FUTURE OF MORTGAGE LENDING 2022

Mortgage industry changes will be driven by new borrower expectations

As interest rates rise, pressure to deliver a better customer experience is becoming more intense

By Spencer Lee

Original research from National Mortgage News

Mortgage industry changes will be driven by new borrower expectations

Introduction

During an unprecedented period of record growth, the mortgage industry, for the most part, has produced satisfied consumers. But mortgage lenders face headwinds as business returns to more normal levels of activity similar to what they were before the coronavirus pandemic and profit margins decrease. Lenders are competing for a smaller pool of customers and borrowers are coming in expecting a faster, more automated experience. At the same time, the value of personal customer relationships has not lost its importance.

Some of these expectations are not new, though. The groundwork was already being laid for an end-to-end digital mortgage experience, as fintechs have been busy developing tools toward that goal for years. COVID-19 accelerated some of these digital trends and underscored the need for more technological innovation.

While the majority of consumers are relatively satisfied with the mortgage experience, borrowers are still encountering speed bumps that need to be removed for the industry to fully meet client expectations. Younger consumers, including those who will be the industry's primary clients in the coming years, are entering the market with a distinct set of needs that differ from those of their elders. Improved speed and efficiency, as well as enhanced methods of education and communication to would-be homeowners, will go a long way toward increasing satisfaction.

"The lender of the future has to be nimble, has to automate, has to be able to anticipate," said Matthew Moosariparambil, director of banking, insurance and capital markets at management consulting firm Guidehouse.

The Future of Mortgage Lending report from Arizent and National Mortgage News addresses the expectations of consumers in a digital world and takes a look at how the mortgage experience is changing for borrowers and businesses following the robust growth of recent years. As younger generations approach home-buying age and startups with different business models than traditional lenders come forward, the industry will need to adapt.

Why read this report?

The mortgage industry is undergoing a period of normalization and recalibrating expectations following an exceptional and somewhat unexpected period of growth in 2020 and 2021. The conditions that brought mortgage lenders to great profitability were unique, however, and highly unlikely to occur again. As volumes come down to earth and interest rates rise, lenders need to better understand their consumers to remain competitive.

Key findings

- While satisfaction with mortgage lending is universal across age groups, it is highest among baby boomers, who have perhaps grown accustomed to how home financing has been executed in the pre-digital era. Younger generations, on the other hand, raised in an age when technology has simplified other transactions, are possibly coming in thinking that mortgages operate similarly. Older borrowers are also more likely to have obtained a home loan previously and are familiar with the steps involved.

- Borrowers who are refinancing expressed greater satisfaction about the process overall, particularly when it came to lender transparency and closing speeds, than those taking out a new mortgage.

- Consumers are placing great value on speed across the mortgage process, but especially during closing. The younger the consumer, the more likely they are to expect to close in three weeks or less. Younger borrowers, in general, would like more transparency, better communication and greater access to technology when dealing with lenders, beyond just the initial application.

- For the most part, consumers are embracing mortgage technology at all stages of the loan process and are looking to streamline transmission of information sent to lenders if it results in faster closings. They also are willing to share and grant electronic access to personal identifiable information, despite the cyber risks.

- Digital shortcomings among some lenders could open the door for fintechs and nontraditional financing businesses to move in. Buyers are willing to consider alternative financing methods if necessary to improve their chances of securing a loan in a competitive purchase market.

- Educating new buyers about process timelines when they apply for a mortgage would go a long way toward improving satisfaction and eliminating unreasonable expectations. Trying to connect with these potential clients, particularly younger ones, through marketing efforts early in the process could reap business benefits.

- Borrowers are paying attention to interest rate movements and are placing upper limits that would lead them to abandon the process. The year's acceleration in mortgage rates has already surpassed some of those thresholds.

About this report

This research was conducted by Arizent and National Mortgage News to better understand how consumer perceptions and expectations will affect the future of mortgage lending.

Data was collected online in May 2022 from 1,014 U.S. consumers aged 18 and older, all of whom had either obtained a new purchase mortgage or refinanced an existing loan in the previous 12 months.

Respondents were spread evenly across baby boomer, Generation X and millennial generations, with 327, 326 and 322 participants, respectively. Due to the smaller number of respondents eligible for mortgages, only 39 Generation Z borrowers were surveyed.

The survey group consisted of 503 who took out a new purchase mortgage and 511 who refinanced.

Overall satisfaction with the lending experience is high

In the 18 months following the onset of the COVID-19 pandemic, mortgage companies found themselves dealing with record volumes. According to data analytics provider Black Knight, $4.4 trillion in mortgage loans were originated in 2021. Despite the challenges presented by the rush of new business, the mortgage industry appears to have performed well with borrowers, as 94% of the 1,000-plus respondents in the survey say they were satisfied with their experience (see Figure 1).

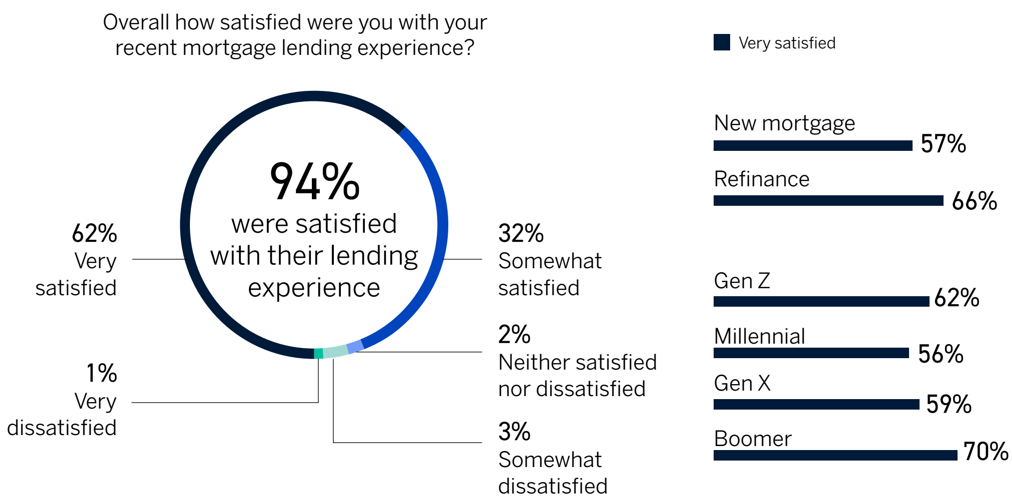
Overall, a majority, 62%, went on further to say they were very satisfied, with the percentage highest among baby boomers and decreasing among younger generations.

