

CELENT

BRIEFING NOTE

THE BLEND DIGITAL LENDING PLATFORM

AN ENTERPRISE SOLUTION FOR MULTICHANNEL
CUSTOMER EXPERIENCE

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WHY IT MATTERS

Celent has discussed the importance of digitizing both the data-driven and document-driven aspects of the entire retail lending customer engagement cycle from the point of sale to loan servicing. This strategy holds great promise for not only lowering transactions costs, but also shortening processing timelines, making customers happier, and improving the bottom line.

We have also advocated for enterprise lending systems—that is, for one solution that can originate all types of retail loans or a solution that can service and collect on all loan types. In loan origination, this strategy and architecture approach applies not only to the core loan origination system (LOS), but also to the digital point-of-sale (POS) channel solutions used to source automobile (and boat, RV, and two-wheelers), credit card, home equity, mortgage, personal, and student loans.

Blend (the company name is derived from the phrase “**better lending**”) has developed an enterprise retail banking origination solution that enables lenders to market loans and deposit products, provide advice, collect loan applications, and engage with the customer throughout the lending process through loan signing and funding.

Key takeaways from this Briefing Note are:

- Blend’s Digital Lending Platform is rapidly becoming an enterprise solution for all retail lending and deposit account products through which lenders can provide a consistent digital experience to customers while coordinating the sale of one or more loan products.
- The portal for each loan type is as well-engineered and highly customized as any “best of breed” single loan type product portal. Lenders that want to improve digital lending and have multiple, older digital POS for credit cards, auto lending, mortgages, etc. should examine those systems and their customer engagement strategies.
- As COVID-19 related interest rate declines have led to a huge mortgage refinance wave, many consumers are using Blend’s digital mortgage portal and One-Tap functionality to find the best mortgage product and apply quickly. Similarly, Blend’s eClosing portal (scheduled for release in mid-2020) will bring consumers, lenders, closing agents, and notaries together digitally to sign loan contracts while maintaining social distancing.

CONTEXT

On April 3, 2020, Blend’s product and marketing teams briefed Celent on their company and product strategy. We requested this briefing to get an update on the U.S. retail lending technology market and Blend’s approach. The briefing covered Blend’s unified lending product strategy, case studies for automobile and mortgage lending, and a new initiative to rapidly prototype a lending solution for the new SBA Cares loan program that is part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act signed into law on March 27, 2020.

We spoke with:

- Justin Schuster, head of marketing at Blend. Justin is a seasoned CMO with experience growing SaaS-based startup companies as well as experience working at a global enterprise services/product company. He is based on San Francisco and has been with Blend since 2018.
- Ryan Reville, senior sales engineer at Blend. Ryan works with clients, prospects, and the product development team at Blend. Ryan joined Blend in 2018 after spending many years on Wall Street supporting mortgage and structured products clients.

COMPANY AND SOLUTION OVERVIEW

According to its company profile on Celent's [VendorMatch](#), Blend is “a Silicon Valley technology company transforming the consumer lending ecosystem. Blend’s technology delivers speed and efficiency to lenders, so they can serve the modern borrower and safely navigate the industry’s changing rules and regulations.”

Blend has been on a rapid growth trajectory since its founding in 2012 when it launched its digital mortgage consumer portal. The company currently has over 240 bank and non-bank (monoline mortgage lender) clients, and over 40 customers for its consumer platform. The company’s first target customer segment was large tier 1 and tier 2 financial institutions and independent mortgage banks. It now also targets tier 3 (\$50-99 billion) and tier 4 (\$20-49 billion). Expanding downmarket has led to dramatic customer growth in 2019.

Blend’s revenue model is primarily focused on transaction fees accrued as loans flow through the system. Because the company has a highly configurable system and want clients to be able to develop and deploy quickly, there is no focus on earning large upfront IT services revenues, and no expensive maintenance costs to make relatively simple product changes.

