124 Steve Hewins Disruption CU Members Mortgage

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By Steve Hewins

Lisa Hochgraf 00:04
You're listening to the CUES Podcast, episode 124.

00:08
Thank you, CUES podcast listeners, for tuning in to the CUES Podcast. As I record today, we've already seen some light snow here in upstate New York where I work, and CUES' Madison headquarters has actually had some snow stick. Whether you're getting ready for winter or enjoying warm sunshine today, we're glad you're listening.

00:27
As you know, on the CUES Podcast, you can hear from a wide range of cross-industry experts discussing trends and topics relevant to you. My name is Lisa Hochgraf, and I'm a senior editor for CUES and it's CU Management magazine. I will be your host today.

00:43
Before we welcome our guest and jump into today's topic. Let's take a pause for a brief commercial.

00:51
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01:40
Today we'll be talking about disruption and looking at what disruption means exactly, as well as how it compares to innovation. With clear definitions in hand, we'll take a deep dive into what's going on in the mortgage lending arena and what small trends credit unions may want to be tracking now, since these small trends may develop later into more significant market disruptions.

02:05
Our guest, Steve Hewins, is senior vice president of CU Members Mortgage, a CUESolutions Bronze provider based in Texas, one of those places that is still enjoying warm sunshine. Since getting his

degree in marketing from the University of North Carolina at Wilmington, Steve has worked in mortgage lending for a wide variety of organizations, including Wachovia Bank, Capital One and Trellex before coming to CU Members Mortgage. In all he brings many years of experience to the perspectives he shares during the show about the disruption opportunities in mortgage lending.

02:41
My conversation with Steve really expanded my thinking about the mortgage lending space. And I hope you find it does the same for you. So let's get started.

02:54
Welcome to the show Steve.

Steve Hewins 02:57
Well, thank you. I'm very excited to be here today. You know, it's always a pleasure to be here. And to do this with you. You know, CU Members and CUES have had a very long history of working together, probably about 20 years now, which is a great relationship. And we've always found the connections that we have built to be wonderful. And we certainly enjoying partnering with our credit union professionals and the board members to help them either through our own mortgage services or, like today, just sharing relevant information.

Lisa Hochgraf 03:25
CU Members Mortgage is a CUESolutions Bronze provider and a valued CUES partner. I've posted a lot of great content on CUmanagement DOT com from you, Steve, and from your colleagues. Thank you so much.

03:32
So on the show, lots of times we start by helping our listeners get to know our guests a little bit. We invite the guest to share a professional quote or a mantra that they live by. Would you have such a quote or a mantra to share?

Steve Hewins 03:46
I do actually and I use it on a daily basis. Keep it simple. And that's it. Just keep it simple, either in learning or in managing process creation or marketing or communications, I really just try to keep it simple.

04:01
I used to say simplify, simplify, simplify, but that was redundant and didn't make sense so keep it simple as much better. And even a complex problem can be solved by really kind of breaking it down, getting to the root of it. Solve that problem, and then you can add back the complexity in a methodical way and still get to the right answer. So everything I do, I just try to keep it simple. Our conversation today, we're gonna keep it simple.

Lisa Hochgraf 04:24
I love it. That's a great mantra. I think I will think about simplicity for the rest of my day.

04:30
So we're going to talk about disruption today and the opportunities that it might provide. Let's clarify what we mean by disruption. We often hear the term used to talk about changes in the market. But let's explore the deeper meaning of that. Is there a difference between disruption and innovation? They seem to be applied in discussions interchangeably these days.