Broken down by the type of home financing obtained, 66% of those refinancing count themselves among the very satisfied, while 57% taking out a new purchase mortgage express the same sentiment. Among home-buying respondents, more than half were making a purchase for the first time, with the percentage higher among millennials and Generation Z.

Borrowers refinancing a mortgage are more often highly satisfied with the experience than those seeking a loan for a home purchase.

Figure 1: Respondents are generally satisfied with their recent mortgage experience

Boomers and consumers who refinanced are most satisfied

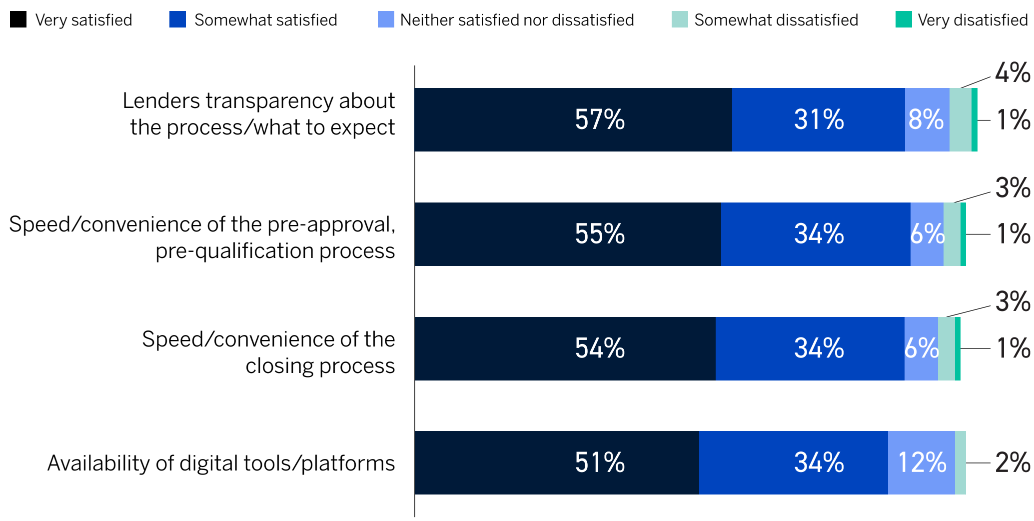


Source: Arizent Future of Mortgage Lending survey, 2022
Base: 1,014 respondents; 39 Gen Z; 322 Millennials; 326 Gen X; 327 Boomers; 503 new mortgage borrowers; 511 mortgage refinancers
Question: Overall how satisfied were you with your recent mortgage lending experience?

But while the overall mortgage experience leaves a solid impression, strong positive sentiment begins to fall off when borrowers consider individual aspects of the lending process, such as lender transparency, pre-approval speeds, closing times and digital capabilities (see Figure 2).

The percentage of respondents expressing any level of satisfaction dropped below 90% in all four categories, with very satisfied borrowers coming in between 50% to 60%. This indicates a potential growing disconnect between the expectations of consumers, especially younger ones, and what mortgage lenders think they need to offer.

Figure 2: Only half of consumers were very satisfied with specific aspects of the mortgage process



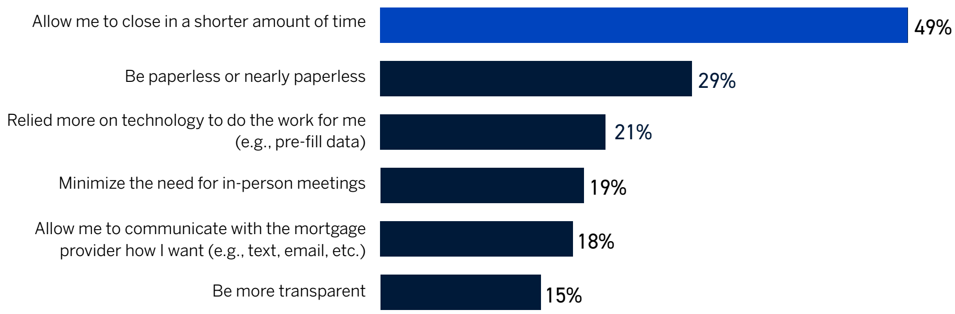
Source: : Arizent Future of Mortgage Lending survey, 2022
Base: 1,014 respondents
Please note that the lines may not total to 100% due to rounding.
Question: How satisfied were you with the following aspects of your mortgage lending experience?

Borrowers expect faster and more automated experiences

Speed, especially during the closing process, turns out to be one of the weaker areas among those surveyed. Overall, 49% of borrowers said faster closings would have resulted in a better experience for them, far outpacing other factors, such as paperless transactions at 29% and enhanced technological efficiencies at 21% (see Figure 3).

Figure 3: Half of borrowers would have preferred to close in a shorter amount of time

Factors that would have made a mortgage experience easier

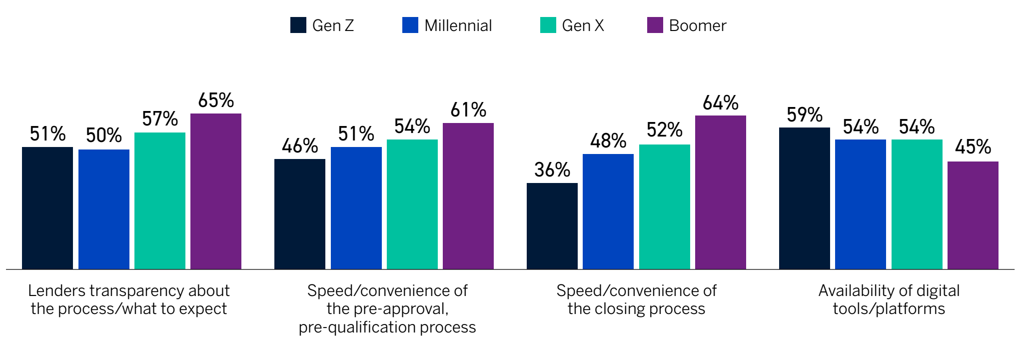


Source: Arizent Future of Mortgage Lending survey, 2022
Base: 1,014 respondents
Question: In thinking about your recent mortgage experience, what would have made it easier?