The Solution

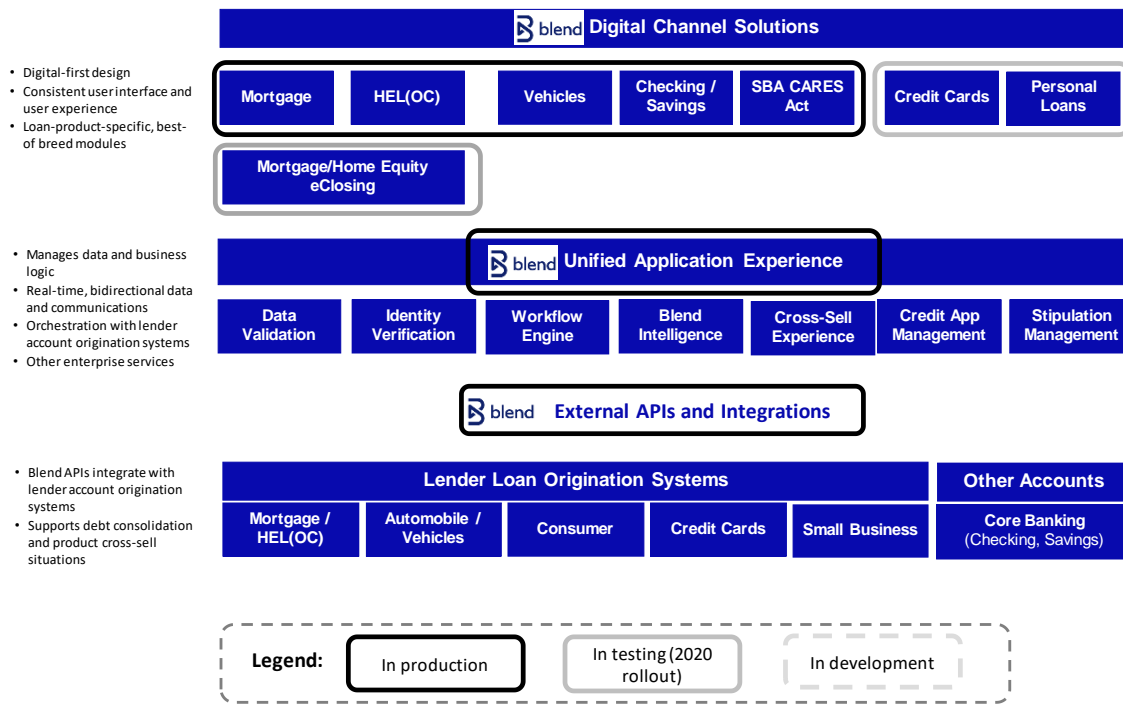
Blend’s [solution](#):

“is a single, unified, digital lending platform for acquiring mortgage and consumer lending customers. The platform enables consumers and loan teams to collaborate on a rapid loan application, approval and closing process. The system merges data from trusted sources to streamline loan pre-approval, eliminating the need to scan paper documents; uses AI and data-driven workflows to automatically identify and resolve issues that cause delays; protects data, enables auditability, and addresses Americans with Disabilities Act (ADA) requirements; and enable seamless connections to back-end systems, external service providers, and investors through pre-built integrations and APIs.”

Blend’s Digital Lending Platform is an enterprise cloud solution. It is SaaS, cloud hosted, and built with an open API infrastructure. Lenders can implement channel solutions individually or as part of an integrated suite since each solution is built with the same code base, has a consistent user interface, and provides a consistent user experience.

Figure 1 on page 4 illustrates Blend’s digital channel solution strategy, the digital lending platform, and how the platform integrates with a lender’s back office account origination solutions. Blend is focused on the digital customer experience.

Figure 1: Blend Digital Lending Platform and Lender LOS Integration



Source: Blend, Celent

Strategy. Blend's roots are in digital mortgage customer engagement technology, but the company's product strategy is to grow well beyond that and it has added clients in all the retail lending lines of business. The company's expanded focus is:

- To become an enterprise platform for all retail banking products
- To become an end-to-end digital mortgage platform for customer engagement across loan application, processing, and closing
- To create a broader real estate platform that connects the mortgage origination and real estate sales processes

Blend is differentiated from many solution providers in that:

- Its unified digital customer engagement platform currently supports mortgage and home equity loan products, automobile loans, deposit accounts, and selected small business loans. The company expects to support credit cards and personal loans during the second half of 2020. Blend will eventually provide solutions to retail financial institutions that want to create a consistent and frictionless banking experience across the institution's digital channels.
- Its enterprise technology strategy solves a huge problem that many financial institutions have today: they have multiple retail loan and deposit account origination solutions from multiple vendors as well as inhouse systems. This monoline, "best-of-breed" automation strategy makes the customer feel that the financial institution doesn't know them.

Today's financial institutions need to either lower their software maintenance costs or provide a more consistent digital experience for customers as they shop, apply for, and purchase additional banking products. Larger financial institutions may be able to integrate them all with a

channel engagement IT stack layer, but financial institutions also want a consistent look and feel that Blend can provide to the customer, as well as a 360 view of the customer to the financial institution.

