STRATMOR GROUP

In-Focus

DIGITAL MORTGAGE: GROWTH STRATEGY OR TECHNOLOGY EXPENSE?

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DIGITAL MORTGAGE: GROWTH STRATEGY OR TECHNOLOGY EXPENSE?

By Michael Grad

Adopting sound digital solutions that support lenders growth strategies can be as transformative to the mortgage industry as Uber was in revolutionizing the transportation industry and Amazon was in transforming the supply chain. For lenders to effectively grow and scale, a well-executed digital strategy should greatly improve the customer experience, streamline the loan manufacturing process, and when done in a compliant manner, will ultimately drive increased market share. Realizing the investment in a digital strategy for rapid growth requires lenders and their executive leadership team to ask each other this question:

How do I deploy an actionable growth strategy that crushes my competitors and, at the same time, transforms the customer experience?

Recently, I was asked to meet with a lender who was seeking advice about their game plan and to provide recommendations on their "Digital Mortgage" implementation plan and team structure. This lender also hoped we could help them identify any obstacles that might keep them from meeting the vendor-promised, three-to four-month implementation schedule for their new loan origination system.

I'm the guy that brought the wet blanket to the party.

First, a pragmatic, voice-of-the-customer, fact-based "digital" strategy is far more comprehensive than selecting and implementing a loan origination system (LOS) and Point of Sale system (POS). STRATMOR has participated in many strategic initiatives in the last few years in which lenders have heard the call to embrace "Digital Mortgage" as "Get a new, automated LOS."

As an industry, we've approached digital from this perspective, allowing technology to drive business instead of setting business strategy that drives our technology choices. Our industry needs to move towards digital as the catalyst for growth, not as a reason to install new technology.

STRATMOR Senior Partner Len Tichy says that, "Purchasing new technology without a growth strategy that re-imagines the business from a 'customer focused' perspective is simply deploying new software with little to no ROI benefit."

In our engagements, STRATMOR advocates a holistic approach to "going digital" that begins with a well-designed business strategy and comprehensive implementation plan to support it that is driven by achieving operational results and improving the customer experience. In this article, we'll share the foundational concepts of our approach: Design a business strategy that incorporates a customer-first attitude focused on performance improvement and on optimizing distinct competitive advantages. In short, crush the customer experience with superior execution and you'll also crush your competition.

Current Industry Overview

Timeline and deadlines are needful elements of any project, but what often sends strategy initiatives into a ditch is the technology providers (internal and vendors) pushing to get their platform up and running as quickly as possible to expedite their ability to recognize revenue. Without the right process design, stakeholder commitment, execution and adoption, it's understandable why so many implementations have either failed or didn't fully realize ROI opportunities. At some point in the launch process, the technology providers' needs trump the business' needs on the belief that this will be a streamlined implementation (less-than-six-months). When, in fact, there is no holistic plan/methodology to deliver.
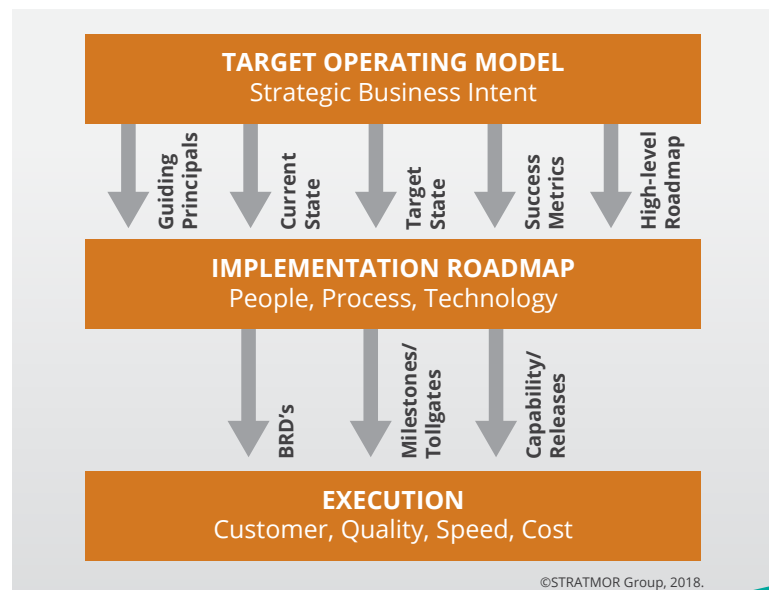
Some years ago, Len Tichy wrote an article for Mortgage Banking magazine in which he drew attention to how widespread IT project failure was, saying, "… we know that while there are firms that have enjoyed successful large-scale technology implementations, there are many more that have not. Stories and rumors abound about the more spectacular failures."

