The Mortgage Lender's Guide to Working with Fintechs

Featuring commentary and insights from industry leaders

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Reggora

Table of Contents

1 Contributors

2 Introduction

3 Why Work With Fintechs?

7 The Discovery Process

10 Finding the Right Fintech

14 Implementation and Adoption

19 Evaluating Effectiveness

21 Conclusion

22 About Reggora

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Introduction

In just a few years, Reggora has grown from an appraisal technology start-up working with a handful of regional mortgage lenders to a national leader in the valuation space with an impact across the country.

Over the course of this journey, we have learned about the challenges that mortgage lenders face when partnering with fintech companies. Repeatedly, we have seen lenders grapple with a number of questions: Why invest in fintechs? What value will fintechs provide my institution? How do I decide which fintech to choose? What about compliance issues? Why shouldn't we build out an internal solution?

In our unique position as a rapidly growing fintech, we have successfully provided answers to these questions and have worked hard to display the value of fintech partnerships. As a result, in partnership with a number of premier thought leaders, we have prepared this comprehensive guide on best practices for lenders that are interested in working with fintechs.

The key takeaway from this guide should be that if lenders embrace innovation and prioritize investment in technology, then they will see clear benefits in the areas that matter the most: profitability and borrower satisfaction.



SECTION ONE

Why Work with Fintechs?

The acceleration of partnerships between financial technology companies and mortgage lenders over the past decade is widely recognized. Every week, reports flood the industry of new fintech companies raising millions of dollars to "streamline," "disrupt," or "reimagine" aspects of the lending process—from payment services to point of sale systems to accounting software. The questions that naturally arise, however, are: why should you take the time to invest in fintechs and what value do they provide?

The answer to these questions varies depending on your institution's challenges and demands. Trip Jendron of Wyndham Capital Mortgage, for example, regularly grapples with the decision of whether or not to invest in the latest fintech trends. His advice is that "it makes more sense to buy if there is a pre-existing proven solution designed to solve a specific problem." He adds that, on principle, "it is incredibly important for lenders to lean into innovation designed to drive a more cost effective, clear, and convenient experience for customers."

If you choose to explore the opportunities that fintech partnership can provide your institution, you will see three clear benefits in the areas of resource optimization, innovation, and borrower satisfaction.

1. Optimizing Internal Resources

One factor when considering the profitability of a loan is how much time each of your employees has to spend within the loan file itself. The more time that a processor, accountant, or operations analyst spends on one loan file completing administrative or manual tasks, the less time that person can dedicate to another more valuable or specialized task.

As a result, one key value that fintechs provide is the opportunity to easily implement tech solutions that automate manual workflows like time consuming accounting tasks, follow ups to brokers or borrowers, or arduous data entry. Fintech solutions often use business intelligence software, artificial intelligence, and other tools to streamline age-old, inefficient workflows that lenders are used to completing manually.

But why does working with a fintech provide better opportunities than manually building out your own solution? First, leading

Expert Advice

“ The mortgage process is very document intensive with a lot of market share still residing with traditional banks using legacy technology platforms. Therefore, the mortgage industry is running behind industries when it comes to consumer experience. Considering that a mortgage is one of the most important transactions a consumer will make in their lifetime, it’s incredibly important for lenders to lean into innovation designed to drive a more cost effective, clear, and convenient experience for their customers.

As a lender, the faster we can make our process, the more cost effective it is for us to produce a loan. The more cost effective it is for us to produce a loan, the more we can pass that back to the customer in the form of savings. As an online lender, competitive pricing and a quick and easy digital experience that results in a 5 star review is critical for scaling our business. ”



Trip Jendron
Senior Vice President, Origination Initiatives & Strategy
Wyndham Capital Mortgage

fintechs generally provide the best in class solution to the problem you are facing. As a result, with proper due diligence, you can be assured that the product you are investing in is high quality and user friendly. Second, lenders often do not have the tech resources or manpower to dedicate to building out a full scale internal solution. Fintechs offer easy out of the box solutions that allow your team to spend more time focusing on other tasks instead of developing software.