Although 64% of baby boomers say they are very satisfied with the amount of time their transactions took to close, younger demographics are less enthusiastic (see Figure 4). Only 52% of Generation X respondents echo the sentiment. The percentage falls to less than half among millennials and Generation Z at 48% and 36%, respectively. This is a possible reflection of those age groups growing up accustomed to a digital world where business decisions come quickly and orders are frequently turned around with just a few taps.

Figure 4: Speed/convenience of the closing is a relative weakness for lenders among all but boomers

Percent (%) very satisfied



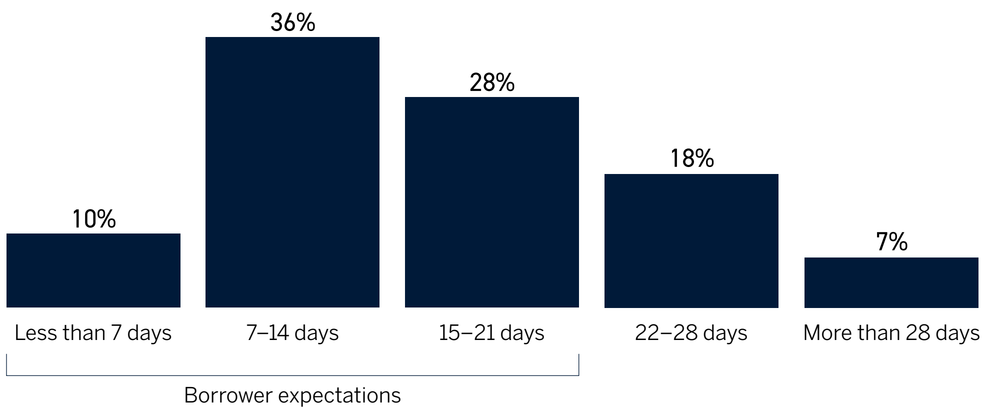
Source: Arizent Future of Mortgage Lending survey, 2022
Base: 39 Gen Z; 322 Millennials; 326 Gen X; 327 Boomers
Question: How satisfied were you with the following aspects of your mortgage lending experience?

Three weeks is the upper limit of how long many consumers feel a mortgage transaction should take (see Figure 5). A substantial majority, 74%, said they think the process should take no more than 21 days from initiation of the application to closing, with 64% indicating one-to-three weeks is a sufficient amount of time, and 10% saying it should occur in even less time.

The type of mortgage made little difference, with an equal share (64%) of purchase and refinance customers agreeing transactions should close within a three-week window. And consumers going through the mortgage process for the first time with their particular type of transaction are even more likely to believe it should proceed more rapidly than those who had obtained a mortgage previously.

Figure 5: Borrowers most commonly agree the mortgage process should take 1-3 weeks

Borrower expectations on time to complete mortgage process



Source: Arizent Future of Mortgage Lending survey, 2022
Base: 1,014 respondents
Please note that the lines may not total to 100% due to rounding.
Question: Regardless of how long your mortgage origination process took, how long do you feel it should take to complete the mortgage process from the initial application to the closing of the new or refinanced loan?

Younger buyers are more likely to expect a 1-3 week lending timeline:

Gen Z 74%;
Millennials 71%;
Gen X 64%;
Boomers 57%

But these expectations may not be entirely realistic nor feasible. In mid-2020, the average closing time for purchases was 42 days and for refinances 45 days, increasing on a year-over-year basis, according to government-sponsored enterprise Freddie Mac. While the COVID-19 pandemic and a spike in refinance volumes brought about by low interest rates contributed to the added length, the average closing time for even the top quarter of the fastest lenders still exceeded three weeks.

Much of the time involved in mortgage processing is baked into the process of a complicated, highly regulated transaction, with delays sometimes inevitable to ensure that all parties comprehend the detail of the transaction, according to Woody Fowles, vice president, operations services at Mphasis Digital Risk, a technology-based originations and compliance solutions provider. The industry could increase satisfaction surrounding closing times by keeping customers better informed about the intricacies involved.

“There’s a lot of scrutiny that’s around that to make sure the customers understand what they’re signing,” Fowles said. “You have to educate the first-time homebuyer a little bit. Part of their frustration is they don’t understand the regulations around what to do.”

Nor is it a simple procedure from the lender's perspective either. "Given where we are from a regulatory perspective, there's a lot of confusion," said Moosariparambil, adding that mortgage companies have several steps to follow to guarantee compliance, which require a large amount of cooperation from applicants.

Borrowers get frustrated because it's an inordinate amount of documentation," he continued. "Oftentimes, unfortunately, lenders have to request it multiple times."

Additionally, younger consumers are significantly less satisfied than their baby boomer counterparts regarding lender transparency and pre-qualification, information that further alludes to a possible disconnect or lack of communication between mortgage companies and consumers.

Borrowers across all age groups indicate that having a transparent lender, who could keep them informed about potential snafus and unexpected holdups, is a major factor when choosing who to work with, ranking second only to competitive interest rates. A focus on improved communication, especially toward new buyers, would provide greater peace of mind.

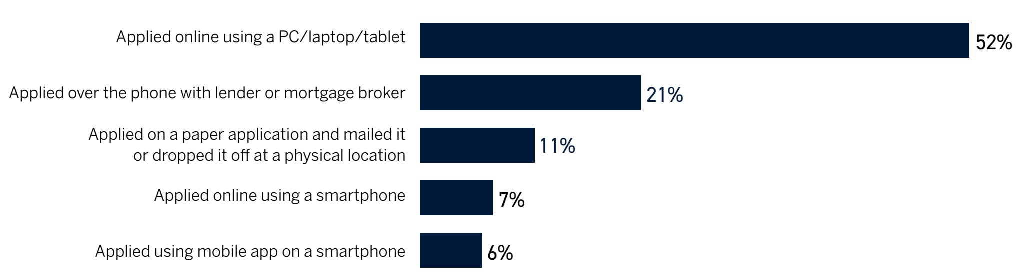
Consumers are becoming more willing to go digital. Are lenders?

