Should You Integrate Blockchain Into Your Business?

Originators should know the pros and cons of this emerging technology

By Sabine Ghali

There's a change coming to the mortgage industry in the form of blockchain technology. Although its implementation thus far generally has been slow, the vast amount of positives that blockchain offer mortgage originators — as well as other parties involved in a loan transaction — calls for an inevitable shift away from more primitive transactional practices.

That's not to say that blockchain is the complete package and there are undoubtedly some gaps that need to be plugged. There are several standout features of blockchain, however, and their advantages for the mortgage industry are hard to ignore. These features include smart contracts, the cost savings of those contracts, distributed-ledger technology and consensus mechanisms.

Smart contracts

A smart contract is a blockchain code that allows the transfer of assets between parties, as long as specific conditions are met and agreed upon by everyone involved in the contract. Many people in the mortgage industry today are heavily rooted in administrative-based ways, and there is no doubt that frustration occurs at every step in the loan process, from the originator to the borrower.

There are many hands that touch a mortgage application, including back-end administrative staff, mortgage company directors, lenders, third-party credit-reference agencies and even mail carriers. With the inception of smart contracts, however, so many of these links in the chain can be removed.

A somewhat obvious example might be the flow from a successful credit-reference check to a complete mortgage-application approval. This allows for mortgage funds to be released by the lender. Beyond that, the same smart contract can handle and reconcile the ongoing monthly mortgage payments. Once the loan is fully repaid, it also can trigger the transfer of the title deed to the homeowner.

This saves a great deal of time — especially for the mortgage originator — in communicating with the different parties involved and providing constant feedback to the client, such as fielding their phone calls and e-mails. An important point in regard to bottom-line impact is the potential drop in attorney's fees (mainly by reducing their time spent controlling the process) and head-count reductions that translate to lower employee costs. These savings could either be passed on to clients, retained in-house or split between the two.

Added transparency

Imagine a world where there's no need to chase tails to find something. Instead, complete access is available whenever it is needed. This removes the frustration of waiting for other people's processes and paperwork, as well as poor communication and resulting bottlenecks.

Blockchain's distributed-ledger technology (DLT) allows all users in a blockchain to have complete visibility and transparency. This is due to the inherent nature of DLT being a decentralized network that is not specifically controlled by anyone. With average application-to-approval times for mortgages varying between 30 and 40 days, being among the first mortgage originators to adopt blockchain technology could grant a business a powerful and unique selling point: These times could be reduced significantly, something that would greatly appeal to repeat clients, such as real estate investors, let alone the average homebuyer.

Everyone could say goodbye to the days of computerized ledgers, which are a great improvement upon paper-based systems (although some companies, shockingly, still rely on paper) but are now becoming not good enough. There seems to be little value for a mortgage company in retaining the manual processes involved in the application process.

One could say that the value lies in excelling at customer service, but what if this "service" is deemed completely unnecessary, since every party involved in the transaction has visibility and access to all paperwork and steps in the chain? Blockchain appears to make all non-value-added tasks redundant, which should be good for everyone involved. This technology, however, begs the question of security. Surely, if more people have visibility and access to the mortgage process, then isn't there a greater risk of data loss or fraudulent activity? Blockchain's consensus mechanism says otherwise.

Enhanced data protection

In essence, for any change to be made within a blockchain, every user in the chain has to agree for the change to be made — a consensus. Although centralized systems are highly prone to cyberattacks and data leaks, hacking a decentralized network — e.g., blockchain — is much more difficult since every node, or device, on the blockchain needs to be attacked simultaneously.

No single user can make a change to the entire blockchain, making it immutable. This removes any underhanded changes to documentation, fraudulent activity, loss of data protection or risks of identity theft. Blockchain isn't 100 percent fail-safe, but it is much more robust than current systems.

Blockchain isn't all sunshine and rainbows, of course. There are reasons why it hasn't already completely revolutionized how the world operates and how businesses work. The main concern revolves around cost. Blockchains are not cheap to develop — some estimates start at $5,000 and range up to hundreds of thousands of dollars, depending on the scope of the project. They are likely to be software- and resource-intensive, so a mortgage company's information-technology systems will need regular reviews and upgrades, adding to the costs.

Additionally, every transaction in a blockchain has to be repeated on every node in the chain. This repetition consumes extra processing power, electricity and time. This doesn't include a discussion about training employees to use the technology, or specific ways for it to be integrated into a mortgage business, so consultancy, integration and opportunity costs also need to be factored in.

■ ■ ■

As was the case when the internet first launched, the implementation of blockchain seems to be dramatically slow. When the internet took off, however, it went fast. There is talk that blockchain is about to explode, with more retailers accepting payments through blockchain's siblings — cryptocurrencies.

It's prudent to conclude by mentioning that there are already cases of mortgage companies successfully adopting blockchain. Overlooking this fact, or the potential savings in time and costs, could be classified as foolish, yet skepticism is most definitely warranted. Even so, we may be about to see a big shift away from traditional lending toward a less-charted but more efficient future. Time will most definitely tell. ■

Sabine Ghali is managing director at Buttonwood Property Management, a property-management company in Toronto. She is an entrepreneur at heart who endeavors to help investors in the greater Toronto area create real estate wealth over time. Ghali is a published author in a number of media outlets, including *Entrepreneur*, the *Toronto Sun* and *Gulf News*, among others. Reach Ghali at (416) 835-7191 or info@buttonwood.ca.