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Why Digital Closings Should Be a Lender's Top Priority

and How to Get ROI on Day One

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Introduction

Lenders in today's mortgage market face a number of challenges, including increased competition and rising costs, that make it difficult for them to survive and remain profitable. Additionally, the influx of new technology from fintech companies has led to an increased interest in digitizing the mortgage process, both from consumers and lenders.

As interest in digital mortgages increases, lenders have been primarily focused on digitizing the mortgage application. Making the application simple and easy to complete for consumers increases the top of a lender's sales funnel. When it comes to the other half of the mortgage process though, lenders have been more hesitant to dive into adopting digital closings. Some of the most frequently cited obstacles preventing lenders from adopting digital closings are the different local laws and investor requirements around the process, and the time and cost of changing processes and technologies to support eClosings.[1]

Digital is the future of the mortgage industry, but adoption rates for digital closings remain low. While many lenders see digital closings as a positive for their business due to the increased efficiency and higher customer satisfaction benefits, they still view digital closings as a nice-to-have and not a must-have. Many are waiting for the majority of their peers to adopt digital closings first, before they pull the trigger themselves.

However, digital closings are inevitable. The downside to waiting for industry-wide adoption is larger than the risk of being a leader. By taking a passive approach to digital closings, lenders will be left behind by those who adopted digital closings first or acted more quickly. Plus, it's the first-movers who will reap the most benefits from digital closings. They'll be seen as industry experts and innovators. They'll also gain a huge competitive edge over other lenders and have an easier time weathering tough market conditions due to the benefits that digital closings bring.

Many of the business challenges lenders are facing today can be solved with digital closings. This white paper explains why now is the time for lenders to adopt digital closings, specifically focusing on hybrid closings as a scalable way for lenders to not only take a step towards fully digital eClosings, but to also get ROI from day one.

Why lenders should prioritize digital closings today

Lenders are facing a number of challenges today in a changing mortgage market. In order to survive – let alone get ahead of – the industry, lenders need to adapt in response to these challenges:

- **Increased competition between lenders**
- **Rising production costs and shrinking margins**
- **Consumer demands and expectations for digital**
- **Recruiting and retaining talent**

Digital closings can help solve many of these problems by making lenders more efficient and attractive to consumers and the talent that serves them.

Increased competition between lenders

Traditional banks, credit unions, independent mortgage banks, homebuilders and fintech lenders are all competing for a slice of the origination market. Data shows banks are losing market share to non-bank lenders, like credit unions and non-depository lenders.

In 2010, just three banks **(Wells Fargo, Bank of America and Chase)** originated **56%** of all mortgages.[2] However, in 2017, all banks were only responsible for originating 42% of mortgages. The majority of mortgages **(49%)** were originated by **non-bank lenders,** while 9% were originated by credit unions.[3]

Fintech lenders, who have an "end-to-end online mortgage application platform and centralized mortgage underwriting and processing augmented by automation," are also quickly growing their market share. By being at the forefront of technological innovation and strategically leveraging technology to streamline and automate their operations, fintech lenders grew their market share by 30% between 2010 and 2016.[4]

In order to better compete against online business-to-consumer lenders, lenders have named "consumer-facing technology" and "business process streamlining" as their top two business priorities for three years in a row. This is because they view business-to-consumer lenders as having advantages in technology and scalability, which are particularly helpful in attracting Millennial homebuyers.[5] Quicken Loans is one of the best examples of a business-to-consumer and fintech lender. With its edge in technology and customer service, Quicken Loans surpassed Wells Fargo to become the top retail mortgage lender in 2018.[6]

Rising production costs and shrinking margins

While profits vary from quarter to quarter due to fluctuating interest rates, housing inventory and consumer demand, the overall trend is increasing costs and decreasing profit margins for lenders. This is largely due to changing regulations that require lenders to change their processes and invest in technology and additional staffing.

