



How to stay ahead in the mortgage market by saying goodbye to paystlips

A guide for lenders and brokers



Executive summary



The UK mortgage market weathered the pandemic years of **2020** and **2021** remarkably well, but 2022 has brought new turbulence with increased borrowing rates and falling disposable incomes amongst consumers



Mortgage demand is high - daily application volumes are above pre-pandemic rates with recent growth stimulated by the increase in interest rates as some consumers look to switch their mortgage provider



Mortgage delinquency remains low, but with some upward pressure from the squeeze on household incomes



However, significant increases in the **cost-of-living** continue to challenge consumers' ability to afford mortgages



Real incomes have fallen by 2.8% year-on-year. The biggest drop since 2001



Inflation is at a 40 year high reaching **10.1%**



Even with government protection, energy bills for households are forecast to be 30% higher in 2023-24



Interest on new mortgages has gone up. More than 5m UK households in Britain are set to see their annual mortgage payments increase by an average of £5,100 by the end of 2024



House prices increased by 7.8% up to the year June 2022

As a result the rate of growth in UK house market is slowing in the face of increased economic uncertainty.



The mortgage application journey could be the **critical source** of competitive advantage in this challenging environment. This has already happened in the US, where **Rocket Mortgages** became the market leader within five years of founding, by focusing on speed and convenience, notably with the '**8-minute mortgage**'.



The mortgage application process can take more than **18 weeks** in the UK. The process is broken for nearly all the stakeholders. Brokers and advisors cite significant pain points and inefficiencies and only **15%** of consumers say their mortgage application **exceeded expectations**.

Fluidity in the UK employment market continues. **Job vacancies** are at a **record high**, unemployment is falling, but **1m+ people aged 50+** have dropped out of full-time employment and are economically inactive



The need to accurately understand an individual's **employment** and source of **regular income** has become more pressing.

Forward-thinking lenders have a chance to gain market share by offering applicants **greater speed and convenience** when applying for a mortgage.

Experian has responded to the need for speed by launching the Mortgage Hub.



Experian's Mortgage Hub is a supplier agnostic, data platform that enables consumer, brokers and lenders to securely share their personal financial information when applying for a mortgage. It saves time and money in sourcing and sharing data, and enables tamper-proof exchange of a consistent set of financial information on a customer.



Work Report™ is part of the Experian Mortgage Hub which provides lenders and brokers with the UK's first fully digitalised, friction-free mortgage application environment.



Work Report™ provides a **rich set of insights** in an instant, including verified employment status, length of tenure and gross income – ending the need to share paper or pdfs of payslips.

It offers lenders and brokers significant benefits in:



Reduced administration and savings in under-writing time and cost



Fraud prevention



Decision-making speed

Our estimates suggest the Mortgage Hub will help lenders eliminate **75%** of their current mortgage processing costs, slash mortgage application times and deliver a substantial competitive advantage.

The UK mortgage market: more competition ahead?

The good news

The mortgage market has weathered two stormy pandemic years remarkably well – so far at least.

Mortgage demand is high. Daily application volumes are above pre-pandemic rates recent growth stimulated by an increase in interest rates.

Loan sizes continue to rise. The average UK house prices is £292,000, up 15% per annum.

Delinquency remains low, but with some upward pressure from the squeeze on household incomes.

Borrowers remain resilient. 9.9m UK consumers show signs of being low credit risk.

The storm of Covid, has been followed by the Cost of Living squeeze

Although the storm of the pandemic may have passed, we now face the squeeze – with **cost-of-living pressures** resulting in record falls in real household incomes.

➤ Real incomes have **fallen by 2.8% year-on-year**. The biggest drop since 2001

➤ Inflation is at a 40 year high reaching **10.1%**

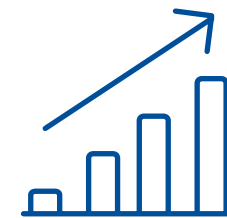
➤ Despite government protection, the typical energy bill for a household is set to be **30 per cent higher** in 2023-24 than in 2022-23 (£2,500 compared with £1,921). This, coupled with inflation and interest rate pressures, means the squeeze on household incomes is set to continue



With less cash coming in for consumers and more going out, mortgages – both existing and new ones – are becoming **less affordable**.

