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MORTGAGE & LOAN SOLUTIONS

WHITEPAPER

Navigating the Digital Mortgage Revolution

TRUST. INNOVATE. TRANSFORM.

Manual processes have been inherent to the mortgage ecosystem since its inception in the early 1900s and while there have been many innovations along the way, the business of buying and selling real estate and the need for financing has remained constant. Burdensome manual dependencies and inefficient and disparate systems continue to weigh heavily on what should - considering current technology - already be a digital industry with accelerating cycle times.

The mortgage industry has embarked on its journey to digital enlightenment. Lenders are navigating digital disruption in an effort to stay ahead of the competition, contain costs and capture market share. While the industry has made considerable progress digitizing the customer experience at the point of application - a sensible first step since improving the customer experience is the key to winning business volume - many lenders still struggle with legacy paper processes and internal technology limits.

In an age of immediate gratification, consumers' on-demand lifestyles call for near real-time services. Only those lenders that can meet the growing expectations of this consumer-driven economy will survive to lend another day.

A recent survey of mortgage professionals (see Methodology) reveals what the industry has achieved so far in its pursuit of digital perfection, factors that make this transformation so urgent and barriers that still need to be overcome. Lenders desire nothing short of an end-to-end digital solution, but report that they are struggling with legacy processes and internal technology limits. Many identify

THE GOAL IS "AN OMNI CHANNEL PLATFORM THAT STREAMLINES THE APPROVAL AND CLOSING PROCESS AND ALLOWS CONSUMERS TO COMPLETE THE LOAN PROCESS ONLINE FROM START TO FINISH."

-A SURVEY RESPONDENT

strong, third-party partnerships offering point solutions as the way forward.

DIGITAL TRANSCENDENCE COMES INTO FOCUS AS AN INDUSTRY-WIDE GOAL

Lenders are under intense pressure to change the way they operate in order to compete effectively. Lenders have quickly come to the realization that digitization isn't just a nice to have - it is a business imperative that will make or break lenders going forward. Due to an array of powerful market forces, customers are rapidly becoming habituated to simplified online and mobile financial services. Innovative lenders have already demonstrated that they can capture huge volumes of business by combining digital mortgage application and prequalification platforms with savvy marketing campaigns.

More disruption awaits as new-economy conglomerates explore leveraging their hold over consumers to make inroads in the mortgage arena. Competitors strive for an edge by using advances in technology to streamline processes, improve the consistency, quality and interoperability of the information at their disposal and enhance analytical capabilities. As one survey respondent says, the goal is "An Omni channel platform that streamlines the approval and closing process and allows consumers to complete the loan process online from start to finish."

PROGRESS SO FAR

Lenders are highly attuned to growing consumer demand for fast and easy digital solutions. Meeting customer expectations by providing borrower portals where documents can be uploaded is at the center of their efforts to transform themselves. Fifty-four percent of respondents say that improving customer experience is a key objective when implementing digital applications in the lending process - more than for any other motivation. The digital tools needed to respond to customer experience imperatives also help mortgage lenders reduce costs and improve internal processes - two other key objectives - and lenders have already made progress integrating them across the mortgage life cycle.

The presence of digital elements is particularly widespread in

application and prequalification, with more than 70% of respondents saying digital processes are involved in these steps at their firms, including product recommendation and selection, status updates and support. Lender progress with e-closing has been more limited: just 43% of respondents say they use digital processes at closing. The rise of tech-savvy millennials is of particular importance, with 38% of respondents saying that changing borrower demographics is a major factor driving the digital transition.