Steve Hewins 04:51
You're absolutely right I ... on a couple of things. No. 1, disruption is used way too often and probably incorrectly in my opinion and it also is a lot of times mixed or confused with innovation. There are plenty of articles that talk about a new app or a new technology being disruptive or being a disruptor in the marketplace, and there's really when you look at the term disruption, it really is talking about a new entrant coming into the market and they're bringing a non-conventional business model, okay. And in a true disruption, those unconventional products normally take root kind of at the bottom or the fringes of the market. And they're addressed probably in underserved segments, the people that aren't getting the attention or getting the fulfillment that they need out of a service. And then over time, normally, you know, those factors could be because of low cost or really quick adoption, they start to grow and start to influence the rest of the marketplace. And typically, because it's a disruption, it's not the fact that it is changing the market, it's pushing something out of the market or changing the status quo. So a disruptor eliminates something that's in the market today. And it normally comes in a phase. You know, typically, it'll start off with initial disruption. And then you'll have very quickly some rapid or sequential evolution of that. And then there'll be, you know, everything kind of starts coming together, because people recognize it, they try to copy it, the the status quo tries to adapt. And then basically, the status quo typically doesn't adapt and then gets replaced with the "new normal" as we would call it.

06:29
And so disruption is does have innovation in it. But it's more about the market dynamics of how it impacts the rest of the market and what they do and what or what they don't do. And so, again, the folks, the entrants that come into the new market, fringe support, and not necessarily initially coming in with a great reputation, because it's a low-cost provider, it's serving a subsection of the market, it's not widely accepted. But over time, it becomes accepted and becomes the predominant area and changes the status quo.

07:02
And that's why it's different than innovation because we have innovation all the time. You know, one of the ones that probably comes to mind in the mortgage space is Quicken, right? Quicken in 2016 came in and they had their Superbowl commercial and it was mortgage with a button, right? And everyone's like, "Oh, they're a disruptor. They're a disrupter." But they really weren't. They were really an innovator. And it was a sequential evolution of where we were. We had online apps. We had online sourcing of information. They just really packaged it really well. They pieced it together. And it was the next iteration of a point of sale.

07:38

That's the difference between innovation and disruption. Disruption, you're going to have a loss of the status quo. Uber, right. Uber started in the Bay area as an app for car services. And, you know, the taxi cabs didn't have them on their mind. They, you know, they were dealing with limousines and towncars and that type of thing. But early adopter adopted, then they all of a sudden they had linear evolution. They said, "Gosh, we're doing this for cars. We could do this for anyone that needs a car." And then now they are going to use a different workforce. They don't have hardware that they need to purchase. They don't need to buy cars, they're using the people's cars. And there was quick adoption. And then once that started to catch on and start spreading, right, Lyft and others came in very, very quickly. And then the taxi cabs, even they even they tried to adapt, but you know, really weren't successful in adapting. I mean, cabs are struggling all across the country because of Uber.

Lisa Hochgraf 08:32
I was just thinking today about how I learned about weak signals in the market years ago from Kathy Pearson at a CUES event about emerging technology. And I loved that idea that we need to be listening for those little bits, right, those shifts that are happening, that are eventually going to grow like you've been describing into something that disrupts what we do.

Steve Hewins 08:52
Absolutely.

Lisa Hochgraf 08:54
So, I know that as an executive who specializes in credit union lending, you have probably thought about disruption that's specific to the lending space. What disruption opportunities would you say are available in the origination of a loan?

Steve Hewins 09:07
So right now, I think we are in the phase of early disruption in the mortgage space, and in origination. And I'm not talking about the fintechs that are coming in and creating point of sales. They're going to continue to evolve the point of sale. They're going to continue to evolve on and what Rocket did as far as you know, figure out a way to calculate income faster, get asset information that are, you know, get better property data and create all of this so they get a faster decision. And that, again, is evolution. That's not disruption.

09:39
The real disruption that I think is occurring right now is starting to be the merge of finance and real estate. And so you start to have these disruptors coming in like Open Door, Zillow. You're starting to already see online real estate brokerages that are taking the realtor out of the process, right because it's cheap. You can list your house online. They, you know, put codes on the door. You don't have to have someone showing it. You know, there's all these things that they're starting to do. And then we have ibuyer, you know, ibuyer being where someone comes in and uses technology, based on the technology makes you an offer on your house. You sell without even listing it, and then they turn around and sell it again. And so all of these things are little bits and components of the merging of finance and real estate.

