AN EMPHASIS ON CUSTOMER EXPERIENCE (CX) IS CHANGING HOW LOANS ARE TRADED IN THE SECONDARY MARKETS

A whitepaper exploring how financial institutions are using digital technologies to enhance the customer experience and some of the challenges loan originators and capital providers are facing along the way

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There's a new buzzword in the financial services marketplace: customer experience (CX).

One of the biggest challenges for financial institutions today is to deliver a high-level customer experience that's relevant and seamless while providing added value in both the physical and digital realms.

Unfortunately, financial institutions generally fall short of this goal. According to the North America Consumer Digital Banking Survey conducted by Accenture Consulting, 73 percent of customers said the experiences they received from their banks' physical (branch), online, and mobile channels were less than seamless.

There are substantial costs to under-delivering on CX. A recent report by Fenergo revealed that financial institutions lose $10 billion in revenue a year because of poor customer experience, largely due to unsatisfactory onboarding processes and inefficient data management.

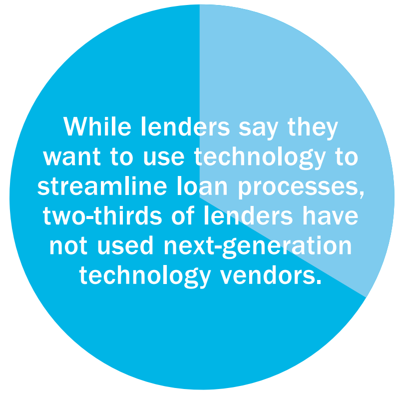
Efforts by financial institutions to adopt digital processes have been inconsistent. The most successful institutions have taken a holistic approach to digital transformation and integration across the banking ecosystem in order to gain market share across all age groups.

73%

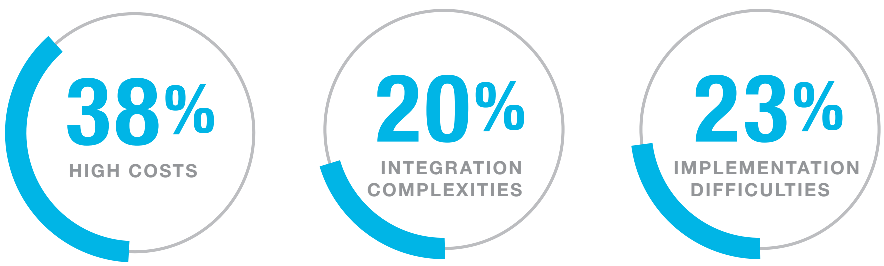
OF CUSTOMERS DON'T THINK THE EXPERIENCE THEY RECEIVE FROM THEIR BANK'S PHYSICAL, ONLINE AND MOBILE CHANNELS IS COMPLETELY SEAMLESS

53%

OF LENDERS SAY THAT IMPROVING THE CUSTOMER BORROWING EXPERIENCE IS THEIR PRIMARY GOAL FOR INVESTING IN TECHNOLOGY



REASONS CITED BY LENDERS FOR NOT USING NEXT-GENERATION TECHNOLOGY



AN UPHILL CLIMB

The mortgage industry, in particular, is facing an uphill climb when it comes to merging physical and digital customer experiences. One out of five mortgage customers do not use digital channels at any point in the mortgage purchase process, the Accenture survey found. "The industry still has a long road ahead to advancing digital capabilities to be on par with other industries and customer expectations," the authors stated.

The auto finance industry also has a ways to go when it comes to a seamless physical and digital customer experience. With car buyers becoming increasingly comfortable shopping in a digital environment, drawing customers into physical dealer showrooms isn't necessarily going to be the best sales strategy for auto lenders going forward. The auto lending lifecycle and typical customer's car-buying journey have changed — customers now expect a fast, easy, and simplified financing application process.

The same goes for consumer lending. According to research conducted by PWC, the majority of borrowers — especially young borrowers — now prefer to apply for loans online. Lenders who expect to compete in the consumer loan sector must have viable digital loan application processes that integrate seamlessly with the experiences offered at their physical locations.

The clock is ticking, though, because more and more customers now expect their banks to offer advanced digital capabilities. They have high digital expectations in every other area of their lives, whether it's hailing an Uber or listening to Pandora on their smartphones or watching Netflix on their smart TVs. Why shouldn't they expect it from their lenders when it comes to getting a mortgage, car loan, or personal loan as well?

The good news is that many banks seem to realize the importance of leveraging digital technologies to their fullest extents. About half of banking executives say that "enhancing the customer experience" is a top investment priority for their institutions, according to CSI's Executive Report on Banking Priorities.

