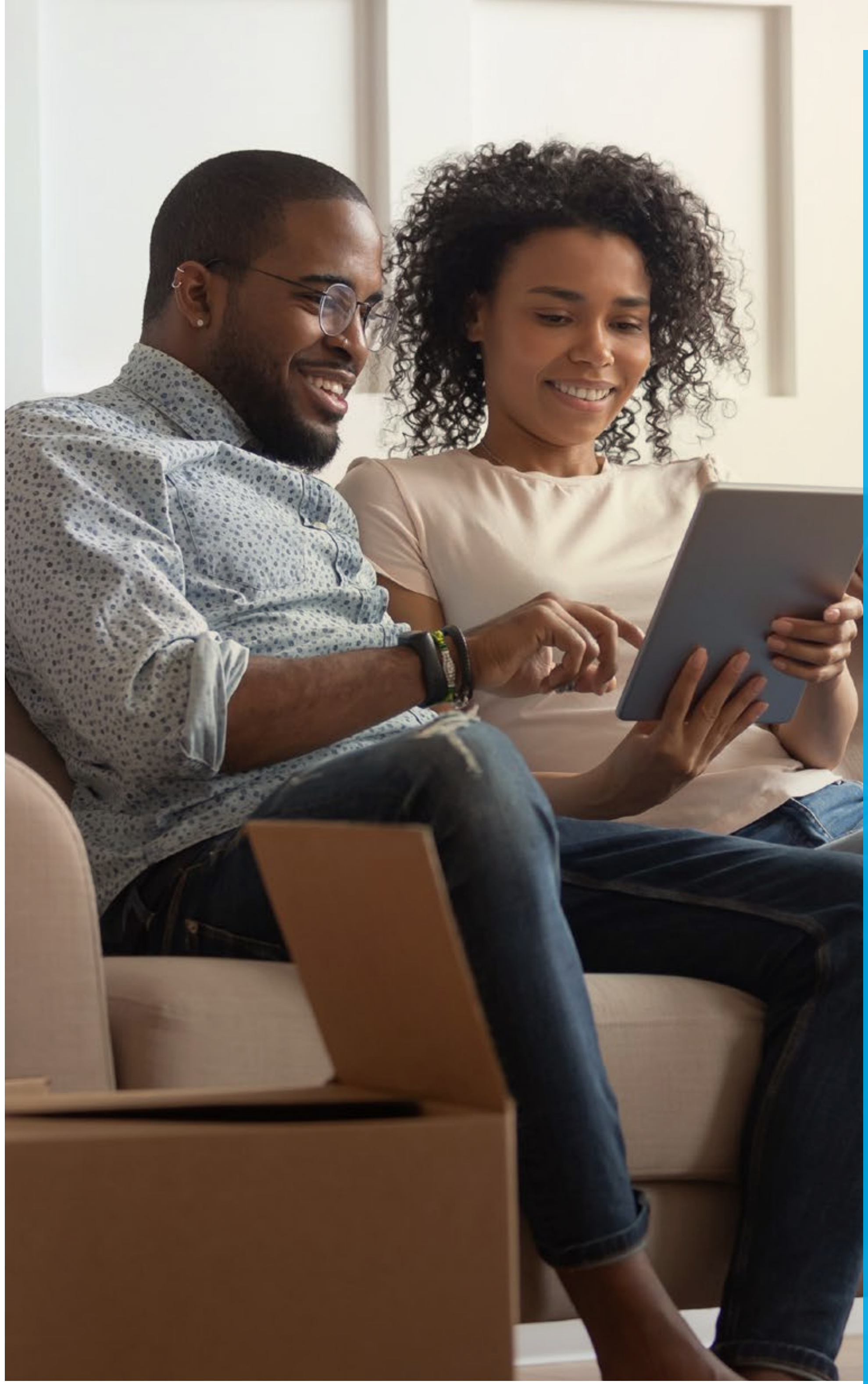
BAI Banking Strategies
Executive Report



August 2020

Lenders going digital to deal with COVID-19

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LETTER FROM THE EDITOR

Lenders need to balance the digital and the personal

BY TERRY BADGER, CFA
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By now, it's almost conventional wisdom that the coronavirus pandemic will accelerate the move to digital banking as tech-savvy younger generations grow their economic clout and the Baby Boomer and Gen X holdouts get used to managing their money online.

But if branches thin out and face-to-face interactions fade in number, where will financial institutions have the opportunity to provide that human touch considered so vital to their branding? How will they develop the deep bonds with their customers that lead to long-term loyalty?

These are among the questions we take up in this Executive Report, with an emphasis on how lenders in particular are affected.

Stephenie Williams from Harland Clarke writes that going digital should not mean giving up on personal attention. Lenders will have to find ways to stay closely connected to their customers—know what they want and need, and then meet those wants and needs. Those that do can expect loyalty and more business, she writes, while those that lose sight of this imperative will face a competitive struggle.

For an idea of just how open the industry may be to a potential reshuffling based on digital success, Williams points to a J.D. Power satisfaction survey for 2020: Barely half of retail customers think their bank is "very effective" when it comes to meeting their digital banking needs. And it's worth a mention that the survey was conducted prior to COVID-19.

Mike Vlasak from Total Expert extends the notion of customer-centricity in his article, which focuses on lenders showing empathy and care during this disrupted time as a path to building trust and a lifelong relationship.

Know any given customer's stage of life and their challenges, he tells readers, and then tailor your communication so that is at the heart of every message. This conveys that you have their best interests in mind and stand ready to work with them. Digital capabilities and other technology may be bright and shiny, Vlasak suggests, but they're just handy tools to help customers with their financial needs.

Meeting needs arising from the pandemic-induced economic slowdown was the reason for the Paycheck Protection Program. Stories have made the rounds regarding lenders who pulled multiple all-nighters back in the spring to get procedures in place so their small-business customers could tap into the $500+ billion relief fund.

Now that we're approaching the PPP forgiveness phase, which may lead to more sleepless nights, writes Ed Lawler, but it also presents another opportunity for financial institutions to take care of their customers.

