



HIGH DEMAND, HIGHER HURDLES IN THE MORTGAGE MARKET

Easing the mortgage lending process for consumers in a stressful housing market

Introduction

The anxiety and frustration that home buyers encounter throughout the mortgage and refinancing processes in today's market is inviting new solutions and innovation in the mortgage lending industry. This shift will ease the experience of the mortgage lending process and generate future financial opportunities for home buyers.

The paper mortgage process is becoming a thing of the past as digital natives prefer modern solutions. The housing market was already trending toward digital processes over the past few years, but the COVID-19 pandemic has accelerated our adoption of digitization within the mortgage industry. At the same time, homebuyers and homeowners are facing major challenges: there is a dwindling housing supply, and low interest rates and shifting geographies are creating a high

demand for homes. Other issues are plaguing the housing industry, including labor shortages, supply chain issues and rising materials costs. As a result, the home buying and refinancing processes have become more challenging for consumers.

So how does the mortgage lending process compound this stress? Banks and lenders need to digitize and modernize the mortgage origination and underwriting process.

Finicity conducted a survey of over 1,000 respondents who took out a mortgage within the last year to uncover how the digital mortgage process can help manage the frustrations and pain points associated with both buying and refinancing a home.

Overview

Manual verification processes remain a surprising and significant burden for modern home buyers.

The most frustrating part of the loan application process for the majority of respondents is connected to the recurring inefficiencies associated with providing physical copies of financial documents. This frustration comes as no surprise when looking at the fact that digital natives make up the largest percentage of survey respondents, with 84% falling between the ages of 18 and 44.



Nearly three out of four respondents indicate surprise that manual processing still takes place at so many stages of the mortgage process.



Understanding Home Buyers

With an extremely tight housing supply and high demand, not only finding the right home, but having an offer accepted, is causing stress for homebuyers. If they do end up getting an offer accepted—and if they're lucky they don't have to pay an exorbitant amount over asking—another stress awaits them: navigating the mortgage application, underwriting and closing process.

While nearly 90% of respondents report feeling the loan decisioning process was a fair representation of their financial situation, 89% report the loan application experience was more stressful or equally as stressful as the home buying experience. There are many reasons for why this might be the case, but if lenders have not fully digitized their processes, dragging home buyers through a paper loan process can damage a borrower's overall experience and may make them less likely to return to a lender.

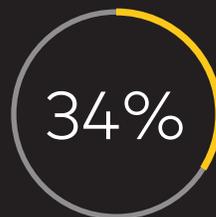
When asked more directly about the most significant stressors associated with purchasing a home, borrowers pointed to a number of different issues plaguing the current home buying and refinancing process:



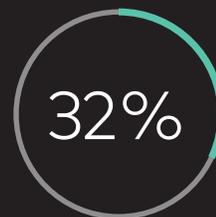
37% said there was a shortage of homes on the market



35% had to put offers on multiple homes before one was accepted



34% cited the cost of homes was higher than expected



32% had to pay more for their home than they wanted due to competing offers

The Loan Process & the Benefits of Digital Verification

Once consumers actually get past the hurdles of finding a home or make the decision to refinance, they face a sometimes lengthy and challenging mortgage lending process. For some, though, a more digital process is alleviating some problems: data from the survey shows that the benefits of digital verification of income and assets produce a less stressful experience for borrowers. These borrowers also sought out lenders who have a simple and easy process for refinancing or applying for additional mortgages in the future.

Borrowers utilizing digital verifications were less likely to say the loan process was the most stressful part of the home buying experience by half when compared to borrowers NOT using digital verifications.

70%

of borrowers using digital verifications had some level of initial hesitancy about refinancing because of the potentially frustrating loan process.

Yet 40% of borrowers from this same group said they found a lender promising to ease the application process, at the end of their search.

20%

of borrowers who used a paper verification process felt they had a lender that simplified the loan process.

