COVER STORY Mortgages

THE MODERN AGE

Speed of decision-making and robo-advice are at the forefront of innovation in mortgages right now. MARCEL LE GOUAIS reports on how lenders and brokers are keeping pace as the market enters a new era

Innovation can mean very different things to competitors in the mortgage market.

Some might describe how they serve the 'under-served' as innovative, others often call new products 'a first for this industry', and a few more make thinly-veiled claims that merely changing their processes from business as usual is 'revolutionary'.

A genuine new development in the broker/lender dynamic, however, is the growth of both robo-advice and the speed at which customers can be given a decision, or at least useful information about eligibility.

In many ways both developments are signs of how the market is evolving to meet customers' expectations for clarity, convenience, fast decisions, and for an application process and contact channel that suits their circumstances. We all know millennials expect 'everything, now'.

Some lenders are still grappling with how to provide credit risk decisions as fast as consumers now demand them, while also maintaining robust processes – and keeping a close eye on what the Financial Conduct Authority (FCA) is doing and saying on affordability and credit-worthiness.

As Jaedon Green, director of product and distribution at Leeds Building Society, admits: "In a time of significant and rapid change in the industry, lenders face challenges from customer expectations, competition from existing and new providers, and increasing compliance and regulatory requirements."

Green emphasises that recent innovations have included robotic processing automation, which is increasingly being used to speed up the underwriting process: "This approach drives a more efficient service for our intermediary partners but also enables underwriters to concentrate on more complex and specialised cases. In addition, the robots can check electronic IDs, track cases and automatically email brokers about outstanding requirements."

Green added that Leeds will continue to take on board brokers' feedback and review its criteria to make the application process as simple as possible, and speed up approvals to enable borrowers to move into their homes sooner.

Metro Bank, as one of the relative newcomers to the mortgage market in the grand scheme of things, prides itself on how it has revamped its credit risk processes to ensure they're rapid enough for consumers, but also robust enough to satisfy its risk appetite and regulatory requirements.

Doriana Iovino, head of credit risk at Metro Bank, will explain how the lender kept the speed of risk decisions at the heart of its process changes next month, at *Credit Strategy's* inaugural Mortgage Conference in London. She will explain how the bank is redefining its risk process to better incorporate the needs of intermediaries.

At the same event Adam Evetts, head of credit risk at The West Brom, will explore how the mutual adapted and modernised its processes to ensure its credit risk assessment is suitable for all applicants.

Timing is everything

Speed and automation will feature prominently in the conference debates but there is something wider happening in the intermediary-led mortgage market.

Robo-advice has been kicking around for a while but 2017 is the year, it could be argued, that it came of age. The regulator has clearly taken note of its emergence. The FCA delved into a philosophical exploration of what robo-advice means for the entire industry and practical elements of regulation. Its long-term position isn't exactly clear, though it has increasingly welcomed innovation.

Meanwhile robo-advice providers such as MortgageGym, headline sponsor of the Mortgage Conference, have recently launched and it's evident that such a service fits the modern would-be homebuyers' preferences.

When asked which lenders are adapting faster than others to consumer demand for the quick and convenient, John Ingram, managing director of MortgageGym, said: "This varies dramatically from lender to lender. Some are incredibly welcoming to change – immediately opening doors via APIs and other partnership agreements – while others remain wedded to old systems and archaic pen-and-paper processes. For example, we find that some lenders still insist on consumers producing a physical copy of their ID documents so that someone can take a photocopy. Technology exists for lenders to check the validity of official ID documents electronically, yet for whatever reason they remain stuck in this outdated and insecure way of doing business."

Consumer fatigue

Part of the relevant context to both speed of automation and robo-advice is that, as far as consumers are concerned, it's a tougher, more admin-heavy task to get a mortgage since the Mortgage Market Review (MMR) was introduced and affordability checks were tightened.

The focus has remained as the regulator repeatedly raises the issue in various speeches. This, along with the shift in emphasis and influence towards credit risk within lenders from sales and distribution, will feature at the Mortgage Conference, but moreover, the rationale is to bring those in credit risk roles together with sales teams and intermediaries.

Brokers in fact have seen the effects of this focus on credit-worthiness on customer relationships.

Ingram points out that as lenders place greater emphasis on credit risk and affordability, intermediaries are being forced to produce more detailed and rigorous documentation on behalf of clients. In effect, he adds, "this has not curbed rates of mortgage approvals – IMLA released figures this week that said approvals are as high as 90 percent - but it has created additional barriers to innovation in the mortgage market."

While in recent years lenders have broadly recovered appetites in a more benign economic environment, some believe certain firms within the mortgage market have become strangled by their inability to respond to changes in technology. Legacy systems are in operation in some quarters and the lack of consumer-facing technology at the point of mortgage enquiry, let alone application, had created a bottleneck in the residential mortgage buying process. This is the gap that providers such as MortgageGym have filled and ergo, innovation builds momentum. The introduction of APIs that allow third parties to access live lender data, credit files and eventually, live spending data, will perhaps furnish this momentum.

The MMR also inadvertently enabled this trend, to an extent. It obscured the lines of communication between borrowers and lenders and increased the requirement for automated processes to prevent consumers just giving up through sheer frustration.

The under-served

Some lenders will embrace change faster than others for a multitude of reasons, but there's no shortage of calls for them to accelerate.