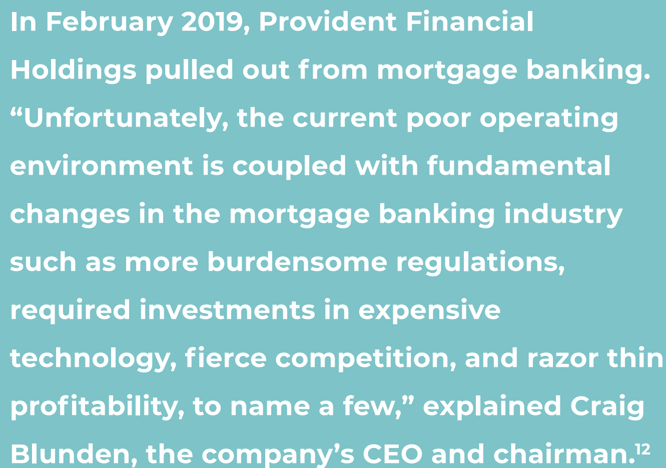
Passed in 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act was estimated to cost the 10 largest banks $10 billion in total each year. By enacting tighter regulations, the act increased the cost of compliance for lenders.[7]

Most recently, the new TILA-RESPA Integrated Disclosure rule (TRID), which became effective in 2015, increased lenders' time to close and costs. "Michael Fratantoni, chief economist for the Mortgage Bankers Association, says the expenses added by the new settlement rules come on top of a long series of federal regulatory changes in the past several years that have pushed the cost of originating a typical mortgage from $4,500 to $7,000."[8]

The average total expenses to close a mortgage increased from $5,958 in 2013 to $8,405 in 2018.[9] As costs increased, profits diminished. Independent mortgage banks and mortgage subsidiaries of chartered banks saw their average profit per loan decrease from $711 in 2017 to $367 in 2018.[10] At times, lenders have even lost money.

In the fourth quarter of 2018, independent mortgage banks and mortgage subsidiaries of chartered banks reported a net loss of $200 per loan originated. This was the second time a net loss was reported in 2018. The first time lenders experienced a net loss was in 2014, when they saw higher compliance costs due to the Dodd-Frank Act.[11]

In 2019, some lenders have chosen to exit mortgage lending, as market conditions have made it more difficult for lenders to generate significant revenue.



In February 2019, Provident Financial Holdings pulled out from mortgage banking. "Unfortunately, the current poor operating environment is coupled with fundamental changes in the mortgage banking industry such as more burdensome regulations, required investments in expensive technology, fierce competition, and razor thin profitability, to name a few," explained Craig Blunden, the company's CEO and chairman.[12]

In May 2019, Live Well Financial announced that they would no longer originate new mortgage loans.[13] This came just eight months after they shared plans to upgrade their lending platform and offer a digital experience, spanning from application to closing, to consumers.[14] Bank 34 also closed their mortgage business in May, "citing the unstable financial environment surrounding mortgage lending."[15]

In the worst case, lenders face bankruptcy, which is what happened to Stearns Holdings. In July 2019, the company that owns Stearns Lending, the 20th largest mortgage lender in the U.S., filed for Chapter 11 bankruptcy. Despite reducing its expenses by 40%, Stearns "had piled up an unsustainable amount of debt and began to struggle when the housing market faced higher borrowing costs."[16]

For those who remain in the mortgage business, mergers and acquisitions have become more common, due to declining profits. In 2016, there were only eight publicly announced consolidation deals. Since then, the number of announced transactions has rapidly increased each year. Between January and November 2018, there were 28, with more expected by the end of the year. This rapid consolidation in the industry is expected to continue into 2019, as large lenders continue to buy up smaller lenders who are "struggling to maintain profitability while experiencing shrinking capital and liquidity."[17]

Lenders can only lower their fees and interest rates by so much in order to attract consumers and maintain their margins. Digital closings offer a more practical and sustainable way for lenders to survive by streamlining their operations, making them more efficient and reducing their costs and time to close. In 2018, it took an average of 44 days to close a mortgage. However, lenders who "began offering digital lending platforms were able to reduce this process to 30 days."[18] As a result, lenders can turn their credit lines faster and originate more loans at lower costs.

Consumer demands and expectations for digital

As more of the world and consumers' lives move online, they naturally expect to have a digital experience when buying their home. Today, consumers can easily conduct financial transactions on a computer or phone. However, mortgages have lagged behind in this digital transition, despite there being consumer demand for a digital mortgage.