Using digital technology to streamline and simplify the mortgage process can help financial institutions differentiate their loan products and boost customer satisfaction and loyalty in an increasingly competitive market environment. This may result in more long-term customer relationships and higher profitability.

Components of Digital Lending

There are three main components that must be in place for a fully integrated digital lending experience to work:

1

The electronic promissory note, or eNote:

The validity of the eNote is critical to the successful sale of the loan into the secondary market. eNotes offer added convenience while enabling faster transactions and improved quality control.

2

The electronic closing, or eClosing:

This encapsulates the settlement and closing process by including all the documents needed to execute the loan. eClosings streamline the customer experience for customers while speeding up turnaround times, improving data quality, and boosting efficiency.

3

The electronic vault, or eVault:

This serves as a digital storage place for the eNote where authorized users can perform key actions against the eNote. It gives originators, warehouse lenders, investors, and loan servicers the ability to manage electronic assets.

Until recently, misunderstandings and misinformation with regard to the legalities, enforceability, and transferability of eNotes was holding back widespread adoption of digital lending. But growing market acceptance, along with case law regarding the enforceability and validity of eNotes, is helping pave the way to a digital lending revolution.

Two recent court cases in particular have set precedents for the validity of digital lending, specifically as it relates to digital mortgages. In April 2016, a New York court reversed a ruling in which a foreclosure was dismissed due to the borrower having given an eSignature on an eNote for the mortgage. The court ruled that the eSignature and eNote constituted a clear record of transfer and ownership, thus rendering the foreclosure allowable.

The following week, a Florida appeals court ruled in favor of Wells Fargo Bank in a foreclosure case, stating that the eNote used by the bank was sufficient to prove that the government-sponsored enterprise Fannie Mae owned the note, which enabled Wells Fargo to move forward with the foreclosure.

These cases established the fact that electronically signed promissory notes secured by real property are legally enforceable by lenders, and the implication of this precedent will extend to other forms of consumer lending as well.

WHY IT'S IMPORTANT

Since the financial crisis, lenders have been forced to look for alternative sources of value other than financial leverage due to increased regulations and growing competitive challenges. Digital technology offers an opportunity to create shareholder value, engage customers, and build trust by streamlining the sales, marketing, customer onboarding, and account opening and servicing functions.

In short, financial institutions need to focus on serving the right customers at the right time, with the right services and at the right cost. Or in other words, they should focus on creating an outstanding customer experience.

Part of this is offering personalized products and pricing to customers. Digital tools allow the kind of customization marketers only dreamed of in the past. Access to customer-specific data and analytics allows lenders to examine profitability on a customer-by-customer basis and offer customized products and pricing.

Improving the customer experience by using digital technology can lead to a high return on investment for financial institutions. This is achieved through a combination of lower channel costs, digital self-service, churn reduction, new customer and product acquisition, and higher revenue. But keep in mind that maximizing ROI requires that digital adoption be achieved at scale.

Just as important, failing to deliver a high-level customer experience by adopting digital technologies can lead to tremendous lost opportunity costs and declining relevance in the marketplace. Financial institutions that fall behind in this area will likely see increasing levels of customer attrition and stagnant growth in new customers and product sales.

CX is affecting all types of consumer lending, and financial instutions should be looking for ways to innovate internally as well as partner with vendors that can help them reach borrowers with user-friendly, secure digital options.

In the following sections, we'll explore concrete examples of how some lenders and technology companies are already transforming the customer experience:

Mortgage Lending

ROCKET MORTGAGE GIVES DIGITAL MORTGAGE LENDING ITS FIRST BIG SUCCESS STORY

The poster child for digitizing the mortgage application and lending process is Quicken Loans' Rocket Mortgage, which was introduced to the public via a Super Bowl ad in 2016. This is a fully digital, mobile-friendly mortgage loan that allows borrowers to go through the mortgage application process at their own pace. They can get pre-approved in minutes and have access to a wide selection of purchase and mortgage refinance products, including conventional, FHA, VA and USDA mortgage loans. Borrowers also have digital access to mortgage bankers for assistance as needed.

While mortgages are essentially a commodity, Rocket Mortgage has made the application process unique. Due largely to the success of Rocket Mortgage, Quicken Loans is now the largest online retail mortgage lender in the U.S. Quicken Loans closed more than $400 billion in mortgage loans between 2013 and 2017.

