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AN EDGE CONSULTANCY, LLC NEWSLETTER

HOW TO CREATE A "WOW!" MORTGAGE EXPERIENCE

Written by Stephen D. Breed, Senior Consultant, Edge Consultancy

Mortgages are a key product for most financial institutions, but let's face it, for many consumers the mortgage experience is intimidating and often a painful test of endurance. As lenders, we can get so caught up in the process that we forget about how the consumer experiences the process. What can we do to make the process a little less like a root canal?

- ***Demystify the process.*** From the consumer's perspective, the mortgage lending process is often seen as slow and overly complicated, devoid of transparency and completely out of the consumer's control. How do we demystify the process? Have people from outside the "mortgage origination world" review your mortgage process. Does the process make sense to them? Are your explanations clear? Use their input as an opportunity to codify and simply the process.
- ***Establish and monitor communication protocols.*** Determine how the consumer will be kept informed, by what means and how often. Make sure that this contact occurs. This is the single most important element (other than timely approval of the loan) in transforming the mortgage experience and ensuring high consumer satisfaction. It's not just about responding to a consumer's inquiry In a timely manner; it's about outbound communications at regular intervals and specified points during the loan process- These communications significantly ease anxiety and provide confidence in the process.
- ***Use websites and mobile platforms.*** Many of the top performing institutions have augmented their communication process with online access to loan status, enabling the consumer to track changes and providing them with on-demand loan Information. But today's consumers want more than just an understanding of the process; they want to participate in the process. More recent entrants into the mortgage origination Space - Quicken/ Rocket Mortgage, for example — recognize this and are creating participatory experience through technology.

ABOUT EDGE CONSULTANCY

Edge Consultancy, is headquartered in Miami Beach, Florida and is the premier consulting organization created to address the most complex issues facing financial institutions today teaming with the most experienced and proven advisors in the Industry. Their unique consultative and inclusive approach has produced powerful and measurable results. The Edge specializes in strategy, growth, technology, shared services, risk analysis and operations. To learn more about how the Edge Consultancy can help you, go to: **edgeconsultancyllc.com**

Stability, intuitiveness and ease of use are critical to the success of such a channel strategy. ideally, the loan should be originated in a format, and then be automatically updated, processed, decided and communicated. The evolution to a participatory mortgage process via a mobile platform is unrelenting and will soon completely change the mortgage business, with a growing segment of the consumership consistently choosing the digital channel.

- ***Maintain a posture of continuous improvement.*** What do we do today? How can we improve our existing mortgage process?
- ***Automate the process to the extent possible.*** Time is not on the side of the lender. The longer it takes to get the application from inception to closing, the greater the opportunity for consumer anxiety.
- ***Automate data entry through integration or interfaces.*** Reduce manual data entry to eliminate data errors and increase process efficiency.
- ***Streamline the process*** to ensure that required information, documentation and verification is truly necessary.
- ***Minimize the number of hand-offs in the process.*** For those touch-points that remain, establish metrics to ensure that a failure in any one of the stages (origination processing, underwriting, closing) is clearly identified to management and doesn't compromise the rest of the process or the opportunity for high consumer satisfaction. These metrics should include both productivity, service and efficiency standards.
- ***Maintain best-practices pipeline management*** to ensure that applications don't "slip through the cracks."
- ***Reduce the points-of-contact in the process*** and make them accountable for service not just through put. ideally there should be one primary and one secondary point-of—contact, with loan status being consistently available in real-time through digital platforms.
- ***Ensure that the loan process is consistent*** across all channels and with all persons involved in the process.
- ***Monitor and measure the service quality*** at each point of contact - application, processing, underwriting, closing and servicing.
- ***Ensure that policies, processes and procedures are current, well-documented, and maintained*** in a high-visibility, versioning-capable, easily-accessible digital database. Review them annually not only against compliance requirements but also against competitor practices.
- ***Establish policies and procedures that minimize back-flow*** (the number of times an application is returned to the previous stage, e.g. back to underwriting from closing, to processing from underwriting, or to origination from processing). Use an ongoing discovery process to codify lending policies, processes, procedures and practices, and as an opportunity for cross-functional training. Establish and continuously monitor back-flow metrics.
- ***Consider the structure of the mortgage operation***: is it designed to provide optimal efficiency, service and effectiveness? The classic operational structure might not be in alignment with optimal service, efficiency and effectiveness.
- ***Minimize the reliance on paper and ensure a consistent use of technology***, including online applications, automated decisioning, verifications and communications, e-signatures and digital documents.
- ***Use third parties or shared services to ensure the scalability*** of the mortgage operation, and to maintain high levels of service in all business cycles. Mortgage originations and operations (including servicing) are scale businesses. With scale, you can reduce the cost per loan, increase

product options, enable hedging strategies and increase the secondary market conduits.

- ***Ensure that metrics establish productivity ranges.*** Mortgage management should be empowered to take countermeasures at both the bottom and the top of those ranges, as it is equally important to ensure effectiveness as well as efficiency. Establishing top-of-range limits ensures that effectiveness (service) isn't sacrificed to efficiency.
- ***Ensure that compensation systems align with the goals of the financial institution***, supporting both service and productivity.

At the end of the day, the consumer wants to buy (or refinance) a home. The "mortgage process," standing between the consumer and the home, can be something to be endured by the consumer or something that significantly strengthens the bond between the consumer and the financial institution.

The Edge Consultancy has decades of experience designing and managing multi-billion-dollar mortgage portfolios in the Financial institution world. We have studied the new world of online applications and decisioning and we can help you design a process that WOWs your consumers and grows your business. Contact Steven Breed (steven.breed@edgeconsultancyllc.com) to learn how we can help.

