Mortgage Business Process Transformation 2024 RadarView™

Digitizing end-to-end mortgage processes for a seamless customer experience

September 2024

Table of contents

About the Mortgage Business Process Transformation 2024 RadarView

1

Service providers are differentiating themselves with deep domain knowledge, technology-led solutions, flexible commercial and operating models, and robust security and compliance measures. There is an elevated focus on product development to provide solutions that are tailored to customers' specific needs.

2

Avasant evaluated 68 providers using a rigorous methodology across the key dimensions of practice maturity, domain ecosystem, and investments and innovation. Through our analysis, we recognized 15 providers that brought the most value to the market over the last 12 months.

3

The *Mortgage Business Process Transformation 2024 RadarView* aims to provide a view into the leading service providers offering mortgage process services. Based on our methodology, these service providers are categorized into four broad segments: leaders, innovators, disruptors, and challengers.

4

To enable decision-making, we have provided an overview of the major service providers in the industry. This includes a list of their top enterprise clients, customer success stories, key IP assets/solutions and partnerships, and mortgage services subprocesses. This is supported by an analyst's take on the providers across the three key dimensions mentioned in the second point.

Executive summary

Definition and scope

Key definitions

Mortgage business process transformation:
Refers to the management of end-to-end mortgage services (from mortgage sourcing to account closing) for banks, financial institutions, and other mortgage lenders.

It includes the deployment of technology levers such as tools and platforms for digital mortgage processes, analytics, automation, and AI for digital-led process transformation.

To qualify for the current assessment, a service provider must:

- Offer services in at least two out of the four main mortgage processes defined in the value chain.
- Offer services in at least North America or Europe, among other regions.

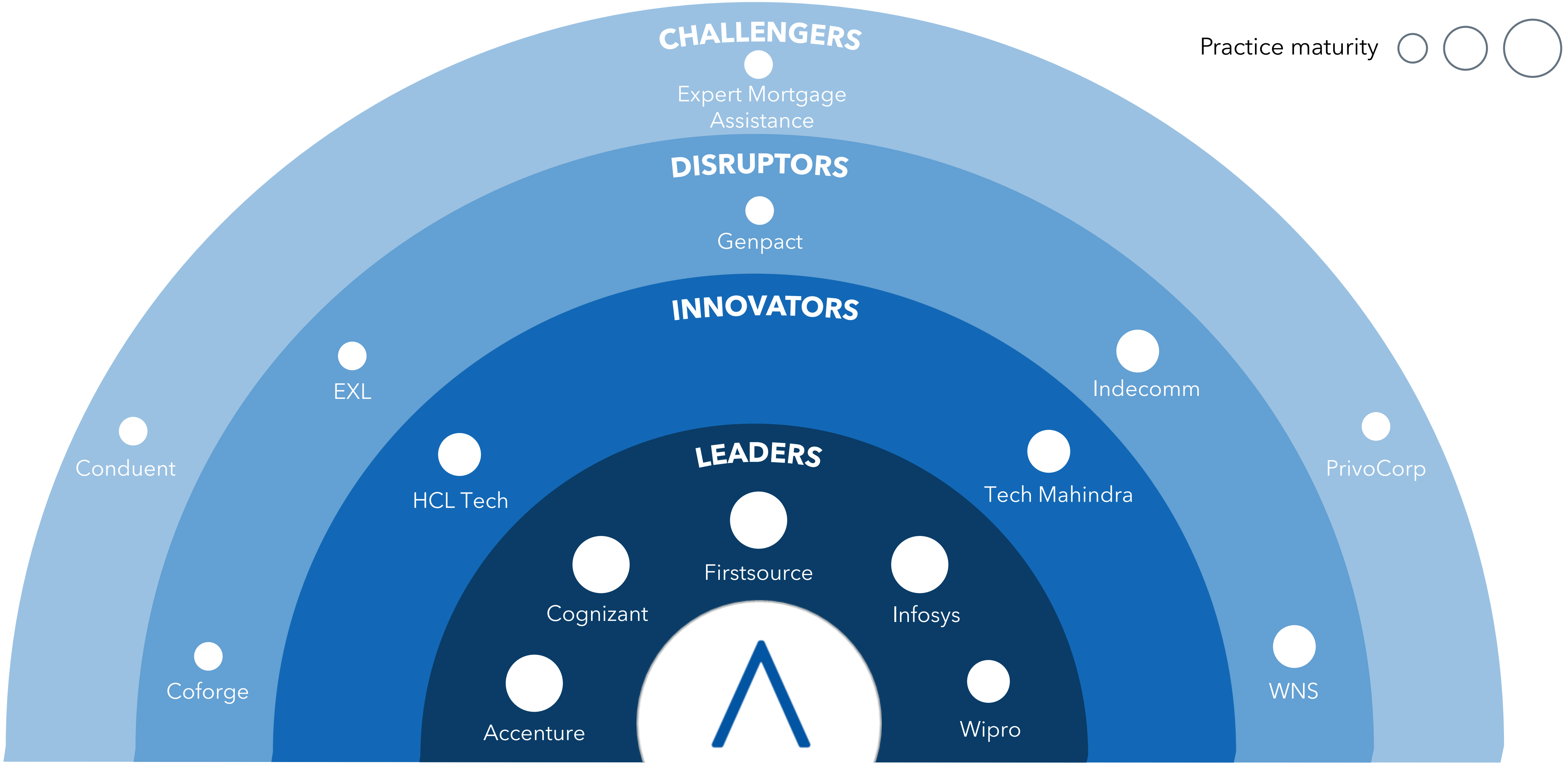
Scope of mortgage business process transformation	Sourcing	Fulfillment/ Origination	Active servicing	Default servicing
	Leads and applications management	Risk assessment	Loan setup	Forbearance/ loan modification
	Loan pricing	Underwriting	Loan disbursement	Short sale/ foreclosure/ bankruptcy
		Document management and verification	Collections	
		Collateral securitization		