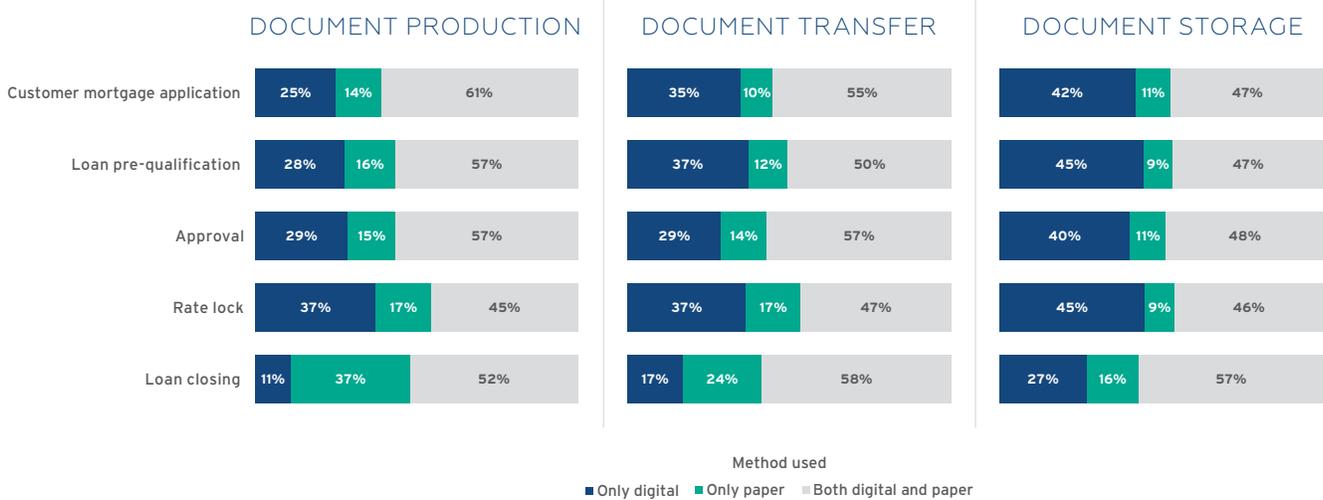
MEETING CUSTOMER EXPECTATIONS BY PROVIDING BORROWER PORTALS WHERE DOCUMENTS CAN BE UPLOADED IS AT THE CENTER OF LENDERS' EFFORTS TO TRANSFORM THEMSELVES.

Despite the deployment of digital approaches, however, lenders continue to simultaneously use paper documents in every stage of the origination process. For example, 61% of survey participants say document production is both digital and paper during the application phase. And almost 90% say document production is both digital and paper or only paper at closing (see Figure 1).

61%

of survey participants say document production is both digital and paper during the application phase.

Figure 1: Documentation Process at Each Lending Stage



Source: SourceMedia Research/National Mortgage News, November 2018

BARRIERS AHEAD

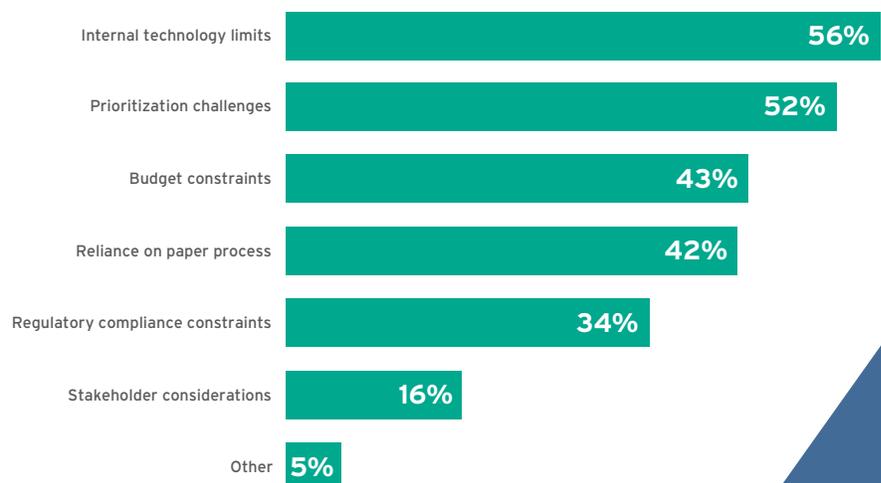
The need to continue to manage large volumes of paper documents is a major challenge for lenders as they try to accomplish their digital transformations in the wake of declining variable volumes. Mortgage files are large, many documents are not standardized and documents and data enter the processing stream through a variety of sources. Lenders need a unified system that can handle physical documents alongside digital ones; store both securely; and, with the help of imaging technology, automate document classification, data extraction and data comparisons regardless of format.

