STRATMOR GROUP

In-Focus

CROSSING THE DIGITAL DIVIDE: IN WITH THE OLD, IN WITH THE NEW

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CROSSING THE DIGITAL DIVIDE: IN WITH THE OLD, IN WITH THE NEW

By David Moynan, STRATMOR Principal

When it comes to mortgage lenders and vendors, I don't get caught by surprise very often.

I've worked with quite a few companies in the last ten years and I think I have a pretty good idea about who is doing what, how well they are doing it, and who could (and should) be doing something more or different.

LoyaltyExpress is one of the few companies that made me stop in my tracks.

The big picture description of LoyaltyExpress is that they are a customer relationship management (CRM) and marketing automation provider to 25 percent of the top 20 mortgage banks in the nation. Their flagship solution, CustomerManager, is an enterprise-wide software-as-a-service platform that facilitates lead management, integrated email and direct mail campaigns, and has a compliant marketing store, that provides loan officers with a 360-degree view of each loan officer's customers, partners, and prospects).

STRATMOR got to know LoyaltyExpress when New Capital Partners (NCP) went looking for a mortgage CRM to form the foundation of a mortgage-ready technology suite of products. NCP liked the potential of LoyaltyExpress and, as they discussed possibilities, they asked STRATMOR to join their due diligence team and review LoyaltyExpress's business and technology.

David Moynan

Kelly Doyle, SVP Corporate Relations, Mary Beth Doyle, Co-Founder, Jeff Doyle, CEO, & Michael Bedard, Director of Implementation, of LoyaltyExpress.

What I knew about LoyaltyExpress going into the due diligence was that they offered marketing automation solutions for a few large lenders but were relatively inactive in the mortgage technology community and specialized in direct mail.

I remember walking through the front door of their office in Massachusetts for the first time and being greeted by two very friendly dogs and thinking, "How important is direct mail in an industry being dominated by the buzz around digital?"

Jeff Doyle, CEO of LoyaltyExpress and co-founder of the company with his wife, Mary Beth started the day with the story of how the company got started. Jeff excitedly told me:

> *When we started this business in 2004, Mary Beth saw a gap in the market that she knew we could fill. At the time, the quality of mortgage marketing was abysmal. Customization meant a picture or a logo slapped onto a postcard and the same content used by multiple lenders. Plus, it took an enormous amount of time for the lender to get what they needed. Offering lenders high-quality direct mail and marketing items was the genesis for us to elevate, personalize and leverage the power of variable data printing and personalization software that we had in-house.*
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> *With the digital evolution, the gap between what lenders need to best serve the borrower and the solutions their vendors offer has widened once again.*
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> *Compliance in automated marketing was innovative a few years ago; now lenders are looking to mitigate the cost of compliance and third-party oversight and manage data security. Lenders need speed and efficiency from their vendors; loan officers need customized, personalized items to hand out and they need them quickly. A vendor's system should be able to integrate with the lender's other technologies, including their LOS. And lenders — they need to research and deploy successful marketing tactics and include them in their marketing plans to reach digital mortgage borrowers.*

Our Sr. Partner, Garth Graham and I spent two days at LoyaltyExpress conducting a deep review of the company's operations, customer base and technology stack. We also performed a comparative study of LoyaltyExpress with other similar vendors using STRATMOR proprietary data from our Digital Mortgage Matrix. This matrix compares vendor differentiators and core features that lenders want to findings from our annual Technology Insights Survey. A key STRATMOR Group value to our clients is our reach in the mortgage market and our ability to provide unfiltered feedback from past and present customers of LoyaltyExpress. This information guided a clear vision of how valuable LoyaltyExpress is to its customers and how likely they were to remain customers.

It wasn't until I saw their multi-million-dollar machines producing eye-catching, completely custom "Content you can touch" marketing items that I was convinced of the potential NCP had identified in LoyaltyExpress. I suddenly realized that in a world of "me-too," that they had an opportunity to really stand out from the crowd. LoyaltyExpress has a key differentiator that resonates with its customers — the ability to create marketing pieces that work in a marketplace of long purchase cycles and target marketing using a variety of techniques, including direct mail. They can, in this market, help the lender send a polished, high-education packet tailored to the borrower's needs and the things the borrower is juggling in their lives at just the right time.

LoyaltyExpress also had a good CRM with a clear roadmap to further improve their digital offering and enable lenders to better analyze who they are working with. They saw a way to help lenders send better information to the borrower no matter where the borrower is in the process, whether the borrower is a first-time buyer, someone relocating, someone downsizing — whatever phase of life — lender can now market to the borrower's specific needs.

Direct Mail in the Digital Marketing Mix

I know there are lenders reading this thinking, "He's talking direct mail and direct mail doesn't work anymore or it's a pure servicing or post-closing play." Because of what I saw at LoyaltyExpress, I started researching direct mail and found some exciting facts, especially around Millennials.