Key transformational levers
Reporting and compliance
Data and analytics
AI
Automation

Key mortgage market trends shaping the industry

New mortgage originations are declining due to high interest rates	• As interest rates increase, the number of new mortgage originations is declining due to higher borrowing costs and reduced affordability. This decline in loan volume decreases the workload for mortgage service providers, resulting in layoffs or hiring freezes. • Lenders are tightening underwriting standards to mitigate risk, leading to more complex loan evaluations. To address these challenges, service providers are investing in automation and technology solutions to streamline processes and reduce costs.
The changing regulatory framework is focusing on consumer protection	• These changes include stricter regulatory oversight, a revised Community Reinvestment Act, reduced mortgage insurance premiums, a suspension of foreclosures, and increased capital requirements for large banks. • These are aimed at protecting consumers, maintaining market stability, and improving affordability for first-time homebuyers while reducing the risk for lenders.
Fintechs are revolutionizing the small-ticket loans segment by gaining a majority market share	• Fintech companies have a significant market share in small-ticket personal loans, driven by factors such as instant disbursal, flexible repayment terms, and minimal documentation. • Intense competition among fintech companies has led to rapid innovation and product development, offering borrowers a variety of loan options.
The mortgage industry is adopting Gen AI to automate and streamline end-to-end processes	• This includes various use cases, including automating underwriting tasks, creating customer segments, assessing risk, ensuring compliance, providing 24/7 customer support through chatbots and virtual assistants, and using predictive analytics for forecasting future market trends and customer behavior. • These applications of Gen AI aim to improve efficiency, reduce costs, enhance customer experience, and enable proactive decision-making in the mortgage industry.

Avasant recognizes 15 top-tier providers offering mortgage business process transformation services



Note: Please refer to Avasant's *Mortgage Business Process Transformation 2024 RadarView* for detailed insights on the service providers and supply-side trends.