3. **Blend is building a bottom-up solution with domain expertise in the most complicated area of retail banking**—mortgage origination—and is extending that domain expertise into automobile loans, credit cards, personal loans, and deposit accounts. Some large, enterprise technology providers already provide a similar (though top-down) solution, but the base functionality and workflow may need to be customized significantly to ensure a high level of fluency for each loan product type and customer journey.

The Digital Lending Platform also provides an omnichannel or cross-channel customer acquisition and cross selling experience. The customer can start an account application in any channel and process it and finish it in any channel. This digital solution benefits from a common digital channel engagement layer and data management layer.

Financial institution and third-party integration: Blend has a rich platform ecosystem, and Blend believes that it has the most out-of-the-box integrations and the largest number of partners actively building against its application programming interfaces (APIs) of any digital mortgage POS provider. The company prefers to integrate with any third-party partner rather than form exclusive agreements. For example, its data partners include all three major US credit bureaus; ADP (payroll); and Plaid, Finicity, and Yodlee for consumer income/asset verification services.

2020 IT Development Roadmap

Blend is leveraging mortgage customer relationships to create its new solutions and increasing staff to accelerate its development cycle. There are three product focus areas in 2020:

- Developing an eClosing portal for consumers (and other parties to the closing transaction) to complete the end-to-end digital mortgage origination journey
- Putting lenders at the center of the homebuying journey by developing an integrated mortgage/real estate portal
- Developing new digital POS products for credit cards and personal loans

Additional detail on the newer and more unique product initiatives is below.

Blend Mortgage eClose Product: Blend's vision is to have one portal for the loan applicant's entire customer journey—from loan search to contract signing—that provides a consistent customer access and engagement point. Blend's solutions currently begin at the digital point of sale, from loan application and loan status updates through loan underwriting and pre-closing. The "last mile" in the lengthy mortgage origination process is where customers sign loan documents during the loan closing (signing) process.

Blend plans to build a mortgage eClosing portal for loan, pre-closing, closing, and post-closing processes that impact the customer. The Blend portal will connect any party to the closing transaction: loan applicants, the lender, the closing agent, home sellers, realtors, and notaries. The portal will integrate with eClosing, eNotarization, eRecording, eTitle, eVaulting, and other vendor systems that comprise the lender's back office eClosing platform. Lenders that already have an eClosing platform will be able to integrate it into Blend's portal.

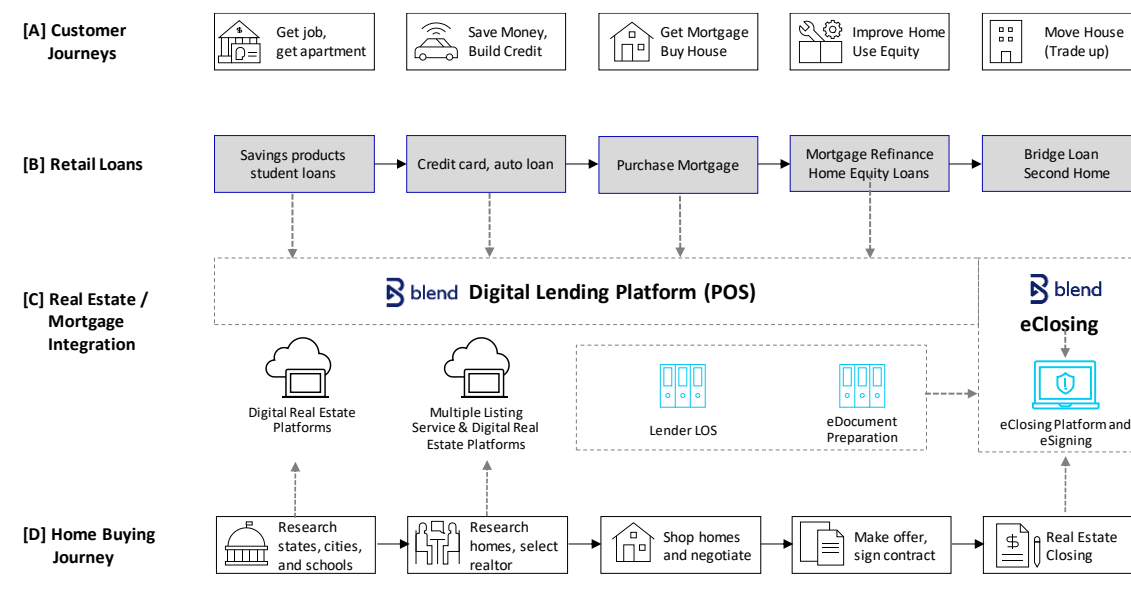
SBA Cares Act: Until March 2020, Blend focused on retail lending and banking technology. In April 2020 it explored how it could use its existing retail loan technology components to rapidly develop a solution for small- to medium-enterprise (SME) loans to help its customers process SBA Cares PPP loan applications. Blend created a small business portal solution for a top 10 small business lender in 72 hours. The solution was put into production and has already processed more than 20,000 loan applications.