The mortgage affordability gap

Two more forces are further stretching the gap between what house buyers **want** and what they **can afford**:



Interest rates are rising.

In September 2022, **the Bank of England increased interest rates to 2.25% - the highest level in 14 years**. Borrowing is getting more expensive and it's quite possible this upward trend will continue.



House prices remain high.

House prices increased by **7.8% p.a** up to June 2022.



Buying a house is getting **significantly more costly**, at the same time the amount of cash many consumers have to make mortgage payments is falling. This could **suppress demand** for mortgages.

Climate uncertainty

Potential **government climate action** presents another uncertainty in the market.

The government is committed to bringing in measures to deliver on its **COP26 carbon-reduction promises**.



As **40%** of UK carbon emissions come from households, these measures may include defined heating and insulation efficiency standards. This could create a **new barrier** to house sales and contribute to a slowing of the market.

2022 and beyond: a more competitive market?

In 2020 and 2021, the mortgage market – despite short dips – was **remarkably healthy**. The outlook for 2022 is for continued resilience amongst many borrowers with 9.9m UK consumers showing signs of being low risk. Being able to identify those households facing payment shock when their fixed term deal expires is the key to identifying forthcoming risk in anticipation of further market turbulence.

The question for lenders and brokers then becomes:

How to maintain or increase profits amid tougher competition?

Evidence from the US suggests that a crucial part of the answer lies in improving the mortgage application experience.

The application journey: today's problems and tomorrow's opportunities

The near-universal view of frontline advisors and brokers in recent conversations with Experian is that the UK's mortgage application process is **ripe for improvement**.