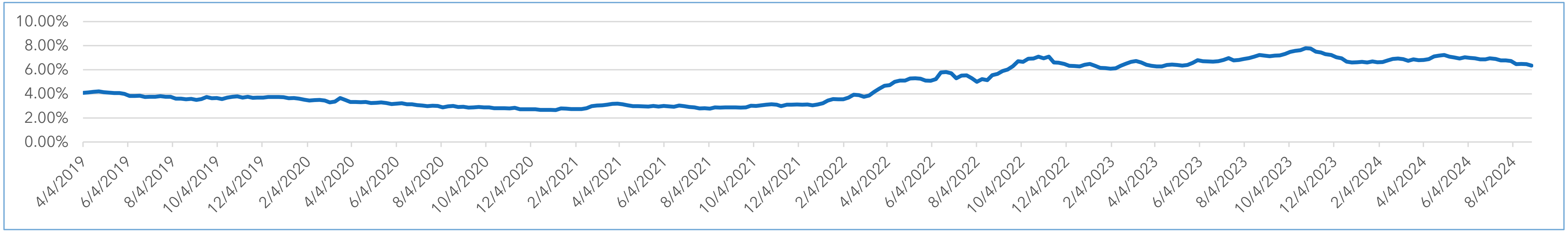
AVASANT

Demand-side trends

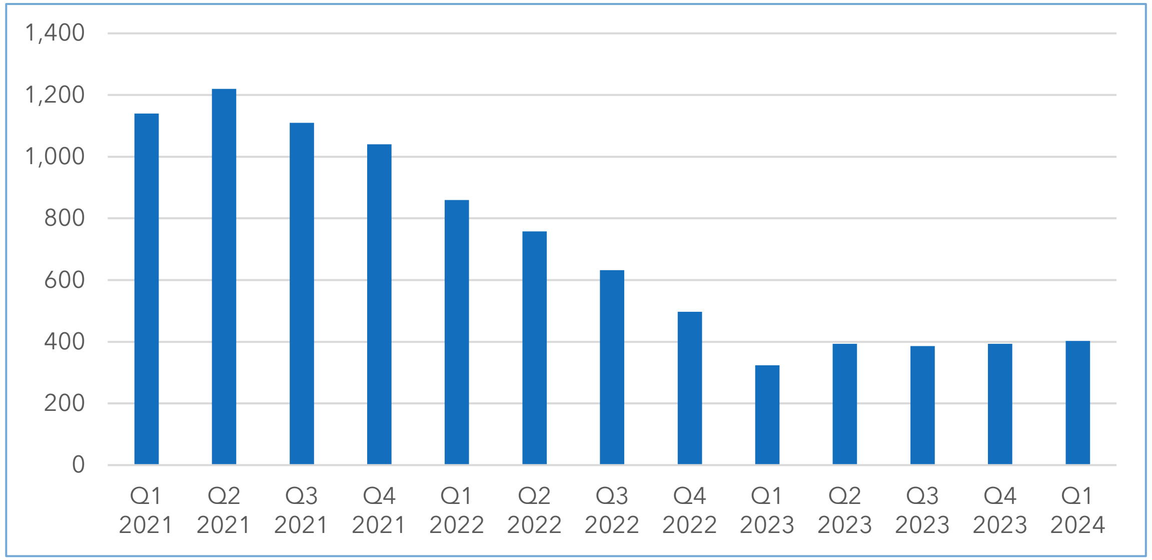
Higher interest rates are causing new mortgage originations to decline

Rising interest rates, coupled with high real estate prices, are acting as a disincentive for potential homebuyers, thereby leading to a reduction in new mortgage originations.

Mortgage interest rates in the US



New mortgage origination in the US (in $B)



Impact on the mortgage services industry

- With fewer loans being originated, the overall workload for mortgage service providers is diminishing.
- Mortgage service providers are finding a need to adjust their workforce to align with reduced loan volume, leading to layoffs or hiring freezes.
- Lenders are tightening underwriting standards to mitigate risk in a higher interest rate environment, leading to more complex loan evaluations.
- To maintain efficiency and competitiveness, service providers are investing in automation and technology solutions to streamline processes and reduce costs.

Sources: Avasant Research; Federal Reserve Economic Data

Regulatory oversight and compliance are becoming more stringent to protect the consumers and maintain market stability

The ability-to-repay rule for general qualified mortgages

- Effective October 1, 2022, lenders are required to conduct a reasonable assessment of the borrowers' ability to repay the loan based on the loan price and the borrowers' income.
- Prior to this, lenders were required to assess borrowers' eligibility based on the amount of debt they held.

Changes in the Community Reinvestment Act

- The Community Reinvestment Act will now conduct evaluations based on loan activity rather than branch location, as per the new version of the Act passed in 2023.
- This change could increase operational burdens and costs for large banks, especially those with over $10 billion in assets.

Reduced mortgage insurance premium

- In 2023, the Federal Housing Administration lowered the annual mortgage insurance premium by 30 basis points, making it less expensive for first-time homebuyers.
- However, losses per loan remain an issue for lenders as affordability is still a challenge for the borrowers.

Suspension on foreclosures

- The Department of Veterans Affairs (VA) reinstated a suspension on foreclosures due to difficulties with the expiration of the partial claim program.
- The Mortgage Bankers Association requested a clear plan from the VA on how servicers will be reimbursed for these advanced payments.