PwC's survey of 1,500 recent and prospective homebuyers for its 2019 "Home Lender Experience Radar" found a growing appetite for digital, as opposed to traditional paper-based processes. When asked how they'd prefer to review documents, 17% chose mobile and 58% chose PC or laptop. For signing documents, 13% preferred mobile and 46% preferred a PC or laptop.[19]

Consumer interest in a digital experience extends beyond the mortgage application and initial disclosures. In 2018, Fannie Mae found that 66% of homebuyers are interested in a fully digital mortgage process.[20] As of 2019, almost 50% of consumers who have taken out a home loan in the last two years prefer to digitally review and sign the final paperwork. For those who got a mortgage within the last year, "83% used an online portal for electronically signing and notarizing documents" when offered the option.[21]

Loan officers primarily rely on referrals from past clients and marketing to past client databases for business, so it's critical for lenders to offer a digital closing experience that can meet, or even exceed, consumers' expectations.[22] When consumers were surveyed in 2015, one in five mortgage customers said they chose their mortgage lender based on recommendations from a friend, family member or colleague.[23]

Recruiting and retaining talent

STRATMOR's Originator Census Survey found that the average age of loan officers in 2016 was between 46 and 47 years old.[24] The average retirement age in the U.S. is 63 years old.[25] Lenders face an aging workforce that will soon retire, and mortgage lending isn't a top career choice for many young professionals. Instead of trying to recruit younger generations, lenders "typically seek to grow their market share by cannibalizing successful LOs from other lenders in a business-as-usual game of musical chairs involving costly signing bonuses and guarantees that may be great for the LO but not for the lender."[26]

Lenders can use their robust technology as a selling point to recruit loan officers and attract younger generations to mortgage lending. Michael Cooke, National Sales Manager at Castle & Cooke Mortgage, LLC, says that loan officers "are typically looking for more than just competitive compensation and a great benefits package." Technology is important to many loan officers, since "having a streamlined, paperless system expedites the entire process."[27]

Lenders can not only use technology to recruit mortgage professionals, but they can also use it to retain talent. The average cost-per-hire in 2016 was $4,425.[28] With the cost of hiring so high, employee retention is incredibly valuable and can save lenders thousands of dollars.

Loan officers are keenly aware of the role a company's technology plays in its overall growth and success. In 2018, about 83% of top loan producers reported that digital mortgage technology, which "includes any combination of consumer self-service tools, mobile tech and electronic signatures and documents," is the key to their company's growth. They also said that a lender's operational efficiency, including reducing loan closing turn-times, and overall technology strategy were more important to their careers than their own job advancement.[29] This has carried over to 2019, when over 64% of top producers ranked their company's overall technology strategy as "extremely important."[30]

Digital closings address one of the biggest pain points for top performers: closing times. About "80% of top producers ranked the ongoing efforts to reduce closing times as 'extremely important'." This is because faster closing times give producers time for more business and also provide borrowers with a better experience, which can lead to better customer acquisition and retention.[31] To reduce closing times, lenders can leverage digital closing solutions that streamline the closing process and automate manual work.

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The obstacles keeping lenders from adopting digital closings

Although digital closings can help lenders solve the common challenges they're currently facing, implementing digital closings is often easier said than done. There's a reason the industry has been talking about digital closings for so long. Yet, the majority of closings today are still completed traditionally, with pen and paper. Xerox conducted a small study in 2013, which found that only "10 percent of mortgage industry employees surveyed worked at institutions that already offer eSignature at the closing table." The majority of employees surveyed (35%) said that their company had no plans to adopt eSignatures at the closing table.[32]

There are three obstacles that make it difficult for lenders and the mortgage industry to adopt digital closings at scale:

- **Fragmentation**
- **Digital closings have been more work**
- **Idealistic implementation**

Fragmentation

Lenders operate in a highly complex and fragmented world, filled with multiple stakeholders and technology systems. Mortgage closings in particular involve a number of stakeholders, who each have different requirements and preferences. There's no guarantee that everyone taking part in the closing process has adopted or accepted digital closings. For example, "states have different regulations around electronically enabled notarization and are at varying points of implementation."[33]

Oftentimes, lenders don't even have control in selecting the other participants in the closing, like settlement agents. In some locations, there may only be one settlement company who owns the local market. As a result, lenders can't choose to only work with other parties who also support digital closings.