10:27
We're starting to see, you know, it's going to be an end-to-end process a lot of it online. Because right now, in today's world, the realtor controls the purchase transaction. People don't talk about that a lot. But if you're going to do purchase transactions, you have to have a really strong relationship with a realtor or a builder, because they have the ability to steer their member to their lender. And you know, a lot of your credit unions here, you know, I'm guarantee they've experienced it. They're in the middle of talking to someone and they're like, "Oh, my realtor told me to go with so and so because they can close it faster." "Oh, they do mortgages all the time." It's like we're a credit union; we do mortgages, too. You know, they really control that piece. And you have to really build those relationships.

11:07
But what I see is coming is this technology use and the blending of the online real estate broker with lending and Zillow for shopping and searching. And then you start marrying in all these services where, you know, you can get your appraisal through here. You can get your title through here. It becomes a one-stop shop. It's an omnipresent experience for someone. And that's really the disruption that's starting to happen.

11:32
And we're in the very early stages, and a lot of people have tried to figure it out. And they, and there's different people who have different pieces of it, but no one's really got the holy grail yet. I mean, you're gonna start to see insurance, you know, homeowners insurance, being part of that process, or, "Oh, you need a cleaning service," or whatever those things are, you're gonna start to see this omni experience. And it's really the blending of finance and real estate. That's the big disruption.

11:55
I think the other one that I would love to see is I think what is ripe for disruption is also affordable housing. And, right now affordable housing and affordable lending, some of those folks are being left behind, because they may not have the means for online experience. And they we need to figure out how to reach those people and not be impacted as technology leaves them behind. So I think there's some really good opportunity there. And then I think you'll start to see things that will, you know, like terms of the loan may be different timeframes, payment schedules, those type of things. But you've got to simplify the online processing experience that they may not necessarily have access to, because they may not have internet. They may not have, you know, pervasive wifi, you know, in certain areas, but can you do it on your phone? And then how do you translate that and how do you translate income in those other pieces? So I think that's the other piece that's ripe for disruption, I just don't know that anyone's in a position to do it yet.

Lisa Hochgraf 12:54
It seems to me like credit unions are always working to have good relationships with the realtors in their area. And similarly, I know of credit unions that own an insurance agency, for example. So those credit unions are kind of starting to follow this disruption that you've described of financial services and real estate merging. What else can credit unions do? Or are they kind of at the mercy of the disruptors at this moment?

Steve Hewins 13:19
Well, I think the relationship in the role of the realtor is going to look a lot different in the future. I think you're going to have these online providers that are going to push them out a little bit. And people will say, "Oh, people always want a person." But with the adoption of Zoom, you know, virtual exchanges and those experiences, I think that's a group that's going to feel the pinch, and they're going to have to adapt. And it may be that they're functioning as a different way as a realtor. And they're not going to be earning, you know, 6, 7%, or, you know, whatever their percentages, you know, these online brokerages are doing it for a half or a 1%. And so that's, you know, when you start talking large homes $400,000, $600,000. That's starting to talk real money for people, and even $100,000 house, everyone wants to save a percent. And so I think the role, the relationships they have today may not be as important in the new status quo. But that doesn't mean you can lose them because you need to get to the new status quo. And I say this every time I people ask me about surviving in a purchase market: You have to build those relationships in selling mortgages 365 days a year. You can't just put it in your newsletter in June and think you're gonna attract people. You have to show those realtors that you're in the game and you're in the game every day. And so you've got to continue to build those relationships. You have to train your frontline staff to understand that you do mortgages, and when they start hearing people talk about renting or transition or things that would cause people to purchase a home or refinance a home for cash, you need to be on top of that and your frontline staff has to have the confidence to be able to push the staff to the appropriate person. They don't have to be a mortgage expert, but they have to know the key words and have the ability with confidence to send them to the right person in the branch or within the credit union that can support them from a mortgage perspective.