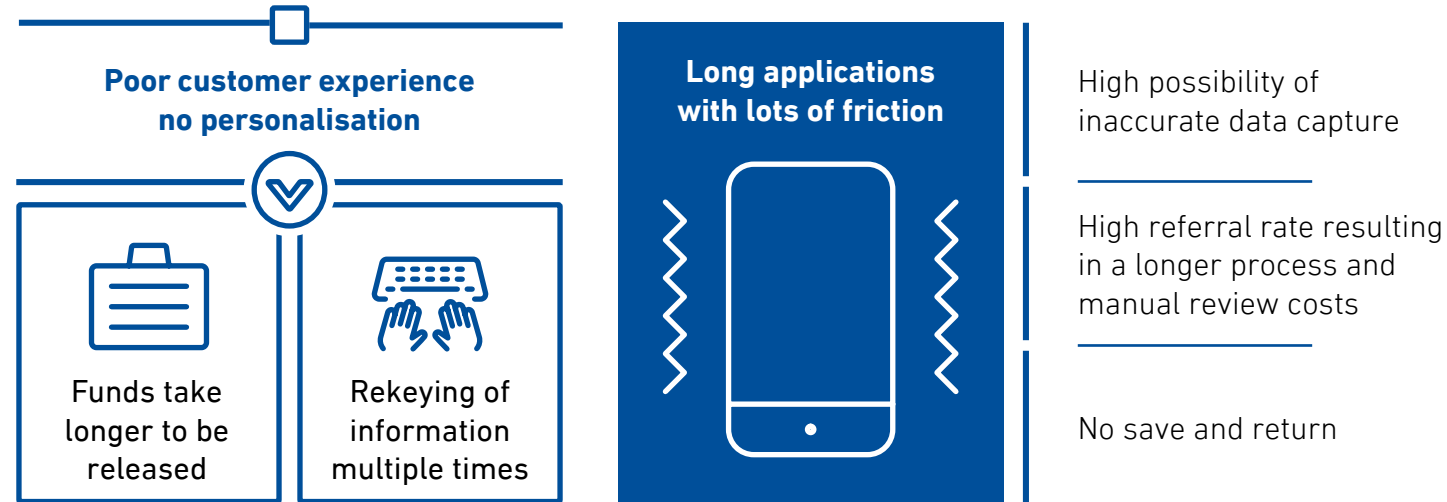
Mortgages: lagging in the digital race

During the great digitisation and automation of financial services over the last decade, **mortgages were left behind**. Because the process is not usually customer-facing, with advisors and brokers acting as intermediaries, it has not prioritised **streamlining** and slick **digital processes**.

That has left a legacy process with too much friction and too many pain points.

From the first expression of interest to the delivery of funds, a mortgage application in the UK typically takes **more than 18 weeks**. This customer journey is an arduous route march compared to the stroll consumers have become used to when applying for loans from new digital banks and other fintech providers.

Too many pain points for lenders and brokers



Typical concerns about the process from advisors and brokers include:

- ! Too much manual collection and intervention
- ! Too much re-keying of important information into different systems, with too many opportunities for errors, wasted time and poor decisions as a result
- ! Potential for manipulation of documents such as bank statements or payslips
- ! Too many underwriting bottlenecks

This friction means lenders and brokers can only deal with a fixed volume of business, otherwise long backlogs develop, and the system becomes overwhelmed. At times lenders have been forced to withdraw fast-selling products because a rise in demand quickly creates an unsustainable bottleneck in underwriting.

Risks for lenders and brokers

A creaking applications system creates four key risks for lenders and brokers:

- 1 It is **unattractive to customers, drives drop-outs** from the application process and leaves lenders vulnerable to challengers and disruptors able to offer a slicker journey.
- 2 Lender delay puts off brokers, who facilitate **77% of mortgages in the UK**. If two products are broadly equal, brokers will select based on ease of application.
- 3 Mortgages are therefore costly for lenders to process. **Friction and delays mean brokers and lender staff are burning through valuable time chasing paper** and coordinating unconnected processes and systems.
- 4 Opportunity costs: time spent chasing paper is time lenders and brokers could be using to process more new business.

However, as well as risks, the current application process creates significant opportunities. Forward-thinking lenders have a chance to maintain and even gain market share by offering applicants **something better**.

The applications journey: the key to competitive advantage in a more challenging market

Customer experience first: How Rocket took over the US mortgage market

In the US, **Rocket** has taken the opportunity presented by new data tools to launch its business into orbit, becoming the market leader in just five years based on just one factor – **speed**.

In 2015 Quicken Loans launched Rocket Mortgages. By 2020, the company was leading the market and processing **nearly double the number of loans** as the **second-largest lender**. By 2021 it had ditched the original name altogether, becoming Rocket Mortgage, LLC.

How did this happen?
By using technology to **revolutionise the customer application journey**.

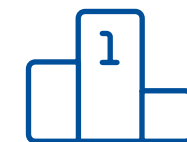
Achieving lending lift-off

Before Rocket, the US mortgage lending market was like the UK's. Friction and paperwork led to a slow application process, with up to **30-day average turnarounds**.



Rocket designed a new process - powered by consumer's consenting to share their credit data and bank transaction data directly with them. This data is taken from source and feeds directly into their decisioning capabilities using APIs, to provide consumers with an **eight-minute mortgage application and approval process**.

The company marketed their speedy service to enormous success:



Rocket Mortgages is the USA's biggest mortgage lender, processing **\$88bn** of loans in 2021.



It scores higher on **customer satisfaction** than any other mortgage lender.



While **97% of online banking applications are abandoned** after being started, Rocket's friction-free process delivers a **15% conversion rate** on loan applications.

Rocket Mortgage didn't get to the top by offering the most competitive rates. It got there by focussing intently on **speed and convenience, making the product the application experience**.