Accelerated adoption of automated tools will help increase both processing speeds and satisfaction. Borrowers have already demonstrated they are keen to go online and use digital tools and procedures if it expedites the loan process, in spite of cyber risk.

Digital applications are commonplace. Well over half of borrowers surveyed, 65%, say they applied for their mortgage digitally (see Figure 6). While most used a computer or tablet for submission, the use of smartphones increases noticeably the younger the borrowers are.

Figure 6: Over half of borrowers applied for their loan online using a PC, laptop or tablet

Method of mortgage application



Source: Arizent Future of Mortgage Lending survey, 2022
Base: 1,014 respondents
Please note total does not equal 100% as Other is not included.
Question: For the mortgage provider you recently worked with, how did you apply for the loan?

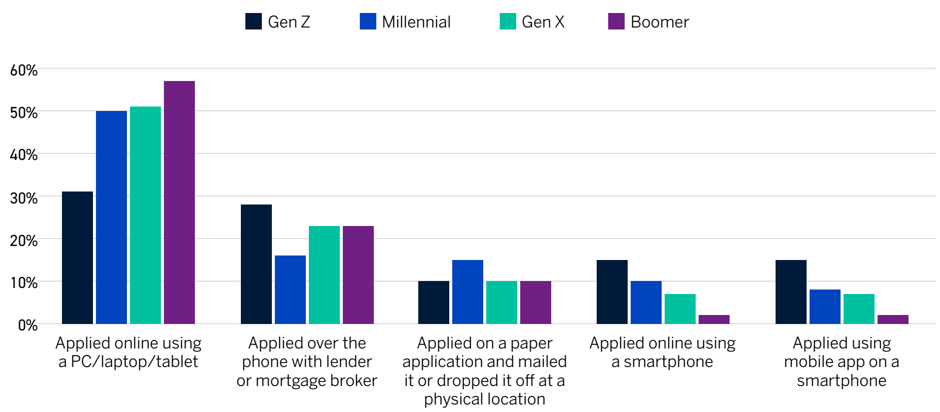
> **"You have to educate the first-time homebuyer a little bit. Part of their frustration is they don't understand the regulations around what to do."**
>
> Woody Fowles, Mphasis Digital Risk

Computers or tablets were used by 57% of all baby boomers, 51% of Generation X and 50% of millennial applicants, but only 31% of Generation Z consumers went that route (see Figure 7). Although its sample size in the study was smaller, Generation Z are much more likely to use their smartphones than other age groups, with 30% using their device to apply either via a company's website or digital app. Interestingly, though, Generation Z is also the most likely demographic to call a lender directly to apply for a loan.

7-in-10 borrowers would be willing to grant their lender online access to their financial information to make the mortgage process quicker and more convenient.

Figure 7: Gen Z borrowers are most likely to apply for a loan using a smartphone or mobile app

Application methods by generation

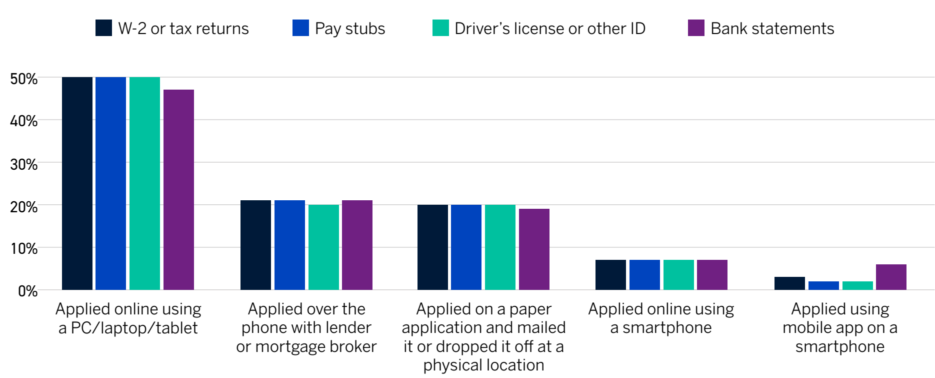


Source: Arizent Future of Mortgage Lending survey, 2022
Base: 39 Gen Z; 322 Millennials; 326 Gen X; 327 Boomers
Please note total does not equal 100% as Other is not included.
Question: For the mortgage provider you recently worked with, how did you apply for the loan?

Applications were also already prefilled for at least 60% of respondents with information already known by their lender. Among those who did not receive this service, half said they would have liked the option. Meanwhile, nearly half of the entire survey respondents provided digital uploads of necessary documents for underwriting (see Figure 8).

Figure 8: Half of borrowers upload PDFs or photos of their documents to a secure website

Methods used to supply documents for processing

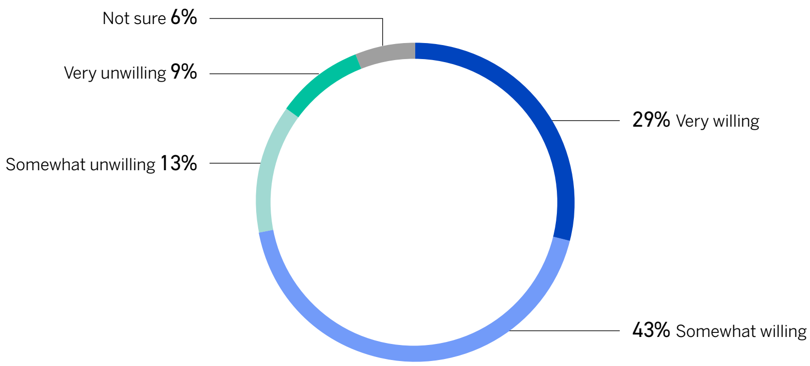


Source: Arizent Future of Mortgage Lending survey, 2022
Base: 1,014 respondents
Question: How did you supply the following materials to the mortgage provider during the loan underwriting process?

And despite privacy and cybersecurity risks, seven out of ten borrowers across all age groups would even give mortgage providers some online access to their income and asset data for the sake of speed and convenience (see Figure 9).