Many lenders took on new small-business customers that could not get PPP loans through their existing banks—they're looking to keep those customers for the long haul, which means deepening the connections. Effective communication is key to that effort, and a snag-free forgiveness process wouldn't hurt, either.

Small businesses owned by Americans from historically disadvantaged groups—racial or ethnic minorities, women, the LGBTQ community and others—continue to face obstacles in securing loans. It appears, however, that lenders are embracing diversity and inclusion in ways that benefit these businesses, as well as individuals from underserved communities seeking to borrow money.

Karen Epper Hoffman writes that, along with being the right thing to do in terms of fairness, such initiatives also make good business sense in a changing America: Nearly 45 percent of the 75+ million consumers in the millennial generation are from racial minorities. Part of the challenge for mortgage lenders in particular is bridging a trust gap long in place from decades of redlining, but that gaped wider after the housing-led financial crash in 2008 that devastated many communities of color.

Unlike other areas of lending, the mortgage sector has not really seen business fall off as a result of the coronavirus—a 30-year fixed rate under 3 percent has stimulated a homebuying frenzy. Mortgage lending is now on track to top $3.1 trillion, the highest dollar volume since 2003.

Dave Steinmetz from ServiceLink writes that all of the activity makes an even stronger case for mortgage lenders to go fully digital to close loans and otherwise streamline processes for borrowers making their largest household purchase. For the lenders themselves, contending with a large volume of new loans and refinancings, the efficiencies from using technology can help them be more competitive in an increasingly crowded market.

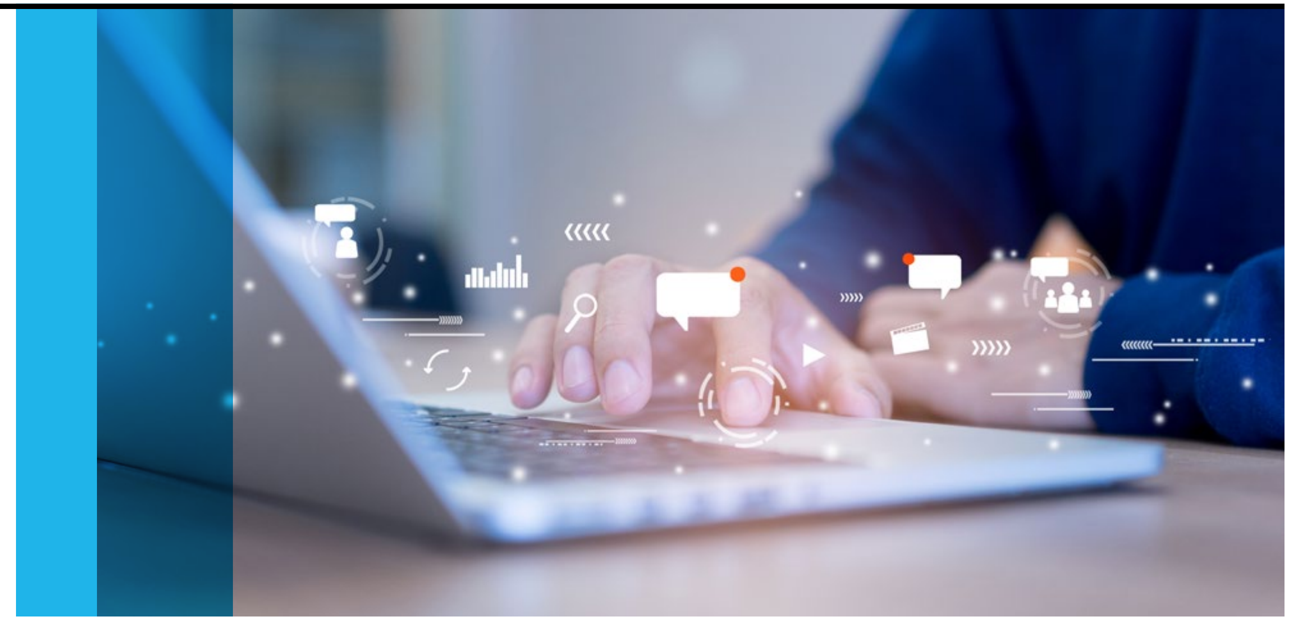
Part of his case comes back around to the millennials—last year they topped the generations for a sixth straight year by accounting for 37 percent of homebuying activity. As digital natives, they've come to expect tech solutions being on the job wherever they're needed to provide speed and simplicity, and the mortgage world certainly fits that bill.

Terry Badger, CFA, is the managing editor at BAI.

Why the digital experience matters more than ever

To compete effectively in the new normal, customer needs belong at the center of your mobile and online efforts.

BY STEPHENIE WILLIAMS



The coronavirus pandemic has touched virtually every aspect of consumer life, prompting consumers to evaluate which service relationships truly provide value to them—and which they'll leave behind in their transition to the "new normal."

Financial institutions that deliver an experience that meets customers' changing needs in the age of social distancing will be rewarded with new business and greater loyalty. Those that don't will struggle to remain competitive.

SHIFT TO DIGITAL—NOW

Social distancing guidelines have caused many consumers to trade face-to-face branch visits for digital interactions. Indeed, the digital channel is a useful and efficient one, but only if it is user-friendly and meets consumer needs. Customers who have a frustrating digital experience may not have the option to easily visit a branch to get assistance in person, leaving them likely to feel frustrated and stuck—and that's very bad news.

"Financial institutions that invest in optimizing digital and expanding digital options to deliver the best experience possible will be well-positioned to attract and retain customers."

There's certainly room for improvement in the industry—[J.D. Power's 2020 Retail Banking Satisfaction Study] found that only 52 percent of consumers considered their institution "very effective" in meeting their online or mobile banking needs. Mid-size institutions in particular have more room to grow, since they show significantly lower satisfaction rates than larger institutions.

Consumers who have a poor digital experience during a crisis are likely to be left with a bad taste in their mouth about that brand—and they may accept offers from competitors more readily.