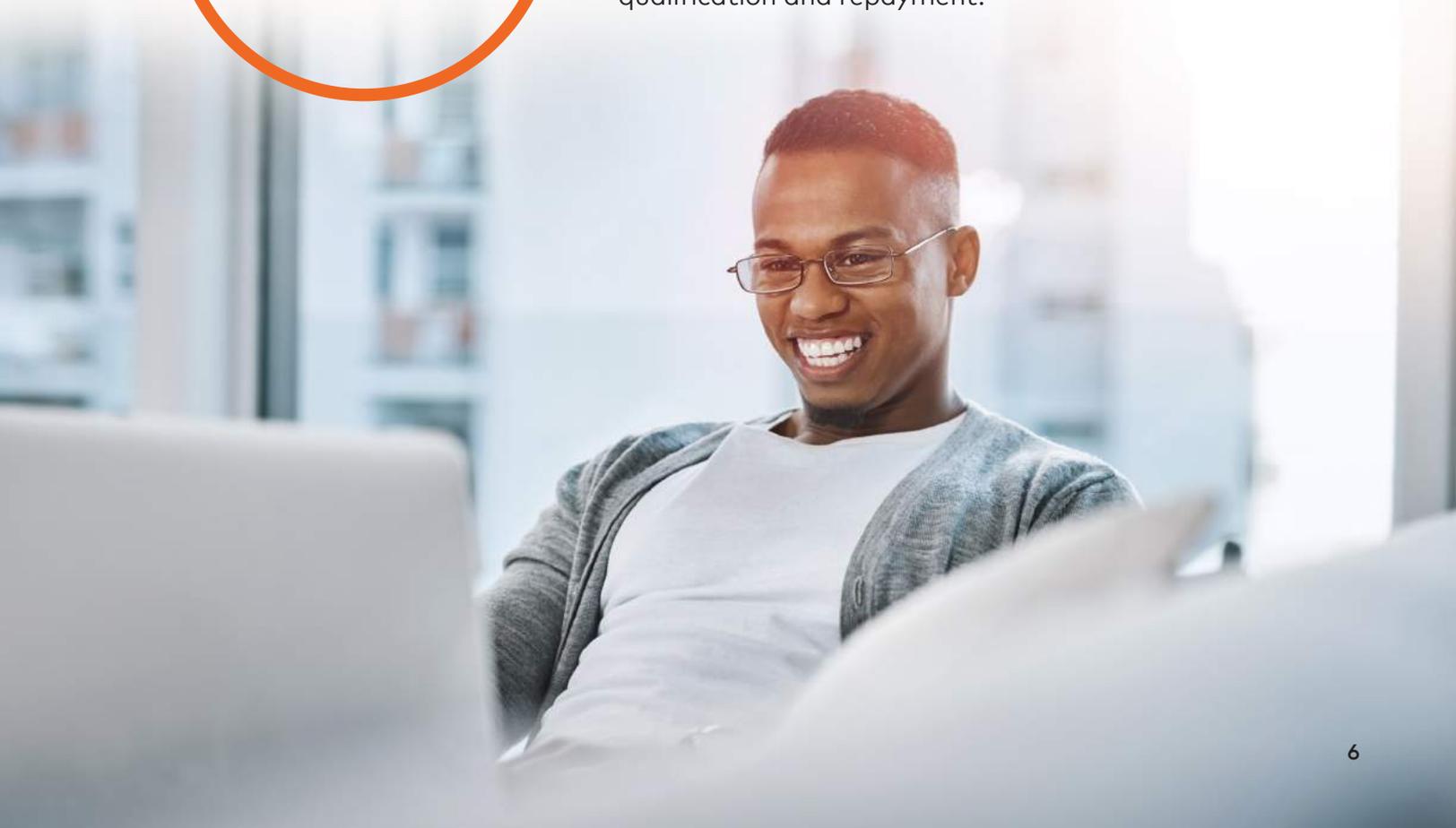
83%

of respondents using digital verifications said their loan processing time was shorter than expected or met their expectations.

Consumers Support Digitization



88% of respondents feel comfortable giving their consumer permissioned data to their lender. Income, asset and employment verification rank among the highest areas where consumers are most willing to share their personal financial information for the purpose of mortgage qualification and repayment.



Lender Choice & Lender Loyalty

Trust and low interest rates rank among the top reasons consumers select their lender of choice. Additionally, their last lender is the biggest indicator in selecting their future lender.



Three out of four respondents reported returning to the same lender for their next mortgage or refinance.

RESPONDENTS:

73%

report they would return to their previous lender for future loans of a similar type

36%

report they already used/trusted their lender of choice

37%

said their lender of choice offered the lowest rate

40%

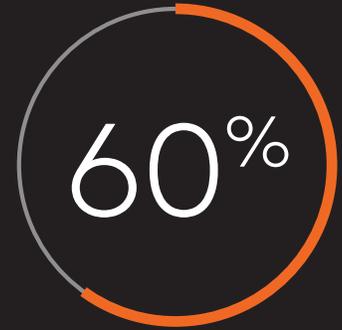
of users utilizing digital verifications said finding a lender who could ease the application process ultimately led them to refinance

To Refi or Not to Refi?

Over half of respondents cited the opportunity to take advantage of a lower interest rate as the primary driver in their decision to refinance their mortgage. Two-thirds of respondents saved between 1 and 3% as a result.

A painful application process can leave a lasting impression on home owners choosing to refinance with over two-thirds of respondents indicating frustration with the loan application process causing hesitation in their decision to refinance.

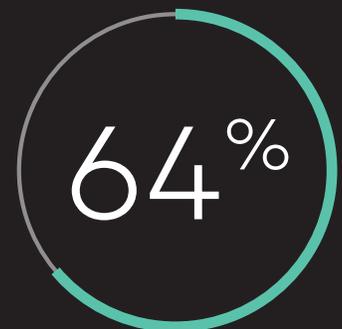
RESPONDENTS:



indicated low rates as the primary factor in their decision to refinance



lowered their interest rate between 1%-3% through refinancing



indicated frustration with their initial loan application process leading to hesitation in refinancing

Conclusion

If mortgage lenders had not already digitized their business, the pandemic sparked and accelerated the digital transformation of legacy or manual processes. And many lenders offer a full or partial digital loan process today, but that doesn't mean that the customer experience is better. Friction in the process can still remain. While lenders have had to break out of their old habits and processes, borrowers, especially those who have been through the process before, need to adjust to a different experience.

On the other hand, first-time homebuyers and borrowers, frequently younger, digital-first consumers, expect a more digital approach. All of this adjustment is happening while consumers are facing a challenging experience in just finding a home. And lenders are busier than ever thanks to consistently low interest rates and high demand in the housing market.

Now is a good time for mortgage lenders to take a step back and take a look at different aspects of the loan process and how well it is currently working for customers. Do their customers understand the benefits of features like digital verification? Are they aware of all the security and privacy measures you have in place? What will drive satisfaction (and reduce costs) in the short term, and increase loyalty in the long term?

Buying and owning a home should be an accomplishment not because you survived the process, but because you achieved success to make your life better. The loan process should be a seamless end to the homebuying experience and an unnoticeable blip in the smart decision to refinance. Digital transformation has been critical to delivering this type of experience, and lenders will need to continue to refine the process and improve functionality to ensure the process is intuitive and efficient.