What this means for the UK

In the UK, no lender has made this leap – yet. But the example of Rocket Mortgages shows how quickly things can change when someone does something truly innovative. With powerful new decisioning tools – like Work Report™ from Experian – **speed may soon be what matters most.**

For these key reasons, we believe the UK mortgage market will evolve to favour lenders and brokers able to offer speed:



The unique nature of property purchases.

A house move is a life-changing transaction, which consumers do not want to fail through delay. The US experience suggests that consumers are happy to pay a premium to get funds faster and potentially complete quicker on the property they want.



Broker demand.

Brokers will increasingly recommend products that free them and consumers from long application processes that tie up their time.



Ease trumping consent concerns.

Because of the importance of these transactions to consumers, the laborious nature of gathering documentation and the precariousness of sales chains, we see evidence that customers are more prepared to consent to share data for mortgages than other transactions (72% already say they would).



Improved access to data.

Initiatives such as Open Banking and the consented sharing of credit and employment information via secure APIs are improving the speed of access to data, securely from its source.

Meeting the UK's need for speed: Experian Work Report™ for Mortgages

Work Report™ is a significant step towards the first **wholly digital mortgage journey** in the UK.

It draws **employment data** from payroll providers such as Sage and Zellis to deliver a single trusted version of the truth about **crucial employment attributes** – including employment status, tenure, gross income and salary deductions.

These are **vital pieces of the puzzle** for lenders and underwriters, which currently take time and cost to bring together.



Work Report™ means the end of sharing paper or pdfs of payslips in mortgage applications.

How does it work?

Gathering and processing paper or emailing payslips is laborious for applicants, brokers and lenders. And if underwriters need more detail, it begins all over again.

Work Report™ provides a direct channel for lenders to get reliable employment data fast.

➤ Experian pulls **trusted employment data** and **verified income** directly from the source by partnering with payroll providers. We expect to be able to access data in this way for half of the UK's working population by the end of 2022.

➤ The process is triggered by **simple user consent** – which **72%** of people already say they would be happy to give to ease their mortgage application.

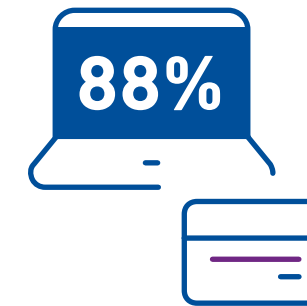
➤ This employment information is shared with underwriters in a **consistent** and **easy-to-use** format that seamlessly integrates into existing decisioning systems.

➤ Work Report™ also produces **new metrics to gauge income stability** – like length of tenure and area of employment – helping lenders make better risk decisions.

➤ Lenders can see up to **five years** of employment information and receive **ongoing updates** during underwriting at their discretion.

Why is it needed?

Work Report™ is a crucial tool for **digitising the mortgage application process**; something consumers are desperate for.



of UK adults said **online** is their **preferred channel for credit application** [Experian]



of UK adults also said that their **expectations are exceeded** when they can carry out a whole application online.





said an application process **fell short of expectations** because they **couldn't do it all online**.


Accessing and analysing payroll data is a **significant roadblock** on the path towards **faster, frictionless applications**.

What does Work Report™ mean for lenders and brokers?


Work Report™ provides **data in seconds** and **revolutionises efficiency** in obtaining crucial employment and income data.


 **More speed, less cost:** Immediate access to income and employment data saves hours otherwise lost gathering paper documents.


 **Trusted data** – a single reliable version of the truth: Work Report™ eliminates approximations, estimates and user-provided figures. Data is provided in a consistent, easy-to-read, easy-to-use format.


 **Zero applicant fraud:** By drawing down data from trusted payroll providers, Work Report™ removes the opportunity for fraud in self-reporting.

 **A trusted lender tool:** Work Report™ has already become an important step in funding over £500m of UK loans.

 **Easy to implement:** This service can either be hosted by Experian – and triggered through an SMS or email communication to the applicant – or be seamlessly integrated into existing customer journeys via APIs.