Conversely, financial institutions that invest in optimizing digital and expanding digital options to deliver the best experience possible will be well-positioned to attract and retain customers. In fact, with interest rates at record lows, digital experience—not cost—will become a major differentiator for loan acquisition. That means ensuring your digital experience is smooth, seamless, efficient and, of course, useful.

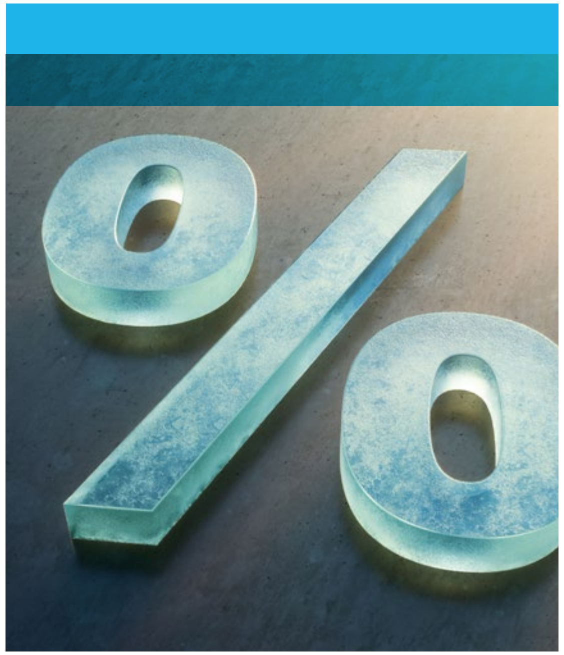
A slick digital interface does no good if it doesn't provide the functionality customers are looking for. Providers should closely evaluate their digital channel and consider making the following modifications:

- » *Increase remote-deposit dollar limits to make it easier to deposit checks without having to visit a branch or ATM*
- » *Provide multiple options for convenient disbursement of loan funds*
- » *Use e-signatures and touchless loans to facilitate remote document completion*
- » *Offer a convenient digital chat feature to quickly resolve previously tedious issues like duplicate charges*

ACTIONABLE STRATEGIES FOR SERVING CUSTOMERS NOW

Of course, there's a fine line between being recognized as helpful and being viewed as opportunistic, so it's vital financial institutions show they have their customers' best interest in mind.

Some 34 percent of Americans only have enough savings to cover three months of expenses. As the economy reopens, consumers may need help bridging paychecks or managing bills. Be sure to market a variety of tools, such as skip-a-payment and missed payment forgiveness programs, to ease customers' near-term financial needs.



Offer special, unsecured personal loans at a low rate. These flexible loans are attractive to borrowers to help cover living and other expenses that arise from an unexpected change in financial situation.

Consider proactively reaching out to your most vulnerable borrowers. Have a conversation with them about how they have been affected and what their current and potential financial challenges are. Let them know you're available as a resource to help navigate changes in their financial situation and determine their eligibility for alternative repayment or other loan relief options that might work better for them. Auto refinancing is a potential tool for this, as the rate differential is minimal. This means consumers can lower monthly payments by lengthening the loan term without experiencing a significant increase in the overall amount paid.

PREPARE FOR THE NEW FUTURE

As financial institutions focus on boosting their digital experience and settle into serving customer needs amid the realities presented by the pandemic, it's also important they continue to position themselves for growth in the changing economic conditions. This means asking questions such as:

» *Are there particular customer profiles that we should acquire that will help us weather similar crises in the future?*

» *Are we prepared for business in the "new normal?" What will our customers need? What can we offer them and how can we grow the relationship as they reorganize their finances?*

» *How can we grow new deposits and help customers achieve savings goals that will help them be better prepared for a future crisis?*

The pandemic will not only change how people view personal finances, but also how financial service providers respond to consumers' urgent needs. The digital experience you provide and support today will determine how you retain customers, deepen relationships and acquire new customers in the future.

Stephenie Williams is executive director - acquisition solutions at Harland Clarke, a San Antonio-based provider of integrated payment solutions and integrated marketing services.

Finally, more emphasis on inclusion

The legacies of long-outlawed discriminatory lending practices still affect minority borrowers today. Can today's DEI efforts turn the tide?

BY KAREN EPPER HOFFMAN

More than five decades ago, the U.S. government began to overturn policies that made it more difficult for people of color to borrow money to buy homes, fund businesses and make other life improvements that would grow their wealth. Accessing loans remains more challenging for these borrowers, but much-needed measures addressing diversity, equity and inclusion (DEI) are finally gaining traction in the lending industry.

Steve O'Connor, senior vice president of affordable housing initiatives for the Mortgage Bankers Association (MBA), says lenders are more focused on the disparities in their loan portfolios and their need to make a significant change. Part of that need is just to keep up with a changing market—nearly 45 percent of millennials, a generation of 75 million U.S. consumers, are from racial minorities, according to the Brookings Institution.

> *More than 40 percent of millennials, a generation of 75 million U.S. consumers, are from racial minorities.*
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> **BROOKINGS INSTITUTION**

"This is a tidal wave reshaping our country," O'Connor says. "We [lenders] need to better mirror the market through transactions, underwriters, the board, the executive team, everything." For the past four years, the MBA has been awarding lender-members that have made an effort to embrace more inclusive policies or strategies.

Julie Thurlow, president and CEO of Reading Cooperative Bank, based in Reading, Mass., says her bank is actively reaching out to bilingual customers by adding branch staff and marketing signage in Spanish. The bank has also altered mobile, online and ATM cues and options to accommodate these customers.

The bank, with $600 million in assets, is planning to break ground on its ninth branch late this year in the city of Lawrence, a heavily Spanish-speaking area where she says staff noticed that all the Main Street businesses currently post signage in Spanish—except for the banks.

"This is a community with plenty of good customers," she says. But they may not have previously had a strong connection with financial institutions because lenders typically don't offer complex loan forms in their native language, and were not willing to take risks with potentially non-conforming or first-time borrowers.