Figure 9: A majority of borrowers would give lenders online access to their income and asset information

Willingness to provide permissioned online access to financial data

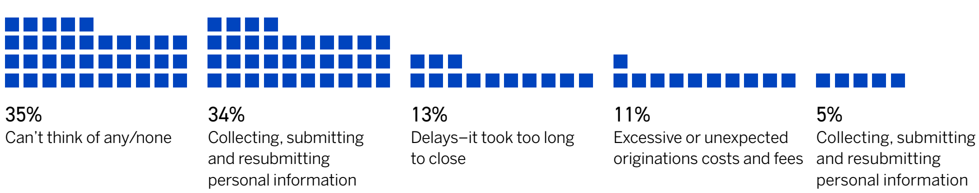


Source: Arizent Future of Mortgage Lending survey, 2022
Base: 1,014 respondents
Question: How willing would you be to give a mortgage provider permissioned online access to income and asset information from your bank account, the IRS and other firms or agencies you use if it made getting the loan decision quicker and more convenient?

In fact, the leading pain point for borrowers who say they were frustrated at some stage during the application process is the collection, submission and resubmission of forms and personal information, throwing a spotlight on where fintechs and lending institutions could focus on upgrades or development (see Figure 10). Approximately one-third cited this as the most troublesome part of the process, ahead of delays and unexpected costs.

Figure 10: Collecting, submitting and resubmitting information is the top pain point for most borrowers

Factors leading to frustration



Source: Arizent Digital Transformation-Insurtech Survey, 2022
Base: Total respondents n=124, carriers and brokers n=68
Please note total does not equal 100% as Other is not included.
Question: Which of the following best describes the type of organization you work for?

Lenders can do more to keep up with consumer needs

While a majority of consumers clearly are willing to go in on digital, the current capabilities of some lenders are not able to support them yet, according to Daryl Jones, senior director, lending and operations practice leader, at banking consultancy firm Cornerstone Advisors, who serves community banks and credit unions.

"I think some of the capabilities and some of the platforms out there have gotten a little stale," Jones said, noting inefficiencies within the mechanics of loan processing itself.

Even when technology integration exists to support originations, some activity, including data ingestion and validation, is still performed manually, according to Jones. "A lot of systems don't fully support the integrations or have a rules engine that allows for any of the if-then scenarios."

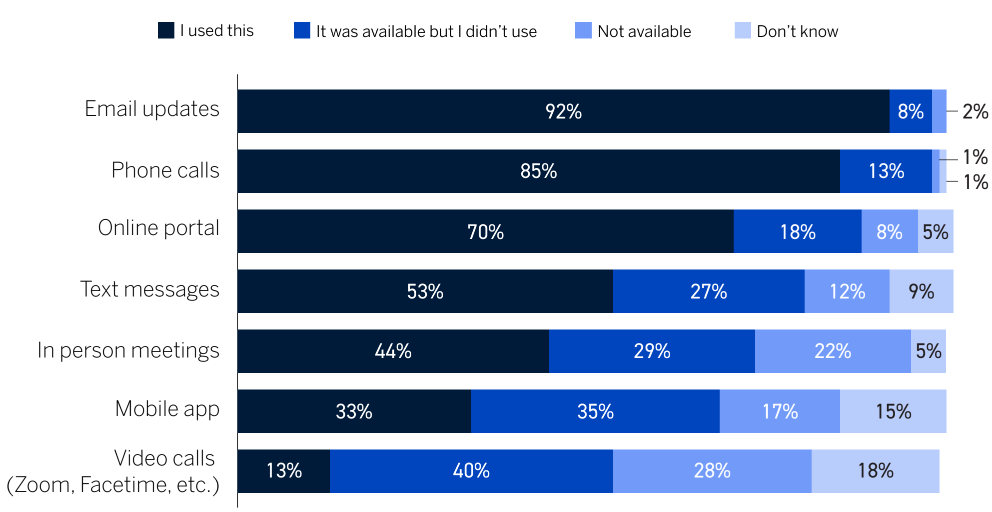
A problem is some companies have not looked at the digital experience beyond the initial application, with few resources provided to support the later stages of the loan cycle.

For example, while email and phone are the most common method of communication, used by 92% and 85%, respectively, of borrowers at some point in the process, they also aren't necessarily the most conducive to a streamlined mortgage process. (see Figure 11).

"There's a lag with that, and if an underwriter needs something, it goes back to a processor, who's the one doing the communicating, who asked for an email. A couple days later, they might get it," Jones said.

Figure 11: Email updates are the most common form of communication between lenders and borrowers

Usage and availability of communications channels



Source: Arizent Future of Mortgage Lending survey, 2022
Base: 1,014 respondents
Please note that the lines may not total to 100% due to rounding.
Question: Which of these methods or tools did the mortgage provider offer/use to keep you up-to-date on the mortgage lending process, including progress tracking, next steps and who is responsible for next steps?

"There's just too much back and forth in a nature that isn't similar to what borrower expectations are in other industries."

Daryl Jones,
Cornerstone Advisors

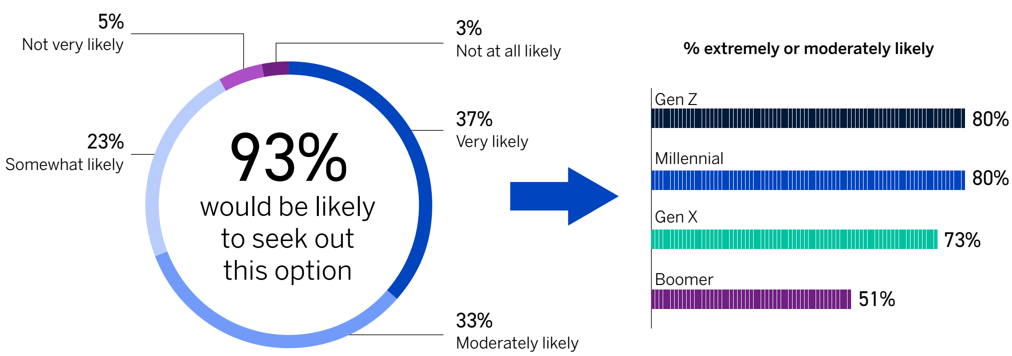
"There's just too much back and forth in a nature that isn't similar to what borrower expectations are in other industries, said Jones."

