

# Connecting the Dig

## *Technology Leads the Charge Toward Reshaping the Mortgage Industry*

*By Scott Happ*

Over the past 10 years, spurred by the financial crisis and technological innovation, the process by which most mortgage loans are priced has changed dramatically. This new reality has demanded that lenders examine legacy processes to remain compliant and competitive.

Today, lenders increasingly rely on advanced technology services from specialized firms to source loan program and price data from investors, analyze product fit and deliver best execution pricing consistently—across their organization.

Such firms may also provide workflow software to manage locks and pipeline risk, enabling lenders to automate the secondary marketing function. In effect, these technology providers are uniting loan buyers and sellers in digital loan markets and surrounding them with value-added functionality.

This article examines how the digital loan marketplace has become a permanent part of the lending technology landscape, and why successful lenders are embracing it.

### **THE EVOLUTION OF DIGITAL LOAN MARKETS**

A confluence of three factors has led to the creation of the digital loan market and its ongoing evolution.

The first factor is the emergence of technology providers that connect buyers and sellers of loans by hosting searchable program and pricing data from investors. These technology providers also create analytics tools enabling lenders to search, evaluate and act on this data which, in turn, enhances their strategy and execution.

# Digital Loan Marketplace

The second factor is the development of advanced Application Programming Interfaces (APIs), enabling highly automated and real-time data exchange between digital loan markets and the systems used by lenders for loan origination and marketing. Such APIs have been proven to deliver new process improvements and significant efficiencies to lenders.

The third factor is the network effect—the benefits associated with growing market participation—which helps reduce cost and increase value for both buyers and sellers as markets scale.

While these factors have already caused a massive shift in how lenders contend with loan eligibility, pricing and pipeline risk, the shift is far from complete.

## THE DIGITAL LOAN MARKET'S CONTRIBUTION

Mortgage industry investors have long since digitized mortgage loan eligibility requirements and daily pricing information for presentation through websites and electronic files. Yet, since this data is not structured uniformly throughout the industry, lenders often struggle with the accurate management and timely utilization of what is provided to them.

It is nearly impossible to deter-

mine program compliance and pricing across investors without specialized systems designed to compare these disparate data sets. In the past decade, leading technology vendors have invested heavily into these specialized systems, resulting in the emergence of robust platforms that automatically consume and reconstitute loan eligibility and pricing data.

The effort to create a common repository of searchable, actionable loan program and price data is the foundation of the digital loan marketplace—a platform that connects lenders, investors and third-party providers in real-time. By surrounding this data with loan analytics functionality, these technology vendors enable lenders to instantly determine the prices on all loans for which the prospective borrower is eligible and do so consistently throughout their organization.

Some solutions even incorporate lock desk workflow functionality and pipeline risk management tools, providing lenders with a comprehensive secondary marketing platform that further streamlines

loan production.

## CONNECTING THE DIGITAL MARKETPLACE

While there is significant value in the automated management of loan program and pricing content, the digital lending marketplace must integrate

with any investor or provider used by the lender to be of maximum value.

Of central importance to this integration regime are investors that collectively maintain vast numbers of loan programs—each with scores of unique loan-level price adjustments. They price loans daily and might re-price multiple times an hour as market conditions warrant.

Lending systems represent another important set of participants where integration is key. Both point-of-sale and loan origination solutions require robust, bi-directional

data exchange to quote prices, lock rates and value the pipeline accurately.

Finally, rate aggregators, lead generation sites and mobile solutions



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are also players where integration is key. They are gateways for millions of consumers who research pricing to find the best lender.

To support integration across such a large array of organizations, digital loan market operators are investing deeply in advanced Application Programming Interfaces, or APIs, to facilitate this data exchange. APIs are essential as they ensure that real-time pricing data is accessible—on demand—through any system a lender uses.

### DIGITAL MARKETPLACE 'NETWORK EFFECT'

Broadly speaking, digital loan markets are three-sided networks whose value to individual participants grows as the total number of participants grows. A market with 500 lenders is more valuable to an investor than a market with 50 because it provides



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some pursue.

Digital loan markets also create significant operational efficiencies by reducing marginal transaction costs. That is, once on-boarded to a digital loan market, lenders, investors and technology providers can add incremental business relationships with minimal effort.

greater opportunity for investors to expand their origination network.

Similarly, a market with large numbers of investors is attractive to lenders as they may benefit from both increased buyer competition and access to more loan programs.

Lastly, there's more market demand and a broader value promise for technology providers when they are connected to the largest networks of lenders, investors and real-time content vs. a "closed network" strategy

For these reasons, digital loan markets have quickly achieved a relatively large scale and today, price a plurality of mortgage loans.

### MORTGAGE PRICING WILL NEVER BE THE SAME

The digital loan marketplace has disrupted the fundamental process by which the mortgage market functions. By bringing loan buyers and sellers together—along with third-party technology providers—on a single technology platform, the digital loan marketplace improves price transparency and drives operational efficiency.

From a technology perspective, software and APIs are at the core of the marketplace, but economies of scale and network effects are driving their growth.

While a relative newcomer to the mortgage industry landscape, digital loan markets are a substantial innovation with significant speed, accuracy and compliance advantages for the lending process. ▲



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## THE MORTGAGE INDUSTRY'S DIGITAL MARKETPLACE

Connecting the largest network of lenders, investors, and providers



Scott Happ has 30 years of experience in financial services and mortgage lending technology. He founded Mortgagebot in 1997 and built the company into a nationally recognized SaaS solutions provider, selling the company to D+H in 2011. In 2016, Happ teamed with GTCR, a leading private equity firm, to acquire Optimal Blue, where he serves as CEO. Happ holds a Bachelor's Degree in economics from the University of Wisconsin. You can reach him at [shapp@optimalblue.com](mailto:shapp@optimalblue.com). For information on Optimal Blue, visit [www2.optimalblue.com](http://www2.optimalblue.com).