

The Silver Lining in Lending

Turning Doubters into Online Believers



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Dear Colleague:

Many in the industry would report these are tough times for lenders. The subprime and credit crunch triggered in the summer of 2007 has swept through the mortgage industry. Few financial institutions seem to have been immune to the effect of the “epidemic.” Many news stories are asking, “What next?” While these news stories most often focus on anticipating the next calamity, many executives in the lending industry are asking themselves a different question: namely, what’s the antidote they need to survive the credit crunch and emerge stronger than before?

Naturally, many financial institutions are looking for ways to cut costs. We believe lenders would be well served if they were to consider strategies targeted at reducing costs without sacrificing service quality. Those efforts will not only impact the bottom line but also will simultaneously target increasing revenues. That will result in greater competitive advantage, stronger customer loyalty and growing repeat business – something we call Service Operations Effectiveness.

Leveraging online channels is an example of how a lender can optimize costs, improve service and, as a result, improve its competitive advantage. To provide insight into how lenders can take advantage of the online channel, we conducted a survey of more than 600 consumers, completed extensive secondary research, and spoke with numerous lending executives in the industry. This report provides the results of our efforts.

As you will see, the results suggest to lenders that, while they need to act to address the current environment, it also is time to think about how to achieve the promise of lowering costs while simultaneously improving service quality and revenue. We believe the potential of online lending presents a key opportunity for lenders to address this challenge. Originating loans online could reduce origination costs by up to 80% compared to traditional application methods and, at the same time, that could drive increased service quality, customer satisfaction and strengthen customer relationships. Consequently, we believe originating online could provide a critical opportunity to gain market share.

We hope this report proves to be a helpful guide to ways your institution can take advantage of the online lending opportunity.

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Executive Summary

Online lending is shaping up as a key battleground for financial services. Originating loans online can reduce costs by as much as 80% compared to applications through a branch or call center. Not only are costs lower, most consumers who apply online find the process to be faster, easier, and more convenient than traditional methods. As a result, online applicants are more likely than traditional applicants to recommend their lender to friends and relatives. Convincing more consumers to apply online will require lenders to simplify the application process, provide customized product recommendations, and deliver responsive customer service and quality, which will help make lenders more competitive in the marketplace.

These are some of the principal findings of a survey by Deloitte Consulting LLP of 604 consumers who had applied recently for mortgage and home equity products – 300 who had applied online and 304 who had applied either by telephone or in person. The survey was supplemented by in-depth interviews with a select number of senior executives, an assessment of the Web sites of 12 lending institutions, and an analysis of recent reports and media coverage, and by Deloitte Consulting's experience working with a wide variety of major lending institutions.

We found from the survey results that those who apply online for mortgage or home equity products are typically satisfied with the experience. In fact, 61% of online applicants reported their experience with the application process had made them very likely to recommend their lender to friends and relatives, compared to only 53% for in-person applicants, and 48% for telephone applicants.

Most consumers who applied online have become online "Believers." Among online applicants, 73% reported online applications were more convenient, 66% reported it was easier to submit information online, 58% felt the process was faster, and 59% felt more comfortable with the process overall than they did with traditional methods.

But while those who eventually applied by telephone or in person used the Internet to gather information, most traditional applicants remained "Doubters" when it came to the advantages of actually applying online. For example, 47% of traditional applicants reported it was easier to understand the application requirements when applying by telephone or in person, and 41% were more comfortable overall with traditional methods.

When it comes to applying online, which we found to be substantially less expensive to operate, consumers are satisfied with the process. Leveraging the potential of online lending provides institutions with an opportunity to gain significant competitive advantage as it helps resolve the traditional quandry of choosing between lower costs and higher service quality. This challenge faces not only financial services firms, but also service companies in other industries whose results depend equally on efficiently delivering superior customer service.

How can lending institutions increase the comfort level of Doubters and convince them to join the ranks of online Believers? The survey results indicate that it's not a question of targeting certain demographic groups such as younger or wealthier consumers. In fact, online applicants were broadly spread among all age and income groups in the survey.

Instead, realizing the potential of online lending will require originators to compete on service to meet the following challenges:

Make Web sites more user-friendly. Only 19% of those who applied using traditional methods reported their lender's Web site was very easy to use. Even among online applicants, only 48% rated them as very easy to use. Most lending institutions need to improve their Web sites through such features as improving navigation, prominently displaying customer service telephone numbers, offering product comparison tools and calculators, and providing the ability for consumers to save a partially-completed application.

Offer customized advice online. We found that consumers often preferred telephone and in-person applications because they sought personal advice on which product best meets their needs. Yet, only 30% of online applicants reported their lending institution offered an online tool that provided customized product recommendations.

Encourage interaction. Consumers reported that they need to be given easy options to speak with someone live so that they can have their questions answered. But while 75% of online applicants reported their lender offered the ability to speak with someone by phone, only 26% reported it provided an online chat function. When these options were used, however, most consumers found them to be helpful. Lenders shouldn't take a passive approach with these options. Instead, they need to proactively invite consumers to speak by phone or use a chat function when there are indications customers have a serious interest in applying.

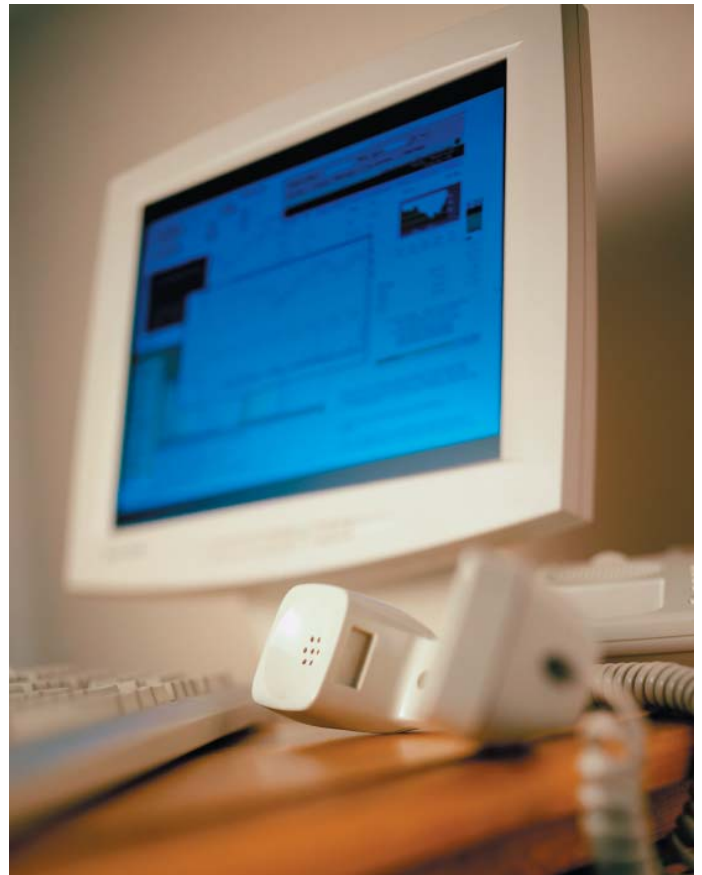
Integrate channels. We believe lenders need to make it seamless for a consumer to begin an application online, talk by phone to a representative to have questions answered, and then complete the application wherever they feel most comfortable—online, by telephone, or in a branch. This is only possible if a lending institution tightly integrates data across channels so that a consumer is recognized when they switch channels, does not have to provide the same information again, and receives consistent product information.

