lenders

Banks and credit unions are losing the battle for the mortgage market as non-bank lenders seize ground.

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Where homebuyers are securing a mortgage:

- 21% broker
- 35% non-bank lender
- 30% bank
- 11% credit union

Non-bank lenders are attracting customers in growing numbers.

- 2019: Six of the top 10 lenders were nonbanks
- 2020: 63% of mortgage financing went through independent lenders

Source: "Expanding Your Mortgage Ecosystem Through Integrations with Fintechs and Beyond." Independent Banking Magazine. Finastra webinar, Jul. 16, 2021. Web.

Leslie Parrish, Senior Analyst at Aite Group revealed proprietary research conducted over the last 6 months providing insight into consumer preferences and the direction the mortgage market is taking. According to her findings, consumers are moving away from traditional financial institutions at an alarming rate.

"Eighty-eight percent of homebuyers we surveyed said that they at least looked into their bank or credit union during the mortgage shopping process. However, we see significant leakage to other players after that initial shopping took place."

Leslie Parrish
Senior Analyst, Aite Group

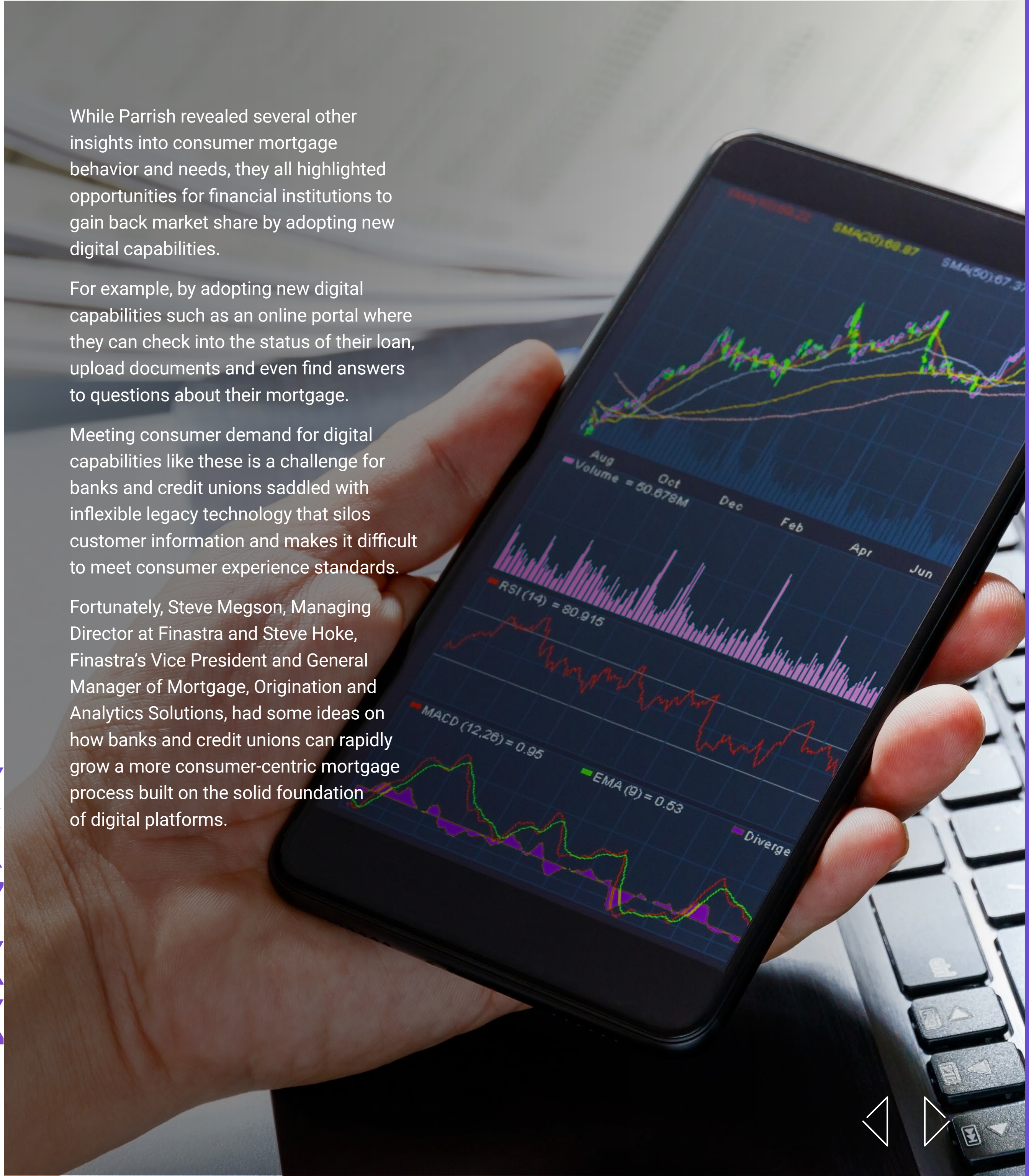
While eighty-eight percent of consumers initially look to their bank or credit union for rate information, many then continue comparison shopping beyond their financial institution.