Lisa Hochgraf 15:00
So my sort of synthesis of what you were saying about the relationship that credit unions now have with the real estate agent, might be that they need to continue to nurture what they have, while at the same time listening for weak signals of other partnerships that they might want to make with, like you were saying, an online brokerage or ...

Steve Hewins 15:18
You're completely expanding my thinking about mortgage lending. Thank you, Steve, for that.

15:18
Yeah, or bringing their realtor partner along with them. What strengthens the relationship even better than to be a voice of knowledge and expertise for your partners? How much loyalty do you create with a realtor when you talk about these changes that are coming in the industry? And how do you two partner together to ride those out? Let's be real. Insurance companies and credit unions, as depository institutions, are not positioned to be disruptors. They really aren't because of the regulation around them, you know, the oversight and all of those things. And we're not hiring staff in our credit unions who are those kind of thought leaders, and we need to start doing that. So it's difficult for them to break the status quo when you have to operate within the regulatory confinements. And so part of, you know, we'll talk about a little bit later, I think about, you know, what can a credit union do? That's gonna be one of the things that we're going to talk about is, they have to be an advocate. They have to participate and hire people, make sure those people know what they're talking about, you know, and are ready for

change, and then listening for change, and then making sure that they can work with the regulator to address the gaps in the market that they want to disrupt.

16:31
That's exactly why we're here to to expand the conversation and have people start thinking. We're not going to solve it today. And I don't have answers for everything. But definitely, these are things that I'm seeing and noticing, and we have to start thinking about them. And we can't we can't react, you know, when we're not in a garage with like two other people. We can turn on a dime, you know. We have, you know, board members and members and all sorts of things that a credit union needs to work with within their sphere of influence.

Lisa Hochgraf 16:56
So in keeping with what you're saying about the origination disruption, are there more disruption opportunities in the operational process?

Steve Hewins 17:05
Yeah, I definitely. I think the most pain point that everyone has experienced right now is collateral valuation appraisals, right. You know, right now, we have a shortage, we feel like we have a shortage of appraisals. Appraisers take a long time to pick up orders. They take a long time to deliver the appraisal, to make corrections. The fees are continuing to increase. And so, collateral valuation is definitely ripe for disruption. You know, and it's going to be very different and like things that you could kind of think about would be, you know, we've already started moving from, you know, a full appraisal to desk reviews or drive-bys or, you know, or AVMs, automated valuation models that we use. Those are still very limited.

17:48
But think about what that next iteration of an automated or technology version of an appraisal is. Do you have connections with city governments around permits? "Oh, you got a new roof, we'll add that to value." "Oh, you have a new hot water heater." You know, certain areas and different municipalities have different rules around permits. Maybe you're connecting to mechanics or construction companies or builders or folks that have supply companies that you know, do tile. "Oh, I know that you purchase X amount of tile" or "You have you put in a new driveway. Oh, you put in a new septic system" or ... You know, you start being able to pull these points in, you would have a good understanding of the situation of the house, the condition that it's in. You start doing doing drone reviews. You know, drones fly over and look at the house and "Oh, the yard looks good" or whatever those things are, there's going to be new data points that we'll have access to, to come in, and there'll be able to leverage those to come up with a risk appropriate value for that property.

18:46
And you know, then if you want to appeal it, then maybe you then you go to a full appraisal or some version of an appraisal, but you start using these valuation tools on 80% of the business. That's a that's a new opportunity. So I think people who figure out how to deliver a valuation quickly, I think the ABMs is the beginning of it, but I think there's a whole iteration, you know, what are the electric bills? What are your water bills? What are these things? You know, did you buy new bushes and how do you represent

that? Those kinds of things will be very interesting. As far as home inspections as well, they'll look a lot different as well based on that information.