To encourage more consumers to apply online and to improve overall quality service levels, lenders will need to offer consumers customized advice and the opportunity to speak live with someone who understands their needs.

While virtually all institutions are online, some are only dabbling and not making the commitment necessary to be effective. For both the large lenders and mid-tier institutions, excellence in the online channel will be a key differentiator.

We believe Service Operations Effectiveness in online lending offers mid-tier lenders their best chance to gain on industry leaders because there is little opportunity to increase market share through such strategies as new products or branch expansion. The large lenders have the ability not only to meet this challenge from the niche players, but also to leverage online lending to gain new customers and increase customer satisfaction. They can also reduce costs, not just by originating loans online, but, more importantly, by working to automate the entire loan process.

Today, the industry is responding to tremendous turbulence in the markets from the problems in the subprime sector. While responding to the current credit crunch is a critical necessity, lending institutions also know they need to continue to strengthen customer relationships and increase efficiency if they are to remain competitive. We believe that the lending institutions that can take the steps necessary to turn today's online Doubters into tomorrow's online Believers will be positioned to thrive, not simply survive, in the years ahead.



The online opportunity

What have been the experiences of consumers in applying online for home mortgages and home equity lines of credit? How does the online channel compare to other channels for these products? And what are the most effective steps that institutions can take to leverage the Internet to capture new customers while optimizing costs and improving service quality and value?

To answer these and other questions, Deloitte Consulting LLP conducted a survey of 604 consumers who had obtained a mortgage to purchase a home, refinanced a mortgage, or taken out a home equity line of credit in 2006 or 2007. The goal of the survey was to assess the experiences of consumers with researching and applying for mortgages and home equity products online, by telephone, and through in-person meetings with bank loan officers or with brokers. The survey was supplemented by in-depth interviews with a select number of senior mortgage executives, an assessment of the Web sites of 12 lending institutions, an analysis of reports and media articles, and Deloitte Consulting's extensive experience working with major banks and lending institutions.

One of the key opportunities for lenders is to better leverage the potential of their online channels. The Internet has become a pervasive part of everyday life for most Americans. In its March 2007 survey, the Pew Internet Project found that 71% of all adults in the United States used the Internet.¹ In fact, 47% of the U.S. adult population had a broadband connection at their homes, up from 30% two years before.²

Consumers have also become more comfortable with conducting banking transactions online. A 2006 analysis by Celent LLC, a research firm, estimated that close to 40% of U.S. households conducted some banking transactions online, double the rate in 2000.³ And the number continues to grow. A 2007 survey by Harris Interactive and the Marketing Workshop found that for the first time the number of bills paid online exceeded the number paid by paper check among households that were connected to the Internet.⁴

Online lending activity is growing as well. In 2006, 7.3% of retail mortgages were originated online, according to *Inside Mortgage Technology*.⁵ Celent has predicted this will grow to 12% of total retail originations by 2008. It also expects online-originated home equity lines of credit to double from 8% of total originations in 2005 to reach 15% in 2008.⁶

Major lending institutions have recognized the potential in the online channel to gain new consumers attracted by convenience and faster approvals, and resulting in strengthening customer relationships. Some banks find that online customers maintain larger deposits and loan balances, making active online customers more profitable.⁷ Lenders can also benefit from online origination costs, which can be as much as 80% lower than through traditional methods. According to the Mortgage Bankers Association, the average cost to originate a mortgage was \$2,476 in 2006.⁸ That cost can be reduced to less than \$500 by using online applications and workflow software according to Celent.⁹

Online specialist lenders, such as Quicken Loans and E-Loan, have also seized the opportunity of the online channel. Online originations provide the best opportunity for new entrants to gain market share quickly at a reasonable investment, and some have made significant inroads. In 2006, Quicken Loans was ranked as the number one institution in online retail mortgage originations.¹⁰

With mortgage volumes decreasing and with pressure on revenues and margins, lending institutions will need to be creative to weather the storm; the online channel needs to be a critical part of the mix. The first step for most lenders is to do a better job of leveraging the Internet to generate more prospects for their products.

Generating prospects online

Whichever method consumers eventually used to apply, the Internet was the most popular way to gather information on mortgage/home equity products. (See Exhibit 1.) Not only did 93% of those who applied online report they had done research online, so did 71% of those who applied by telephone and 60% of those who applied in person. In addition, even among those who eventually applied in person, 60% still looked to the Internet as their first source of information. (See Exhibit 2.)

Although all groups used the Internet to gather information, consumers who decided to apply by telephone or in person also relied heavily on traditional methods to gather information. For example, 53% of consumers who applied in person conducted some of their research through meetings with banks and 31% through meetings with brokers.

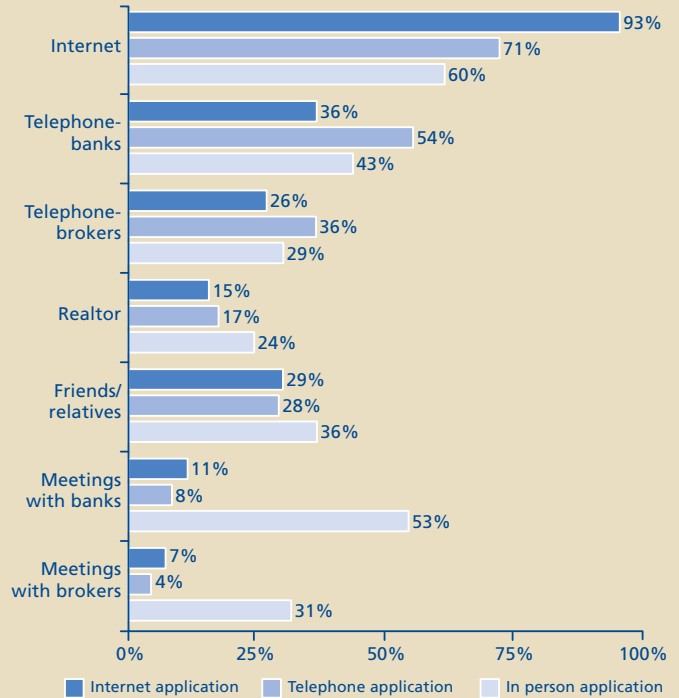
While the Internet has become widespread as a source of information on mortgage and home equity products, lending institutions have a long way to go to fully realize the potential to generate new customers. Consumers who applied by each method were asked how satisfied they were with gathering information by that method. (See Exhibit 3.) The Internet received its highest ratings as a way to compare lenders. For example, 54% of online applicants reported they were very satisfied with the Internet in comparing rates across lenders and 53% in comparing products across lenders, significantly higher percentages than for gathering this information by telephone or in person.

The survey also asked about the use of loan aggregator Web sites. Of the consumers who applied online, 59% reported using an aggregator Web site to solicit rate quotes and help select their lender. To research offerings and solicit rate quotes, 59% of the consumers who applied online reported using a loan aggregator Web site. LendingTree was the most popular choice, used by 61% of online applicants who used an aggregator site, followed by BankRate.com at 12%.