In 2020, twenty-one percent of consumers ultimately obtained a mortgage from a broker, while thirty-five percent got financing through an independent non-bank lender. Only thirty percent of borrowers taking out a mortgage did so with their bank, and only eleven percent worked with a credit union to finance their home purchase.

Parrish also unveiled research that could explain the exodus from banks and credit unions. Overall, consumers find it hard to understand key aspects of the traditional lending process.

Borrowers frequently struggle to understand the pre-approval process and timelines for all the tasks that are involved from the time the contract is signed until they get to the closing table.

Understandably, first-time buyers were especially in need of more education around all elements of the mortgage origination process. These unexperienced buyers were more likely to be confused about important aspects of the process including the types of services included in closing costs and their pricing as well as the implications of the appraisal findings on their loan.



While Parrish revealed several other insights into consumer mortgage behavior and needs, they all highlighted opportunities for financial institutions to gain back market share by adopting new digital capabilities.

For example, by adopting new digital capabilities such as an online portal where they can check into the status of their loan, upload documents and even find answers to questions about their mortgage.

Meeting consumer demand for digital capabilities like these is a challenge for banks and credit unions saddled with inflexible legacy technology that silos customer information and makes it difficult to meet consumer experience standards.

Fortunately, Steve Megson, Managing Director at Finastra and Steve Hoke, Finastra's Vice President and General Manager of Mortgage, Origination and Analytics Solutions, had some ideas on how banks and credit unions can rapidly grow a more consumer-centric mortgage process built on the solid foundation of digital platforms.

Streamlining performance, meeting consumer needs

Recently updated predictions by Freddie Mac indicate that purchase originations will reach $3.9 trillion in 2021.[1] For financial institutions to gain back market share lost to non-bank competitors, they need to overcome the aging legacy challenges of existing technology and transform into a modern mortgage vendor. The ability to offer consumers online originations is now table stakes as borrowers seek an expanding array of digital capabilities to guide and complete their borrowing journey.

When it comes to providing the modern lending experience, most banks and credit unions are behind the curve. For example, Parrish's research reveals that only half of lenders can provide at least a partial e-closing at a time when consumers are seeking more remote options for handling transactions.

However, banks and credit unions may face an even bigger challenge within their own operations. A webinar polling question revealed that less than twenty-five percent of the mortgage process could be handled digitally for nearly half of participants.

Manual tasks impede efficiency for financial institutions resulting in lengthy cycle times that drive up costs.

Parrish highlighted the complexity of obtaining disclosure documents and the back and forth with borrowers that is required to obtain the necessary paperwork.

Hoke also pointed to paper-based processes in general as a significant culprit in driving up close times and internal risk.

Just one data entry error can easily multiply unchecked, contaminating multiple documents and negatively impacting decisioning.

Considering the level of inefficiency associated with the traditional mortgage process, it's not surprising that digital leaders, such as online lenders, are gaining an edge. However, Megson and Hoke indicated that the tide may soon be turning as more banks and credit unions adopt the power of APIs.

1. Tim Glaze. "Freddie Mac Now Forecasts $3.9T in Originations in 2021." Housingwire, Jul. 15, 2021. Web.

"By adopting digital technologies and having a proper digital platform, community banks and credit unions can compete with larger and alternative lenders on refinancing opportunities, the new purchasing volume that is coming in and the new construction loans that are occurring, by processing more applications and reducing risk."

