Ready or not, financial technology companies (fintechs) are disrupting the way we do business in the mortgage industry. The digital age has transformed consumers’ experiences in nearly all aspects of their lives. And with that, their expectations have changed as well, underscoring the need for the industry to adapt. In addition, as interest rates rise and origination for a single loan now costs nearly $9,000, lenders need to find ways to deliver the best option to borrowers, accelerate the underwriting process and operate more efficiently.

Fintech-driven innovation has the potential to deliver significant benefits to community lenders. The first step is understanding the fintech landscape. The second is determining how its solutions can advance strategic goals and give you an edge over competitors.

Unlocking the Value of Data to Meet the Needs of Lenders and Borrowers

Fintech vendors have emerged to support the data-driven, digital mortgage experience.

They’re enabling lenders to:

- Improve the borrower experience.
- Enable paperless originations and closings.
- Reduce cycle times and operating costs.

To do this, fintechs electronically collect, organize and present borrower data—drawn from trusted sources—and then link it to loan-processing systems—to modernize the look and feel of the mortgage application process and help lenders underwrite more efficiently. By capturing electronic data, they’ve also built automated workflow and risk management systems that do the “heavy lifting” of the loan origination and secondary marketing process.

Within the fintech space, there is a broad range of vendors whose products support lenders’ business models.
In general, fintech solutions

- Deliver a collaborative borrower experience through the application process, with an emphasis on web and mobile platforms.
- Integrate data, providing lenders with a one-stop shop that seeks to insulate them from the complexities of multiple vendor integrations.
- Digitize production and storage of electronic promissory notes used with eMortgages, and expedite closings with eClosings.

For example, fintech company LoanBeam automates self-employed borrower financials from tax returns and other relevant data, and then calculates an income total. Finicity has created an automated income and asset verification process that can significantly reduce closing time and origination costs. Regardless of the product offering, fintechs concentrate on the same goal—enabling paperless origination and automating workflows.

Gaining an Edge Earlier in the Underwriting Process

There is growing awareness among lenders that they could benefit by gaining more visibility into the evaluation of risk during the underwriting process. By accessing early on the results of both GSEs’ automated underwriting systems (AUSs), they could come away with a clearer picture of all the options available to them and to the borrower. In doing this, lenders would also be able to maximize loan fungibility and secondary market execution, and drive down their cycle times and costs.

The idea of running both GSEs’ AUSs, which we’re calling AUS-neutral design (#AND), can be described as an inevitable workflow innovation. Until recently, it wasn’t possible to do this efficiently. But recent advancements in technology are making it easier for lenders to move in this direction. For example, fintechs Cloudvirga and Tavant now offer single-click solutions for lenders to simultaneously submit loan applications to both GSEs’ AUSs. This workflow innovation is still evolving and it will take time to mature; but the optionality it provides is worth watching as it develops.

Looking to the Future

Fintech-driven innovation is ushering the mortgage industry into a new era. The best way forward? View fintech disruption as an opportunity. Recognize the depth and breadth of innovation out there. And, think openly about integrating new technologies across the business. If done right, the adoption of fintech solutions can pave the way for greater success.

Freddie Mac is working to integrate its automated underwriting system—Loan Product Advisor®—with many of the fintech vendors in the mortgage space, with the goal of supporting a broad range of options for lenders. To join the conversation, talk to your technology/LOS vendor or Freddie Mac representative, or visit us on LinkedIn at demandand.com.