Yet, compared to in-person meetings, the Internet was not rated more highly in comparing offerings across lenders and was considered somewhat lower in comparing fees. While this may appear surprising, given the ease of gathering comparative information online, it underscores the conclusion that those who applied in person were generally satisfied with receiving information through face-to-face meetings.

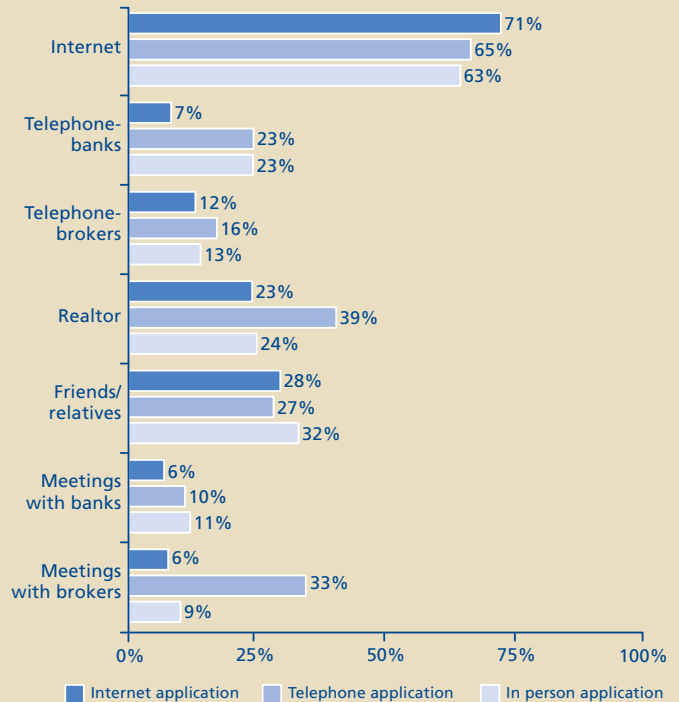
When it came to receiving customized information or recommendations about their specific situation or needs, consumers gave significantly higher ratings to the telephone and in-person meetings than they did to the Internet. For example, 72% of consumers who applied in person were very satisfied with this method of learning the maximum loan amount they could qualify for, as well as 68% of those who applied by telephone. In contrast, only 48% of those who applied online were very satisfied with using the Internet for learning this information. Similarly, consumers preferred in-person meetings and the telephone for receiving product recommendations based on their needs.

Exhibit 1. Information sources used before applying
Base = Respondents who used each application method



Note: Percentages do not total 100 because some respondents did not use some information sources

Exhibit 2. The first information source used
Base = Respondents who used each application method and information source



Note: Percentages do not total 100 because some respondents did not use some information sources

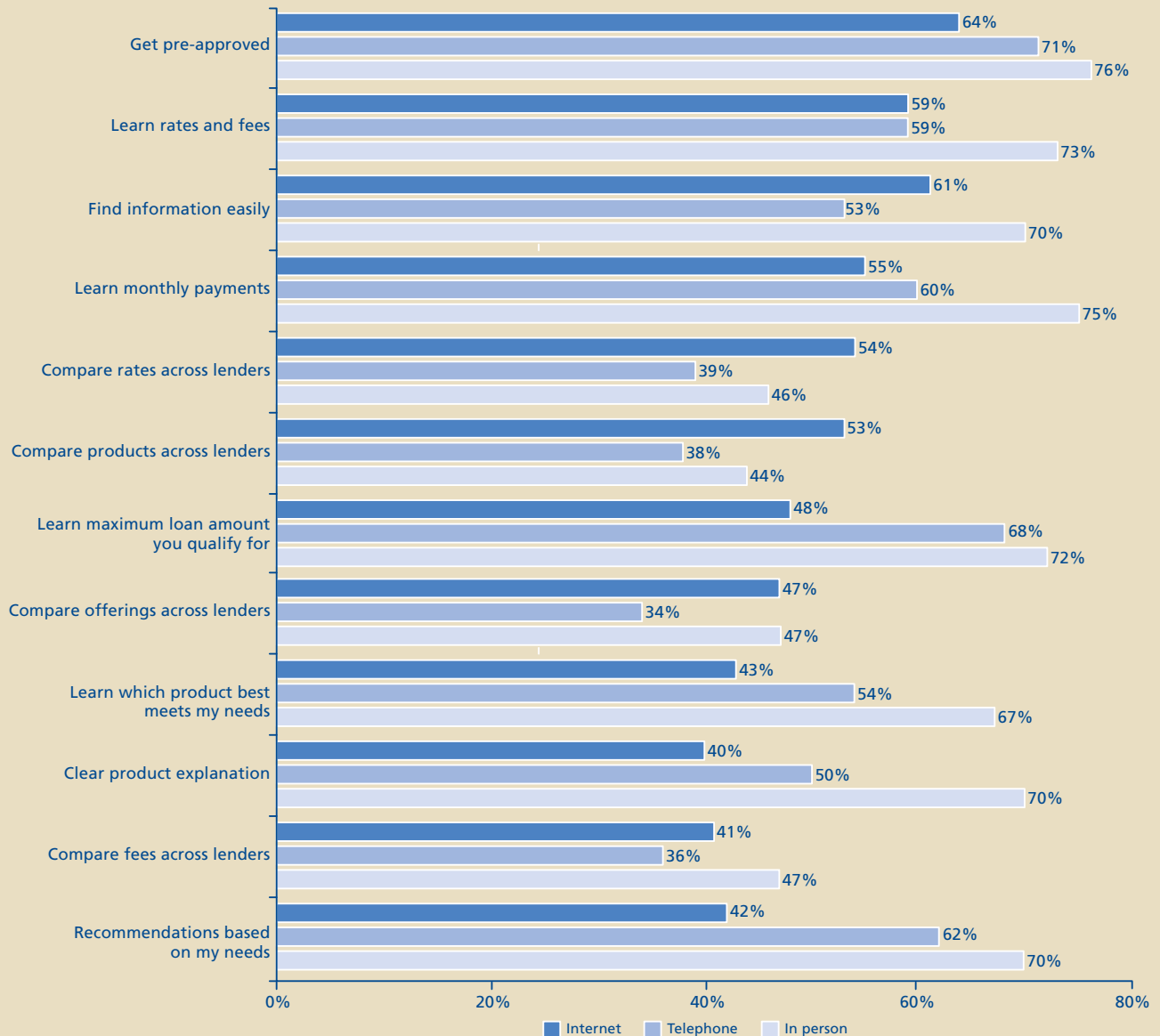
As a result, consumers who applied in person were more likely to report that gathering information through meetings had made them more likely to submit an application. Of those who applied in person, 74% reported that this method of gathering product information had made them very likely to apply, compared to 59% who reported the same about researching products online.

While consumers appreciated the ability to use the Internet to easily compare products and offerings from different lenders, they rated it as less effective than other methods in providing customized information and advice. Given the widespread use of the Internet to research mortgage and home equity products, it appears that most lenders have failed to take full advantage of this channel to turn these prospects into applicants.