National and super-regional lenders often have an even worse track record when it comes to diversity in their loan portfolios, according to recent statistics. But several big banks are making big moves to address lending inequity. For example, MUFG Union Bank, which has $135 billion in assets and more than 370

> *In order to turn the tide on decades of systemic disparity, bank lenders may need to reconsider not only how they approach and review potential borrowers, but how they adjust their own internal processes.*
>
> **JOEL PRUIS, CORNERSTONE ADVISORS**

branches, announced in June that it was launching a major initiative aimed at addressing social and racial injustices. This will include a $5 million loan and accelerator program for minority-owned small businesses.

"Union Bank has a long history of leveling the playing field to provide access to capital to diverse business enterprises," says Frank Robinson, managing director for diverse markets and community-based programs at Union Bank.

He adds that the bank also began offering a business diversity loan to SMBs. "Banks need to build trust with diverse communities by raising awareness and providing more resources and tools on all the loan products available to potential homebuyers, and by offering more down payment assistance programs."

Beyond social pressures and the changing makeup of borrowers, lenders are also finding that the ongoing effects of the COVID-19 pandemic are forcing them to rethink their entire loan process, which until recently relied heavily on in-person engagement, according to Rohit Arora, CEO and co-founder of Biz2Credit, a digital small-business lender.

"As banks digitize more of their lending operations, they'll see there was a certain bias built in when everything is manual," he contends.

In order to turn the tide on decades of systemic disparity, bank lenders may need to reconsider not only how they approach and review potential borrowers, but how they adjust their own internal processes, says Joel Pruis, senior director for Cornerstone Advisors.

"There needs to be more awareness of these markets," says Pruis. "Most loan officers are not intentionally avoiding lending [to minority customers]—they're just not getting the prompting to get into those markets. They've got to figure out how to do that."

Working with partners from the community can go a long way toward rebuilding customer trust, which is often lacking among groups who were disproportionately affected by the 2008 financial crash and the legacy of redlining in mortgage lending, O'Connor notes.

Industry experts and research agree that even today, Black and Latinx borrowers face significant financial barriers.

Reporters in Chicago with the civic media organization City Bureau and NPR affiliate WBEZ researched mortgage trends in Chicago from 2012 to 2019. They found that more than 68 percent of the dollars loaned for housing purchases went to predominantly white neighborhoods, compared with 8 percent to Black neighborhoods and nearly 9 percent to Latinx neighborhoods over the same period.

That means that for every $1 recently loaned in white areas, only 12 cents was loaned in Black areas and 13 cents in Latinx areas, even though there are similar numbers of majority-white, Black, and Latinx neighborhoods in the Windy City. The reporting found that gap was even more pronounced for the city's largest bank lenders, who pumped 20 to 40 times more mortgage dollars into majority white areas.

"That history of redlining, which went on for decades, is still having a relatively recent effect," says Andrew Fan, summer reporting fellowship lead for the City Bureau during the research.

As O'Connor points out, "It's a long legacy of challenges to overcome. This [gap] has been structurally built and perpetuated for decades. We need to break it down."

Karen Epper Hoffman has been writing about banking and technology issues for nearly a quarter of a century for publications including American Banker, Bloomberg Businessweek and Financial Times' The Banker. She has also spoken and moderated panels at industry conferences.

Lead with empathy, follow with technology

As digital transformation caused by COVID-19 reshapes the lending industry, center your strategy on customer needs.

BY MIKE VLASAK

In the face of the coronavirus pandemic, financial institutions had to quickly transform into fully digital operations as in-person interactions came to a halt. They had to overcome major IT challenges, and the workforce had to adapt to working from home while customers were left wondering how they would complete transactions they were used to making in branches.

The initial shock from COVID-19 may have subsided, but many customers are still looking to their lenders to secure their financial wellness, get a grasp on the new normal and figure out what's next. Banks that seize the moment are serving as a valuable resource to their customers, building trust and reinforcing their position as a lifetime financial partner.

Here are three strategies your bank can implement to address your customers' financial needs, deliver value at every touchpoint and build lifetime relationships.

> *Empathy often arises from person-to-person connections, but you can still connect on a personal level without meeting face-to-face.*

1. EMPATHY CAN BUILD CUSTOMER TRUST

In today's customer-centric era, operationalizing empathy is more important than ever. As a lender, consider the stage of life your customers are in and what they're going through, and then speak to that in every communication.

Mapping out your customer personas is a crucial first step to incorporating empathy and meeting your customers where they are. Major life events, such as starting a business or buying a new home, are highly personal events that involve working with a lending institution. As your customers move from one stage to the next, leverage data to tailor your communications and ensure it is in the right context.

Empathy often arises from person-to-person connections, but you can still connect on a personal level without meeting face-to-face. This might be over the phone, on a Zoom call or via inserting a video in an email to re-create the personal experience. Providing those one-on-one interactions will demonstrate that a real person is ready to help them make the next best step in their financial journey.

By demonstrating to your customers that you care about them, want what's best for them and are available to help them achieve financial wellness, you're likely to earn their trust and build lifelong loyalty.

2. IDENTIFY DIGITAL BANKING OPTIONS

As your customers settle into the new normal, now is the time to understand what an entirely digital customer journey looks like. While the experience may feel different from before, it must continue to meet your customers' needs the same way it did when you could meet in your bank.

For some customers, this will be the first time they've used online banking, mobile apps or other digital tools. Outline the steps as clearly as possible to ensure a smooth transition from in-branch interactions to online.