Potential digital shortcomings leave the door open for fintechs and alternative financing businesses to compete with mortgage providers for potential buyers.

The past few years have seen the emergence of companies offering to help buyers purchase homes with all-cash offers, and a sizable 93% share of consumers are willing to use such options if it would increase their chances of landing a home (see Figure 12).

Figure 12: Nearly all new buyers would seek out financing options to make their offer more competitive with cash offers

Interest in alternative financing options



Source: Arizent Future of Mortgage Lending survey, 2022
Base: 503 new mortgage borrowers: 25 Gen Z; 192 Millennials; 146 Gen X; 140 Boomers
Please note that the lines may not total to 100% due to rounding.
Question: If you could secure financing that would allow you to be more competitive with cash offers, how likely would you be to seek out this option?

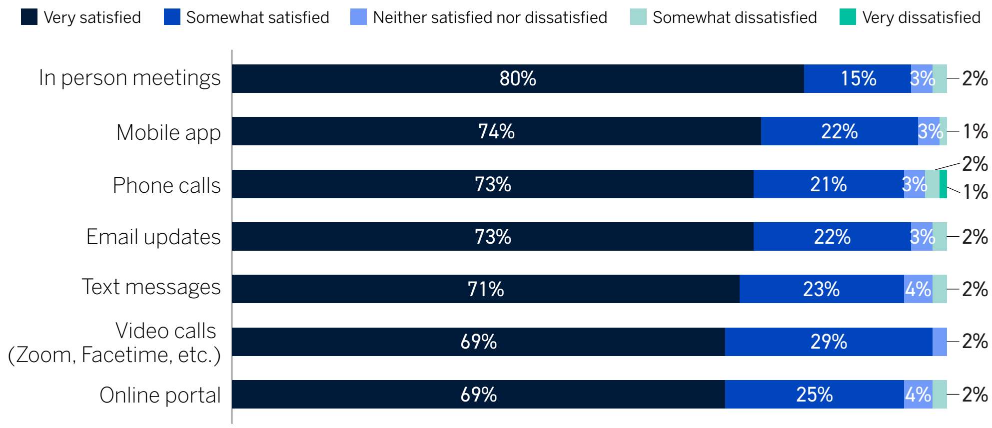
Despite automation, client relationships aren't going away

Even as borrowing moves toward a more digitally focused experience, the importance of customer service and one-on-one relationships hasn't fallen by the wayside for mortgage lenders, whether they are with clients or agents. Far from it.

While consumers want a fast, digital experience, the connections made with their mortgage companies still hold value. Four-fifths of respondents say their in-person interactions with lenders are the most satisfying type of interaction out of the various forms of communication available (see Figure 13).

Figure 13: While borrowers widely use email, they are most satisfied with in-person meetings with their lenders

Satisfaction levels with communication types

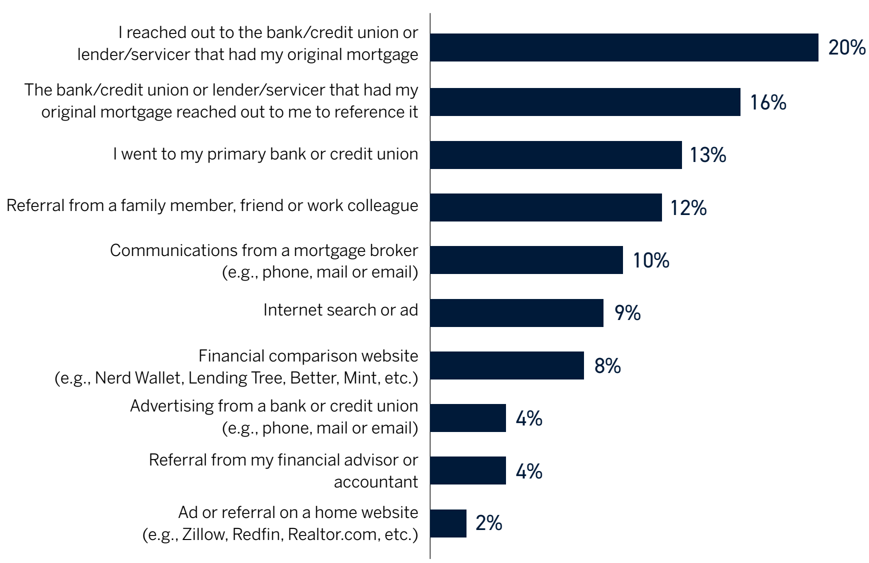


Source: Arizent Future of Mortgage Lending survey, 2022
Base: Among those using each method of communication (base size varies)
Question: How satisfied were you with each of the methods or tools you utilized to stay up-to-date on the mortgage lending process?

A quality customer experience is also a good predictor of future business, as 36% of those who refinanced used their original mortgage provider, while another 13% chose to go with their primary financial institution (see Figure 14). Another 22% came via referrals, either through friends or family or a broker.

Figure 14: Borrowers most commonly use their original mortgage provider when refinancing

Methods used to find refinancing lender

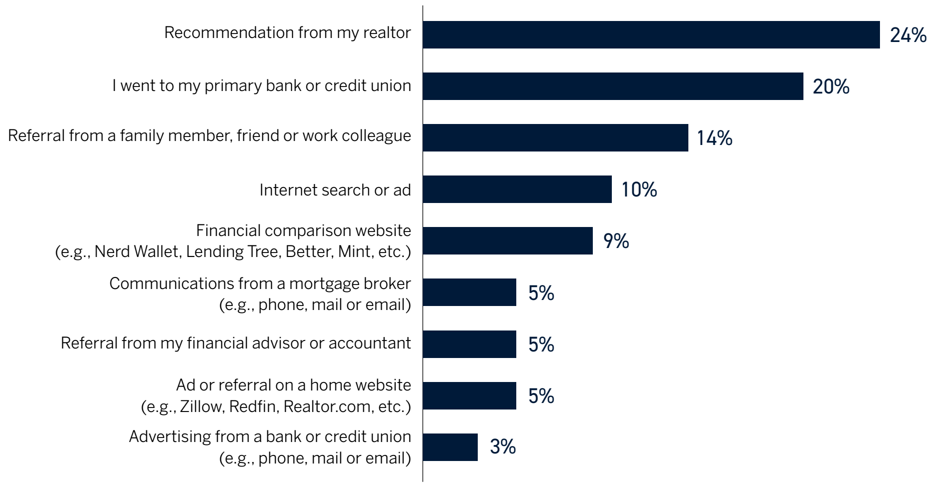


Source: Arizent Future of Mortgage Lending survey, 2022
Base: 511 mortgage refinancers; 14 Gen Z; 130 Millennials; 180 Gen X; 187 Boomers
Please note total does not equal 100% as Other is not included.