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Exhibit 3. Satisfaction with aspects of gathering information by method used

Percent of respondents very satisfied (6-7 on 7-point scale). Base for each method = Respondents who applied using method



Online “Believers” vs. online “Doubters”

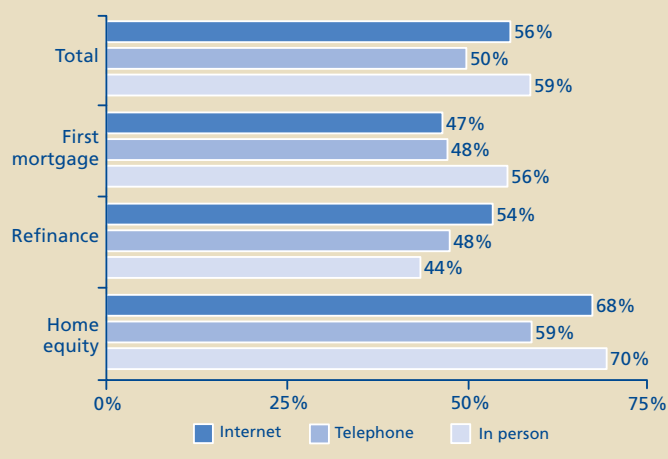
Consumers who applied online were satisfied with the experience, finding it to be more convenient, easier, and faster than the traditional application process. These online Believers were more likely to become advocates for their institution and recommend it to friends and relatives. Yet, there was a wide gap between their views and those who applied by traditional methods; the online Doubters were less comfortable with applying online and didn’t believe it offered significant advantages.

More than half the consumers who applied online were very satisfied with the process, roughly comparable to the number of in-person applicants who were very satisfied and higher than the figure for telephone applicants. (See Exhibit 4.) For refinanced mortgages, online applicants were more satisfied than were those applying by telephone or in person. In first mortgages, on the other hand, in-person applications received the highest ratings, which may be due to the more complex nature of the purchase decision or of first-time home buyers. Finally, consumers were most satisfied with the process of applying online for a home equity line of credit; applying via Internet and in-person received similar ratings.

Consumers applying online were more likely to become advocates for their lending institution. Sixty-one percent of those who applied online reported the process made them more likely to recommend their institution to others.

Yet, consumers applying online were more likely to become advocates for their lending institution. Sixty-one percent of those who applied online reported the process made them more likely to recommend their institution to others, compared to 53% for in-person applicants, and 48% for telephone applicants.

Exhibit 4. Satisfaction with application process
Percent of respondents very satisfied (6-7 on 7-point scale)
Base = Respondents using each product and application method

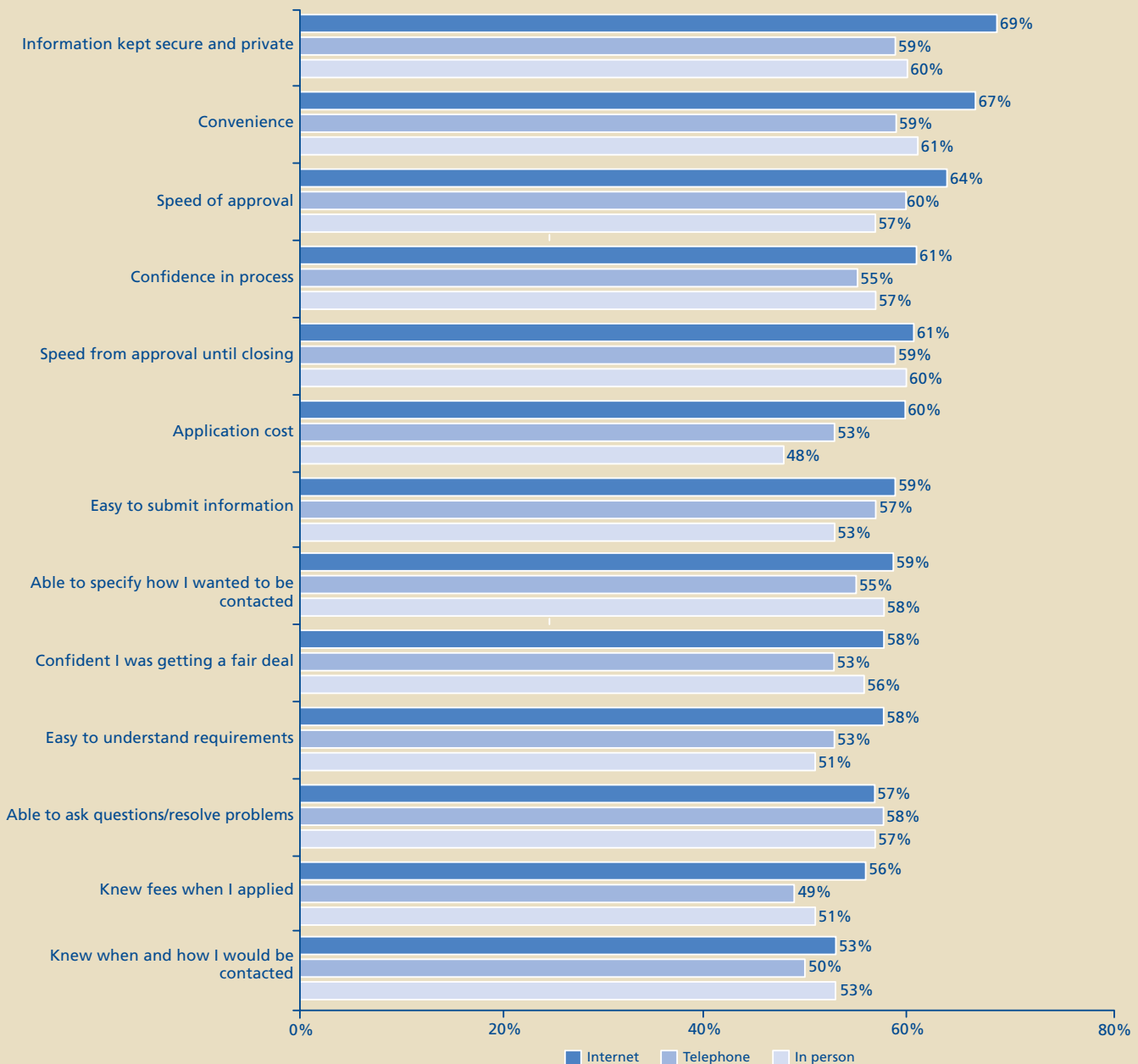


The survey examined 13 specific aspects of the application process, such as the ease of understanding requirements and submitting information, the application cost, the ability to ask questions and resolve problems, and overall confidence in the process. Consumers gave high marks to all three application methods, with roughly 50% to 60% reporting they were very satisfied with specific attributes. (See Exhibit 5.)

Online applicants were more likely than traditional applicants to be very satisfied with the convenience, speed, and cost of the application process. For most other attributes, consumers gave similar ratings to each of the application methods. In addition, online applicants also were confident in the security and privacy of their personal information.

Interestingly, an attribute involving personal interaction, *the ability to ask questions/resolve problems*, received similar ratings for each type of application. This finding stands in contrast to the ratings for gathering information, where consumers were less satisfied with the Internet. The explanation may be that during the research process many consumers, even those intending to apply online, need more detailed information, personal advice, and hand-holding. Once they have chosen a product and are submitting an application, they may require more support pertaining to application questions, technology, or the status of their application.