An integrated and effective records and information management platform is the key to improving speed and

accuracy, making sure data is accessible on demand and complies with regulatory requirements, including those governing document retention. In fact, 42% of the lenders in the survey rank reliance on paper processes as a barrier to offering an end-to-end digital mortgage (see Figure 2).

AN INTEGRATED AND EFFECTIVE RECORDS AND INFORMATION MANAGEMENT PLATFORM IS THE KEY TO IMPROVING SPEED AND ACCURACY, MAKING SURE DATA IS ACCESSIBLE ON DEMAND AND COMPLIES WITH REGULATORY REQUIREMENTS.

Figure 2: Barriers to Offering an End-to-End Digital Mortgage Experience



Source: SourceMedia Research/National Mortgage News, November 2018

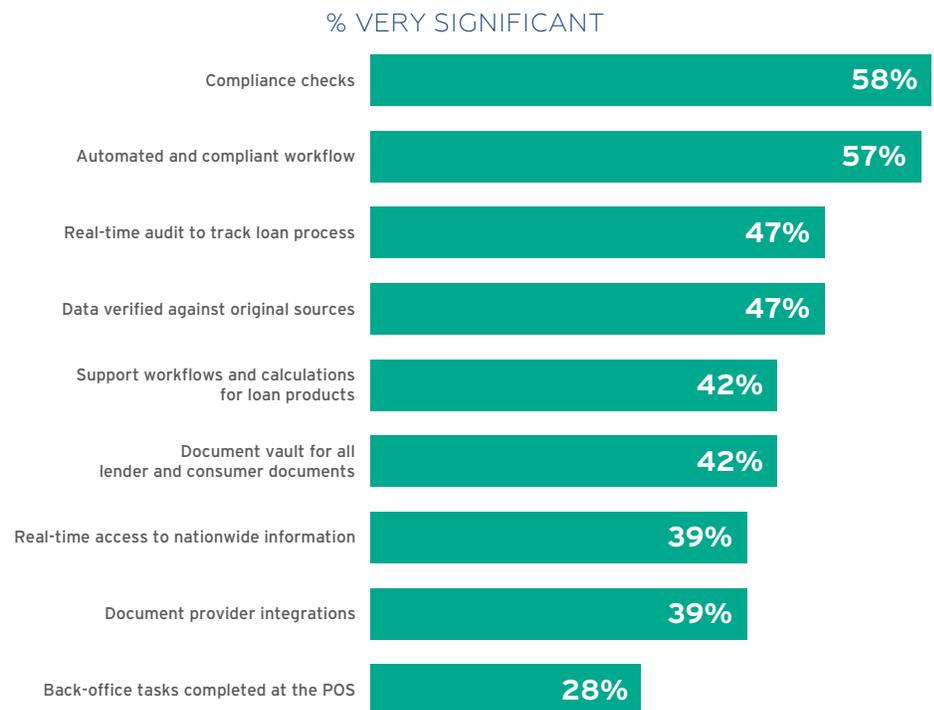
COMPLETING THE TRANSFORMATION

A full digital transformation goes beyond customer interfaces and requires the implementation of a centralized repository for managing records and information. Having a central digital repository will allow lenders to achieve efficiencies in their processes by enabling them to automate workflows that maintain compliance and allow for real-time audits to track loan processes.

When exploring portfolio transfers or fulfilling audit

requests, a robust system that maintains clean, well-organized files and data is essential for creating transparency and instilling trust among guarantors, investors, regulators and other lenders. In fact, compliance checks, automated workflows and verifications, a centralized document vault and real-time, universal access to information are among the features respondents value the most in a digital platform. (see Figure 3).