There are also hundreds of different systems that are used for the mortgage process. A closing requires loan information from the loan origination system (LOS) and closing documents from the document service provider. Digital closing technology has to work with both of these systems, yet it's rare to find digital closing technology that's agnostic to the other systems it has to integrate with. As a result, lenders are often forced to devote technical resources to build integrations or to switch their LOS or doc prep provider – neither of which are ideal.

Digital closings have been more work

Digital closings have, to date, required more work than paper closings. Beyond the initial setup that includes "compliance and legal review, department approval, executive approval, and IT expansion, testing, and implementation", there's additional day-to-day work that typically comes with offering a digital closing.[34]

For hybrid closings, which involve both wet-signed and eSigned documents, the documents need to be sorted based on how they'll be signed. For both hybrid and eClosings, the documents need to be annotated with fields for eSignatures, dates, initials

and anything else that needs to be filled in. While there are templates that help automate part of this process, templates require manual work to be set up and maintained over time as documents change. Where digital closings ought to make the closing process simpler and more automated, they have actually created more work and complexity for lenders.

Idealistic implementation

The third obstacle preventing industry-wide adoption of digital closings is that going from 100% wet-signed closings directly to 100% eClosings isn't scalable. Attempting to transition to eClosings in one big step isn't practical and doesn't provide ROI.

Given the fragmented adoption of digital closings, lenders need to be able to support multiple types of closings – wet, hybrid and eClosings – and different digital closing components, like eNote and remote online notarization (RON). When lenders attempt to jump straight to eClosings, they find that they're only able to do a handful of eClosings. This provides little to no value to them, since they're still doing the majority of their loan volume as wet closings.

Understanding these barriers is key to achieving digital closings at scale today. By knowing common pitfalls, lenders can look for digital closing technology that solves for each of these obstacles. They can overcome these obstacles to achieve digital closings at scale today and get an immediate ROI that makes it worthwhile.

How to offer digital closings today

For lenders, the best path to getting an immediate ROI from digital closings is by beginning with a hybrid closing. In a hybrid closing, some of the closing documents are eSigned and some are wet-signed, based on the lender or investor's preferences. This may or may not include the eNote, which is the promissory note when it's digitized and eSigned.

Many equate a digital closing with an eClosing. However, a digital closing is actually any type of closing that has a digital component. Hybrid closings and eClosings are subsets of digital closings. However, unlike a hybrid closing, an eClosing is completely paperless. eClosings require various digital components, including eNotarization, eNote and even digital tools that support the scheduling, coordination and communication around the closing.

Lenders who want to achieve digital closings at scale today should focus on implementing hybrid closings. This is because hybrid closings help lay the foundation for eClosings and are more widely accepted than eClosings currently. Lenders can do hybrid closings at scale today, realizing significant ROI on digital closings immediately.

Since hybrid closings involve some wet-signed and some eSigned documents, they are more widely accepted by investors. Lenders can adjust which documents are eSigned based on their own preferences and their investor's preferences. Snapdocs has found that 75% of the typical closing package can be eSigned.

For warehouse lenders and investors who accept eNotes, lenders can digitize the promissory note to see additional efficiency and security gains. For example, eNotes "improve delivery times to investors," ensure "accuracy of data" and "improve audit trails."[35] Even without an eNote though, hybrid closings offer huge benefits to lenders today.

Getting an immediate ROI on digital closings

Lenders who attempt to implement eClosings from the start rarely see ROI. "Tech ushers in hefty costs upfront and it takes time before getting a return on investment."[36] This is particularly true of eClosing technology. Lenders who implement eClosings are often left still doing the majority of their closings completely with pen and paper. When most lenders are doing hundreds or thousands of closings in a year, there's little benefit in doing a few eClosings. Their business operations aren't improved and the digital closing their borrowers experience are one-offs.

However, since lenders can do large numbers of hybrid closings today, they get significant value from day one with this strategy. For example, Evergreen Home Loans, a direct home loan lender that does more than 1,000 closings each month, is on track to complete more than 5,000 hybrid closings in 2019. In the first quarter of 2019, almost 70% of their loans that were eligible for a hybrid closing were successfully eSigned. KS StateBank, which does more than 250 closings each month, has seen similar success. More than 80% of their loans that were eligible for a hybrid closing in 2019 were eSigned.