 **Better monitoring:** Lenders can use Work Report™ to improve ongoing customer management by requesting reviews of the consumer circumstances at their discretion.

 **Powerful insight:** New insights such as income stability add another level of confidence to decisions on affordability.

 **Trusted brand:** As a trusted name among consumers, Experian delivers a strong conversion rate.

With Work Report™ eliminating paperwork in employment data, lenders are moving one step closer to providing a fully-digital, end-to-end customer journey.

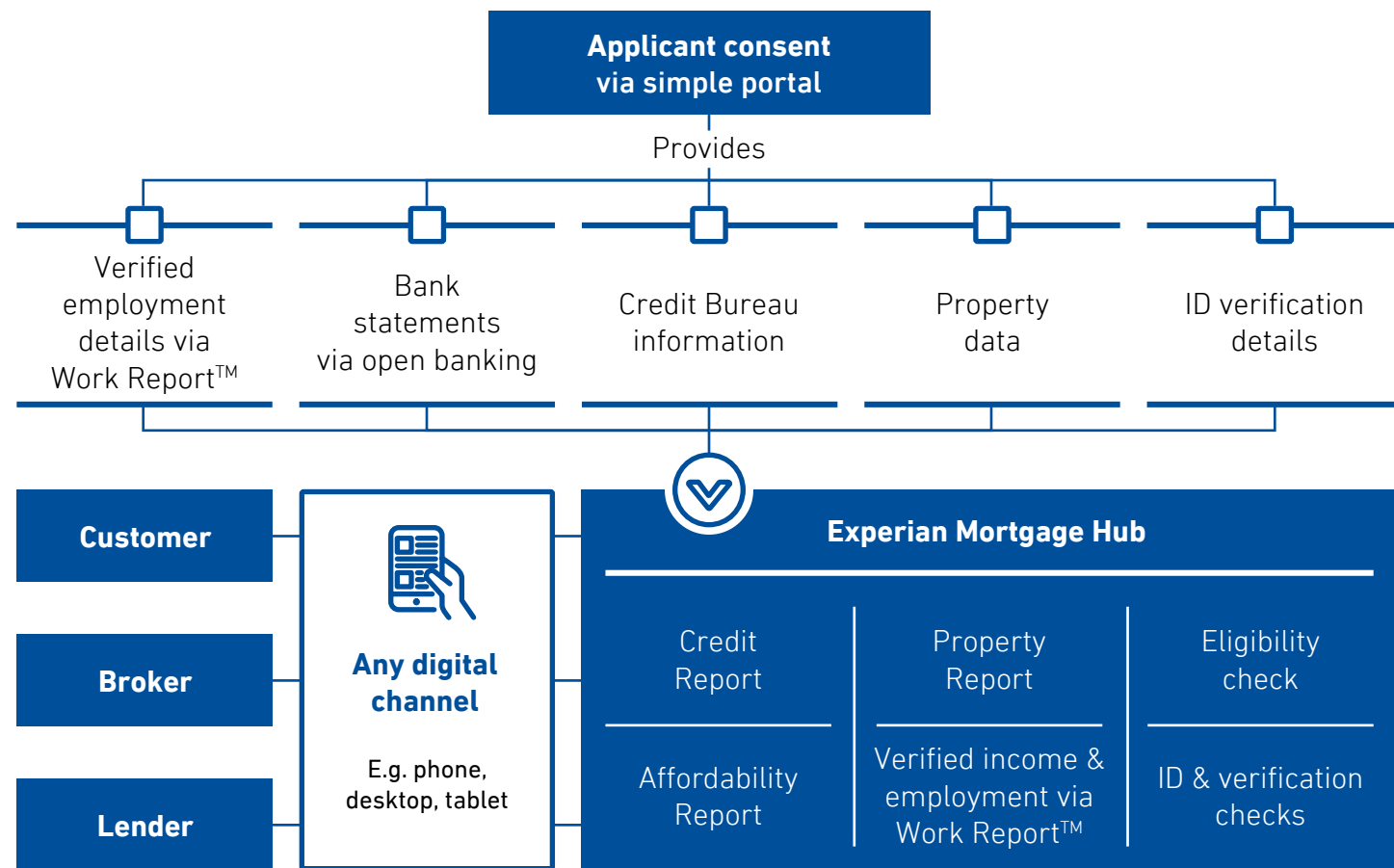
The UK's first wholly digital mortgage application: Experian Mortgage Hub