Exhibit 5. Satisfaction with application process
 Percent of respondents very satisfied (6-7 on 7-point scale)
 Base = Respondents using each application method



Consumers who applied online believed this method offered important advantages. (See Exhibit 6.) Internet applications were considered more convenient than traditional methods by 73% of online applicants, easier overall by 57%, and faster by 58%. Overall, 59% of online applicants reported they were more comfortable with applying online.

To expand the use of online mortgage and home equity applications, lending institutions will need to address the concerns of traditional applicants, who were not convinced that Internet applications offered advantages. While they acknowledged the convenience of online applications, consumers who had applied through traditional methods reported that telephone or in-person applications were easier, more secure, and gave them greater comfort with the process overall. For example, 47% of consumers surveyed who had applied by a traditional method reported it was easier to understand the requirements with a traditional application, compared to just 17% who reported understanding requirements was easier when applying online.

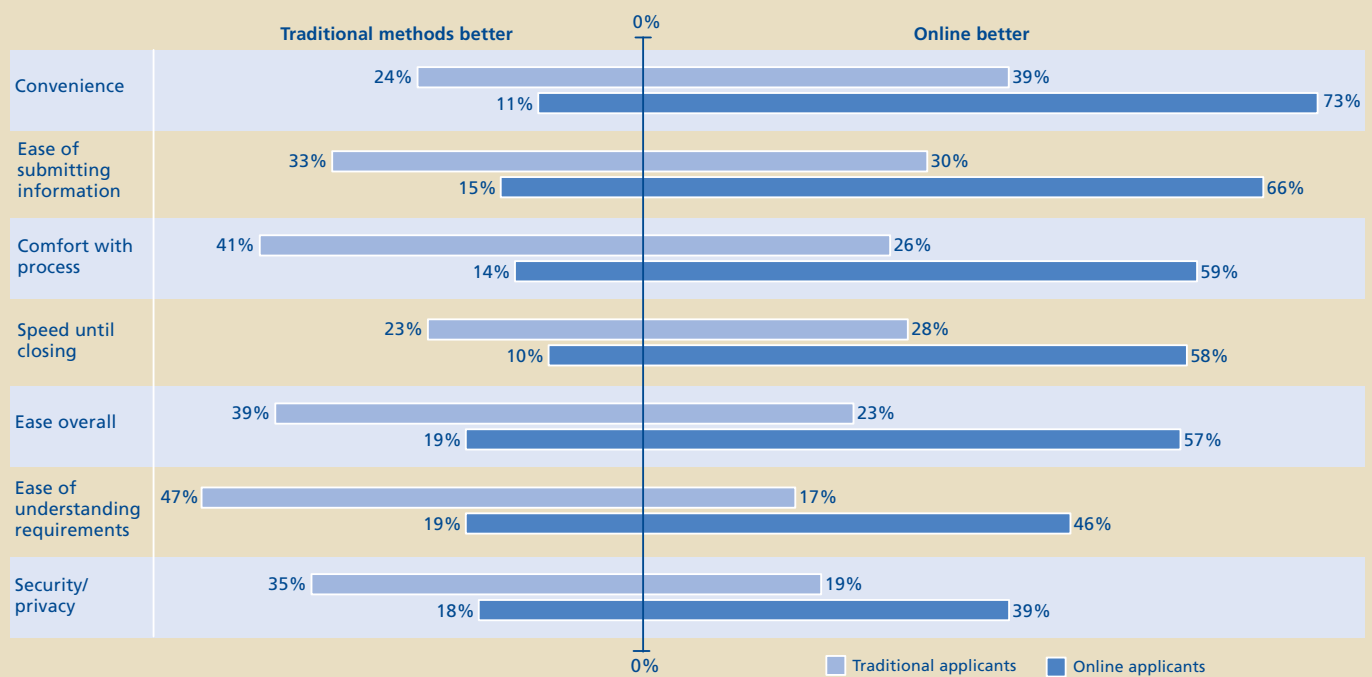
Snapshot of Online Believers

Most consumers who had applied online for a mortgage or home equity line of credit had become Believers in online applications. Among online applicants:

- 73% reported applying online was more convenient than traditional methods
- 66% reported it was easier to submit information
- 59% reported they were more comfortable with the process
- 58% reported it was faster

The bottom line: 61% of online applicants were significantly more likely to recommend their lending institution as a result of their application experience.

Exhibit 6. Two views of online applications: Believers vs. Doubters
Traditional application methods = telephone and in person



Turning online prospects into customers

Although we found researching mortgage and home equity products on the Internet is common, we believe convincing more online prospects to become applicants will require most institutions to make significant changes to their approaches. First and foremost, most organizations need to make their Web sites and the application process easier to understand and use. Even among online applicants, only 48% rated their lender's Web site as very easy to use, while just 19% of traditional applicants agreed. As one respondent reported, "There are times that I get so frustrated trying to figure out a Web site that I just log off and try again later."

An assessment of lending Web sites by the Change Sciences Group, an online consumer research firm, gave most institutions low ratings.¹¹ They reported that on most sites it was difficult for consumers shopping for a loan to find the information they need. Only five of the 26 bank sites they evaluated were rated highly on the first impression provided, half didn't provide detailed information online on loan offers, and the online application processes at many banks were long and complex. A Change Sciences Group analysis of bank home equity Web sites found similar problems with the content provided, usability, and the application process.¹²

Converting more online prospects into online applicants will require mortgage lending institutions to make significant changes to their online capabilities.

To add to our knowledge-base for this report, we conducted an assessment of the lending Web sites and the online-application processes of 12 lenders: six large institutions, three mid-tier institutions, and three online specialists. The Web sites were assessed on their design/layout and usability, while the application processes were evaluated on their ease-of-use, the availability of assistance, and the presence of additional resources. Most of the Web sites