So here we are.

What the lender should really be asking is, "How do I gain/steal market share? How do I grow at the expense of my competitors while, at the same time, dramatically improving my customer's experience?

It all starts with strong stakeholder commitment and the ability for the lender to clearly identify:

- Vision, mission and guiding principles
- Short and long-term growth targets
- Game changing competitive advantages
- Voice of the customer
- Success metrics

TARGET OPERATING MODEL
Strategic Business Intent

Guiding Principals · Current State · Target State · Success Metrics · High-level Roadmap

IMPLEMENTATION ROADMAP
People, Process, Technology

BRD's · Milestones/Tollgates · Capability/Releases

EXECUTION
Customer, Quality, Speed, Cost
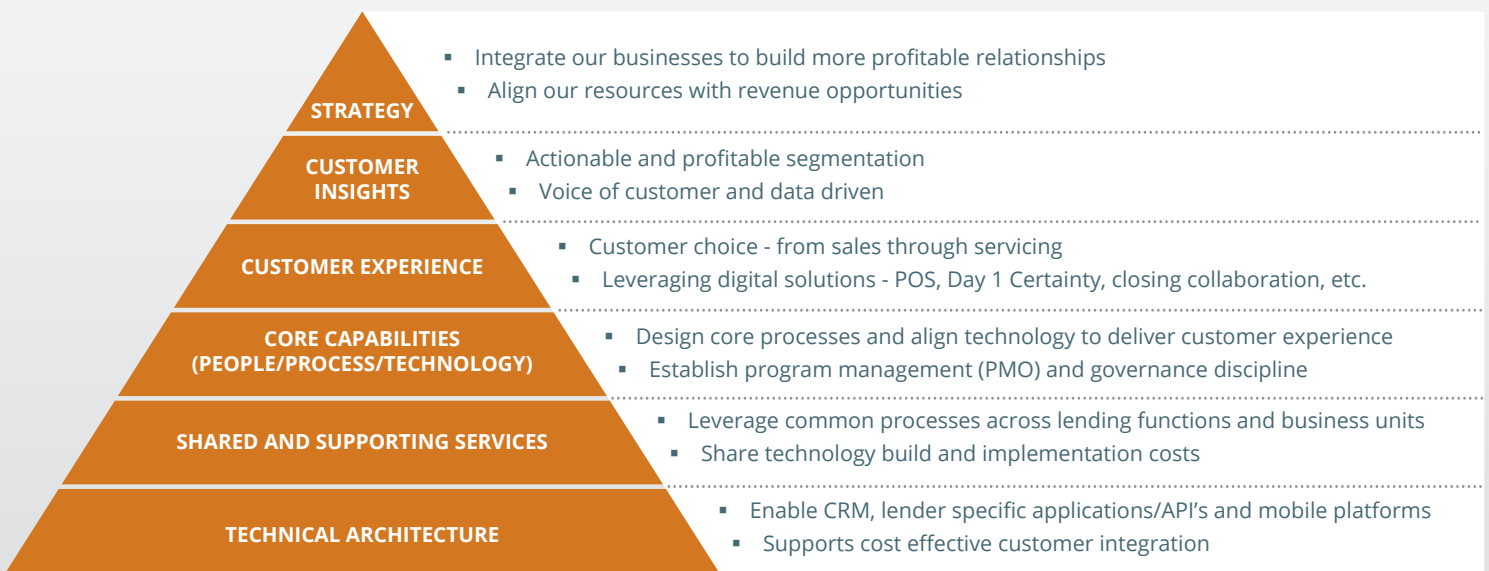
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This is the challenge. How can we change the mortgage executive mindset to transition from IT tactics to growth strategy? From a digital strategy dependent on technology to a strategy committed to the achievement of growth objectives (which may or may not include technology changes)?

