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How Personal Financial Management Solutions Might Reshape Consumer Access to Mortgage Lending

Opportunities to Leverage Consumer Budgeting and Financial Planning Technology to Improve Consumer Credit Access, Reduce Risk, and Streamline Originations

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Executive Summary

Over the past few years, digital personal financial management solutions (PFMs) have come a long way — from simple checkbook balancing tools to a full-scale suite of solutions that help with financial education, money management, budgeting, tracking, and monitoring overall financial health. A significant new development in the personal financial management market is the convergence of consumer credit management with money management solutions.

The rapidly evolving FinTech ecosystem seeks to create next-generation platforms that move beyond data aggregation toward a financial control tower for consumers, giving them the ability to seek advice and take action, such as sharing data with lenders in previously unseen ways. Part of this evolution is an opportunity to provide mortgage education, support affordable housing, and enable more borrowers to pre-qualify for mortgages and better understand their options.



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Both consumers and lenders are likely to benefit from PFM solutions. Mortgage borrowers can access information that will help them better understand their mortgage options and their finances. Meanwhile, data received from PFM providers can potentially provide mortgage lenders with the ability to improve their targeted marketing, reduce data entry, and automate pre-approval processes. For those consumers who are not ready for homeownership, PFM providers can play a key role in borrower education and counseling as well as financial planning.

Of utmost concern when engaging with PFMs, however, is protection of consumer non-public information and privacy. Financial institutions must consider privacy laws and the growing consumer demand for transparency in data collection and practices regarding ongoing use and refresh of data. Lenders must consider their approach to data privacy and protecting consumers, the disclosure of use of third-party data aggregators and their privacy policies, and disparities in access to technology.



Introduction

Digital transformation of financial services promises to give institutions and consumers access to more efficient tools for contactless payment, money management, and loan management. One of the components of this transformation is PFM technology — virtual platforms that consolidate an individual’s financial footprint onto a single dashboard. In this article, we focus only on the financial and budget-centric elements of PFMs — and with an eye toward mortgage lending. Digital wallet-style features that are more payment-centric may be one component of PFMs, or may be entirely independent solutions like those of Apple Pay, Pay Pal, Google Pay, Zelle, Venmo, and others.

PFMs provide a modern technology data platform that enables users to manage all or most of their finances in one virtual location. This includes managing bank accounts and credit cards, and tracking savings and balances over time. With the consumer’s permission, the PFM platform can conveniently provide them a consolidated view of their financial information, such as net worth, bank account balances, personalized spending categories, and recent financial activity.

PFMs come in a variety of business models comparable to search platforms that either fully or partially subsidize cost for the consumer by way of marketing and lead generation services. Premium for-pay services that offer additional convenience and little-to-no advertising/marketing also exist. PFMs increasingly face consumer expectations for friction-free, comprehensive, secure, and reliable access to all their cash flows, savings, investments, and balances from multiple financial institutions, provided the consumer has granted permission for ongoing access to their accounts. Of critical importance is consumer trust in the PFM provider — because consumers are providing access to most, if not all, of their financial information, PFMs should endeavor to provide a safe, secure venue that operates in their best interest.

Given their ability to centralize a consumer’s financial information, PFMs are well-poised to give them a view of their cash flows, savings potential, and credit score, and help them develop a comprehensive picture of their overall financial



health including benchmarking and cohort information. The next generation of PFM may also provide action/decisioning in the PFM itself, as opposed to handing the consumer off to another third party to begin the process.

PFMs can potentially help consumers with a clear and certain assessment of their financial health and potential qualification for their lending needs, especially mortgage products. Other features, like product and lender ratings, can be integrated to further help them understand their options. This development creates the opportunity to put consumers more in control of their overall decision-making process with respect to when, why, and how to reach a lender and access credit.

According to a [McKinsey & Company survey](#), customer experience is a significant differentiator when it comes to choosing a mortgage lender.¹ Consumer expectations for speed, transparency, convenience, and personalization are being influenced by digital experiences, which are transforming consumer behaviors. This shift in the market is creating opportunities for lenders that develop the most competitive digital mortgage solutions. PFMs have the potential to improve the borrower experience by offering rapid online/near real-time views of applicable products and borrower pre-qualification. Further, they may be able to improve the overall lending experience by reducing the need for paper or image-based documentation on employment, assets, and income. Data sourced from trusted third parties can help deliver streamlined experiences for consumers and may help lenders differentiate their products and services, expand market penetration, and improve customer loyalty. [Digital wallet technologies](#) may also add value for institutions by generating opportunities for personalizing offers and optimizing customer service, further enhancing consumer experience.²

A [2019 Fannie Mae Lender Sentiment Survey](#) found that 63% of lenders say application programming interfaces (APIs) that enable easier borrower qualification and verification are among the top technology solutions with the greatest potential to streamline business processes.³ PFMs may be able to leverage these APIs to create streamlined mortgage pre-approval options for consumers.