Additionally, marketplace lenders like LendingClub, Prosper, Sofi and CommonBond are also leading the way when it comes to using digital tools to offer a better customer experience. Digital technologies like Docusign's eSignature and eOriginal for vaulting original documents are making it much easier to execute digital-only mortgage transactions.

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Auto Lending

A MOVE TOWARD PERSONALIZATION AND AWAY FROM FRUSTRATION

As in mortgage lending, consumers' expectations are maturing, becoming more sophisticated. They want fast, seamless application and borrowing processes. As PwC and AutoFi found in the 2016 report, "Financing the car of the future: Re-imagining the auto finance customer experience," however, the financing experience has remained "paper-based, manual, and completed behind the scenes."

Like mortgage lending to buying a home, auto financing is integral to the car-buying experience. Most people apply for some measure of financing, so the borrowing process should be built into the customer journey. Increased collaboration between dealers and lenders will allow for that.

Dealers are on the front lines in the car-buying experience. They're the ones nurturing the customer relationship, answering questions, and assisting buyers in selecting the right vehicle. It's natural that they also be the ones to aid buyers through the financing process. But when PwC and AutoFi interviewed car buyers, many customers complained about the lack of transparency and service in the financing component. They referenced long wait times, stacks of paperwork, and a lack of acknowledgement of their preferences.

AutoFi addresses those pain points with a fully digital approval process that allows customers to have greater control over their car-buying choices. They can choose which vehicles they'd like to finance, as well as decide on any add-ons from the comfort of their own homes — not when they're in a sales agent's office, exhausted and under pressure. Customers can also apply for financing and receive a credit decision within minutes, then schedule the pick-up of their new vehicles digitally as well.

The AutoFi platform caters to the trend toward autonomy. People want to browse and shop online. They conduct their own research, then home in on their purchase selections. They increasingly expect to finish the transaction digitally as well, without having to sit in an office being sold to or feeling rushed to sign on for financial agreements they don't fully understand. Digitizing the financing process allows for greater consumer education and autonomy.

Genpact reported that auto financing could further evolve as lenders and manufacturers invest in more user-friendly features. These might include better comparison tools, as well as the implementation of predictive analytics to deliver customized offers and rates. Customized rates are especially important, as people can develop skewed expectations solely by looking at rate averages. Because lending decisions depend on an individual's income, debt-to-income ratio, and credit history, researching average rates provides an inaccurate, or at least incomplete, picture. Customers may find themselves frustrated to learn that they qualify for less financing than they anticipated or that they're subject to a much higher interest rate.

Proactively sending customized rates and offers not only sets consumers' expectations more accurately, it cuts through the noise they endure in standard auto financing experiences. Companies can develop educational campaigns around different customer segments based on their demographics and income levels, as well as leverage new analytics and underwriting technology to provide smarter, faster credit decisions.

According to Genpact, a properly integrated workflow can reduce the time it takes for an account to go into manual review by 50 percent. The company also noted that artificial intelligence could scan contracts for missing information instantaneously, potentially decreasing the length of time it takes to complete the loan process and reducing tedious back and forth that detracts from the customer experience.

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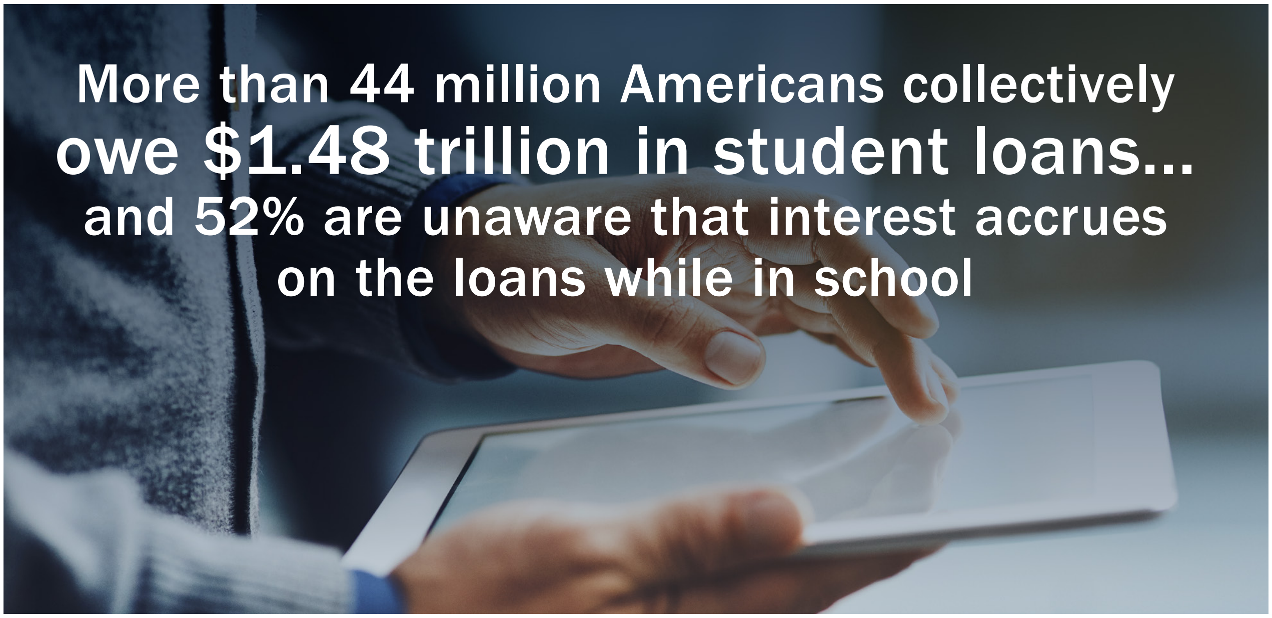