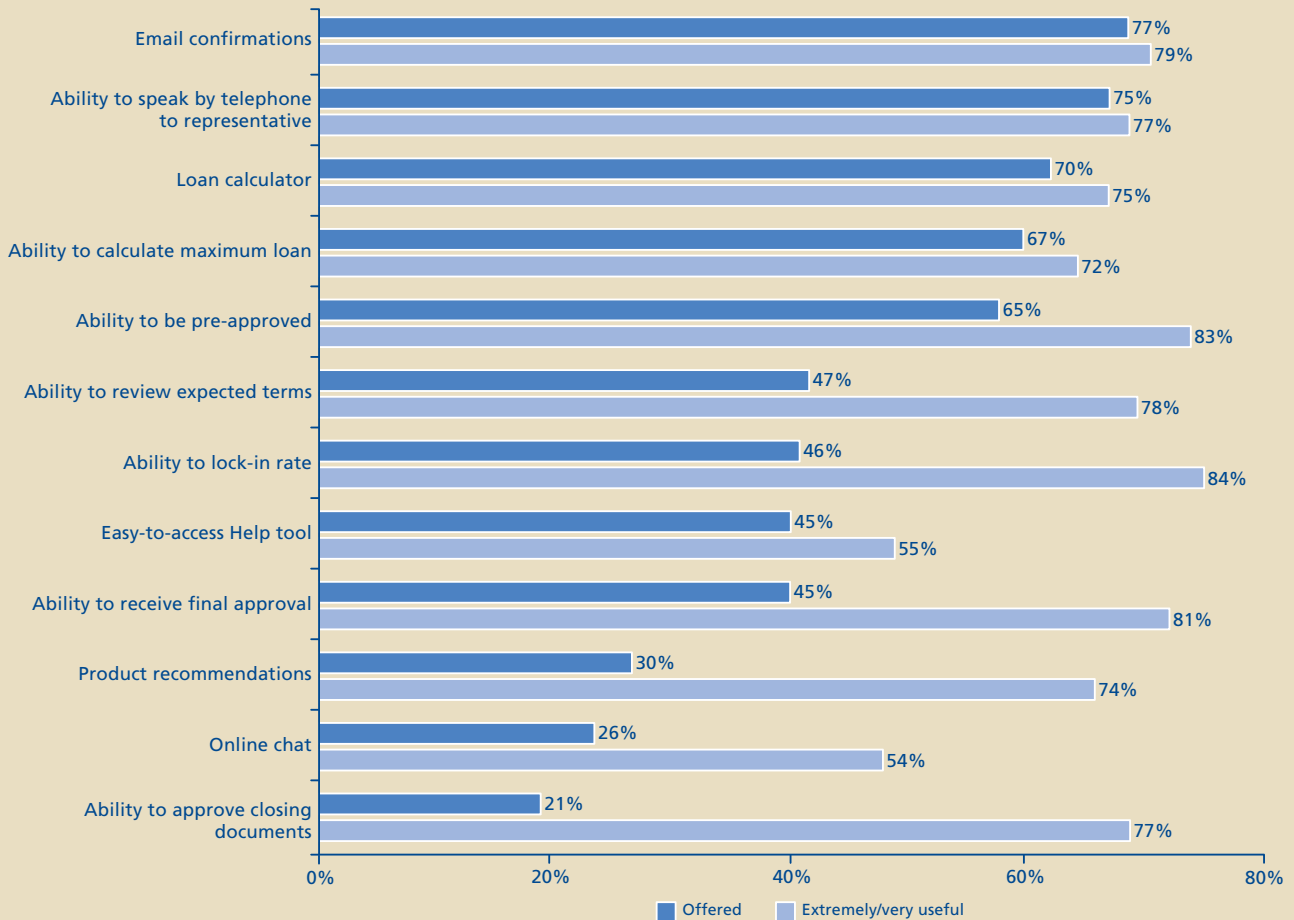
suffered from problems such as difficulty finding information required, navigating multiple screens to complete an application, not providing customer support numbers on the home page, and the lack of product research tools.

The highest-rated Web sites in our assessment had:

- A simple and functional design and layout, and intuitive navigation
- Helpful information, such as calculators and product research tools
- Easy-to-locate customer support numbers
- Clear description of the application process
- Partially pre-filled applications for existing customers
- The ability to save a partially completed application
- The ability to check the status of an application after it has been submitted

In our survey, more than 60% of consumers reported their lenders' Web sites had such features as email confirmations, the ability to speak by telephone to a customer service representative if they had questions or encountered problems, a loan calculator, and a tool that would calculate the maximum loan amount they could qualify for. (See Exhibit 7.) But when it came to more customized and interactive features, the figures were much lower.

Exhibit 7. Features on lender's Web site
Base = Respondents who applied online



Note: Respondents who used each feature were asked to rate how useful they were
Source: Consumer Online Mortgage Report – RIS.

Offering customized advice

Providing consumers with a more customized experience is essential. One executive interviewed reported that their institution's banner ads take consumers directly to the appropriate location on their site. For example, if a consumer clicks on a banner ad for the search term "home equity," they would be taken directly to the home equity portion of the Web site, rather than to the general mortgage page, or even worse, to the bank's overall homepage.

In addition, more needs to be done to address the areas where the online channel is weakest by providing customized information and offering tailored product recommendations through loan calculators and automated advice tools. Only 30% of online applicants reported that their lending institution had a tool that could provide them with customized product recommendations based on their needs. Another online tool that can prove helpful is the ability for consumers to check the value of their homes, which may lead them to contact the lender about refinancing, home equity lines of credit, or other products.

It is important to keep in mind that some consumers may not be aware that their lender's Web site offers customized product recommendations. However, this is significant in itself. If a lender's Web site offers a product recommendation tool and some consumers are not aware of it, the reason could be that the site is poorly designed and the feature is not apparent. For these consumers, it is no different than if the feature was not offered at all.

When lenders offered these tools, consumers found them to be helpful. Among online applicants who had used their lender's tool offering customized product recommendations, 74% rated it as very helpful. Using the Internet to provide customers with the personalized advice they are seeking is one way to encourage them to become online applicants, and therefore strengthen customer relationships.

Encouraging interaction

Web sites also need to be made more interactive by leveraging the potential of features such as Internet chat and click-to-call (i.e., requesting a call from a customer service representative). Although 75% of consumers who applied online reported that their lender's Web site offered the ability to speak by telephone to a customer service representative, some consumers desired more personal attention. When asked how their lender could improve the online application process, one respondent replied, "Provide a person ...to see the process through (to) completion that I could contact if any questions arose." We have found that organizations indicate they do this, but it is often not a reality.

When it came to online chat, only 26% of those surveyed reported that this was offered on their lender's Web site. This is consistent with our assessment of lending Web sites, where only four of the 12 sites examined offered online chat as an option. Among the consumers surveyed who used their lender's chat feature, however, roughly half found it to be very helpful.

Online information needs to be supplemented by the ability to speak live with a customer service representative, either by chat or by telephone.

Consumers like the ability to have simple questions answered without having to call and enter into a full conversation, as well as the ability to interact at any time around the clock. Lenders can maximize the impact by inviting consumers to chat—having an invitation window pop up in their browsers—when they appear to be serious prospects based on the information they have provided or the time they have spent on the site.

