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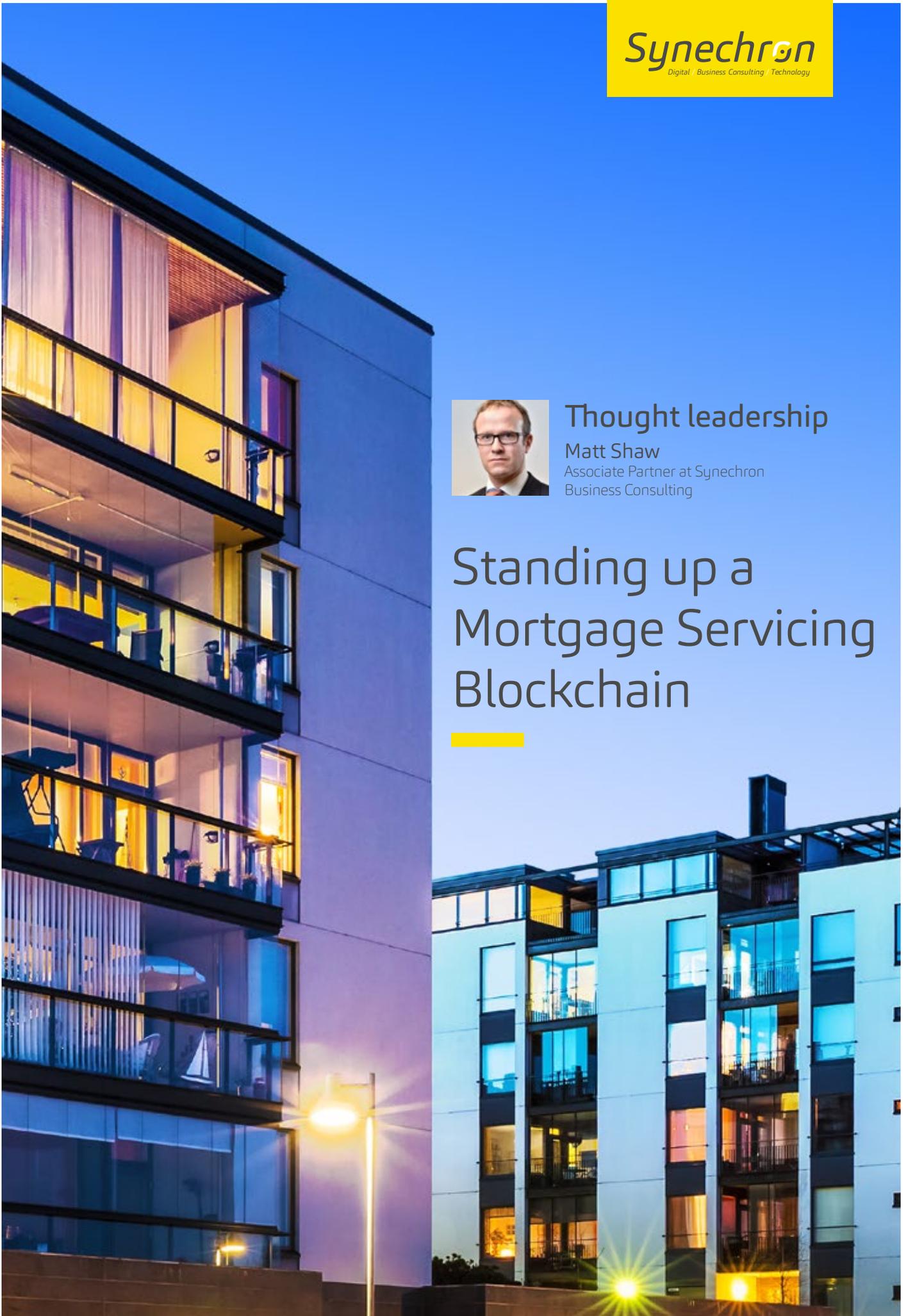Digital / Business Consulting / Technology

Thought leadership

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Standing up a Mortgage Servicing Blockchain

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Mortgage servicing firms have heard a lot about blockchain and the huge benefits to be gained by a distributed ledger, smart contracts and digital payments. At the same time, they know with new technology can come disruption. This changing digital ecosystem is placing tremendous pressure on mortgage servicing firms to rethink their business models and transform operations – or risk missing out on efficiencies, cost-savings, fraud reduction, improved customer relationships and more. But, completely transforming an industry is easier said than done.

In the UK, for example, 'PropTech' start-up Trussle, in partnership with Zoopla is offering to search and secure a mortgage in 24 hours. And in Australia Uno, a digital mortgage broker, is offering loan search and origination tools direct to customers online. These solutions don't use Blockchain (yet) but many companies are performing blockchain research and development as part of their digital innovation or customer experience strategies. Most are in 'stealth mode' right now making it difficult to assess progress on blockchain verses other technologies. But we believe that Blockchain technology could have in the mortgage initiation, approval and execution value-chain, potentially cutting the time to receive the loan from T+40 to T+30 or better.

The stakes are high for first-movers, but the rewards are equally so. Projects need to be approached thoughtfully, and to help firms do so, to follow are five tips to make the most of the opportunity:

- **The Business Mix** – Firms should think about their own business mix - mortgage loan origination verses outstanding loan maintenance. While blockchain can help in both cases, there are greater benefits for transforming loan origination and execution processes, which are more distributed across intermediaries and fragmented workflows.

- **Intermediary Ecosystem** - Mortgage lenders should think of their operations within an ecosystem of key suppliers and agents and engage brokers, asset surveyors and insurers, and others who originate, approve, and execute loan transactions. For example, if surveyors can provide valuation information as an authoritative data source and automate updates to a mortgage offer smart contract, the impact would be dramatic.

- **Digital Credit Qualification** - Digitization of personalized credit and current account information will also help improve mortgage loan approvals. This may happen with, or without blockchain as banks are now starting to offer digital wallets, but this innovation is largely being driven by customers.

- **A National Title Registry** – One important consideration is whether or not your country, or countries, of operation are considering a national blockchain real-estate title registry. If they are, that will lend significant weight to any planned mortgage blockchain initiatives and will help businesses achieve more cost-savings and efficiencies. Integration with the public asset register has the potential to really drive growth and reduce cost even further.

- **Plus the commonly cited challenges for blockchain adoption** - including governance and ownership; co-operation on standards, integration, mutualisation and adoption; legal and regulatory approval; identity and security and scalability; validation and verification of authoritative data sources and smart contracts

The Future of Mortgage Servicing

Blockchain has the potential to transform mortgage servicing because it re-imagines finance from the customer's perspective and automates economic value and legal information exchanges. Imagine loan origination, credit qualification, security appraisal and insurance, loan funding confirmation and title transfer all occurring with as little human intervention as possible. That is all possible in the next 5-10 years.

In the end, what will separate the blockchain winners and losers is their ability to focus on the end-user experience; to make smart contracts legally binding, compliant, verifiable and trustworthy by retail consumers; and to create an open eco-system into which suppliers and agents can deliver authoritative data, loan approvals and end-to-end customer workflows.

For this to happen, broker networks, mortgage lending and servicing firms, intermediaries and title registries will need to cooperate – and those who don't stand to miss out.

10 Common Technology Project Hurdles

- User Experience
- Cost/Benefit Analysis
- R&D Budget
- Collatboration/Disintermediation/ Legacy Systems
- Industry Standards
- Scalability
- Governance/Operations/ Permissioning
- Regulation
- Legal risks
- Security