2. Remaining Nimble and Innovative

Fintech partnerships can provide the opportunity to stay ahead of new tech trends and remain innovative without expending large internal resources on market research and product development. As Jendron points out, "working with fintech partners helps to ensure that your tech stack stays ahead of the curve as you leverage new releases across multiple fronts."

Additionally, not only do fintechs offer creative solutions, but they also significantly ease the implementation process. This results in an accelerated speed to market compared to building and deploying an internal solution. Fintechs have the advantage of possessing deep expertise in one specific area of the loan process. This allows fintechs to invest all of their energy and resources in perfecting individual components of the loan process, and as a result, successful fintech solutions are highly specialized and easy to use.

3. Retaining a Borrower-Centric Focus

Within the mortgage industry, the borrower is king. It is no secret that borrowers today prefer seamless, digital solutions when available. Ellie Mae's 2019 Borrower Insights Survey determined that the majority of borrowers choose their lending institution depending on digital offerings such as online applications or portals.[1] More importantly, the study stated that borrowers'

[1] Ellie Mae Borrower Insights Survey – 2019

preference for digital methods during the loan process has increased 18 percent in the last two years. This number will only continue to increase as younger buyers enter the housing market.

As a result, it is critical for you to invest in the most user-friendly, borrower-centric tech tools for your customers. Investments in point of sale systems, transparent appraisal platforms, and seamless eClosing technologies can make the difference for lenders who are vying for borrowers in a competitive market. Ultimately, these decisions will have a determination on your borrower experience, bottom line, competitiveness, and future growth.

Expert Advice

"At Wyndham, we consider ourselves to be a Fintech lender that embraces new technology, so we are always evaluating whether to build vs. buy for specific use cases. In my experience, it makes more sense to buy if there is a pre-existing proven solution designed to solve for a specific problem; especially if that solution can be easily infused into your existing infrastructure and makes economic sense. Furthermore, anytime you build, you must support internal resources to maintain and enhance that solution over time. Working with multiple industry leading Fintech partners helps to ensure your tech stack stays ahead of the curve as you leverage new releases across multiple fronts. Purchasing technology instead of buying also helps you implement much faster, allowing you to get more value from the technology more quickly. You also have more flexibility to replace the technology if something better comes along in the future."



Trip Jendron
Senior Vice President, Origination Initiatives & Strategy
Wyndham Capital Mortgage

SECTION TWO

The Discovery Process

Once you have decided that you are ready to incorporate fintech solutions into your institution's workflows, the first question should be, "how do I decide where to invest?"

Sherry Graziano of SunTrust now Truist provides straightforward advice here: focus on your client journey. Graziano says that this involves three steps of "mapping out where you are to date, acknowledging your gaps, and then prioritizing the opportunities ahead." In doing this, Graziano points out that you can balance both your business needs and your aspirational journey.

Step One: Mapping Out Where You Are

The first step in determining where to invest in tech involves taking stock of your institution's different pain points. Sometimes the executive team can be removed from day to day operations, so this step may require sitting down with various stakeholders across the organization to learn details of certain processes, what is going wrong, and why. You can also look externally to observe the industry's latest technology trends to see where internal processes may differ from where things are moving.

The appraisal is a prime example of a widely accepted pain point that is sometimes overlooked during prioritization

and optimization discussions because the industry largely accepts the status quo. Coincidentally, the appraisal industry is undergoing significant changes that are driving the industry towards a more data driven and tech friendly model. Savvy lenders can look externally, understand that the future of appraisal is approaching, what it might look like, and reconcile any appraisal workflow gaps internally.

Step Two: Measuring Your Gaps

Once you have mapped your existing pain points, the next step is to analyze which processes are the most costly, or could deliver the most return on investment (ROI).

Such information is not always immediately evident. The analysis requires a step-by-step breakdown of the loan process to determine how much time a given employee spends on each stage of the loan cycle, where borrowers are experiencing problems, and more. Business intelligence tools are also helpful to discover hidden sources of cost and to place a tangible financial amount to them.