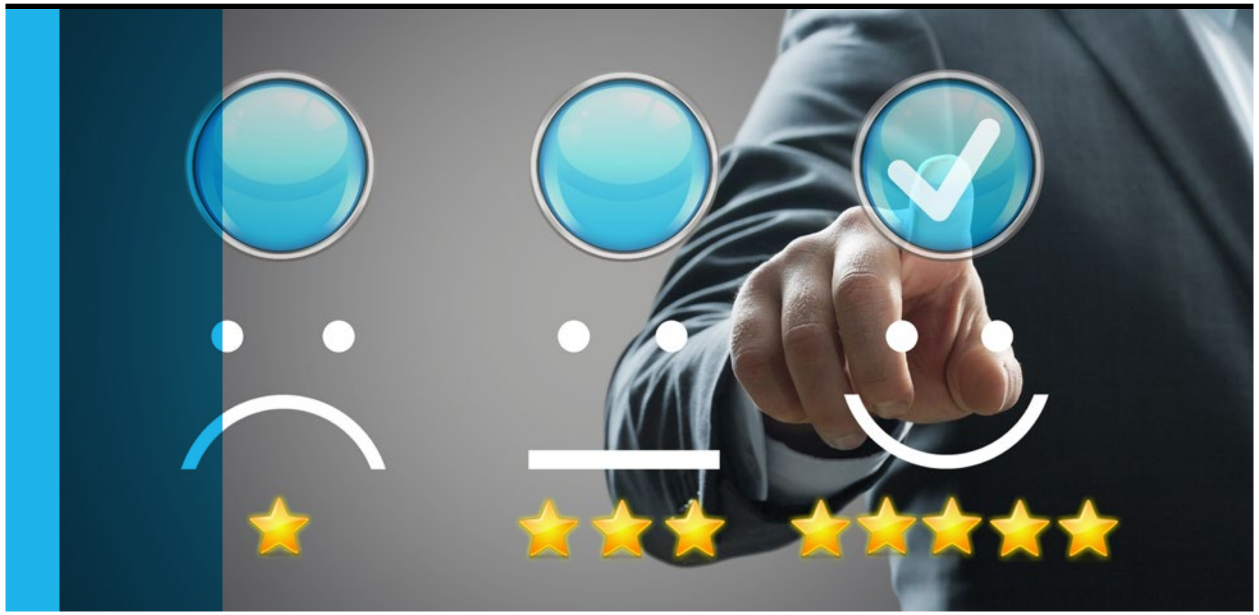
If your call centers have longer than normal wait times, encourage your customers to use online resources to manage their accounts. This may include depositing a check, completing electronic payments or transferring funds from one account to another.

Anticipating common questions and answering them before your customers seek help on their own is key. Never assume your customers know where to go for help. Nothing can be more frustrating than having to hunt for a solution and still not finding what you need. Make sure help is only a click or a phone call away as your customers navigate the digital experience.

3. LEVERAGE TECH TO SCALE COMMUNICATIONS

Effective communications will help put your customers' minds at ease, build confidence in your bank and ensure their loyalty to you as a lender they trust. As you build out your communication strategy for the new normal, technology can support your efforts and humanize the experience across all channels.

Having the right technology in place makes it possible to create customer journeys that consolidate data



to deliver personalized communications relevant to a customer's specific situation. Look for opportunities to optimize your customer experience, starting with a customer experience audit. Identify any gaps or points of friction that could erode trust and determine how technology may help fill those gaps.

Intelligent automation allows communications to flow freely in the background as customers make their way through the customer lifecycle. Having the right technology in place allows for deeper connections to form without hindering lenders with manual work.

Lean on agile technology solutions that go beyond solving immediate pain points and support your future business goals. Lastly, it's important to find a solution that serves as a vessel to form lifelong relationships (think tech partner versus tech vendor) with the ability to grow with you as the environment changes.

Proceeding with day-to-day business operations and maintaining customer relationships in the face of a pandemic is uncharted territory. Digital transformation is no longer optional—it is the new reality as we all adjust to a new way of banking. For consumers unsure of the next step to take in their financial journey, your bank has a unique opportunity to provide a helping hand as their trusted financial partner.

When you approach your borrowers from a place of empathy, support them with the right resources and communications, and do it at scale with technology, you're paving the way to a lifetime financial relationship.

Mike Vlasak is senior marketing campaign manager at Total Expert, a fintech software company offering enterprise-grade experience platform purpose-built for the modern financial institution.

Customers still at center as PPP enters new phase

As the program moves toward the forgiveness stage, bankers stay focused on the needs of their struggling small-business borrowers.

BY EDMUND LAWLER

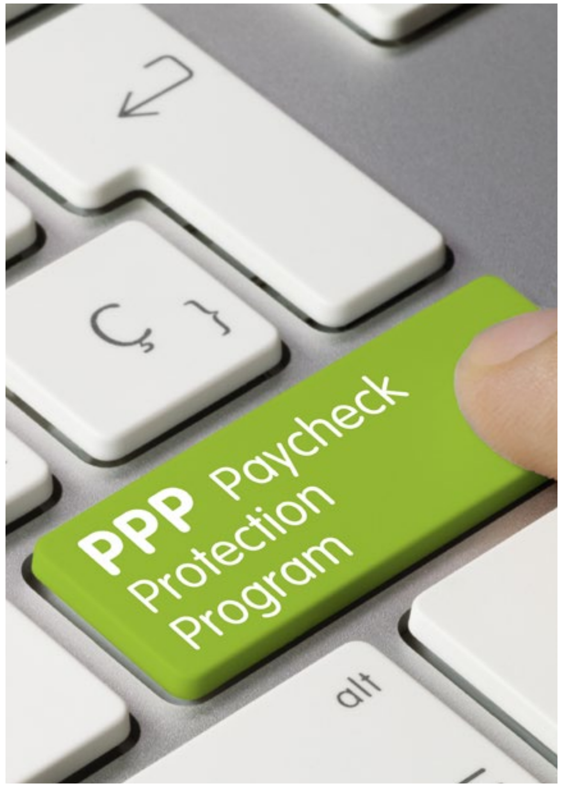
As financial institutions helped their embattled small-business customers navigate the twists and turns needed to get loans from the Paycheck Protection Program, they found constant communication was key. That deep connection built with customers will remain critical as the program enters the forgiveness stage later this year.

