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State of Digital Mortgage Closings

The surge in mortgage demand and the global pandemic have combined to accelerate the industry's digital transformation

The mortgage industry has undergone significant change in the past two years. Factors including the impact of the pandemic, lenders' interest in improving customer experience and pressure to increase efficiency in originating mortgages have driven a transformation throughout the industry. The result: a greater shift to adopting digital mortgage technology.

In an effort to better understand the current state of the mortgage industry, Snapdocs partnered with Arizent Research and National Mortgage News to survey banks, independent mortgage banks (IMBs) and credit unions. Data from 100 respondents at firms with 3,500 or more loan originations in the past year addresses:

- How mortgage originators define digital closings
- Where firms are on the adoption curve for digital closing technologies
- What impact digital closing technology is having on lender outcomes

One of the survey's major findings: Lenders do not share a universal definition of digital closings, and their perceptions range widely. When asked a "select-all-that-applies " question about the approach that best describes their understanding of a digital closing, respondents selected multiple options with varying degrees of digitization including predominately wet, hybrid and full eClose. In other words, the phrase "digital closing" is likely to mean something different among different lenders.

Snapdocs, a digital closing platform provider, defines a full digital closing (eClosing) as one that occurs when all closing documents, including the promissory note, are signed and notarized electronically. The closing appointment may occur in person or remotely, using IPEN (In-Person Electronic Notarization) or RON (Remote Online Notarization).

Mortgage closings can, however, fall within a wide range of digitization, and any amount of digitization can provide benefits in terms of operational efficiency and customer satisfaction. Today, many lenders have adopted a hybrid closing model where a portion of the loan documents are electronically signed before the in-person closing. This level of digitization, while still beneficial for both lenders and borrowers, does not allow lenders to realize the full benefits of mortgage closing technology. For lenders that are currently converting wet-signed documents into digital documents, the opportunity for further digitization is significant. These lenders see an immediate benefit with a hybrid closing

> **We are seeing a ton of adoption in hybrid closings, which take a chunk of the package, turn it digital, and leave a handful of documents in a traditional wet closing.”**
>
> — **Vishal Rana**, VP Customer Success, Snapdocs

approach, using a digital platform that creates a unified experience for every participant in the closing. However, lenders who are further along the digital closing continuum are seeing the greatest benefits—including decreased error rates, increased staff morale and lower loan dwell time.

In order for lenders to realize the full extent of digital closing benefits, they must adapt to both an evolving industry, as well as emerging consumer expectations. Lenders that wish to optimize their closings—for their own benefit and for that of all participants in the process—should consider moving toward a truly digital closing model.

THERE ARE COUNTLESS PERMUTATIONS OF CLOSING TYPES, BUT THEY ALL FALL INTO THREE CORE CATEGORIES:

Wet: All loan documents are printed on paper and signed and notarized in ink
Hybrid: A portion of the loan documents are electronically signed before an in-person closing
Full eClose: All loan documents, including the promissory note, are signed and notarized electronically

Consumer expectations are evolving

As consumers have increasingly embraced digital tools and grown accustomed to instant access to products and services, their expectations of financial service providers have also evolved. This shift has created a disconnect between where many lenders are today with digital mortgages, and where consumers wish them to be.

In the recent Arizent *Future of Financial Services* survey of nearly 1,000 consumers, only about half (52%) of those who have refinanced or applied for a new mortgage within the past 12 months are very satisfied with the speed of that transaction.[1] Additionally, about 80% say they're more likely to repeat business with a company when they're satisfied with the speed of the transaction.

Consumers also want to utilize the digital tools and processes that are ubiquitous in many parts of their lives. A recent Finastra survey found that the vast majority (81%) of consumers want to sign their documents electronically, and 71% want to upload their documents to a digital platform. Meanwhile, just 51% of bank respondents want consumers to upload documents to a digital platform.[2] This data indicates that while borrowers are ready for a modern digital experience, many lenders have yet to catch up to consumer demands.

In addition, consumers expect closings to take less time. Consumers' top two priorities for their mortgages are accuracy and quick, clear status updates, according to a recent McKinsey & Company survey. In other words, consumers don't want to have to redo paperwork because of lender errors, and they want to know exactly where they stand in the process at any time of day or night.[3]

To meet these growing consumer demands, lenders must:

- Employ processes that are virtually error-free
- Provide complete transparency throughout the process
- Seamlessly communicate among all the parties involved in the closing

1 https://www.americanbanker.com/research-report/the-good-bad-and-ugly-about-fast-money
2 https://www.finastra.com/viewpoints/white-paper/homebuyers-embrace-digital-lending-covid-19-era
3 https://www.mckinsey.com/industries/financial-services/our-insights/banking-matters/competing-on-customer-experience-in-us-mortgage

Lenders see better outcomes with digital mortgage tech

Lenders that deploy digital mortgage technology experience multiple benefits, both within their organizations as well as for customers and investors. The top benefits include:

1. **Error rate improvement.** While 67% of lenders report satisfaction with their error rates before implementing digital mortgage tech, this figure increases to 80% after implementation (see Figure 1). The upshot: Digital closing platforms help lenders close right the first time.