For example, in the appraisal process, many lenders understand that the payment process for appraisals can be arduous and time consuming. However, most don't realize the full financial implications of conducting that process manually as opposed to using an ePayment tool that immediately reconciles the payments and limits the accounting team's involvement.

Completing such an analysis and quantifying the cost of smaller operations across your organization can illuminate the glaring (and not so glaring) gaps in your workflows. Only after completing this process are you able to clearly identify your main pain points that a specialized fintech may help alleviate

Step Three: Prioritizing and Alignment

Finally, once you have a clear idea of your existing pain points and how much each of them costs, you are now able

Expert Advice

"Starting with your client journey is key. Mapping out where you are to date, acknowledging your gaps—recognizing it's an iterative process—then you can prioritize the opportunities ahead. Be sure to consider your business needs, keep your aspirational journey state in mind, and think about how much change your clients and teammates can handle."



Sherry Graziano
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to prioritize for the journey ahead. This primarily involves two things: factoring in ROI in your decision and ensuring that all stakeholders are aligned with the goal. After these steps are completed, you can clearly determine which projects ought to be at the top of the list.

Paul Orlando of Flagstar Bank, for example, speaks to the importance of alignment and buy-in across the company to the long term success of one of his institution's recent projects: "All groups were aware of the importance and the sequencing of events. Everyone had their assigned tasks and adhered to the tight timeline." As a result, he explains, "the product was delivered on the expected date and we were able to achieve a 60%+ adoption rate within the first month."

As you review your comprehensive discovery process and prioritize which areas of your organization are in need of optimization and efficiency, it is important to ensure that your entire team is on the same page and understands the objectives of your future investment.

Expert Advice

"We recently completed a successful deployment of new technologies where we took a manual process and converted it to an automated process that the business customer controlled. This project involved two different vendors and our internal teams. All groups were aware of the importance and the sequencing of events. Everyone had their assigned tasks and adhered to the tight timeline. The product was delivered on the expected date, and thanks to all the training we provided, we were able to achieve a 60% + adoption rate within the first month, and that was for a voluntary service. We believe a contributing factor to the high adoption rate was the fact that we included our business customers in the design process."



Paul Orlando
Chief Information Officer Mortgage
Flagstar Bank

SECTION THREE

Finding the Right Fintech

Now that priorities are decided, finding the "right" fintech partners for your institution can be a challenge. However, a few simple strategies can make it easier to identify viable fintechs and evaluate their legitimacy.

Kevin Peranio of PRMG, for example, focuses on fintechs' existing track record or financial backing. He says, "if a company gets multiple rounds of seed money, that is always a good sign," and adds that "another detail to look at is the onboarding process and the scalability of the tech vendor."

Peranio's approach is an indication that there is no single criteria that distinguishes one fintech from another. Instead, your searching and vetting process needs to be strategic, tactical, and multidimensional. More importantly, you should be thoughtful during your due diligence of the company and try to clearly communicate your expectations to the fintech.

Finding Fintechs

The easiest way to gain exposure to fintechs is to attend both national and regional mortgage conferences where fintechs are on display—whether virtual or in person. At large conferences, the leading fintechs have an opportunity to speak and present

and you will have a chance to hear about the newest tech trends and visit booths for informational content. Smaller regional conferences also have value as they often provide opportunities for lenders and fintechs to schedule meetings and conduct one-on-one product demos.

Other strategies for finding fintechs include learning about which fintechs your competitors partner with, following leading mortgage technology publications, and attending webinars. Additionally, it is useful to consider fintech sales executives as partners and consultants above all else. If you can explain your pain points or issues to sales teams, then they are able to quickly provide you with useful information on the best ways their product can help you.