For purchases, lenders can't neglect the role real estate agents play, as almost a quarter of buyers say they found their mortgage provider thanks to recommendations from brokers (see Figure 15). Another 20% used their primary bank or credit union and 14% relied on referrals from families and friends.

Figure 15: Home buyers most often find lenders through realtors and primary bank relationships

Methods used to find purchase mortgage lender



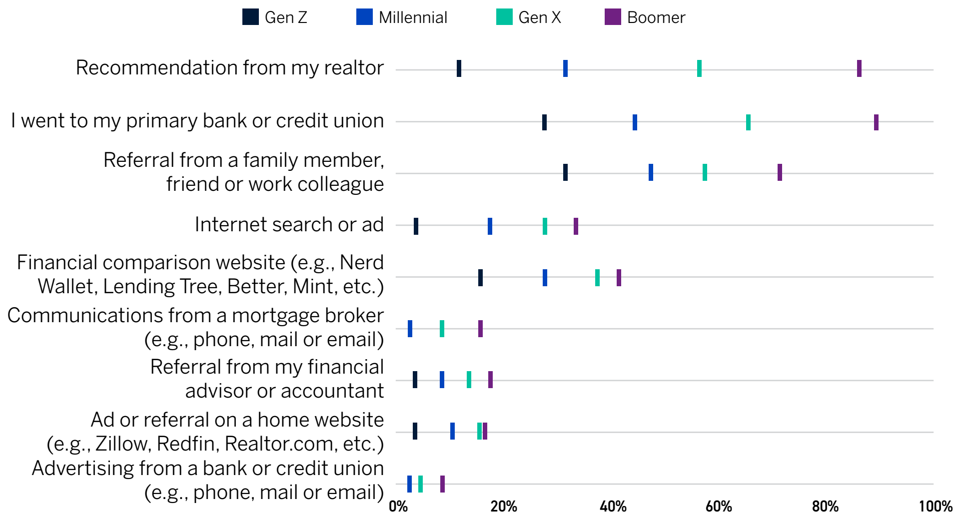
Source: Arizent Future of Mortgage Lending survey, 2022
Base: 503 new mortgage borrowers: 25 Gen Z; 192 Millennials; 146 Gen X; 140 Boomers
Please note total does not equal 100% as Other is not included.
Question: How did you find your mortgage provider?

But new methods of marketing and outreach shouldn't be neglected, as financial comparison sites and other types of online marketing make inroads among younger consumers. Millennial home buyers are more likely than other groups to conduct business with a company they found through those avenues (see Figure 16). What frequently draws them in is the affinity they develop with lenders, even if it's only via social media.

"Their communication style is different to an older borrower," said Moosariparambil."To get people more informed, I think you have to be able to have a multi-prong approach from a lender perspective, where you can cover the most amount of your potential customer base."

Figure 16: There are generational differences in sourcing lenders for new mortgages

Lender sourcing methods by generation



Source: Arizent Future of Mortgage Lending survey, 2022
Base: 503 new mortgage borrowers: 25 Gen Z; 192 Millennials; 146 Gen X; 140 Boomers
Question: How did you find your mortgage provider?

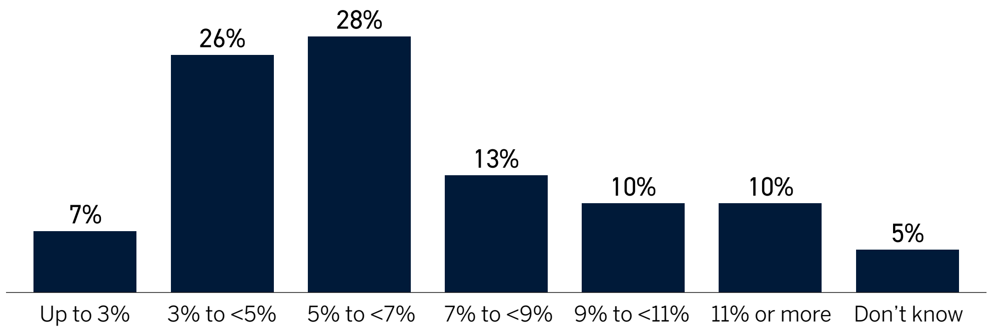
Interest rates alter the lending outlook

A notable development in 2022 substantially changing the lending environment of the past two years is mortgage-rate volatility. After falling to record lows and hovering near 3% for most of 2021, the benchmark Freddie Mac 30-year interest rate surged past 5% in the second quarter this year and still sits above that level at time of publication. Refinances have already fallen steeply as a result, and further upward rate movement will lead to more slowdowns, including in the purchase market.

Many home-buying respondents say they are rate sensitive, and more than half, or 61%, would have had to abandon their purchase plans if interest rates had surpassed 5% at the time of their search, while one-third indicated a level above 7% would bring an end to them (see Figure 17).