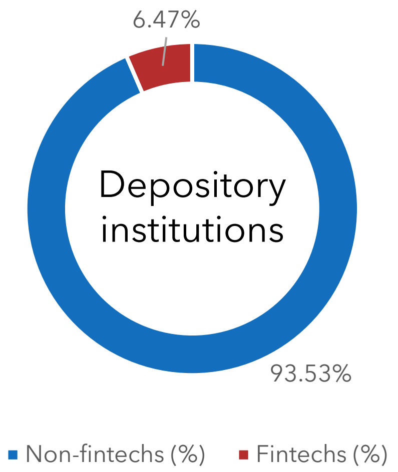
Increased capital requirements under Basel III Endgame

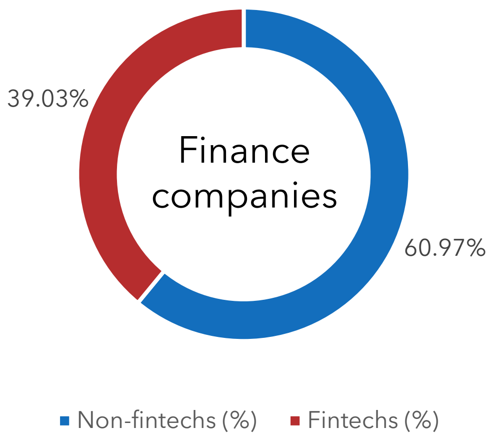
- Large banks having total assets of more than $100 billion will be required to have more capital from July 2025, as per the new guidelines issued by the Federal Deposit Insurance Company.
- This may lead to a reduction in their mortgage lending capacity as they reallocate their resources.

Source: Avasant Research

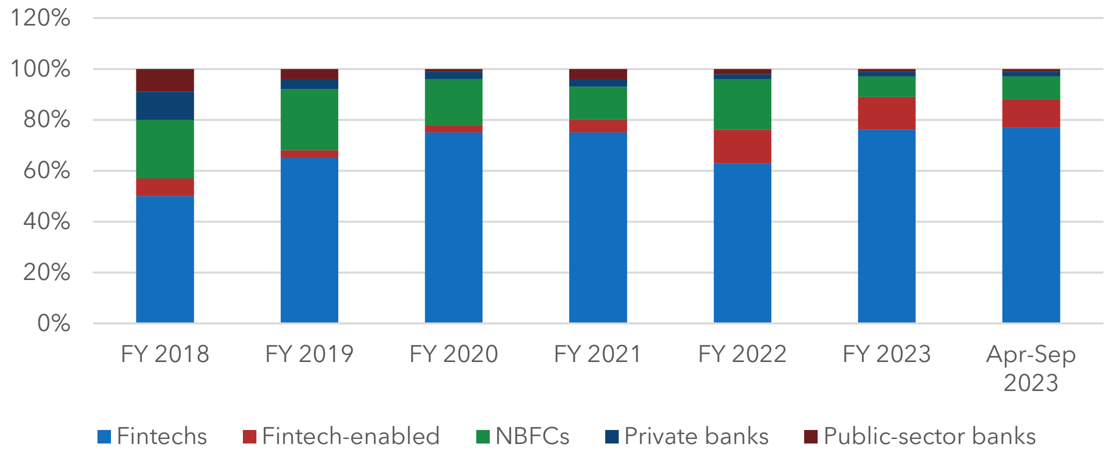
Fintechs are leading the small-ticket loans segment owing to instant disbursal and minimal documentation