19:22
So I think valuation is one. I think the other thing that is, you know, a challenge till today is even though we you know, we did TRID moons ago, we're still working through TRID and that whole relationship with the whether you're in an attorney state, closing agent, escrow company, title company. Whoever's closing your loans with the lender, that interaction is going to be continues to be a challenge and you want to make sure you have the right fees and do you start pulling in fee services and getting fees pulled in for that you both use? Is there a centralized fee database that we use or are you pulling it directly from the county recorders office to know what they're charging per page. Those type of things will be very interesting. And then the other piece is you want to secure that connection between you and the title company because we're hearing all sorts of fraud ah where people are doing phishing scams or other email scams around, oh, change the routing number, here's the new routing number, we've updated our routing number in our account number, people are wiring money to the wrong place, and, you know, don't even know it. And that's that's a reoccurring issue. So I definitely think that closing agent collaboration has a lot of room for disruption and improvement, not just from efficiency, but from a quality standpoint, but also privacy and security, making sure that we're protecting ourselves from fraud.

Lisa Hochgraf 20:44
This is all very interesting. Steve. Let's let's continue with the mortgage process. It seems like most lenders don't really focus on the activities occurring after the loan closes. Are there also meaningful disruption opportunities in the post-close function?

Steve Hewins 21:00
I agree, I think a lot of lenders and credit unions, when they when they finally get to closing, it's just like, "Thank goodness, let's just move on to the next one." But there's a lot of activities that happen after closing, you know, depending on the size of a credit union, what they're doing. Some are shipping and some selling those loans, some growing the portfolio. They're going to service these loans or be a part of that process. And there are opportunities in the post-close world.

21:23
One of them I think, is really about payments. Today, everyone, you know, there's people send ACH, or they draft or they do online banking, that type of thing. But are millennials and Gen Zers really aren't into that type of payments, you know, they use other things, they use Venmo, Zelle. And then also, we've got Bitcoin and cyber currency. And so we'll have to see what that looks like as well. So I think that's a disruption opportunity in the servicing world is for people to really think about payments and how they use payments. And they process that.

21:55
And I think the other piece that is it will be very, very interesting ... right now the most of the securitizations that we do are through governmen-sponsored entities through the GSEs, Fannie, Freddie, Ginnie and that type thing. And I think it's less than 4 or 5% is private securitizations. Back in

the heyday, before the credit crunch, we probably maxed out about 20% of all mortgage-backed securities done were private label, probably never over 20%, certainly never over 25%. That's the bulk of the securitization. But now, when we start talking about things like crowdfunding, Kickstarter, and these other funding sources, what does that mean, for the, for those groups to kind of fund other investors? You know, you do still have some real estate, some REITs, you've got some insurance companies that will buy and do securitizations. But if you have this other alternative of these crowdfunding Kickstarter, or something like that, what does that do for them as the investor, what their requirements are? Does that mean we'll have more flexibility in guidelines or what they would accept as documentation? You know, so it opens up a world of possibilities of what could happen in the mortgage space, because you're no longer tied to what Fannie and Freddie say, right? Fannie, Freddie or Ginnie, these are the rules, and everyone kind of follows those rules. And because private securitizations haven't really kicked off and gotten to a huge point, that's when that's a disruptor waiting to happen. Having these other funding sources, these crowdfunding opportunities, and what that does if you have different investors or money backing you what you're able to do from a securitization, what you're willing to buy, what you're willing to net as a yield. And so what does that do to the price? And so all of those things could really have a fundamental shift of securitizations of mortgages.

Lisa Hochgraf 23:46
Yeah, you continue to expand my thinking. So Steve, why have we not seen these opportunities tackled yet?