Work Report™ is a key part of a bigger vision: the UK's first wholly digital mortgage applications platform – **the Experian Mortgage Hub**.


The Hub will **cut application times** from days and weeks to minutes and hours by using:


- | Experian's bureau-based Affordability IQ to automate access to affordability figures, estimated disposable income and debt-to-income ratios.
- | Work Report™ for detailed income data and employment status directly from the employer.
- | Open Banking for a granular view of net income, expenditure and monthly balance.
- | Credit Bureau data to judge creditworthiness.
- | Automated ID and verification tools for security.
- | Digitised property data for location, property valuation, energy efficiency.
- | Automated eligibility checking for mortgages.
- | API links that integrate seamlessly with lender's automated decision systems.


These tools will allow mortgage application processing at the touch of a button.




The Hub provides:

 Cloud-based, supplier agnostic platform that facilitates data sharing using secure APIs.

 Reliable and verified access to first-party data.


 A series of products that automatically turn that data into reports and verification checks to make underwriting easier.


The key principles are:


 **Comprehensiveness.** All essential data is available in one secure environment with standardised formatting for ease of interpretation.

 **Reliability.** It uses verified consented consumer data throughout.

 **Speed.** It cuts out manual intervention in data flow and processing.

 **Shared access.** Lenders, brokers and consumers can all access the Hub.

 **Consistency.** Everyone gets the same view, and data does not change across the journey.

 **Simplicity.** Everything you need in a single, straightforward environment, accessible from the full range of digital devices.

 **Choose what you use.** Lenders and brokers can use the whole package or pick the services and data sources most beneficial to them.

Our estimates suggest the Hub will save brokers and lenders up to **75%** of current mortgage transaction costs.



The US example and UK customer research indicate there could be a significant **first-mover advantage** and considerable gains in **market share** for those who go **fully digital** first to fix the UK's broken applications process.

Interested?

To see how we can help you slash processing times with Work Report™ and Experian's Mortgage Hub get in touch **business.uk@experian.com**

Feedback from the mortgage market

Koodoo – setting a new standard in digital mortgages



Andrei Lebed,
Co-Founder and Product VP, Koodoo

- Koodoo's vision is to create a **seamless** and **transparent online mortgage process** for UK borrowers - where customers can get approved upfront and not worry about 'missing out on the best deal'.
- They make mortgages simple by partnering with leading lenders, aggregators and data providers to intelligently connect borrowers to their next mortgage. To find out more visit: **www.koodoo.io**

Recent research from Experian shows that today most UK consumers engage online with lenders, with **88%** of **credit-active customers** being most likely to **apply online**, whether it is starting their journey online and then speaking to a mortgage adviser further down the process or continuing directly with a lender.

However, the current mortgage model in the UK works on the assumption that application documents need to be validated by a human. This results in a **systemic break in the process** - customers get approved in principle online, but then have to submit documents, which only get reviewed and approved days later.

This **breaks the continuity** of what is advertised as an online application and decision process, which has become the default expectation from consumers in other financial products such as credit cards and loans.

While there have been advances in using digital data to verify parts of a mortgage application earlier (credit data, automated valuation models, current account turnover, and Open Banking), there has been an obvious missing piece: **how to verify employment and income digitally.**

Our view is that Experian's Work Report™ is a perfect solution for **digitally verifying employment and income.** By allowing consumers to consent for lenders and brokers to connect directly into employers' payroll systems to source payroll and tenure data, lenders' risk and underwriting teams can rest assured that the source of data is **verified, 100% reliable** and see the same format and granularity of data that they would find in a payslip for their decisioning.