Market share of personal loans by value in the US





Market share of small-ticket loans by volume in India

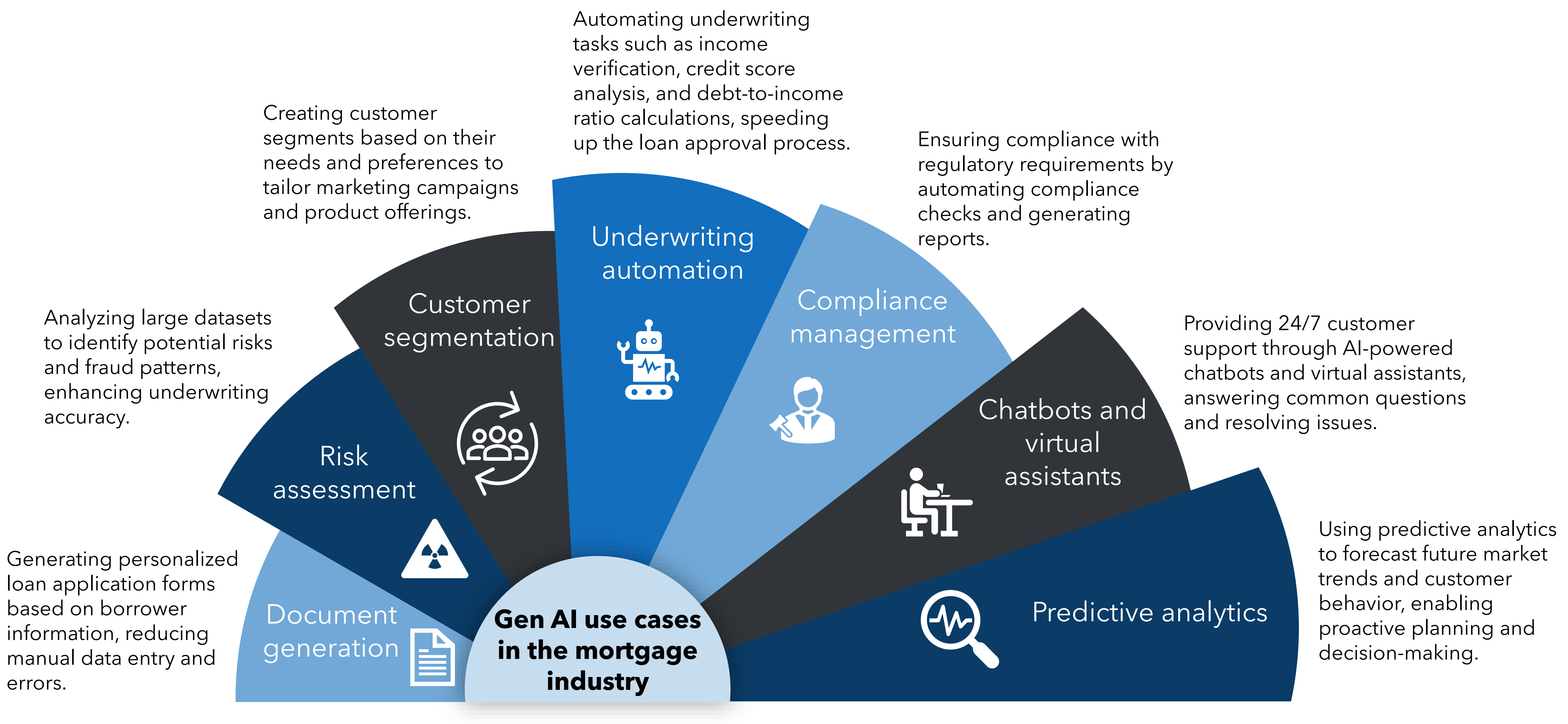


Key observations

- Fintech companies have a 39% market share in the personal loans segment of nonbanking finance companies (NBFCs) in the US.
- The volume of small-ticket loans disbursed by fintech companies in India is significantly higher than that of other lenders such as NBFCs and banks.
- The rise of fintech companies in the personal loan market is driven by a number of factors, including their ability to provide loans quickly and easily through online platforms, their use of data analytics to assess creditworthiness, and their lower operating costs.
- The growth of the small-ticket loan market is being fueled by the increasing demand for credit from underserved and underbanked populations.
- The intense competition among fintech companies has led to rapid innovation and product development. This has resulted in a diverse range of loan products tailored to specific customer needs, such as instant disbursal, flexible repayment terms, and minimal documentation.
- The competition is also putting downward pressure on interest rates, which is benefiting borrowers.

Sources: Avasant Research; Digital Lenders Association of India

Gen AI is transforming the mortgage life cycle with a wide range of use cases



Source: Avasant Research

Cognizant profile

Cognizant: RadarView profile

cognizant

AVASANT RADARVIEW™
LEADER
Mortgage Business Process Transformation 2024

Practice maturity	★★★★★
Domain ecosystem	★★★★★
Investments and innovation	★★★★★

Leverages its Neuro® suite of solutions to provide end-to-end mortgage process services from its geographically diverse delivery locations.