We've all been thinking we need a mobile response to market to them, and yes, we do, and for the public at large. But here's the news: all generations enjoy high engagement rates with Direct Mail. In fact, the U.S. Postal Service reports that 98 percent of Americans check their mail daily, and 79 percent of consumers say that they typically act on direct mail immediately after reading it.[1] And Millennials, when they open — and their open rates are incredible — they count the time opening targeted piece of direct mail as leisure time.

Think of it: Direct mail isn't a purview of the Baby Boomers — it's one of the most hard-hitting things you can do as a lender. If you send the right nice glossy marketing piece to a Millennial. they want to open it and they count the time spent opening it as enjoyable. Fun, even. You've made them happy! And who doesn't want happy borrowers?

After two days with LoyaltyExpress, I was a believer. STRATMOR made our recommendations, including that LoyaltyExpress focus their marketing efforts around unique direct mail and borrower content for loan officers, and that they promote their "Content you can touch" custom branded items which are applicable to all sales channels, not just traditional retail.

Jeff called our recommendations "Refreshing." He says:

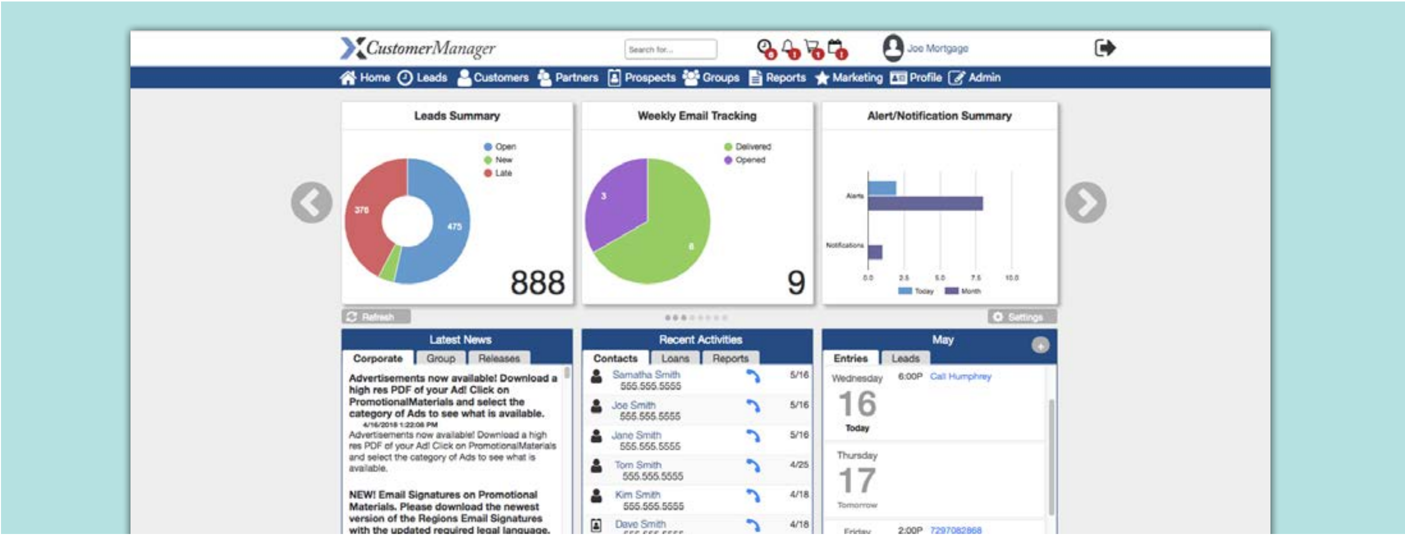
> *There are a lot of people in our market who think direct mail is dead. But our response is that direct mail beats out email. We have, for example, clients who automate the inquiry or prequal process and then limit outreach to email. And on the retention side, it is important to think about what happens when the borrower opts out of email — how do you communicate with them if you're only doing email? People just aren't looking at a lot of mortgage stuff on social media yet.*
>
> *Our recommended methodology is that when you close a loan, when you have the money, give a little back and automate a five-year retention program, instead of when rates are rising and you don't have a marketing budget. Steady Eddie wins the race — set it and forget.*

NCP reviewed the due diligence and invested.

A New Front Door

Early on, STRATMOR saw a very real opportunity for LoyaltyExpress to get out to lenders with an improved product that checked off many of the CRM/ Marketing Automation boxes on the lenders' digital mortgage needs lists. We felt that the user interface (UI) was dated and could adversely affect new sales and adoption, and we proposed designing a new

[1]http://www.pb.com/docs/US/pdf/Microsite/Nonprofit/ed_np_getyourmailopened_05MailMoment.pdf



actionable dashboard that is used throughout the day, not just once a day for a quick look.