Figure 3: Significant Features/Benefits of Digital Applications/Software



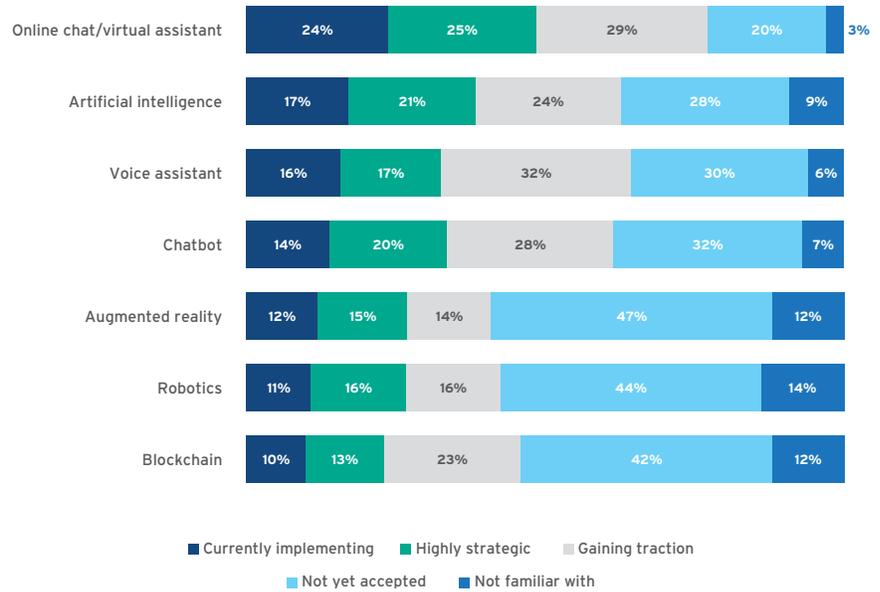
Source: SourceMedia Research/National Mortgage News, November 2018

COMPLIANCE CHECKS, AUTOMATED WORKFLOWS AND VERIFICATIONS, A CENTRALIZED DOCUMENT VAULT, AND REAL-TIME, UNIVERSAL ACCESS TO INFORMATION ARE AMONG THE FEATURES RESPONDENTS VALUE THE MOST IN A DIGITAL PLATFORM.

Moreover, advanced technologies like AI are already making inroads across the industry, with 17% of lenders reporting that they are currently implementing AI, and another 45% describing the technology as “highly strategic” or “gaining traction” (see Figure 4). Leveraging a unified, digitized repository enables lenders to take advantage of artificial intelligence and other innovations to make processes more accurate and efficient and unlock the power of the information they control. For example, AI can be used in portfolio analysis to assess risk, evaluate default exposure and generate sales leads.

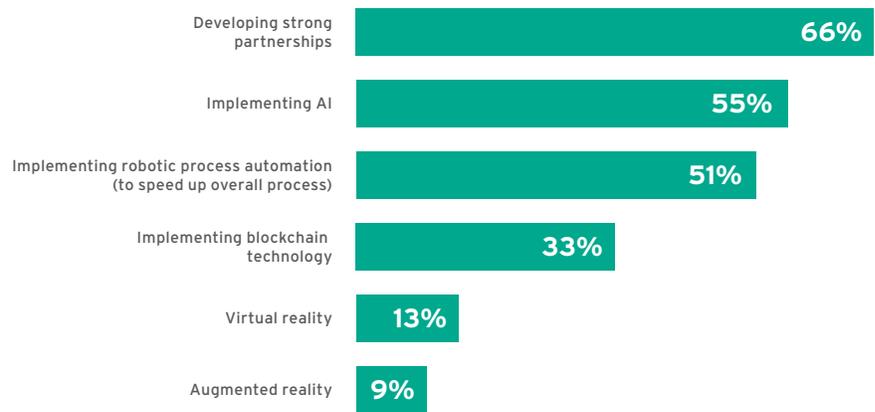
Overall, achieving a complete digital transformation requires mortgage companies to master a wide array of emerging technologies such as AI, ML, RPA or blockchain. As lenders are unlikely to have in-house experts in these technologies in order to make the leap, they should expect to tap into outside expertise. This is evident as nearly two-thirds of respondents say developing strong partnerships is the most important factor in getting to the mortgage of the future (see Figure 5).