Practice overview

- Practice size: 4,700+
- Active clients: 32+
- Delivery highlights: 21 delivery centers across the US, Canada, Europe, India, the Philippines, and Australia

65%–70%	70%–80%
Practice revenue from very large clients*	Clients on T&M** pricing, FY 2023–24

Client case studies

- Automated TILA RESPA integrated disclosure (TRID) reviews by auto-indexing loan estimate (LE) and closing disclosure (CD) for a mortgage servicer. It compared the extracted LE and CD from the previous stage automatically or input LE and CD from a folder. This lowered operational costs by over 30% and reduced tolerance violations to below 5%.
- Streamlined advertisement reach and targeting, increased the number of leads, enhanced the quality of leads, and met customer acquisition cost and conversion rate goals for a financial institution. It assembled a team of data scientists and digital marketing experts to develop digital campaigns to help clients reach their objectives, increasing the mortgage conversion rate by 10%.
- Conducted detailed due diligence and suggested a process redesign to move pre-underwriting to an offshore shared service center for a nonbank mortgage lender. It implemented an automated workflow system to streamline the loan assignment process. This improved the final approval cycle time by 37% and reduced the cost of the loan by 30% YOY.

Key IP and assets

- Cognizant Neuro Mortgage Advisor Chatbot: A solution to improve customer experience across the mortgage life cycle
- Cognizant Neuro Mortgage TRID Compliance: A mortgage compliance tool to verify loan documents
- Cognizant Neuro Content: An OCR-based document processing and extraction tool
- LoanBeam: A pre-underwriting tool

Partnerships

Mortgage-specific partners

FICO, NeoXam, OrangeGrid, ohpen, VERMEG

Technology partners

indico, PEGA, Bloomberg, Xtracta (Your AI Data Engine)

Sample clients

- A Dutch multinational and financial services company
- A financial institution
- A global wealth manager
- A mortgage lender
- A mortgage origination and servicing provider in the US
- A mortgage servicer
- A nonbank mortgage lender

Value chain

- Sourcing
- Origination/ fulfillment
- Active servicing
- Default servicing

Darker color indicates higher concentration
*Clients with a revenue of over $1B
**Time- and material-based

Cognizant: RadarView profile

Analyst insights

Practice maturity ★★★★★

- Cognizant Mortgage Services Corporation, a Cognizant subsidiary, has been providing end-to-end mortgage solutions for over 13 years from its 21 delivery centers across the US, Canada, Europe, India, the Philippines, and Australia. It specializes in origination, servicing, default management, and reverse mortgage.
- It has set up six Nationwide Mortgage Licensing System (NMLS) licensed offices in India (Mumbai, Hyderabad, and Chennai), the Philippines (Manila), and the US (Phoenix and Dallas) to help banks/lenders optimize operations across the lending value chain encompassing originations, servicing, and debt collections.
- It offers flexible commercial models to build competitive business advantage, deploy transformation at scale, reduce cost, and enhance customer experience. Its four-dimensional operating model emphasizes people, process, risk, change, and strategy.
- Its LoanBeam offering is a pre-underwriting tool that complements manual loan package reviews. Its AI/ML-enabled document extraction component and validation rule engine improve the quality of application submissions to underwriters. It automates the extraction of key data points from borrower/vendor documents and applies business rules to simplify customer experience.

Domain ecosystem ★★★★★

- In partnership with FICO, Cognizant leverages a cloud-based solution for banks and payment providers with fraud protection powered by AI/ML. It partners with Ohpen to provide a cloud-native, scalable core banking software for retail banking, focusing on mortgage origination and servicing and recovery of consumer loans, investments, pensions, and savings.
- It collaborates with Xtracta to leverage indexing and data extraction for mortgage processes. It has developed a proof of concept with Xtracta, including a platform with a UI and workflow-based system that has data integration capabilities, which is estimated to bring a productivity uplift of about 30%.
- It partners with VERMEG, NeoXam, and Bloomberg for joint go-to-market strategies.

Investments and innovation ★★★★★

- Cognizant has invested in a lending academy to grow and sustain mortgage talent, including underwriters with deep domain expertise. It provides two to four weeks of training covering all aspects of the lending curriculum, such as classroom sessions, case studies, and milestone-based evaluations. This has reduced staffing lead time by three to four months.
- It has invested heavily in generative AI with use cases that include enhanced customer experience with CogniAI Clearvoice, data and processing through Digital Automation Fabric (DAF) and CogniAI GPS, and employee development with Cogn- AI-Sense. It plans to invest approximately $1B in generating AI capabilities over the next three years spanning people, platforms, partnerships, and M&As.