STRATMOR's Recommended Approach: Start with a Target Operating Model (TOM)

STRATMOR believes in a top-down, customer-first strategy that drives core capabilities and processes that are supported by an enabling technology infrastructure. We use a Target Operating Model as our foundation — the TOM model below illustrates how to optimally create a "desired state" growth strategy that clearly identifies growth opportunities, incorporates customer insights, and drives core capabilities and processes supported by an enabling technology infrastructure. Not the other way around. Technology should not be the driver of your business strategy but a primary *Enabler*.

Target Operating Model (TOM)

Layer	Description
STRATEGY	▪ Integrate our businesses to build more profitable relationships ▪ Align our resources with revenue opportunities
CUSTOMER INSIGHTS	▪ Actionable and profitable segmentation ▪ Voice of customer and data driven
CUSTOMER EXPERIENCE	▪ Customer choice - from sales through servicing ▪ Leveraging digital solutions - POS, Day 1 Certainty, closing collaboration, etc.
CORE CAPABILITIES (PEOPLE/PROCESS/TECHNOLOGY)	▪ Design core processes and align technology to deliver customer experience ▪ Establish program management (PMO) and governance discipline
SHARED AND SUPPORTING SERVICES	▪ Leverage common processes across lending functions and business units ▪ Share technology build and implementation costs
TECHNICAL ARCHITECTURE	▪ Enable CRM, lender specific applications/API's and mobile platforms ▪ Supports cost effective customer integration

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Improve the Customer Experience

At the core of growing our market share is our customer, the mortgage loan borrower. These customers are the same people who work all day on laptops, use Amazon Prime to order toothpaste, use their phones to buy movie tickets and who have voice-activated, virtual digital assistants in their homes that answer questions and play music on command. They order everything from books to food through online services, and they expect to do so without ever talking to another human being.

They expect their mortgage experience to be just as quick, and just as easy. Hence the term "digital."

"For too long, the mortgage industry has focused first and foremost on the metrics and operational details of the back-office transaction. But, in today's world where start up disrupters and incumbent market leaders alike are doing everything they can to make it easy for the customer to buy from them, lenders, too, need to be much more focused on the customer (borrower) experience," says Tichy. "A digital strategy is not an IT strategy. It's a customer focused business strategy that means having a customer-first mentality and culture. Then the lender uses technology to enable that strategy." Enabling technology is defined as:

- Online without device or usage limitations

- Automated to eliminate the need for manual intervention

- Real-time — 24/7 and response time measured in milliseconds

- Easy-to-use, and meets the customer's needs by bringing important information forward

The example below illustrates the customer's journey, from a customer's view. The lender has opportunities to greatly enhance the experience for the customer and enable a dramatically reduced cycle time through improved operations.

Note: The dips in blue line depict gaps in the process that negatively impact the borrower's experience.

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By following this path, lenders can strategically focus on staffing issues such as recruitment and training, process improvements, and potential technology solutions to fill these gaps.

Strategy Reimagined

Now, re-imagine the business with the voice of the customer in mind and an understanding of your key business drivers.

Whether your overarching business driver is customer experience, cycle time, cost per loan, profitability, revenue growth, or anything else, you must prioritize two to three of these drivers to guide your path forward. Accordingly, you must define the TOM and core processes down to a level of detail that can drive truly robust business requirements for your growth strategy. In my view, the lender who drives cycle time as low as possible generally wins.

Once your business drivers are locked in and you are committed to your target operating model, you can make day-in, day-out tradeoffs on features, functionalities and costs as you implement your strategy. You have only so many levers to pull.

For example, when reviewing a digital mortgage implementation roadmap, maybe you'll let go of some of the whiz bang stuff on the pricing engine because you know that your old pricing engine works, and you know the cost to integrate isn't that much because you know your standard map and your processes. So, you decide to do something different timewise — save the three months of work and push the whiz bang stuff to the next release.
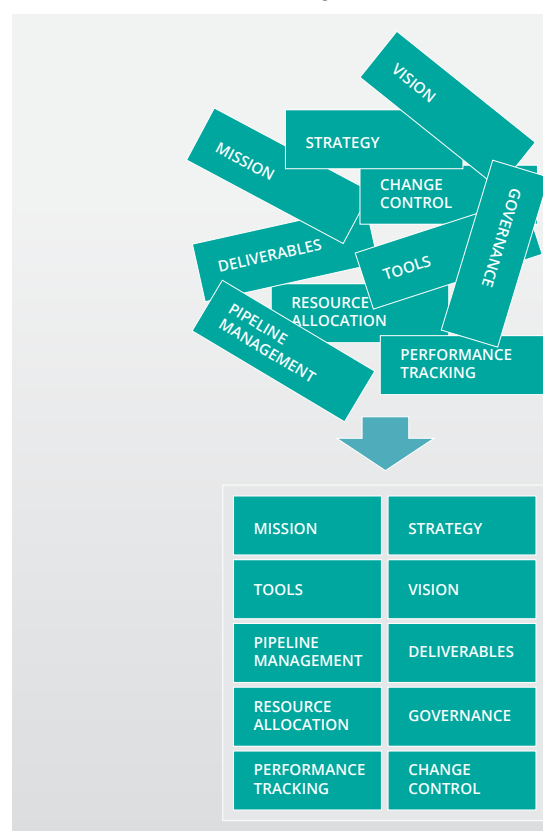
What a TOM and business drivers provide is a governance framework that can be the tie breaker and keep leadership and the project team(s) focused on the next deliverable, not wandering around saying 'I'd like to add this" and end up spending months trying to determine whether something requested is a priority and therefore, in or out of scope.