By doing hybrid closings at scale, lenders are able to see massive efficiency gains. Hybrid closings, even those without an eNote, speed up the closing process. Lenders who use Snapdocs' digital closing platform reduce their time to close by an average of two days.

Hybrid closings (and eClosings) also reduce manual work, emails and phone calls, increasing a closer's capacity and eliminating the need to bring on temporary staff during busy seasons. Evergreen Home Loans was able to repurpose five employees, moving them from manual and costly functions to revenue growth opportunities.

While hybrid closings still require borrowers to have an in-person closing appointment, the borrower's closing experience is drastically improved. With hybrid closings conducted on Snapdocs' digital closing platform, First American Homebuilders has been able to reduce wet-signed documents by 80%. First American homebuyers wet-sign 10 documents instead of 40 at the closing appointment, reducing the length of the closing appointment to about 20 minutes instead of 45-60 minutes. Some lenders can even see closing appointments as short as 15 minutes.

When hybrid closings aren't possible, digitizing a wet closing is still a significant improvement over how paper closings are traditionally done. In 2014, the CFPB found that the major closing-associated pain points for consumers were:

- Consumers felt they didn't have enough time to review the documents
- Consumers felt overwhelmed by the large and complex stack of paperwork
- Consumers complained about finding errors in the documents[37]

By simply offering borrowers the ability to preview their documents before the closing appointment, lenders can solve these three major pain points for their customers.

A borrower's stress and anxiety are reduced when they can view their documents ahead of time. They're able to spend as much time as they'd like reviewing the documents and asking their loan officer or escrow officer questions. This increases transparency, eliminating surprises that might come up at the closing table. When borrowers preview their documents, they're also able to identify errors on the documents, which can reduce errors that are surfaced at the closing table by 75%.

On Snapdocs, over 70% of borrowers preview their documents. For both Evergreen Home Loans and KS StateBank, 81% of their closings see borrowers previewing their documents.

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Conclusion

Most of the mortgage industry is aware of digital closings and the value they provide, but not all view digital closings as a priority. Lenders are facing incredibly difficult and changing times. Instead of shying away from digital closings due to the cost of implementing new technology and perceived risks and challenges, lenders should be making time and room in their budget today for digital closing technology. Digital closings can help lenders become more efficient and increase customer satisfaction, saving them money and time and growing their business.

For lenders who do view digital closings as a priority, they're often hesitant to pursue digital closings due to the number of stakeholders and their variety of requirements, the increase in work that digital closings have historically required and the difficulties of scaling from 100% wet-signed closings directly to 100% eClosings. However, these obstacles can be overcome with the right solution.

When lenders are choosing a digital closing solution, they need to keep in mind that in order to be successful, they must select a solution that:

- Doesn't create more work
- Supports all closing types
- Supports all stakeholders and their requirements and preferences

Powering over 750,000 closings a year, Snapdocs is solving the challenges that are holding lenders back from adopting digital closings at scale. With the industry's largest network of closing providers, advanced automation and AI technology and a fundamentally different approach, Snapdocs is the only solution with a proven track record of creating a single, scalable process for any type of closing.

With Snapdocs' digital closing platform, lenders are able to manage all closings — wet, hybrid and eClosings — in one place and with a standardized workflow. Lenders also don't have to take on additional work in order to offer a digital closing, since Snapdocs' patented AI automatically sorts and annotates loan documents for eSigning in just 11 minutes on average.

It can be tempting to go after eClosings immediately, but eClosings aren't the only way to achieve the results that lenders are looking for. Hybrid closings, and even digitizing wet closings, can help lenders combat many of the challenges they're currently facing. Best of all, they provide an immediate ROI, as it can take just a few months for lenders to achieve hybrid closings at scale. It only takes an average of four months for lenders to standardize and digitize 99% of their closings with Snapdocs, due to Snapdocs' easy-to-use platform and actively engaged network of over 50,000 closing providers and 4,300 settlement companies.

Digital closings aren't an all-or-nothing deal. Lenders can take steps today toward digital closings by implementing hybrid closings at scale and digitizing wet closings. They can even realize significant efficiency and customer satisfaction benefits with just hybrid closings, helping them survive – and even come out on top of – an evolving mortgage market.

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