¹ Ayush Madan, Akshay Kapoor, and Rohit Singh, "Competing on Customer Experience in U.S. Mortgage," McKinsey & Company, December 10, 2019, Retrieved from [mckinsey.com](#) (accessed November 16, 2020).

² Finance Digest, "Digital Wallets Bring Value to Banks and Retails," Finance Digest, Retrieved from [financedigest.com](#) (accessed November 16, 2020).

³ Fannie Mae Mortgage Lender Sentiment Survey®, "Q1 2019 Topic Analysis," Fannie Mae, Retrieved from [fanniemae.com](#) (accessed November 16, 2020).



Counseling and Services for a Broad Range of Consumers

PFMs have evolved into more than just an electronic version of physical wallets or checkbook balancing tools. PFM providers consolidate multiple financial solutions and account tracking — enabling the provision of budget and goal tracking for consumers. This functionality may include providing planning tools for a home purchase. Consumers are likely to seek a long-term relationship with a PFM, as opposed to point-in-time transaction-based relationships, a key differentiator from a traditional pre-qualification process.

PFMs provide unique opportunities for consumer education and planning. Financial management tools and planners, mortgage process education, credit score tracking, mortgage option tools, and advice on managing individual credit profiles are typically available to consumers on PFM platforms. PFMs have the potential to offer home buyer counseling and housing assistance programs, and to connect consumers with qualified lenders and programs seamlessly.

PFMs provide unique opportunities for consumer education and planning.

A [Pew Research study](#) finds smartphone usage is a key bridge in the digital divide between majority and minority demographics.⁴ About eight in 10 Black and Hispanic adults own smartphones, and their devices play a larger role in accessing the internet than among Whites. (Another [Pew Research study](#) discusses how “many lower-income Americans are relying more on smartphones.”⁵) These populations tend to rely much more on their smartphones for access to online information on topics like health and employment. This smartphone-based digital bridge offers a potential opportunity for PFMs to play a larger role in closing the housing equity gap.

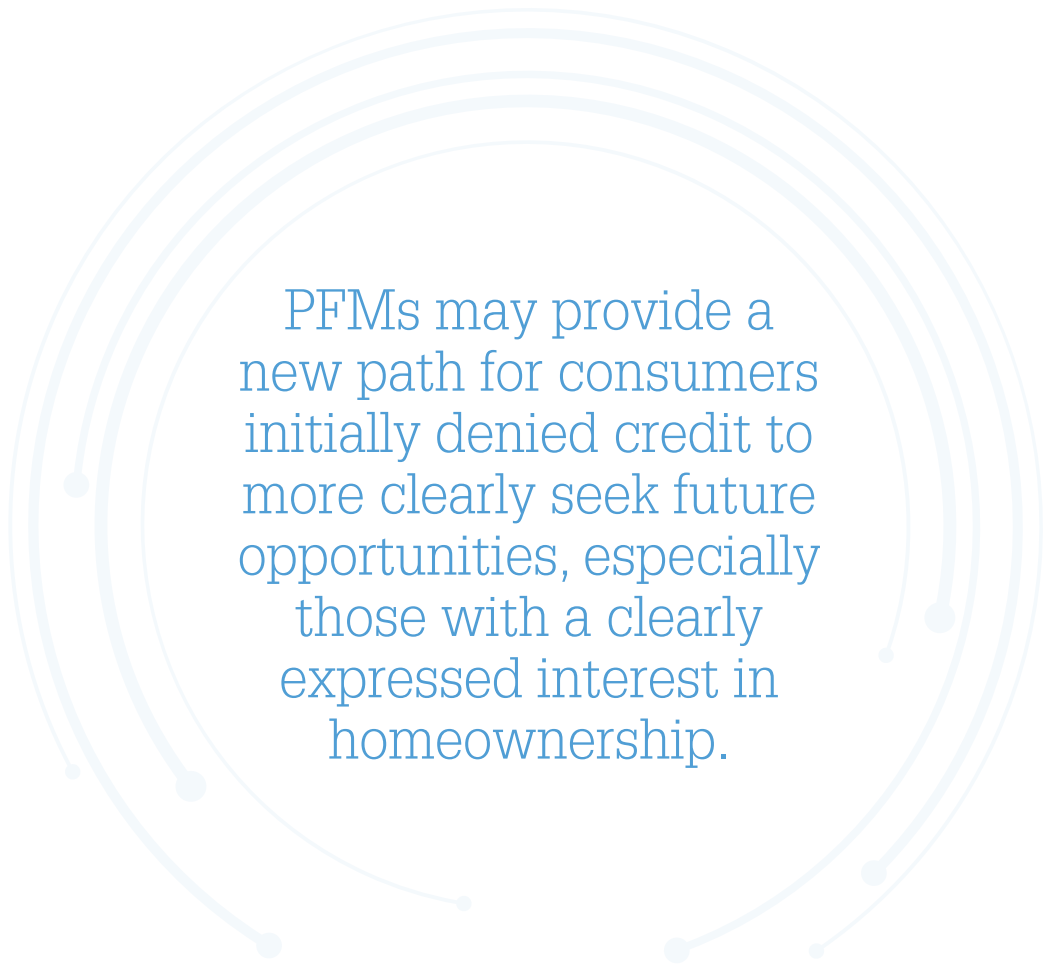
⁴ Pew Research Center, “Smartphones help blacks, Hispanics bridge some – but not all – digital gaps with whites,” Pew Research Center, Retrieved from [pewresearch.org](https://www.pewresearch.org) (accessed November 16, 2020).