One of the louder calls has come from Masthaven Bank which last month published a study, *Game of Loans*, urging lenders to meet modern homebuyers' demands in better ways.

During the first half of this year Masthaven surveyed around 2,000 UK adults and 80 percent of the respondents said lenders should try to better understand homebuyers' individual circumstances. Some 75 percent said meeting repayment criteria should determine mortgage eligibility, not age.

Jon Hall, managing director of Masthaven, said: "Just as homes have kerb-appeal to buyers, it seems people have a perceived sense of their own mortgage appeal to lenders. Our report highlights how many people believe they have low or no appeal to mortgage lenders; they have little faith in the market."

Game of Loans looked at a range of borrowers including the self-employed, parents and both older and younger borrowers. Masthaven suggested that, despite new mortgage regulations providing a more stable framework, lenders have "not adapted their approaches" to cope with evolving financial lives.

Masthaven added that lenders need to adapt affordability models to reflect the concept of self-employed income.

As for younger borrowers, the bank said more innovation is needed to help first-time buyers onto the property ladder. It referenced "unlocking inter-generational wealth" by helping grandparents and parents with equity in their homes support their families.

A few experts, however, believe both lenders and brokers are trying hard to factor in the nuances of circumstance and borrower profile.

Earlier this year, the new merged trade body, UK Finance, published research showing the extent to which lenders are adapting to, and continuing to explore the potential of, digital innovation. The study, *Digital Change and Mortgage Borrowers*, found widespread use of affordability calculators by lenders and real-time decisions (see Real-time Affordability factbox).

Referencing the growth of AI, the report states that digital mortgage advisers are already being used by online intermediaries Habito and Trussle. It adds that chatbots can be used to support self-service customer activity and that from a business perspective, AI chatbots can also be used to support customer service agents.

The report also points to a future of consolidated central repositories of a customer's home buying and owning information, where data can be added at any time and shared instantly with third parties such as brokers, insurers and lenders. In the longer term, the trade body expects the expansion of this data consolidation beyond mortgages into a Personal Finance Management (PFM) platform.

A spokesman for UK Finance said other digital changes are "improving backroom functions and may not be noticed by customers but are bringing benefits in the form of greater efficiency, quicker processes and lower costs."

He added: "There can, of course, be no corner-cutting on affordability assessments, which must be robust and ensure the customer gets a suitable mortgage. These assessments and the other checks that lenders must make do take time, but lenders are looking at how technology can speed the process and tailor the experience to what the customer wants."

The future

Brokers, of course, have a massive role to play in digital advances. Jeremy Duncombe, director at Legal & General Mortgage Club and a speaker at the Mortgage Conference, believes the fact that over 70 percent of mortgage business in the UK is written by intermediaries "demonstrates that brokers and lenders are working towards the same goals, and technology can only help to improve the journey for the lender, the broker and their customer."

He adds: "It's important however that lenders don't think technology is the solution to increasing direct business at the expense of the broker. Customers need advice and choice, and brokers deliver that effectively and efficiently for all concerned."

Duncombe added that much of what is referred to as innovation is simply trying to cater for underserved markets, and many new and existing lenders are trying hard in these areas whilst balancing the need for responsible lending: "The return to 95 percent lending, for example, is not innovation. It should simply be seen as the sign of a normally functioning market."

LTVs aside, an important development is that Open Banking will allow lenders to access a customer's bank account information in real time (once the customer has provided their consent) and verify their mortgage affordability instantly, rather than requesting they submit multiple physical documents, followed by manual assessment.

On a much more macro political and economic level, some pundits believe the government will have other priorities in future, potentially allowing room for innovation in the residential market.

Peter Izard, business development manager at Investec Bank, said: "From a political perspective, Brexit negotiations will divert attention away from the property market, ensuring it will be left alone from interventions. However, the buy-to-let market will see most change as regulatory and fiscal interventions take place."

The last goes to word to Ingram: "Technology will be the force driving the most significant changes in the broker/lender relationship in the months and years ahead. Brokers are trapped in business models based around pre-MMR legacy systems. Technological innovations are going to help brokers move beyond these outdated models." CS

MORTGAGE CONFERENCE

October 30, London Hilton Bankside

creditstrategy.co.uk/events/mortgage-conference

For sponsorship or booking enquiries call Mike on **020 7940 4812**

REAL-TIME AFFORDABILITY

UK Finance's report, *Digital Change and Mortgage Borrowers*, details the use of automated decisions on affordability by lenders in real time.

What is it? With their consent, customers' financial information can be automatically sourced and a trend analysis completed instantly. It allows a lender to see if a customer is able to afford the loan value and monthly repayments they are requesting. This is enabled by the Open Banking regulation and APIs.

What will it replace? Significant manual sourcing and reviewing of documentation, taking up staff time (the outcome of which is scrutinised by compliance teams) and driving large operational costs. Over a third of application-to-offer delays are caused by waiting for customer documentation.

Where has it been used? Byblos Bank offers quick car loans with "one touch, one swipe and two taps". Yodlee provides an account consolidation view.

How can it be applied to mortgages? To make instant, informed assessments of customer affordability. Taken one step further, it can be used to develop individual risk-based pricing, as the lender will be able to see historic income and spending trends, and use analytics to understand future scenarios for customers with a similar history.