Evaluate the Technology

The most important part when vetting a fintech is to determine if the product actually solves the problems and priorities that your team has identified. This is why it is useful to create a "Technology Comparison Chart." This chart will allow you to track which fintechs meet your specific needs, which fintechs are using the most advanced technology, and which fintechs will be the easiest to integrate with. Additionally, bringing in the larger team and having operational level end-users involved in evaluating the technology can serve as the easiest way to determine if the product is viable and actually solving the problems that they face.

Furthermore, the technology that a fintech employs can make or break its ability to innovate and respond to your evolving needs. In this regard, new fintechs often use the most cutting edge and modern technology, which gives them a leg up on legacy systems. As Peranio points out, "the size of a technology vendor and length in existence doesn't necessarily mean better. Bigger companies can be a problem if they are built on archaic technology where there is too much bureaucratic red tape to get innovation accomplished." Newer fintechs, on the other hand, tend to be more adaptable, quickly responsive to feature requests, and are user-friendly

Contracting and Compliance

From a compliance standpoint, you should be clear to the fintech about your due diligence standards. This will allow fintechs to quickly compile all necessary documentation, consult with their attorneys, and provide you with a comprehensive compliance overview that will make this step of contracting easy.

As Peranio alluded to, you should not be wary of smaller or less established fintechs merely on compliance grounds. Often, younger and smaller fintechs use cutting edge technology, can respond to user issues faster, and have developed unique products and services. Best practices for vetting smaller fintechs during the contracting phase includes speaking to investors and asking for testimonials from existing customers.

From the negotiation standpoint, you should first come to a verbal understanding with the fintech about the scope of work.

Expert Advice

"When negotiating with vendors, it's important to think long term. Be cognizant of the potential life cycle of the technology as it relates to the length of the agreement. Meaning you don't want to enter into a three-year contract if you think a better solution will exist within two years.

Also be cognizant of your cost of that technology as it relates to manual process. What is the true ROI of the technology from an efficiency gain as it compares to doing the work manually?

And finally, what is the cost at scale? If you're paying per person or per unit, will your company growth outscale the cost of the technology within the duration of the contract?"



Trip Jendron
Senior Vice President, Origination Initiatives & Strategy
Wyndham Capital Mortgage

This should then be enumerated in a service level agreement in an effort to formalize the expectations around the services rendered, billing processes, length of contract, and more. You can also use this as an opportunity to ensure that all of the internal stakeholders reinforce the value that the fintech will provide the institution as a whole.

Trip Jendron advises lenders to "think long term and be cognizant of the potential life cycle of the technology" during negotiations. This means that you should consider how long you think the technology will be relevant, factor in the cost of simply performing the task manually, and think of the cost at scale. In other words, Jendron cautions you to think of the investment over the long term and whether "your company growth will outscale the cost of the technology within the duration of the contract."

SECTION FOUR

Implementation and Adoption

Concerns about a fragmented implementation and adoption experience can be a major deterrent for lenders initially interested in pursuing fintech partnerships. If your implementation is rocky or your organization fails to adopt and use the fintech solution, then the rest of the process is largely in vain. As a result, it is important from the outset to prioritize a clear implementation and adoption strategy, as Sherry Graziano suggests, "if you don't have an adoption strategy, you don't have a technology strategy" at all.

Graziano's approach at this stage of the process has been to "bring all of your internal stakeholders along for the journey so that they are aligned on the adoption strategy from the very beginning." This approach is reinforced by Christy Soukhamnuet of Flagstar Bank who suggests "creating a comprehensive change management plan that lays out the benefits to each role impacted by the change."

As a result, a successful implementation and adoption roadmap will include stakeholder buy-in, internal organization, and a lot of testing.

Expert Advice

"Having an adoption strategy before moving forward with new technology is absolutely critical. If you don't have an adoption strategy, you don't have a technology strategy. Winning the hearts and minds of all stakeholders is key to your long term success. I highly recommend bringing all of your internal stakeholders along for the journey-- they need to be aligned on the adoption strategy from the very beginning."