Steve Hoke

VP & GM, Mortgage, Originationand Analytics Solutions, Finastra

Rapid digital transformation in the cloud

According to Hoke, financial institutions have the power to rapidly transform the mortgage processing by utilizing APIs.

"An API is a simple way for two systems to talk to one another," said Hoke. "But when you start to open that kind of integration between two systems, you can really start to change the competitive landscape. You can be a small bank in a small area, but you can have some really powerful integrations that create that broad digital bank experience without the need to purchase or develop everything on your own."

For instance, Megson says he sees a lot of his clients connecting their customer relationship management software to their mortgage solution. Since APIs allow both systems to share data, it's easier and far more accurate to fill out mortgage applications, using information the bank already has on file. Integrations like these also offer real-time visibility to realtors, lenders and even consumers, making it faster and easier to make home offers and get approved in a competitive market.

However, banks aren't limited to connecting their own systems to each other. Financial institutions can also integrate third-party resources. Hoke said he is seeing banks and credit unions forging connections with rate search sites bringing interested applicants directly to the bank or credit union doorstep.

Connecting to third-party data sources also makes it possible for financial institutions to import information required to facilitate mortgage origination. Parrish sees this as an important factor in improving customer satisfaction as data on home values, square footage and other pertinent details can easily be pulled from official state and local records. Homebuyers find it easier to complete the mortgage application while financial institutions bring greater accuracy to the process.

Security is another important factor in digital transformations and APIs are making it easier for financial institutions to adopt the solutions they need to enhance protocols. For example, multi-factor authentication makes it possible for consumers to handle more of the mortgage process remotely, by allowing lenders to securely verify identities.

"What I hear from banks is that they are more comfortable from a compliance perspective and audit trail aspect with the technology, because there are additional checks and balances that help ensure that the borrower is the borrower," said Megson. "As a result, I see a much stronger comfort level from financial institutions when it comes to moving with digital workflows."

According to Hoke, one of the biggest benefits to come from digitization and APIs is an enhanced view of data. By breaking down informational silos, solutions such as Finastra's Fusion Originate Mortgagebot combine digital online applications and tools for simplified consumer access, with enhanced data insights.

Suddenly, banks and credit unions can:

- Deliver geographical and borrower insights to identify refinancing opportunities within existing loan portfolios
- Provide interest rate insights and trends to customize offers to each borrower
- Reveal critical customer and member details, such as channel preferences, for enhanced outreach initiatives

Insights like these make it possible to identify opportunities and then quickly and efficiently meet customer needs, utilizing API connected services to streamline mortgage processing and encourage long-term customer loyalty.

Of course, this is only a sampling of the capabilities that APIs can deliver to financial institutions. According to Hoke, the possibilities are nearly endless, bringing banks and credit unions into the modern mortgage environment without the need to build their own systems or products.

There is no time like the present for mortgage lenders to take back market share.

For more insights, listen to the webinar recording or view our resources for delivering a premier mortgage lending experience at https://www.finastra.com/movingmortgage.

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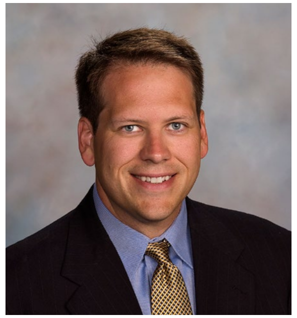
About the author



Steve Hoke
Vice President & General Manager, North American Community Markets, Mortgage, Origination and Analytics Solutions

Steve leads product strategy and innovation for Finastra's mortgage ending, origination and analytics solutions.

With more than 20 years in the financial services industry, Steve brings a broad range of experience in FinTech, insurance, lending and investment banking. His unique background allows Steve to lead a strategic product team focused on improving the lending experience for home buyers and businesses in communities across the country.

Steve is committed to purposeful innovation that delivers software currently used by more than 1,500 banks, credit unions and lenders.

Steve holds a Bachelor of Science degree in finance with a minor in management. In his free time, he enjoys skiing and kayaking and spending time with his wife, three daughters and two dogs.

Contact us

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 top 100 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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