Figure 4: Technology Acceptance



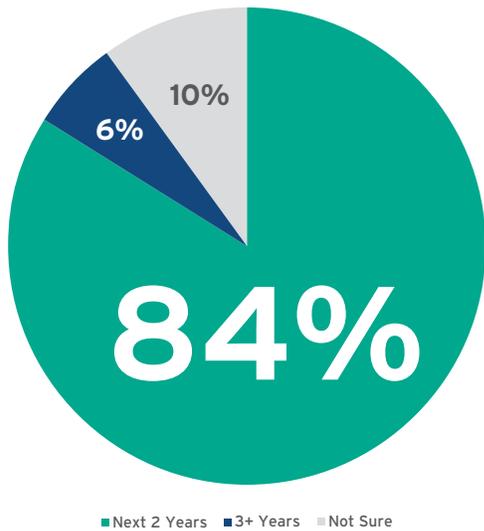
Source: SourceMedia Research/National Mortgage News, November 2018

Figure 5: Most Important Elements to Get the Mortgage of the Future



Source: SourceMedia Research/National Mortgage News, November 2018

Figure 6: Readiness to Offer an End-to-End Digital Mortgage

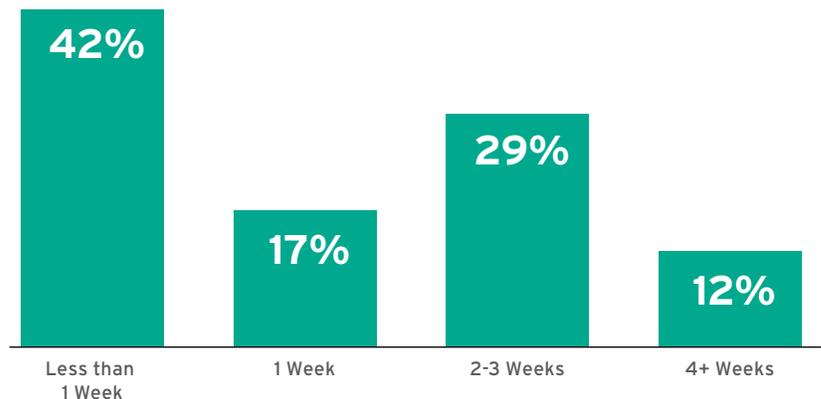


For lenders in the survey, the end game is nothing short of a completely digital mortgage and responses attest to the speed at which they believe they need to accomplish the transformation. More than 80% of respondents say they hope to offer borrowers an end-to-end digital mortgage within the next two years (see Figure 6).

Source: SourceMedia Research/National Mortgage News, November 2018

Nearly 90% of survey respondents believe that digitizing the end-to-end loan origination process would enable borrowers to close their loan in less than three weeks (see Figure 7). As one respondent says, in the future, lenders will be “automated, able to aggregate data from a number of sources and nearly all digital.”

Figure 7: Length of Time to Complete an End-to-End Digital Mortgage



Source: SourceMedia Research/National Mortgage News, November 2018

CONCLUSION

Growing consumer demand for online financial services and aggressive competition from innovative rivals has made digital transformation an urgent mission for mortgage lenders. Moreover, lenders are under intense pressure from high costs, declining physical models and slowing originations that are driving consolidation.

The scope of the undertaking is enormous. Lenders must streamline the customer experience; institute processes that create efficiencies and instill trust among guarantors, investors

and other counterparties; and implement new technologies that leverage digital information and open the way to advanced approaches to portfolio analysis.

The ultimate goal of a completely digital mortgage is clear, but making the transition in a hybrid environment is the hard part. Lenders need to assess their current systems, technology and capabilities. To achieve the mortgage of the future, they will need a partner who can help them build a state-of-the-art records and information management platform that can integrate

paper documents and synthesize multiple sources of data as they work towards completing the digital transformation.

METHODOLOGY

In October and November 2018, SourceMedia Research/National Mortgage News conducted an online survey commissioned by Iron Mountain. Respondents include 161 professionals at mortgage originators, servicers and document custodians. All participate in decision making over purchases of mortgage solutions at their firms.



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