Figure 17: 1-in-3 borrowers would have to abandon a home purchase at interest rates of 7% or more

Purchase mortgage interest rate sensitivity

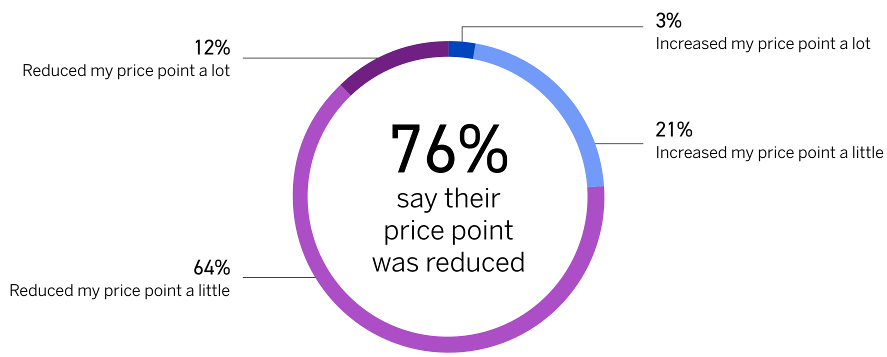


Source: Arizent Future of Mortgage Lending survey, 2022
Base: 503 new mortgage borrowers: 25 Gen Z; 192 Millennials; 146 Gen X; 140 Boomers
Please note that the lines may not total to 100% due to rounding.
Question: What is the highest interest rate that you could have paid before having to give up on making a home purchase?

The even-smaller incremental increases of the past year still made an impact in the plans of some who took out a purchase mortgage, affecting the target price point for 23%. Among that subset, 76% say they needed to reduce it (see Figure 18). Another 20% adjusted their purchase timeline in response to the mortgage-rate increases.

Figure 18: Among those whose price points were impacted by rising interest rates, nearly 8-in-10 say they were reduced

Purchase mortgage price impact due to interest rate sensitivity



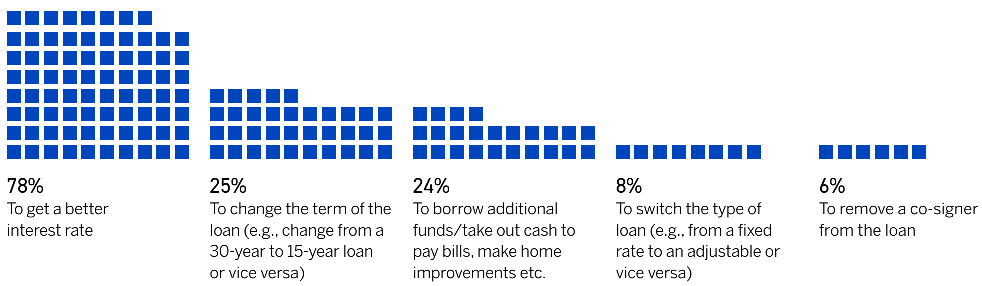
Source: Arizent Future of Mortgage Lending survey, 2022
Base: 114 new mortgage borrowers reporting rising interest rates changed their targeted price point
Question: How did rising interest rates impact your targeted price point?

But nowhere has the impact of rising rates this year manifested itself more than in refinance volumes. With more favorable interest rates being the primary goal of 78% of refinancing respondents (see Figure 19), many of them say they would have given up if rates had reached 5% (see Figure 20). Approximately one-quarter of those who refinanced appear to have done so because rates were below 3%.

With mortgage rates not expected to come near last year's lows again for some time, lenders are clearly not anticipating volumes to turn around either, with dozens of companies shedding jobs this year.

Figure 19: The promise of better interest rates motivated most refinancers

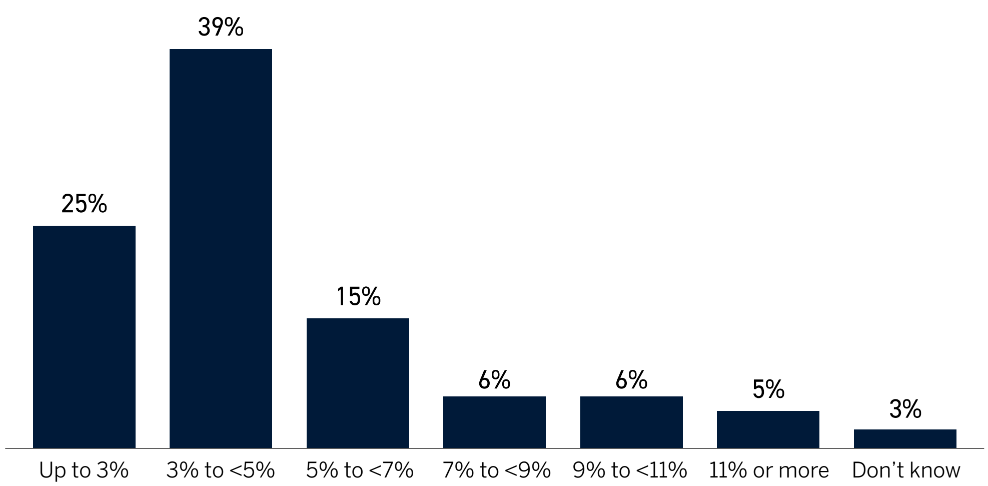
Factors driviing refinancing



Source: Arizent Future of Mortgage Lending survey, 2022
Base: 511 mortgage refinancers
Question: What prompted you to refinance your mortgage?

Figure 20: 1-in-3 borrowers would have given up on their refinance at interest rates of 5% or more

Refinance mortgage interest rate sensitivity



Source: Arizent Future of Mortgage Lending survey, 2022
Base: 511 mortgage refinancers
Please note that the lines may not total to 100% due to rounding.
Question: What is the highest interest rate that you would have paid before giving up on refinancing your mortgage?

Conclusions

- The future is digital. While the mortgage industry has talked about technology and automation for a long time, lenders don't have the luxury of putting it off. The changes brought on by COVID-19 fundamentally altered the way businesses and consumers operate, and while digital adoption is complicated, any hesitation toward increased innovation will lead to missed opportunities.

- Younger consumers approach financial transactions differently than their parents did, and have different, perhaps even higher, standards when it comes to service and delivery. Automation and convenience are paramount, but they still appreciate the opportunity to have a lender they can call on when needed. Companies need to be able to provide multiple service options to balance the in-person and digital experience.

- The industry is coming up short in adequately educating new borrowers about what the mortgage process entails. While lenders should strive for faster closings, there are limits. Helping customers understand compliance and regulatory issues, even on a basic level, will help reset expectations and provide higher satisfaction.

- The low rates and record volumes of 2021 will not return in the foreseeable future, and purchases will drive origination volumes. A shrinking pool of potential clients means lenders must be nimble, especially when a wide range of competitors, including fintechs, are coming up with new products and innovations to lure in buyers.

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