Deciphering the Blockchain Hype Cycle

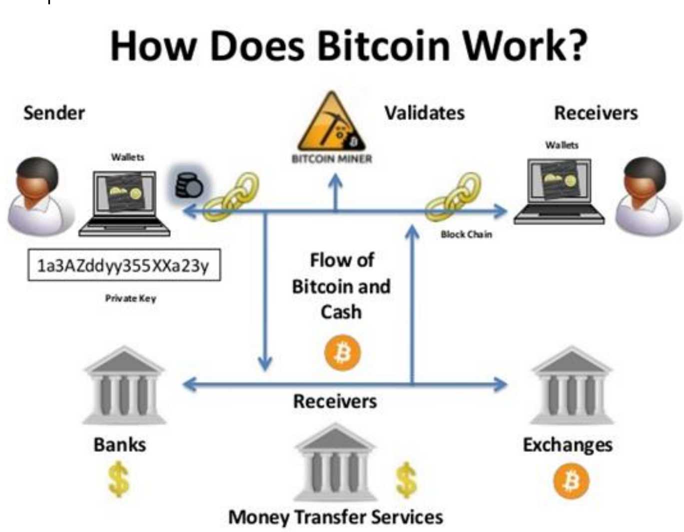
Written by: Ray Seefeldt, Senior Consultant, Edge Consultancy

More than 90% of the people in the US have no idea what blockchain is. Even the widely-publicized Bitcoin is foreign to 80% of people in the US.

While the US embraces Bitcoin and blockchain, Russia and other countries have banned Bitcoin. A world map of the state of Bitcoin by country shows a pattern that, in many ways, defies logic. Why the variance? The absence of controls; whether the control objectives are to create a trusted system, or to have control over the system.

To ensure that this article can be read in roughly 5 minutes, we will focus only on the financial transaction component of blockchain.

The diagram below explains how the Bitcoin blockchain works:



Component Definitions

- **Wallets** – the wallet is similar and arguably the same as an account. The wallet holds the balance and is effected by debits or credits. The wallet exists through the installation of an app.
- **Blockchain** – (displayed as chains in the diagram) for one entity to connect to another entity to transact requires a network; blockchain is the network. It is comprised of volunteer entities that will store ledger (debit/credit) transactions.
- **Miner** – the entity that validates all the pieces are in place and that a transaction is real.
- **Banks, Money Transfer Services, and Exchanges** are generally outside the Sender to Receiver flow.

While the diagram describes a rather simple process, a fully deconstructed blockchain is not. For example, this is how Gartner Group describes blockchain:

> *Blockchain is a complex technological system, and can lack the clarity of oversight and auditability that more traditional systems offer. As an additional complication, blockchain lacks common standards or regulations.*

What does that mean? Here's a breakdown of the statement:

"complex technological system": think about all the different types of technology that exists across the Internet. Somehow, the blockchain must exist in such a way that it makes these differences irrelevant.

"clarity of oversight": exposure occurs whenever data in the blockchain ledger are Created, Altered, Transferred, Destroyed, or Stored (CATDS). Oversight requires the ability to "see" the entire process.

"auditability": given the open nature of the blockchain, the challenge for auditing is understand how changes can be proven.

"common standards": this is one of the biggest obstacles to blockchain adoption. As with all technologies, a set of standards must emerge that supports the movement of money in any form.

"regulations": since no one "owns" the blockchain, how do you prevent cheating? Two key assumptions are: an independent entity must be able to monitor and act on non-conformance.

In an August 6, 2017, article, the NY Times states:

> *Once one has bought digital coins, the threat of hacking remains a serious concern. Even users savvy enough to use two-factor authentication on their phones may not have the know-how to set up cold storage, or a system of storing coins offline (such as on a computer or dedicated piece of hardware not connected to the internet). There is no Federal Deposit Insurance Corporation insuring lost money; once it's gone, it's gone.*

So, blockchain presents risks that are currently not well controlled. Using the language of Enterprise Risk Methodology: the residual risk of blockchain is not acceptable.

A deep-dive into the first step in any technology system: obtain and install an app. Simple, right? Here's a short-list of challenges to cryptocurrency from just downloading an application:

- Where does the application originate?
- Where do I get it and how do I know of its efficacy?
- Will the application require updates? Assuming so, will they be automatic?
- What testing will be done by the originator of the application?
- Is there an independent certification authority for the application (eg: SSAE16)?
- What testing of the app must be done?
- What are the infrastructure requirements for the app?
- What happens if all in the network are not on the same version of the application?
- What happens if many in the network are down? Is there a minimum number of nodes in the network that must be up?
- If the network is not available, how is an individual node notified?

Blockchain is also used as a "ledger system". Easily understood by switching currency with documents; titles, architectural drawings – anything that requires a high level of control or certification. An example:

> Crypto-titles: the current vehicle titling process is arcane. It is slow, expensive, and bureaucracy-burdened. Blockchain can significantly improve the entire process through "crypto-titles".

The risk profile for crypto-titles is straight-forward when compared to that for licensing, real estate, or medical records.

The use of blockchain will continue to outpace the necessary control structures. Additionally, regulatory agencies attempt to put existing control structures on blockchain. Recently the Security and Exchange Commission stated unequivocally that blockchain-powered digital tokens can be securities.

Many believe that blockchain provides inherent control, while many others believe that blockchain must be controlled through existing regulatory control structures.

The current state of blockchain does not include controls necessary to manage associated risk.

Control structures will be presented in a follow-up article.

*Edge Consultancy is uniquely positioned to assist the financial services industry understand the opportunities and risks associated with blockchain. Contact Ray Seefeldt (**ray.seefeldt@edgeconsultancyllc.com**) to learn more.*

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