Student Lending

DEMYSTIFYING STUDENT DEBT AND REDUCING BORROWERS' BURDENS

Student loan debt is one of the most prominent — and least understood — lending areas in the U.S. More than 44 million Americans collectively owe $1.48 trillion in student loans. But as Student Loan Hero reported, many student borrowers are misinformed about their loan terms and obligations. Fifty-two percent were unaware that interest accrues on the loans while they're in school, and the majority said they were only "somewhat confident" in their understanding of student loan debt.

It's clear that an improved customer experience is urgently needed. The U.S. Department of Federal Student Aid (FSA) recognized that it needed to overhaul the experience to reach its application goals and reduce loan defaults. By developing social media campaigns and analyzing student behaviors on the FSA website, the department was able to simplify the online experience and tailor it to users' core interests, former chief customer experience officer Brenda Wensil said in an interview with McKinsey.

But the government isn't the only lender working to establish a better student loan borrowing experience. SoFi is an alternative lending company that offers student loan refinancing services. Borrowers can obtain pre-approval within minutes, after which they're given options related to their interest rates and monthly payment terms. They can also upload the necessary documents and sign their loans electronically.

In addition to its lending component, the company also offers extensive educational information for prospective borrowers. These include primers on basic student loan terms, as well as pay-off and savings calculators to help borrowers gain a better understanding of how to manage the debt.

SoFi's simplicity and ease of use exemplifies where consumer lending is headed. A customer can download the app and apply for refinancing directly from their smartphones. SoFi provides resources that help consumers determine their best course of action, allowing them to make the decision in their own time and apply as soon as they're ready. The electronic process delivers on the demand for easy, fast, straightforward borrowing processes.

HINDRANCES TO PROGRESS

Despite the inroads being made toward a better customer experience, hindrances to progress remain. One of these is the challenge of finding investors and capital partners who are comfortable dealing with the unique characteristics of digital loans.

Loans originated digitally have unique digital characteristics that traditional paper-based loans don't have. These include electronic promissory notes (eNotes) and electronic signatures (eSignatures), as noted earlier. Unfortunately, not all capital partners are prepared yet to manage these digital characteristics.

For example, with digital mortgages, eSignatures captured using Docusign must be stored in an eVault. If this isn't done properly, the mortgages could become illiquid, in which case they couldn't be sold to investors in the secondary market.

Therefore, loan originators need to reconcile their efforts to adopt digital technology in order to deliver a better customer experience with investors' expectations of and capabilities for handling loan documentation. Both sides of the equation — the customer side and the investor side — need to be considered as institutions formulate their digital and CX strategies going forward.

BETTER FOR CUSTOMERS, MORE COMPLEX FOR LENDERS AND CAPITAL PROVIDERS

The fact is that as the industry strives to make things simpler and easier for customers by using digital technology, this inevitably makes things more difficult and complex for lenders and capital providers. Finding partners who are willing to embrace the challenges and complexities presented by digital technologies requires time and effort.

Creating these kinds of win-win partnerships takes real diligence and effort on the part of loan originators and capital partners. This kind of collaboration can't be accomplished solely by exchanging emails and text messages or reviewing spreadsheets. It requires lenders and investors to get in a room together and have deep, meaningful conversations.

Tremendous opportunity lies ahead for lenders that are willing to invest resources into using digital technology to deliver a better customer experience. But there are no shortcuts to success.

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