Sherry Graziano
Senior Vice President
Mortgage Omni Experience
SunTrust now Truist

Stakeholder Buy-In

Organization-wide buy-in is critical to a successful adoption strategy. While tech investments are typically made at the top, the impact of these changes can often be felt to a greater degree further down the chain. Ways to ensure that everyone feels informed and involved include: asking the fintech to hold multiple demos and walkthroughs with different teams, breaking down the different user roles and capabilities that come with the product, and carefully describing to all affected stakeholders *why* you are investing in the product.

Additionally, as Soukhamnuet points out, "there can be a significant time gap between when the technology is announced and when it is deployed. During this time, momentum can be lost and enthusiasm can wane." However, if your entire organization remains invested in the product, there is a higher likelihood that the team will stay motivated and determined to make the project work.

Through a variety of experiences working with tech companies, Paul Orlando embraced an early lesson in terms of stakeholder

Expert Advice

"When encouraging adoption across the company, I suggest creating a comprehensive change management plan that lays out the benefits to each role impacted. It's not enough to say, "It's good for the company." You need to be super specific about who it will help and how. Also involve the business partners who will be impacted in the development process to get their buy-in and feedback from the get-go—not just during the rollout. This will help make them ambassadors for the new technology and help ensure its adaptation and success."



Christy Soukhamneut
Senior Vice President
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Flagstar Bank

buy-in: "all parties to the project need to meet timelines and have a full understanding of the scope and the resources needed."

Project Management

To ensure a clear vision and a successful implementation, in discussion with the fintech, you should establish a timetable for implementation, key delivery dates, and request a checklist of all the required documentation and deliverables. This allows for clear expectations about the length of implementation and what you will be expected to contribute over the course of the process.

Additionally, it is essential to assign project managers to manage certain aspects of the implementation. This gives the fintech a clear point person to communicate with and ensures that you maintain internal accountability.

Moreover, developing a comprehensive training program is highly advantageous. In order to ensure effective adoption and satisfaction with the solution across your organization, it is

Expert Advice

"When implementing new software, you're likely to face several challenges. Resist the urge to blow up and replace the entire system. The big bang simply doesn't work. Opt instead for a component approach, which allows you to test-deploy-test in increments, so that you can control risk and take advantage of new technologies that may emerge in the development phase. I also recommend combining a single system into an overall strategy, keeping things from becoming part of the shiny object syndrome. And finally, it's vital to manage expectations. When discussions start about a new technology, there can be a significant time gap between when the technology is announced and when it is deployed. During this time, momentum can be lost and enthusiasm can wane. If delays occur standing up the project, you've already created ill will before the technology even rolls out."



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important to establish a clear training process with the fintech that guarantees all staff who are using the product understand its capabilities. If possible, ask the fintech what ongoing support looks like and if there are pre-existing FAQs or training manuals for easy reference.

Testing, Testing, Testing

Even once a fintech solution is implemented and integrated, it is important to undergo extensive testing of the product in a user accepted environment. This allows stakeholders to test out the new technology with low risk, and also helps to identify any issues or required fixes before the product is officially rolled out. Trip Jendron suggests that a practical way to ensure a comprehensive testing environment is to be sure that "you have great project management resources that can appropriately scope the project and write detailed business requirements designed for optimal solutions and testing."

Expert Advice

"On a recent implementation, we ran into numerous issues that were not identified at the start of the project. First, the vendor surprised us with a version change in the middle of the project, and worse, integration specs for the new version were not ready. Second, the approved scope lacked detail, which created a significant gap between how IT perceived the requirements versus how they were perceived by the business unit. As a result, estimates for time and resources were way off the mark. And because those estimates were off, we didn't have the business resources available when we needed them because they were slated for other projects. Lesson learned: All parties to the project need to meet timelines and have a full understanding of the scope and the resources needed."



Paul Orlando
Chief Information Officer Mortgage
Flagstar Bank

The length of this process can vary depending on the scale of implementation, but should always progress into a soft launch where the software is tested in a real world environment. During this phase, fintechs are likely to dedicate a team of engineers and customer success staff to ensure that all stakeholders within the lending institution are properly supported, know their roles, and can manage the software. Ultimately, these testing steps ought to lead to a seamless full launch of the product free of headaches.