Long-Term Vision: Integrating The Homebuying/Home Finance Journey

Blend’s longer-term vision is to create a platform that integrates the real estate purchase and mortgage financing transactions. Individual financial institutions and Big Tech (technology platform companies) have tried to integrate these two transactions, although no business model or technology solution has yet emerged that makes such a platform viable. However, today’s more advanced technology capabilities—such as public cloud adoption, microservices, APIs, and containerization—have increased flexibility and reduced the cost of creating a combined mortgage/real estate platform that integrates business partners and software solutions.

Figure 2 depicts customer journeys that intersect with retail lending and banking product needs and the home buying journey, as well as how home sale and mortgage origination technology can be integrated with those customer journeys.

Figure 2: Blend Is Bringing Digital Customer Engagement All the Way to the Mortgage Closing Table



Source: Celent

First, an enterprise digital channel technology will provide customers with a common experience throughout their customer journeys regardless of when those journeys occur. Blend is simultaneously extending its mortgage POS solution to customer journeys that occur earlier, and to the end of the mortgage origination journey it currently supports.

Second, lenders can use mortgage eClosing technology for home equity loans, home equity lines of credit, and mortgage refinances. For purchase mortgage transactions that also involve a home seller, the seller’s real estate agent, and the buyer’s real estate agent, the system can be augmented to integrate additional transaction participants and import additional documents required for purchase transactions.

Third, Blend’s customers are mortgage lenders, so their approach is lender-centric. Their portal will integrate real estate transaction participants (home buyer, home seller, realtor) with mortgage transaction participants (the lender, borrower, closing/settlement agent, county recorder, and title company).

Fourth, home shopping often starts on national real estate portals and local realtor multiple listing services (MLS). Services related to real estate are also available on these web sites, and some of these portals are trying to aggregate their customers to cross-sell mortgages. Conversely, financial institutions have attempted to provide real estate services such as

relocation to their mortgage customers. Digital portals are leading these two related but distinct industries towards intense competition for years to come.

Finally, eMortgage closings keep the lender central not only to the real estate transaction but also to the customer relationship. As national digital real estate platforms grow and begin cross-selling mortgages and other banking products, financial institutions' customer-centricity across retail banking may be eroded. A positive eMortgage closing experience will help lenders retain and grow customer relationships.

KEY BRIEFING TAKEAWAYS

Blend is a leading digital mortgage POS provider helping retail financial institutions improve customer engagement in loan and deposit account opening. They have achieved rapid success in a few short years. Three key points for financial institutions as they evaluate technology solutions in Blend's product areas are that:

- Blend's aggressive expansion and extensive IT roadmap is not without execution risk, but the company continues to hire steadily to keep key projects well-staffed and bring new clients on board.
- Blend's componentized IT architecture enables it to reuse similar components in the new lending portals it is creating.
- Long-time customers often work with Blend to develop new solutions.

Focus Areas For Financial Institutions

Financial institutions that continue to create leading-edge technology solutions versus retaining adequate but older systems will stay ahead of the market in many expected and unexpected business scenarios. Lenders need to innovate in three areas to remain competitive:

- First, invest in digital mortgage closing technology, which is now mission-critical. It will provide competitive differentiation not only during refinance booms and health scares, but also in more normal times.
- Second, provide a consistent digital customer engagement across the loan origination process for all retail products. This is a critical way to improve the customer experience, shorten processing timelines, and reduce costs. It will also increase pull-through rates and cross-sell opportunities.
- Third, create greater systems integration within the real estate transaction. This will attract more home purchase mortgages from realtors and keep the lender central to the real estate transaction.

Clients have been willing to go on the record to talk about their success with Blend. Mark Shulman, head of consumer lending at BMO Harris Bank, said, "Adopting Blend's Digital Lending Platform has been an important part of the profitable growth across our mortgage and home equity lending products." The bank was able to leverage the investment in connectivity for mortgage and then repurpose that investment for home equity lending. This led to:

- 253% year-over-year increase in digital home equity applications
- Five-day reduction in mortgage and home equity loan application cycles
- 15% year-over-year growth in overall home equity applications

In the U.S. mortgage lending industry, Blend has become synonymous with digital mortgage POS and a shortcut for describing vendors in the digital mortgage POS category. Over time, we'll watch to see if the same thing happens in the yet-to-be established enterprise digital consumer finance solutions technology category.

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