After an intensive 12 months of Koodoo and Experian working together in partnership to validate Work Report™'s place in the future of digital mortgage origination, Work Report™ will shortly be available through Koodoo's **distribution platform**, used by leading UK price comparison sites, and on Koodoo's **digital origination platform**, which will be piloted by select digitally native mortgage lenders.

The future of digital mortgages in the UK is here.

Experian's Work Report™ is the missing piece in the puzzle of digitally verified application data, resulting in a fully online, approved and easy mortgage application process for consumers, brokers and lenders alike.



The new gold-standard of digital mortgage applications is clear: log onto your preferred **digital intermediary, give consent** to access your digital data, see your **fully approved mortgage offers** from a range of lenders, select the **right one for you**, and click **apply.**

No more documents, no more waiting, and **no more uncertainty** when it comes to the largest financial transaction in your life.

Smartr365 – using Work Report™ to end fuss and friction for brokers and lenders



Conor Murphy,
Founder and CEO, Smartr365



Smartr365 uses powerful integrations to deliver a fully digital mortgage application process. It will use Experian's Work Report™ to collect and verify payroll data, in another step towards simplifying the process for lenders, brokers and consumers. To find out more about Smartr365 visit: www.smartr365.com.

Over 85% of UK mortgages **pass through intermediaries**.

These advisers and brokers form the start of so many customers' journeys, and the information they hold on applicants' income and affordability is crucial to lenders' decisions.



However, the **sheer quantity of paperwork** required to collate and share these insights **makes the process a challenge** for all parties involved – including, brokers, lenders and consumers.



The majority of this paperwork sits in two areas: **verifying who the customer is** and **understanding what the customer earns**. The industry already has ways for automatically verifying ID but still spends inordinate amounts of time collecting and processing payslips.

These delays cause friction. And the chance of first-party fraud – as well as the number of different hands data passes through – can build distrust for lenders.

Digitising income verification by **collecting payslip data directly from source** is the **best solution** to both these issues. At Smartr365 we believe it will change the process by which industry professionals verify income for good – allowing **advisers** to focus on the **advice**, and helping **lenders** deliver **faster, better outcomes** for their customers.

By letting both parties connect directly to an employer's payroll, Work Report™ provides income and tenure information far **faster**, with **greater accuracy**.

It also provides **new insights** for lenders on a range of **employment attributes** (such as length of tenure and employment sector) which lead to **more-informed decisions**.

Work Report™ helps **end fuss and friction** between lenders and brokers and **builds confidence** around the **quality** and **provenance** of the data being shared.

By incorporating payroll data with information from Open Banking on income and expenditure, and a customer's credit report, Smartr365 and Experian are **automating the sharing** of the **key data components** that form an essential part of every mortgage decision.

- **From a customer's perspective**, it also completely removes the requirement to produce payslips and reams of other paperwork.
- **From a broker's perspective**, it removes the requirement to collect that information, then sort it, stamp it, verify it and send it on to third parties.
- **And from a lender's perspective**, it could make underwriting far more efficient. With more information, accessed digitally, decisions could be made much faster, with less manual assessment.



At Smartr365 we see Work Report™ as the **final piece of the puzzle** for a fully automated mortgage-application journey.

By using this new platform alongside **automated ID verification**, **transactional data** sourced from Open Banking, and categorised **affordability assessment**, we have been able to create a **customer-centred** application process, **digital from end-to-end**.

We think the customer journey of the future will be a fully automated one. And, with the help of Experian, we believe Smarter365 can deliver that journey for the mortgage industry.

Interested?

To see how we can help you slash processing times with Work Report™ and Experian's Mortgage Hub get in touch business.uk@experian.com