SECTION FIVE

Evaluating Effectiveness

After your journey from discovery, to vetting, to implementation, you must then look back and analyze the effectiveness of your fintech solution. Jason Sorochinsky of Digital Federal Credit Union explains, “best practices show that organizations should perform an evaluation of its performance once new technology is installed and deployed onto a live production environment. There may be actual problems (not discovered during testing) with the way the technology works, or there may be perceived problems by some end users.”

Christy Soukhamnuet believes that the key analysis here is if the pain point that the fintech was implemented for has been resolved in a measurable way. Whether the goal was increased pull-through, shorter cycle times, faster turn times, the success of the project should be quantifiable in some way.

When conducting this analysis, you should retroactively look at predefined key performance indicators that were identified during the “measuring metrics” phase. In other words, you should carefully track whether and to what degree the solution actually solved the initial problems/priorities that were outlined before.

In the event that the fintech has not paid the dividends you expected, don’t immediately give up. A major advantage

of working with a fintech is that almost all are dedicated to ensuring that every partnership is an unmitigated success and, as a result, most fintechs are able to quickly adjust their product to meet your specific needs. Additionally, this also gives you a chance to evaluate the fintech's customer success capabilities and evaluate its responsiveness to your issues.

In sum, it's critical to carefully document what is working and not working as well as determine where pain points still exist after implementation is completed. Then, you should share that information with your fintech partner so that they can quickly make the necessary adjustments. Often the issues revolve around slow adoption or lack of training, both of which can be easily addressed.

Expert Advice

"A clear sign of success is the adoption rate of the new technology. Changing or implementing new technology needs to include a pre-sale campaign where the benefits to team members/ customers are well documented and explained so that during rollout, the adoption rate increases significantly with little to no effort. We saw this work firsthand with a deployment that we foreshadowed the month before rollout and continued to talk up the month of deployment. Each team/project manager should answer upfront the question, 'What does success look like?' Is it an increase pull-through, shorter cycle times, faster turn times? The answers will differ from project to project, but all should be highly specific and measurable."



Christy Soukhamneut
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Conclusion

There is no doubt that partnerships between fintechs and mortgage lenders will be the key to realizing the fully digital mortgage experience. In fact, in 2019, Finextra reported that 81 percent of banking executives considered partnerships with fintechs critical to executing a digital transformation.[2]

Nevertheless, while the importance of these partnerships is widely recognized, many lenders still remain reluctant to embrace fintech solutions. Lenders' wariness over fintechs' compliance protocols, implementation process, and product scalability are ever present and sometimes even justified.

However, these concerns can be assuaged through a deliberate, methodical approach to fintech-lender partnerships. If lenders clearly identify their pain points, thoroughly vet the numerous fintech solutions available, communicate their needs, and emphasize their expectations, they will likely find that many fintechs can serve as valuable partners throughout the loan process.

We hope that this guide will serve as a helpful resource on basic steps that lenders can take to strategically invest in fintechs, improve their workflows, and capitalize on the digital mortgage era. We are confident that as lender-fintech partnerships continue to evolve, the entire industry—lenders, borrowers, and fintechs included—will be better served.

[2] https://www.finextra.com/newsarticle/34512/81-of-banks-would-collaborate-with-fintech-partners-to-execute-digital-transformation---finextra

About Reggora

Reggora is a Boston-based fintech founded in 2017, backed by the investors behind Twitter, Wayfair, and Slack. We're driving appraisal innovation with our modern, two-sided platform for mortgage lenders and appraisal vendors.

With Reggora, Mortgage lenders across the country are procesing more appraisals than ever before while delivering an enhanced borrower experience. Our robust LOS and POS integrations, modern user interface, advanced payment processing, algorithmic appraisal ordering, and automated appraisal review, delivery, and status updates, unite to deliver unprecedented operational efficiency.

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