⁵ Pew Research Center, “Digital divide persists even as lower-income Americans make gains in tech adoption,” Pew Research Center, Retrieved from [pewresearch.org](https://www.pewresearch.org) (accessed November 16, 2020).



Lenders also may develop loyalty programs for consumers and help them build credit histories and down payment goals with incentives and leverage the PFM as a financial on-ramp for first-time home buyers. Notably, given the long-term vs. transaction-based relationship consumers tend to have with PFM platforms, PFMs may provide a new path for consumers initially denied credit to more clearly seek future opportunities, especially those with a clearly expressed interest in homeownership.

A recent [Urban Institute](#) study found outreach and counseling for renters and mortgage-ready millennials as one of the five foundational pillars for reducing the Black homeownership gap.⁶ A financial management app bundled with education, counseling, and a responsible product recommendation engine may be an effective part of a solution for addressing the homeownership divide.



PFMs may provide a new path for consumers initially denied credit to more clearly seek future opportunities, especially those with a clearly expressed interest in homeownership.

⁶ Urban Institute, "Building Black Homeownership Bridges: A Five-Point Framework for Reducing the Racial Homeownership Gap," Urban Institute, Retrieved from [urban.org](https://www.urban.org) (accessed November 16, 2020).

Opportunities for Mortgage Lenders

The PFM ecosystem is still evolving as mobile payment technology converges with data aggregation providers and virtual financial management tools — data accuracy and consistency being a foremost concern. A long-desired goal for many mortgage lenders and their borrowers is a fully digital mortgage, which can track the entire mortgage loan application, underwriting, and closing infrastructure within an online experience. This requires technology that enables a consumer to connect from a digital front end to a financial institution’s mortgage loan fulfillment system, from beginning to end.⁷ PFMs have a unique position and potential advantage given the inherently fragmented nature of banking relationships, where one consumer may use multiple banking institutions.

The integration of payment processing with user accounts, credit history, and transaction data may enable PFMs to provide users with a central hub for managing disparate financial activity — including payments, income, savings, investments, and loans — into one combined profile (provided the consumer is keeping the data fresh, as accuracy and currency is critical for lenders to gauge borrower creditworthiness.)

While PFM technology is being driven by non-bank lenders, a [report](#) by Accenture suggests that banks also consider improving operational efficiency by automating manual back-office workloads to achieve a true digital mortgage.⁸ Looking ahead, both banks and non-bank mortgage lenders have the option to look to third-party PFM platforms to offer digital mortgage capabilities or supplement internal capabilities, provided a thorough assessment of the security and privacy risks and controls is performed.

A key implication of the PFM market is that home lending institutions will now have to consider these new solutions as a necessary distribution channel to reach consumers where they are, in lieu of waiting for a consumer to come to a lender’s website or point-of-sale system. In some ways, the PFM model pushes lender-consumer engagement further “left” into the mortgage origination

⁷ Accenture, “Achieving the True Digital Mortgage,” Accenture, 2019 Retrieved from [accenture.com](#) (accessed November 16, 2020).