You don't have to go through the digital transformation alone. Most mortgage companies would benefit from having help developing and implementing a digital strategy. Remember, this strategic advice is not coming from a technology vendor (although they are a key player and at the table). You need an outside advisor, someone who is focused on your interests,

your whole strategy and not on doing a matchup of your strategy to their technology.

We recommend finding a seasoned mortgage consulting firm who has disciplined, rigorous program management and technology implementation methodology, and that will roll up their sleeves and work beside you to get the work done like we do with our clients. This team should be able to facilitate a strategy and high-level design workshop that is a non-evasive, quick, high-value-added work session to get you and your leadership team aligned to the program being implemented. This team should also engage with your leadership team so everyone is on the same page and set a date to get started.

Depending on the size and scope of the release plan/IT roadmap, it will take six to nine months to get a new digital mortgage system running and people trained. Less complex system changes will be closer to six months; for larger, enterprise integration releases there may be one at nine months, the next at 12, then another at 18 and so on, depending on the complexity of the company (e.g. size, number of channels, distributed or central fulfillment, etc.). Don't let the vendor convince you otherwise.

Our Senior Partner Garth Graham is an industry digital icon. He advocates that lenders want clarity of vision and expect their "digital" strategy and corresponding solutions to also be future proof.

"Everyone is talking about Digital Mortgage, and they often call us seeking advice on how to become 'more digital,'" says Graham. "Often the lenders think it's as easy as picking a product — such as a new Point of Sale system — and that will make them 'digital.' However, I have observed that that many lenders struggle with a clear sense of the problem they are trying to solve with technology, beyond the general idea of 'making the mortgage process better.' I think it's important to understand the "why" before prescribing the "how." Lenders should take the time to define the business case for any investments they are planning. Without a very specific business case, it is difficult to generate the additional revenue or lower expenses to the level necessary to generate a return on investment in new technology. This is what leaders should demand — that they know why they are doing this and what they will get out of a successful project."

The Challenge Ahead

In the end, the two biggest challenges to successfully implementing a growth strategy are the leader and change itself. There must be a commitment by the executive and the leadership team to holistic — people, process, technology — change. The executive must walk the talk — will the company have to change incentive plans to make this work? Are you trying to break the old culture mold and do things a new way? Then model the behavior you're asking of your people.

The toughest challenge is changing the processes, and getting people to adopt the changes.

For that staff resource who has been doing something on the current system for years (often decades) in a culture that rewards firefighting and heroism over efficiencies and results, that person will have to give up their "Save the Day" glory role and adopt a process that actually runs smoother based on exceptions. Your new team will not rely on firefighters who earned their stripes and were promoted and paid and bonused for being good firefighters. Now you're going to ask these people to be pro-active leaders. This is a completely different model, and many people are not comfortable making the switch.

Adoption, ultimately, is the key to the success of any transformational change. Some will make it. Some will not. And, the leader must say to the team, "Look around you, 20 percent of you will not be here when this project ends." The message needs to be communicated to the team, and some cultures are just that blunt — others more diplomatic. Regardless of how it's said, the sponsor and executive committee need to communicate that we need this type of change. And then, the leaders need to lead the change.

WE WELCOME YOUR FEEDBACK

Would you like to talk about your strategy for growth? Contact Michael Grad at: michael.grad@stratmorgroup.com. ■