Steve Hewins 23:54
Well, I think there's a couple reasons for it. First, is, you know, credit unions really aren't built to be disruptors. You know, they they're operate in a very regimented, regulated market. And like I said before, a disruptor has to change the status quo. But for credit unions, a lot of their status quo is dictated by government oversight and regulation. And so they're going to have to, I think that slows down the amount of innovation or disruption that can occur. Because you still, regardless of what you do, you still have to operate within the guidelines of the rules and the regs if they're managed to today. And so they may want to take all these exciting things about, "Oh, we're going to do these new valuation models," but they may not have the ability to because it doesn't align with current regulation. And also credit unions really aren't built or aren't hiring for that. They're not we don't have credit unions are out hiring disruptors, they don't have an environment or a culture of "let's turn things upside down." And I think that's why and then even if you start hiring those people, you have to have a culture inside the organization to retain them for those people to execute on that. And so you really have to have an opportunity or intention to do that. You know, and the other thing that we talked about briefly was, you know, there are a lot of stakeholders and partners in the mortgage process. You've got the GSEs, the government entities. You've got the private markets. You've got real estate agents. You have fintechs, lawyers, closing agents, county recorders office, municipalities. All of these things and all of these stakeholders are kind of woven in there, and it becomes very difficult to peel them off one by one. And so that's another reason is just the complexity of it, the regulation, and then the fact that, you know, we're just not at that point as institutions to be ready for.

Lisa Hochgraf 25:41
Lots of talent opportunities there. As a talent development organization, I'm very interested in that.

Steve Hewins 25:46
Yeah. You've got to create an environment. You can hire them all day long but if you don't give them that environment for them to be themselves and to expand that thinking and to look at things differently, it's gonna be a rough road to be a disruptor. I mean, you see it already. I mean, just think about the things that credit unions face with even even marketing to millennials and to Gen Z and to those, how difficult that is, for some credit use just to wrap their head around because it needs to be done in an entirely different way than a traditional marketing plan would have been done 15-10 years ago.

26:20
Thank you so much for all of this insight, Steve. Before we go, I'd like to ask you if there's anything we didn't talk about today that you think would help our listeners with opportunities for disruption in their lending?

26:31
Well, again, I think what we didn't talk about is, well, what should a credit union do? Right? We didn't talk about what can a credit union do to be successful even because now I've labeled them as a non-disrupter. And I'm more than happy for credit union to prove me wrong and be a disruptor. I'm supportive all the way. But if they're not a disruptor, what can they do? And probably the most important thing is start hiring staff that has that type of mentality. You have to make sure your staff is prepared to do change management and be ready for the changes that will be coming. And you have to be able to react to and start listening to, as you said, the small signals, the quiet signals, and piecing them together. Start drawing the lines between them and connecting the dots. And even though you may not be a disruptor, you certainly can be aware of what's coming, and maybe be a fast-follower instead of an initial participant.

27:22
And so I think when you start looking at that, and even if you can't do it because the cost is too much or the culture is not right, maybe you start looking for partners who can do it for you, and start thinking about that, and asking those questions of your partners, when you start building vendor relationships, and making sure that they're understanding the signs of disruption that are coming, how are they preparing as a vendor or as a partner for you, so they're ready and not displaced? And I think those are really important things: training staff, keeping an eye on what's on the horizon, and three, questioning your partners to make sure they're doing the same. And that should be a you know, that really should be part of your vendor management and oversight, is asking those questions like, "What do you see?" and "What's coming?" and "What do you prepared for and how are you going to react to it?" It's not it's not a bad thing to ask those questions.

Lisa Hochgraf 28:09
And there you have it, CUES Podcast listeners, ask those questions. Thanks so much for being on the show today, Steve.

Steve Hewins 28:16
Thank you. It was a wonderful time. I had a great time.

Lisa Hochgraf 28:21
Thank you for taking time out of your busy schedule to listen to today's episode of the CUES Podcast.

28:27
And many thanks to Steve Hewins for sharing such great perspective on mortgage lending, a topic that's near and dear to credit unions. You can find CU Members Mortgage on the web at CUmembers.com.

28:42
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29:14
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29:26
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29:28
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