Integrating channels

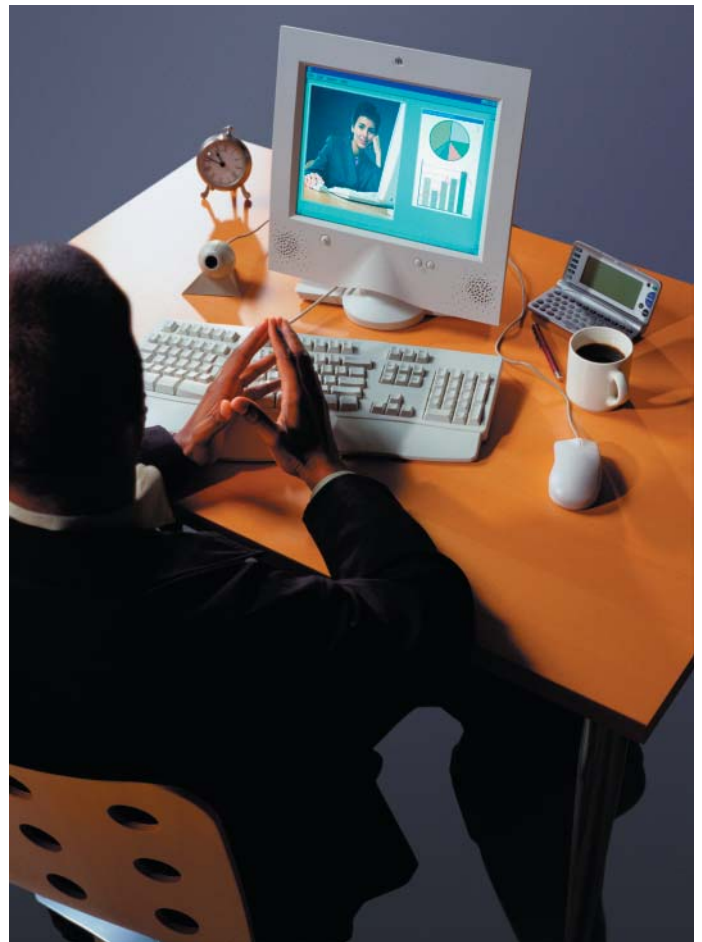
A final challenge is seamlessly integrating the online channel with call centers and branches. A consumer may begin online, click-to-talk to a customer service representative, and then complete the application over the phone or by stopping in at a branch. In other cases, they may have their questions answered by phone and then return to complete their application online. This is only possible if an organization has its channels, and the associated customer data, fully integrated. Customers should be recognized when they switch channels, not have to provide the same information again, and receive consistent product information.

A senior executive interviewed at a leading bank said their strategy was to use the Internet to drive consumers to their branches, where they believed they could more easily close the loan and develop a stronger customer relationship. Firms considered to be sole Internet lenders also realize the importance of employing multiple channels. At Quicken Loans, after collecting basic information online, a representative calls the consumer to recommend the most appropriate product and collect the additional information needed to complete the remainder of the application.¹³

To quickly develop a relationship online, some organizations have replaced or supplemented the full mortgage application, which is onerous to complete, with a simpler lead generation form. Lead forms ask for basic information, such as the location of the property and the loan amount, which is then used by representatives who contact the prospect by phone.

The Internet can certainly be effective in initiating contact with consumers, who are then directed to the call center or branch. However, we believe it is too limiting to view the Internet only as a way to generate leads for other channels. Some consumers are already comfortable with applying online, and more will become comfortable over time as online applications become more common and the functionality of Web sites continues to improve.

Another important factor in determining whether prospects complete an online application is the point in the process at which a deposit is required. When a deposit is requested later in the process, or not at all, applications go up. A 2007 survey of its 700 banking and credit union clients by Mortgagebot, an online technology vendor, found that when a deposit was required before submission, 46% of online applications that were opened were eventually submitted, compared to a 57% completion rate when a deposit was required after submission and a 62% completion rate when no deposit was required at all.¹⁴



Towards pure eLending

Institutions have the opportunity to create more satisfied customers, while reducing costs, by taking the steps to encourage more consumers to originate online. Realizing the full potential of online lending—both for mortgages and home equity loans and also for other types of consumer debt such as auto loans—will come from going beyond simply originating online to create pure eLending by automating the entire loan process. Based on our client experiences, automating and rationalizing the loan process can shorten origination cycle times by up to 90%, while reducing the total effort to close a retail loan by as much as 45%.

Mortgage eLending is an illustration of a broader strategic imperative that optimizes costs while improving service quality at financial services institutions as well as companies in other service industries, which we call *Service Operations Effectiveness* (SOE). The traditional assumption has been that there is a straightforward trade-off between cost and service quality—as one goes up, the other goes down. As a result, institutions have tended either to provide premium service at a premium price or position themselves as a low-cost provider offering no-frills service.

Online lending provides an opportunity to reduce operating costs by streamlining and automating lending practices while enhancing service quality and value by creating a faster, more convenient experience for customers.

This is often a false dichotomy. In many areas, there is the potential for an institution to significantly improve its business processes in order to reduce costs, while also strengthening customer relationships and driving increased revenues through improved service quality. Online lending provides an opportunity to reduce operating costs by streamlining and automating lending practices while enhancing service quality by creating a faster, more convenient experience for customers.

What does eLending look like? A paperless eMortgage can provide a glimpse. Automating the mortgage process is more challenging than for other types of loans due to numerous regulations and the need to coordinate with other industry participants such as attorneys, title companies, insurance companies, and appraisers. But in a world where eMortgage can be more of a reality than a concept, lenders will make greater use of automated underwriting systems employing customer analytics and decision models. Using imaging, they will electronically collect, disseminate, and store loan documents. Electronic signatures will be employed to allow loan agreements to be executed virtually. Even when applications are submitted by telephone or in person, most of the processing and closing process will be automated and handled electronically. A 2006 survey of 60 major lending institutions by Advectis, a technology vendor, found that two-thirds reported they were committed to quickly adopting eMortgage capabilities.¹⁵

We believe an eMortgage can provide lenders with a wide range of benefits. Today, the mortgage process involves dozens of manual handoffs, copying files that run to hundreds of pages, shipping loan packages to borrowers, and storing hard copies. Automating the process and removing most manual activities can reduce costs substantially as well as the potential for errors. According to a senior mortgage executive we interviewed, their applications flow directly into their processing system, which is operated offshore to further reduce costs. Another lending executive said that email requests were

analyzed automatically and replies were sent suggesting appropriate Help and FAQ topics. Automating the process had effectively resolved 40% of the email requests and had yielded significant savings.

The efficiency savings can be dramatic. We know of one smaller lending institution where eMortgage capabilities allowed them to increase their loan volume five-fold without adding full-time employees.

Consumers also benefit from a faster mortgage process overall. As one consumer commented, although the application was simple, their bank "...was very slow in finishing the loan process. I also found this to be true when I refinanced my mortgage in 2005." Automating the mortgage process will help keep lenders from squandering the advantages in speed and convenience that come with applying online by eliminating time-consuming, manual loan processing.

Errors are also reduced by eliminating duplicative data entry. Consumers are able to easily track the status of their application and closing. They benefit from faster approvals and processing. A senior executive at one major institution commented that while they currently required on average 20 to 30 days to close a mortgage, their long-term goal is to have the process eventually take no longer than closing an auto loan.

Automating the application process and integrating it with other systems allows more effective cross-selling. Banks gather an enormous amount of information when customers apply for a mortgage, probably more than for any other product. If that information can be entered automatically and integrated with other marketing efforts, the pay-offs can be enormous.

Conducting closings online will reduce costs for lenders, while making the process faster, more convenient, and less expensive for borrowers.

Lenders can proceed in phases as they work towards achieving this vision of the eMortgage, automating aspects of their processes while others remain manual for the time being. For example, the technologies exist to allow lenders to deliver and have borrowers execute disclosure documents through access to a secure Web site. Eventually, they can work towards conducting closings online, rather than in person.