Appendix:
About RadarView

The Mortgage Business Process Transformation 2024 RadarView assesses service providers across three critical dimensions

Practice maturity	• This dimension includes measures around the type, market acceptance, and quality of offerings in the mortgage process services space. It also assesses the strength of the practice with respect to its size, employees, expertise in emerging technologies, and coverage of the industry sub-segment. • The width and depth of the client base, practice revenues, use of proprietary/outsourced tools and platforms, and future strategy are important factors that contribute to this dimension.
Domain ecosystem	• This dimension assesses the nature of the partnerships and ecosystem engagement that the provider has entered into. It evaluates the objective of the partnership (for example, codevelopment or co-innovation), its engagement with technology solutions or product providers, startup communities, and domain associations. • The kind of joint development programs around offerings, go-to-market approaches, the overall depth in partnerships, and their ability to deliver superior value to clients are all important aspects of this dimension.
Investments and innovation	• This dimension measures the strategic direction of investments and resultant innovations in the offerings and commercial model and how it aligns with the future direction in the mortgage process services industry. • The overall strategic investments, organic and inorganic, toward capability and offering growth, technology development, delivery center development, and human capital development, along with innovations the service provider develops, are critical aspects of this dimension.

Research methodology and coverage

Avasant based its analysis on several sources:

Public disclosures	Publicly available information such as Securities and Exchange Commission filings, annual reports, quarterly earnings calls, and executive interviews and statements
Market interactions	Discussions with clinical and care management service providers leading digital initiatives and influencing AI/analytics selection and engagement
Provider inputs	Inputs collected through an online survey and structured briefings from May–June 2024

Of over 68 service providers assessed, the following are the final 15 featured in RadarView for 2024:

accenture, Coforge, cognizant, CONDUENT, EXL, EXPERT Mortgage Assistance, firstsource, genpact, HCLTech, INDECOMM, Infosys, PrivoCorp, Tech Mahindra, wipro, WNS

Note: Assessments for Accenture, Conduent, Expert Mortgage Assistance, Indecomm, and PrivoCorp were conducted based on public disclosures and market interactions only.

Reading the RadarView

Avasant has recognized service providers in four classifications:

Leaders show consistent excellence across all key dimensions of the RadarView assessment (practice maturity, domain ecosystem, and investments and innovation) and have had a superior impact on the marketplace. These providers have shown true creativity and innovation and have established trends and best practices for the industry. They have proven their commitment to the industry and are recognized as thought leaders in their space, setting the standard for the rest of the industry to follow. Leaders display a superior quality of execution and a reliable depth and breadth across verticals.

Innovators show a penchant for reinventing concepts and avenues, changing the very nature of how things are done from the ground up. Unlike leaders, innovators have chosen to dominate a few select areas or industries and distinguish themselves through superior innovation. These radicals are always hungry to create pioneering advancements in the industry and are actively sought after as trailblazers, redefining the rules of the game.

Disruptors enjoy inverting established norms and developing novel approaches that invigorate the industry. These providers choose to have a razor-sharp focus on a few specific areas and address those at a high level of granularity and commitment, which results in tectonic shifts. While disruptors might not have the consistent depth and breadth across many verticals like leaders or the innovation capabilities of innovators, they exhibit superior capabilities in their areas of focus.

Challengers strive to break the mold and develop groundbreaking techniques, technologies, and methodologies on their way to establishing a unique position. While they may not have the scale of the providers in other categories, challengers are eager and nimble and use their high speed of execution to great effect as they scale heights in the industry. Challengers have a track record of delivering quality projects for their most demanding Global 2000 clients. In select areas and industries, challengers might have capabilities that match or exceed those of the providers in other categories.

Key contacts

Primary contact:

Haril Sadhu
Senior Research Analyst
haril.sadhu@avasant.com

Contributors:

Aditya Jain
Research Leader
aditya.jain@avasant.com

Praveen Kona
Associate Research Director
praveen.kona@avasant.com

Ram Mathilakath
Avasant Distinguished Fellow
ram.mathilakath@avasant.com

AVASANT

Disclaimer

AVASANT

EMPOWERING BEYOND

GET CONNECTED

www.Avasant.com