"A lesson we learned in the lending phase that we'll use in the forgiveness phase is communicating with our customers early and often," says Chris Giamo, head of commercial banking at TD Bank. "We have made sure that, as this forgiveness phase approaches, we are directing our customers to the appropriate [Small Business Administration] sites so that they understand the guidance and have all the necessary documentation for their loan forgiveness applications."

Since early April, TD Bank has originated more than 82,000 PPP loans totaling more than $8.5 billion. For comparison, the Cherry Hill, N.J.-based bank—one of the nation's largest, with $337 billion in assets—typically processes about 3,000 SBA loans in an entire year. And it's not done yet: In late July, the bank was still processing PPP loans.

To expedite the PPP, TD Bank created a single digital interface for applicants. "We literally created the portal in 72 hours, with people working around the clock to have it ready by the Monday the program began," Giamo says.

The technical work was handled by the bank's IT team with help from third-party vendors and, although there were some speed bumps, TD was able to handle the PPP crush, starting with 20,000 applications on the first day.



The digital interface will allow us to better communicate and update our customers on the status of their application for loan forgiveness.

CHRIS GIAMO, TD BANK

Meeting regulatory requirements such as the Bank Secrecy Act or Know Your Customer was not an issue. "For us, it was easy to comply with the regulations because we were only lending to our existing customers. They were already vetted," Giamo says.

For the forgiveness phase, the bank is making some enhancements to the portal. "The digital interface will allow us to better communicate and update our customers on the status of their application for loan forgiveness and inform them if something is missing or if we need more clarification on something."

In contrast, at Philadelphia-based Republic Bank, nearly 80 percent of its PPP applicants are new customers, says Joseph Tredinnick, market president of the bank that has $4.4 billion in assets and locations in Pennsylvania, New York and New Jersey. He said many of the small-business owners facing the loss of their livelihoods turned to the community bank after they said they could not reach a live person at larger institutions.

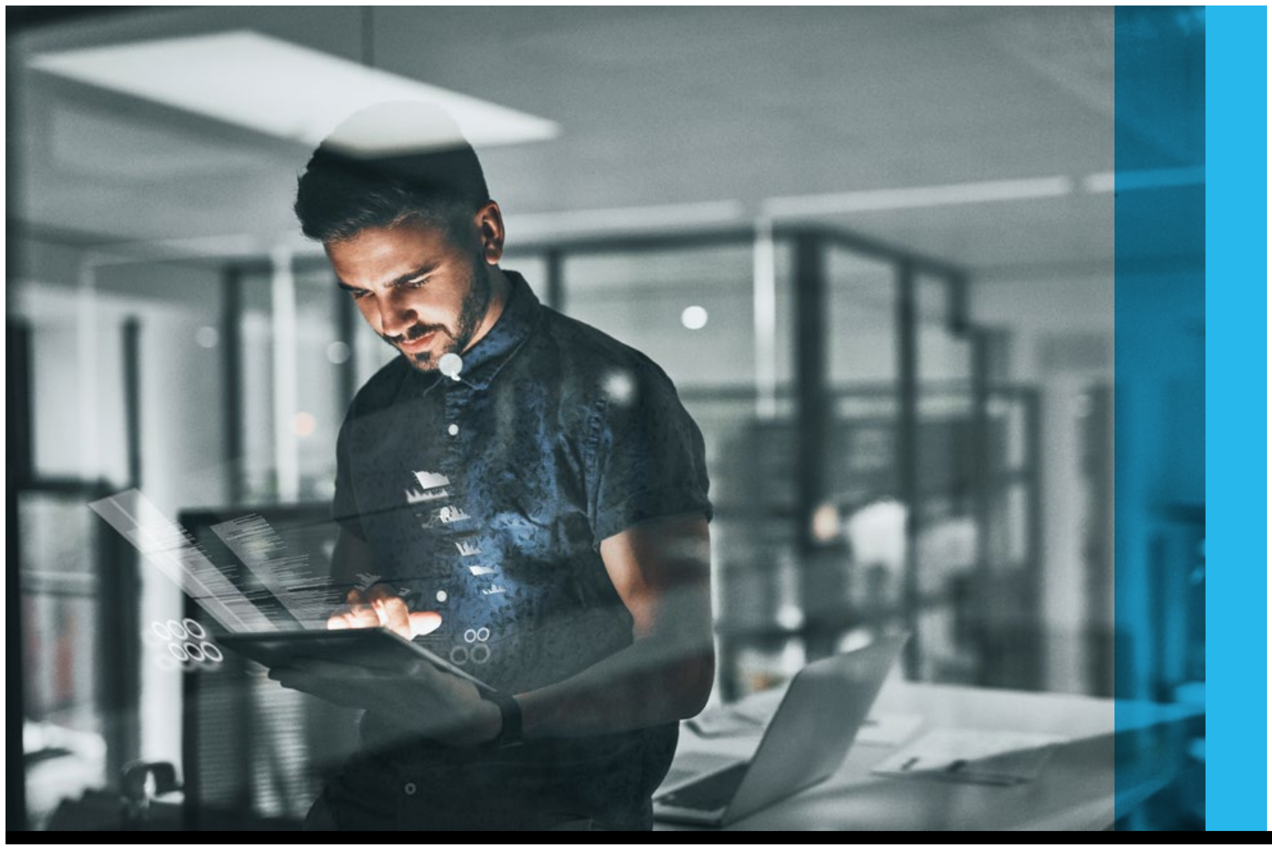
Tredinnick agrees that communication was key in the first phase of PPP, and it will be just as critical in the forgiveness phase.

"We've been getting calls every day from our existing PPP clients asking about the forgiveness process. It's new to business owners and for bankers, too," he says.

"The rules for the forgiveness phase, like the loan phase, may change along the way. It's tough to project, but we have the ability to be very agile and react quickly for our customers and get them answers."

By late July, Republic originated about 4,800 loans totaling $682 million. The average loan amount was $140,000.