⁸ Ibid, Retrieved from [accenture.com](#) (accessed November 16, 2020).

pipeline converging prospecting with counseling and decisioning activities for the consumer. This convergence of borrower research, education, options, and decision making can now occur within their financial management software as opposed to through multiple unconnected external websites and disjointed mobile apps from multiple lenders and financial institutions.

Potential PFM benefits for mortgage lenders include the ability to identify consumers who set homeownership as a goal. Lenders could, for example, develop customized marketing messages for first-time homebuyers. PFM capabilities may also help lenders identify consumers considering refinancing.

Other opportunities to potentially leverage consumer financial data may include:

Offering mortgage calculators for estimating:

- Loan amount/purchase price options
- Monthly mortgage payment
- Amount of interest paid over life of loan
- Amount saved in interest by refinance

Recommending loan programs/options, such as:

- Down payment scenarios
- Loan debt consolidation options

Recommending mortgage refinancing options and education, such as:

- With and without cash-out options
- Rate/term options
- Monthly payment implications

Facilitating peer comparison, such as:

- Savings in comparison to the consumer's peers
- Mortgage options the consumer's peers are choosing

Providing proactive notification when market factors change (% rate change, new products, property values rise/fall, housing inventory)

Displaying loan modification options

Personal Financial Management Solutions:

User stages and lender opportunities

[VIEW INTERACTIVE VERSION](#)



Assessment

- Check financial health
- Check home affordability
- Financial education

Budgeting

- 50/30/20 budget
- Wants vs. needs
- Weekly budgeting

Goal setting

- Save for a home
- Save for college
- Pay off debts
- Lower monthly payments

Monitoring

- Credit score
- Investments
- Savings

Shopping for mortgage (or refinance)*

* Typical mortgage start

Opportunities

Estimating

- Loan amount/purchase price options
- Monthly mortgage payment
- Amount of interest paid over life of loan
- Amount saved in interest by refinance

Recommending loan programs/options

- Down payment scenarios
- Loan debt consolidation options

Recommending mortgage refinancing options and education

- With and without cash-out options
- Rate/term options
- Monthly payment implications

Facilitating peer comparison

- Savings in comparison to the consumer's peers
- Mortgage options the consumer's peers are choosing

Providing notifications when market factors change

(% rate change, new products, property values rise/fall, housing inventory)

Displaying loan modification options

Buying a home

Loan servicing and support

The Digital Mortgage Future

As consumers become more comfortable with digital finance tools — and choose to share their personal finance information — the opportunities for lenders can significantly increase.

Assuming the data collected is accurate and current — and that consumers do not abandon the platform (rendering the data out of date), PFM providers may be able to validate consumer data related to a mortgage loan application, which offers the potential to eliminate the need for manual validation of income, assets, and employment. PFM data also can be used to pre-populate mortgage applications, enabling lenders to replace cumbersome paper forms with source data — potentially creating a more frictionless experience.

If a PFM provider has aggregated financial data available, and can validate that data, the information can be used to further automate mortgage origination, processing, and servicing solutions, and help lenders deliver faster and more efficient service to consumers.

Special concern must be given to consumer privacy and permission, especially in the case of ongoing financial data aggregation. Organizations like the [Financial Data Exchange](#) are working to standardize data flows of consumer bank account and other personal data, and seek to provide security and transparency to the consumer about usage. The Financial Data Exchange’s standardization work across the financial services industry may help to accelerate the implementation of digital technology.



Conclusion

PFMs are evolving as new transactional capabilities are added. [Juniper Research](#) predicts that the number of people using digital wallet technology (which are often a subset of PFMs) will increase from 2.3 billion to nearly 4 billion by 2024.⁹ This will increase transaction volume by more than 80% to more than \$9 trillion a year.

Mortgage lenders have an opportunity to leverage PFMs to take advantage of data-driven marketing and back-office automation. This opportunity does not come without potential risk: lenders must consider the approach to data privacy and protecting consumers, the disclosure of use of third-party data aggregators and their privacy practices, and disparities in access to technology. PFM technologies have the potential to enable lenders to efficiently deliver personalized borrower solutions — including real-time data streaming, borrower data validation, and integrating PFM profiles with qualified mortgage solutions.



Mortgage lenders have an opportunity to leverage PFMs to take advantage of data-driven marketing and back-office automation.

[Learn more](#) about digital mortgage technology from Fannie Mae.

⁹ Juniper Research, “Half the World’s Population to Use Digital Wallets by 2024,” Juniper Research, June 11, 2019, Retrieved from juniperresearch.com (accessed November 16, 2020)



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