In fact, the technology tools for a fully automated mortgage, including closing, already exist. The challenge in implementing it is less a question of technology than of educating employees, outside entities, and borrowers about this new approach and having the appropriate skills and talent to deploy the change across the organization. Although conducting a closing online may seem novel to some borrowers, electronic mortgage documents are legally binding and governed by federal legislation, the Electronic Signatures in Global and National Commerce Act, and by the state-level Uniform Electronic Transactions Act.¹⁶ One of the obstacles to eMortgages has been that many government agencies require paper documents such as a title and tax information. However, it is estimated that 20% of the U.S. population now lives in counties with the technology to accept electronic closing documents, and that figure will continue to grow.¹⁷

Some lenders have begun allowing borrowers to complete documents online for refinanced mortgages and home equity lines of credit through a service called ClosingStream.¹⁸ Borrowers can close their loans online, using their computers to review and approve the closing documents. A Webcam even allows them to see live images of the lawyers and other professionals involved. The process is faster than a traditional closing and more convenient because borrowers don't have to visit the offices of attorneys or title companies. In addition, they can save from \$100 to \$300 in closing costs.

In mid-2007, ClosingStream was reported to be closing approximately 1,000 loans a month, with refinanced mortgages comprising 80% of the total. One senior mortgage executive at a major bank that is using ClosingStream reported that 40% or more of their consumers now choose this option to close and their satisfaction scores are significantly higher than for those using a traditional closing.

Conclusion

Consumers who have applied online for their mortgage and home equity products have become online Believers. They were satisfied with the application process, finding it to be more convenient, easier, faster, and less expensive than traditional methods. Lenders have also benefited from the cost savings that result from online origination.

Consumers remain skeptical. Convincing more customers to apply online will require organizations to provide the customized advice and personal interaction consumers are seeking. Organizations will also need to tightly integrate their online channel with the branch and the call center so that consumers can move seamlessly from one to another based on their needs and preferences.

Online specialist lenders recognize the potential of this channel and use it to seize market share from traditional institutions. The major lending institutions will need to meet this challenge by upgrading their online capabilities. The institutions that can leverage the full potential of online originations, while making progress towards the ultimate goal of automating the entire loan process, will be in a much better position to benefit the most – for themselves and consumers.



Challenging the trade-off between operational excellence and service quality

Lending institutions like most other organizations, are face increasing pressure to reduce costs, grow revenue, and increase quality and service. In response to these pressures, management is taking a hard look at service operations and overall service quality. To significantly improve performance, these organizations must determine a course of action that fuses strategy, operations, and technology.

While most activities directed at achieving operational excellence are focused on cost and efficiency (e.g., reducing costs, reducing complexity and enhancing business processes), other benefits, like revenue growth and customer satisfaction, can be achieved if a holistic strategy is pursued. The bottom line: investments in operational excellence should drive cost savings, but investing in service operations can also increase revenue by achieving greater competitive advantage, stronger customer loyalty, and growing repeat business.

Driving increased value through Service Operations Effectiveness

We have helped some of the world's most prestigious companies in their efforts to achieve operational excellence. Typical services we provide are designed to help companies:

- Enhance processes and organizational designs to streamline operations and improve service levels and productivity
- Transform processes and organizations to achieve operational excellence
- Create service operations targets and measurements that can be tied to performance improvement
- Design and implement technical solutions to support more automated, consistent, and customer-focused capabilities
- Measure and manage service organization and process performance
- Align staff skills and capabilities to new processes to achieve expected outcomes

Historically, many companies have utilized a “trade-off” strategy for their service operations, pursuing either a cost-efficient or high quality service goal at the expense of the other service goal. Our holistic approach is designed to help our clients improve their organization's level of service quality, cost efficiency, and the customer experience, considering key constraints and avoiding this “trade-off” mentality.

Here are some of the key lessons we've learned along the way.

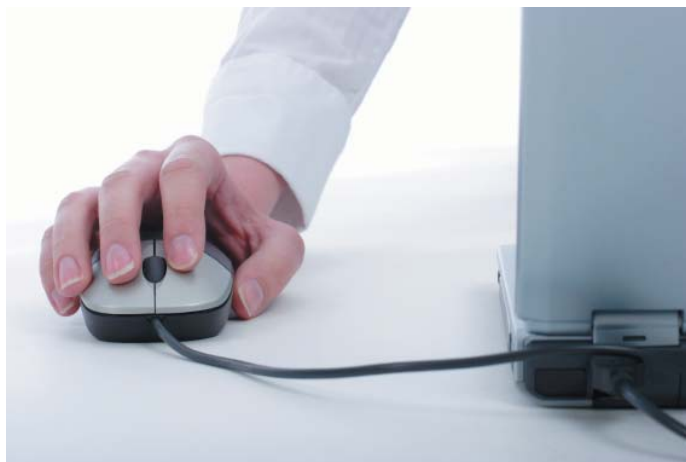
- **Align leadership** with the change imperative around predetermined and agreed-to goals.
- **Decide on incremental vs. transformational change.** Leadership must decide if a series of small changes or a large scale transformation is better suited to the organization's strategy and culture.
- **Involve input from all levels** in the design and execution of the transformation project.
- **Know where the dollars are going.** Create a rigorous business case for the transformation project—and keep it up to date, establishing the project's benefits and helping to manage risk.
- **Know your customers.** If you know your customers, you are better able to design service operations that can exceed their expectations.
- **Employ a balanced perspective,** with an equivalent focus on quality, growth, and efficiency.
- **Emphasize measurement and management tools** to assist leadership in accurately assessing progress and manage resources.
- **Cost efficiency isn't a quick fix;** it's an ongoing requirement for sustained competitiveness and maximum shareholder value, requiring a disciplined, pragmatic approach.

Bottom-line benefits

- Reduced costs due to service process improvement and consolidation
- Simplified and standardized processes with reduced handoffs and decreased cycle time
- Elimination of low-value add activities
- Improved service quality
- Happier customers and increased customer satisfaction
- More consistent results and customer experiences
- Enhanced revenue

Getting it done

Improving service operations can result in improving both the top- and bottom-line. But getting there and achieving lasting results isn't easy. Breakthrough performance requires a combination of innovative thinking and disciplined follow-through. We work with senior executives to help them execute programs to significantly improve the performance of their companies – and to choose a course of action that fuses executable strategy, operations and technology.



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Methodology

In August 2007, Deloitte Consulting LLP conducted an online survey of 604 consumers who had obtained mortgage or home equity products in 2006 or 2007. Bayer Consulting, a business research firm, conducted the survey.

The survey included 300 consumers who had applied online for their mortgage or home equity products and 304 consumers who had applied by traditional methods (140 by telephone and 164 in person). One-third of each group had obtained each of the following types of products: mortgage to purchase a home, refinanced mortgage, and home equity line of credit. The margin of error is 5.6% at the 95% confidence level both for the online applicants and for the traditional applicants.

Among both Internet and traditional applicants, roughly half had 2006 household incomes below \$100,000 and half had incomes of \$100,000 or more. It is sometimes assumed that online lending is only popular among younger individuals, but the survey did not bear this out. Although online applicants were somewhat more heavily represented in the younger age groups, 44% were 45 years or older.

It turned out that the survey participants were intensive users of the Internet and thus represented the highest priority target market for online mortgages and home equity products. When asked how many hours they typically spent online each week for personal use, 34% reported 20 or more hours online, 44% reported 10 to 20 hours, and 22% reported less than 10 hours. Most survey respondents also regularly conducted banking activities online: 23% did so daily, 35% did so several times a week, and 32% did so two to four times a month. Only 10% reported they conducted online banking transactions less frequently than once a month.

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