In the early days of the program, the biggest hurdle was just getting an application into the SBA's digital system, says Jack Allison, Republic's CIO. "We found that as normal business hours on the West Coast came to an end, capacity in SBA's system would open



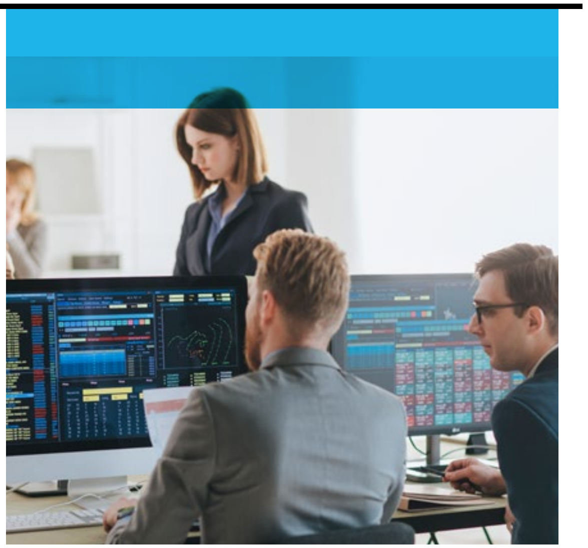
We wanted to serve our customers well, and we did everything humanly possible to get through the SBA-induced speed bumps.

JACK ALLISON, REPUBLIC BANK

up. It would even get better as the night went on. In the three hours between 10 p.m. and 1 a.m. Eastern time, we could get eight hours' worth of work done."

Employees on his nine-person IT team burned the midnight oil from their homes, while those working dayside usually did so from the office. "We wanted to serve our customers well, and we did everything humanly possible to get through the SBA-induced speed bumps. Once we got our rhythm, we were able to accommodate the high volume of work to be done."

Next up for Allison and his team is the forgiveness phase. "We've started thinking about what forgiveness is going to look like," he says. "Final guidance is not complete, and the target is still moving." Republic is



enlisting the support of an outside IT-services provider to help ensure the forgiveness phase of the PPP goes smoothly and doesn't require as many sleepless nights.

If there's a silver lining to the sleep deprivation suffered by Allison's and Tredinnick's staffs, it's that the PPP has introduced thousands of small businesses to Republic Bank. To build relationships that go beyond the current pandemic crisis, the bank has been hosting a series of receptions for small-business owners. The events observe COVID-19 safety and social distancing protocols laid out by the Centers for Disease Control and Prevention.

"It's an opportunity for us to loop back to these new customers and build on the relationship," Tredinnick says.

Edmund Lawler has worked as an editor and reporter at Crain Communications, Santa Barbara News-Press, Indianapolis News and The Associated Press. He is a regular BAI Banking Strategies contributing writer who lives in New Buffalo, Michigan.

Mortgage lending built for speed

Partnerships with innovative settlement service providers help lenders manage surging demand from tech-savvy buyers.

BY DAVE STEINMETZ

As mortgage lenders strive to keep pace with the growing swell of refinance and purchase activity driven by historically low interest rates, technology is taking on unprecedented importance.

Before the pandemic, many lenders were interested in a more digitized mortgage process—they recognized that technology could help them close loans faster, increase operational efficiencies and margins, and improve the borrower experience. Current economic and market conditions have accelerated the need for these automated solutions. These digital solutions are quickly becoming table stakes in the increasingly competitive mortgage marketplace.

The best tech-enabled mortgage services go well beyond mobile and online application to include digitized appraisal, title and closing services. Although much of the industry currently enables consumers to apply for mortgage loans electronically, subsequent activity is often taken offline and into a more traditional and time-consuming process. While that may have been acceptable to homebuyers back when it was the only game in town, consumers expect more advanced options today. They're seeking a fast, easy, seamless experience that meets their needs while respecting their personal space.

A confluence of factors is making lenders prioritize settlement service technology.

Social-distancing guidelines have created a need for virtual closings. Even before COVID-19 emerged, consumers expressed a desire for e-closing. A survey recently conducted by Javelin Strategy and Research at the request of ServiceLink found that one of consumers' chief complaints about the mortgage process was the number of physical forms that must be signed at closing.

The survey also found that:

» *89 percent of consumers agreed that e-signatures are easy and convenient*

» *88 percent agreed that e-signatures save time in large transactions like obtaining a mortgage*

» *79 percent expressed interest in using e-signatures specifically for mortgage applications*

This interest in e-signings has evolved into genuine demand for virtual closings as social distancing has become our reality.

As millennials establish themselves as the primary market for mortgages, expectations for speed, control and transparency continue to rise. In 2019, millennials accounted for the largest share (37 percent) of homebuying activity for a sixth consecutive year, with baby boomers trailing at 32 percent and Gen Xers at 24 percent, according to the annual Home Buyers and Sellers Generational Trends Report from the National Association of Realtors.

Millennials have taken hands-on control of virtually every aspect of their lives using technology; they expect no less from their mortgage experience.

"Consumers see how other industries are using technology to radically simplify the purchase experience, even for high-ticket items," says Kiran Vattem, executive vice president and chief digital and technology officer at ServiceLink. "In the market for a Tesla? You can customize, order and finance your car, and have it delivered to your home within three weeks. Or pick one from inventory and get it in four days. Consumers want buying or refinancing a home to be just as fast and painless."

The sheer volume of refinances and purchases puts great demand on lenders. As activity mounts, mortgage lenders are racing against the clock to lock buyers in and process their loans.

This would have been challenging enough under normal circumstances, but the pandemic has added workflow disruptions to the mix. Lenders were forced to develop and implement work-from-home business models and reassign some processing and sales personnel to matters related to shepherding government programs.

Yet customers continue to want their loans approved and closed promptly. Their expectation, according to Fannie Mae's National Housing Survey, is that the mortgage process should take a month or less. Given the industry average was 43 to 47 days at the end of

> *Lenders can use self-inspection applications, which in some cases include geo-fencing and room identification to prevent fraud, to streamline a variety of lending and servicing processes.*

2019—before lenders faced COVID-related challenges—it's clear that the pressure is on for lenders to find ways to expedite the process.