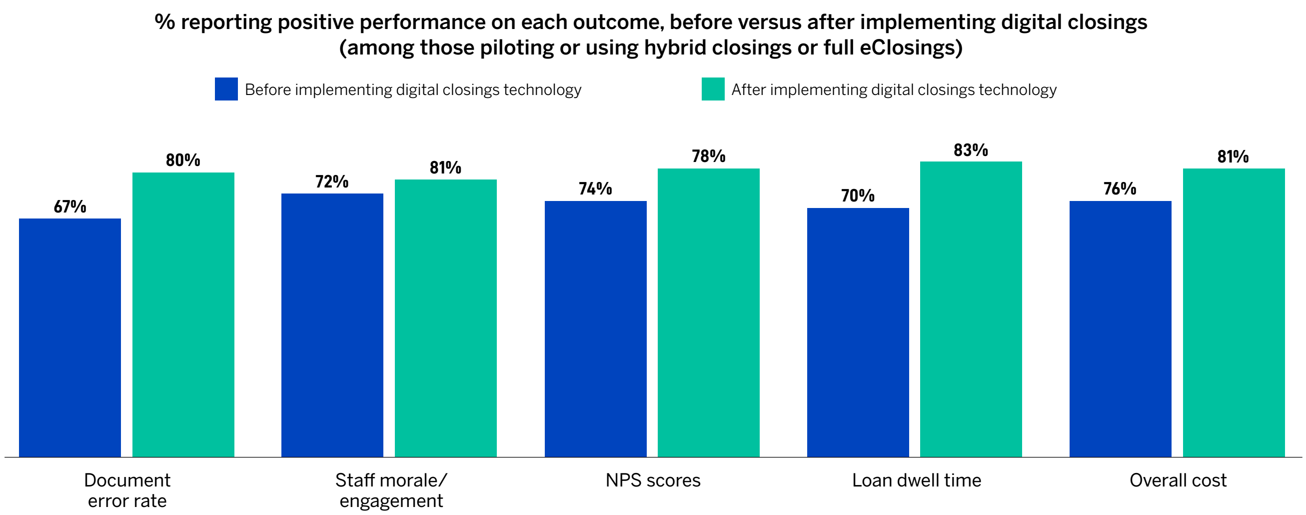
2. **Higher employee morale.** More than eight of 10 (81%) of lenders reported high staff morale and engagement after implementing digital mortgage technology—an increase from 72% before implementation. The combination of productivity and efficiency provided by digital closing platforms likely increases employee satisfaction, ultimately making it easier for lenders to attract and retain the best talent.

3. **Better NPS scores.** A better mortgage experience leads to more satisfied customers, who are willing to advocate for and refer business to their lender. Lenders adopting digital tech are delivering on what customers say they want, driving satisfaction and referrals.

4. **Reduced loan dwell time.** Increased efficiency translates into better capital utilization. Lenders who adopted digital closing technology reported significantly improved performance in overall dwell time. Lenders that make more loans can directly impact their bottom line.

5. **Lower cost per loan.** Fewer errors, increased efficiency, a more productive staff and greater digital control of formerly paper-based processes translate into lower-cost-per-loan rates when lenders close digitally.

Figure 1: Lenders See Improvements after Implementing Digital Mortgage Technology



Source: Arizent Research/National Mortgage News, 2021

> **After implementing digital mortgage technology, not only do lenders experience fewer errors and have shorter loan dwell times, but their customers are also happier based on improved net promoter scores."**
>
> — **Anubhav Sharma**, Product Marketing Manager,Snapdocs

The risks of falling behind

Lenders who wait to deploy digital closing technologies face several significant risks:

- Laggards risk losing many of the opportunities of going digital, such as boosting employee and customer NPS scores for technologies that come to be seen as table stakes.
- Non-digital lenders face unnecessary business loss, as customers migrate away from lenders who can't deliver mortgages with fewer errors and 24x7 transparency into the process.

By delaying the adoption of digital technology and processes, lenders risk losing any competitive edge they have created as rivals deliver faster closings at lower costs with fewer errors. The good news is that the adoption of digital mortgage technology is still in its early stages, so lenders that have not yet pivoted to digital closings can still catch up. About 70% of independent mortgage banks and credit unions only started piloting or implementing full eClose in the last year, while 64% of banks have one or more years of experience with pilots or full implementation. Only a small number (15%) of all lenders have two or more years of digital closing experience—suggesting lenders that adopt a digital process now will not be left behind.

Lenders that embrace digital closings, whether that's adopting a hybrid model or transitioning completely to full eClose, all stand to experience better outcomes when it comes to both borrower experience and operational efficiency. The surge in mortgage demand and the global pandemic have combined to accelerate the industry's digital transformation, and modern lenders are primed to meet the rising demand for digital, borrower-centric closings.

Methodology

In October 2021 Arizent Research and National Mortgage News conducted an online study with bank and non-bank lenders on behalf of Snapdocs. The primary objective of the research is to understand how mortgage originators define digital closings, where firms are on the adoption curve for digital closings technologies and what impact digital closings technology is having on firm outcomes. A total of 100 respondents at firms with 3,500 or more loan originations in the past year completed the survey. All respondents had some familiarity with their company's mortgage closing processes or procedures.

About Snapdocs

Powering millions of closings a year, Snapdocs is the mortgage industry's leading digital closing platform. Snapdocs creates one efficient process with all of your settlement partners and every closing type – including wet, hybrid and fully eClose. This proven approach enables lenders to simplify the closing process and turn it into a competitive advantage. Mortgage lenders are now able to close more loans, at lower costs, while delivering the modern, referral-worthy experience borrowers expect.

To learn more, please visit www.snapdocs.com.

About Arizent Research

Arizent delivers actionable insights through full-service research solutions that tap into their first-party data, industry SMEs, and highly engaged communities across banking, payments, mortgage, insurance, municipal finance, accounting, HR/employee benefits and wealth management. They have leading brands in financial services including American Banker, The Bond Buyer, PaymentsSource, Financial Planning, National Mortgage News, and in professional services, such as Accounting Today, Employee Benefits News, and Digital Insurance.

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