NEW OPPORTUNITIES FOR DIGITIZATION

Fortunately for lenders, they don't have to invest tremendous amounts of financial or human capital in technology development and implementation to get up to speed quickly. Tech-focused settlement service partners specialize in digital mortgage solutions that remove pain points and friction for consumers.

For example, consumer-facing scheduling technology automates the appraisal and closing processes to trim days off the loan cycle while delivering convenience and transparency to the borrower. Where appraisers and closing agents previously spent days emailing or playing phone tag with homebuyers or their agents to schedule appointments, easy-to-use apps now enable the borrower to select from available agents, dates and times, and immediately schedule appointments. Appraisers' and closing agents' time can be allocated more efficiently, too.

Virtual home inspections also offer a cutting-edge opportunity for digitization and modernization. Lenders can use self-inspection applications, which in some cases include geo-fencing and room identification to prevent fraud, to streamline a variety of lending and servicing processes, including home-equity lending and portfolio management.

Some closing applications also include virtual signing to address social distancing concerns. Agent and borrower meet through a video session and use remote online notarization in which the borrower e-signs and the notary e-notarizes the closing documents.

Lenders have a huge opportunity to operate more efficiently and profitably, and to create a differentiated consumer experience by fully digitizing their mortgage process. The key is identifying a settlement service partner with solutions that fulfill customer needs and enhance mortgage delivery.

Dave Steinmetz is division president for originations services at ServiceLink, a nationwide provider of mortgage services.

Using COVID-19 as a teaching tool

Security and compliance lessons learned from remote work and the flood of loan applications will help financial institutions plan for future crises.

BY LAURI GIESEN

When COVID-19 first hit the U.S. in the spring, the lending departments at many financial institutions were caught off guard as branches and offices quickly shut down and employees processed loan applications while working from home. They also felt pressure to help a large number of small-business customers that urgently needed additional financing.

This double whammy—employees working remotely on computer systems that had not been properly security-tested, while responding to a flood of new loan applications—caused a huge burden for the banks and credit unions. It also raised a number of red flags with regard to compliance and security.

Among those concerned by heightened risk were officials with the Office of the Comptroller of the Currency. In late June, the OCC identified key issues facing the federal banking system arising from COVID-19 in its *Semiannual Risk Perspective for Spring 2020*. In that report, the agency noted that "operational risk is heightened as banks amended business processes and engaged third parties to support widespread work capabilities, increased technology capacity and solutions to maintain operations under elevated operational volumes."

Additionally, the OCC expressed concerns about employees working from home and the increased demand for loans from the CARES Act, Paycheck Protection Program and a variety of forbearance and deferred-payment programs.

Compliance and security experts agree that the need to quickly set up remote operations and the increased number of loans processed created problems for lenders.

The first concern was the security of information coming via employee computer systems. "There was a lot of security risk associated with home computer networks," says Alma Angotti, partner and co-head of global investigations and compliance for management consulting firm Guidehouse.

And while FIs have had lending officers working remotely before, they were previously able to plan for such arrangements and thoroughly test remote systems prior to running sensitive information over them. When the pandemic began, the movement of data from corporate systems to questionable home and other remote networks often happened quickly, without the luxury of thorough testing, Angotti says.

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ALMA ANGOTTI, GUIDEHOUSE

Moving operations to remote locations has put pressure on other bank employees, says Monique Melis, global head of compliance and regulatory consulting at Duff & Phelps, a provider of governance, risk and transparency solutions.

"It has also put pressure on colleagues who have had to do many manual workarounds in lieu of automation, which carries enhanced fraud risk and lower customer satisfaction," she says. "Waiting times when dialing a call center have exploded and colleagues have a harder time making decisions, and so mistakes happen."

Another big problem, Angotti says, is that banks were flooded with new small-business loan volume, either through the PPP or other lending programs.

"To handle the massive demand of PPP loans and banks, not having enough staff to process the applications, many had to use outside contractors," she says. "And they had little time to train them in their compliance requirements or test their systems."

Despite these problems, Angotti believes most financial institutions did a pretty good job of meeting the compliance requirements during the pandemic. By mid-summer, the Department of Justice quickly identified a number of PPP fraud cases. Angotti believes most of the suspected fraud was identified by the lenders.

"DOJ could not have found these cases this quickly without the banks identifying the problems," Angotti says. "In one case, a small business claimed it had 239 employees, but the business was run out of a relative's apartment. Someone at a bank had to have been on the ball to look at the documentation and see there were inconsistencies in the data."

Melis agrees that banks have generally fared well in a difficult situation. "Banks have thus far showed operational resilience in a stressed situation, but conduct risk in serving customers while working from home has required a substantial change in processes and IT infrastructure," she says.

Outsourced service providers, such as Silicon Valley voice recognition systems, fraud prevention systems, AI to detect unusual activity, etc., have worked well throughout the COVID-19 pandemic.

MONIQUE MELIS, DUFF & PHELPS

New technology has helped banks through this crisis. "Outsourced service providers, such as Silicon Valley voice recognition systems, fraud prevention systems, AI to detect unusual activity, etc., have worked well throughout the COVID-19 pandemic and have assisted banks in their ongoing operations," Melis says.

Now that they've gotten through the early phase of the crisis, banks need to conduct a thorough review of how they did to prepare for the future. "Banks need to review the results of the pandemic for handling the next catastrophe they will face," Angotti says. "What went wrong, and what changes need to be made for the next inevitable crisis?"

And it is not just catastrophes that financial institutions need to think about in the future. The pandemic may have accelerated the movement toward greater and more sophisticated remote banking.

"The COVID pandemic may force banks up the risk curve, and they then need to have systems and controls in place to deal with that," Melis says. "Additionally, they will need to hire new teams to deal with default and recovery, which they haven't really had to focus so much on in the past few years."

Lauri Giesen has spent more than 25 years writing about banking technology and payments for numerous business and financial publications. In the 1990s, she founded and edited Financial Service Online, a magazine covering internet-based forays into banking and investment services.

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