STRATMOR isn't big on the plethora of dashboards we all see and don't use, because they provide little real value and, consequently, people don't use them as much as you would think they do. When we talk with Loan Officers and their managers, they consistently complain that their CRM and dashboards are underutilized. Consequently, they are looking for something shiny and new that is "digital mortgage ready" and, critically, something that LOs will use.

We recommended that LoyaltyExpress could best their competition by creating a new, more modern, actionable dashboard. Not a BI tool that looks techy and is only used on a casual basis by loan officers to see how many purchase or refi loans they have in pipeline. But a dashboard that would give the loan officer insights into their pipeline and the things they need to be working on in a highly visual way that triggers deep links into the LoyaltyExpress product. This would be a User Interface designed to be useful, useable and valuable for the loan officer.

LoyaltyExpress asked for STRATMOR's help in designing the new interface and we were excited to be able to design, prototype and deliver front-end HTML code for them. The timeline was aggressive — could we work with the LoyaltyExpress development team and have a working product available for the October 2017 MBA Conference, less than six weeks away?

Jeff says, "It was an opportunity and it is such a good conference, we really wanted to bring something fresh to it and wanted to show our steady cadence of innovation to the market."

What was most interesting with LoyaltyExpress is that they were willing — and wanted — to bring STRATMOR in on the development work. Most organizations want front-end assistance but prefer to do their own development work internally. Because they were willing to get out of the box, we offered two approaches to getting a new user interface ready to go in roughly six weeks.

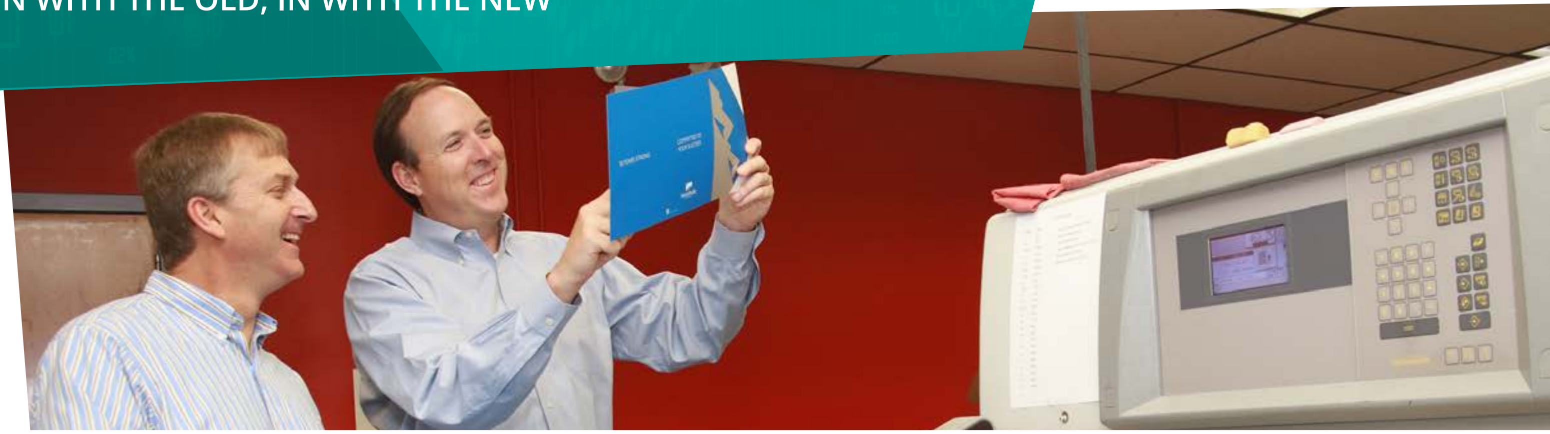
The two options:

1. A working prototype: A clickable dashboard that is not actually live but looks like it. Users can click the screen and are taken to and from the system but the development work isn't in place.

2. A stand up, working product.

LoyaltyExpress chose option two, which really speaks to overall efficiencies of LoyaltyExpress and their passion to give something real and tangible to the customer.

Throughout the process, STRATMOR and LoyaltyExpress collaborated closely and well. We found tools that we could use to render designs to HTML. We were given access to their environment, and their development team could see what we had stood up, what and what we needed. We talked about



Paul DePasquale, VP of Production (left) and LoyaltyExpress CEO Jeff Doyle (right)

the front end, and the development team modified the UI. Then we all said, "Ah, this is how it works." Jeff says:

We hadn't done a revised UI in about four years, and we used a designer who was not industry-specific and there were definitely more cycles involved in review and revision. David's strong product management experience, his understanding of the mortgage process and what is entailed in the entire development process, and his deep industry knowledge was a good one-two punch for us. We didn't end up with a great designer who doesn't know mortgage — we had someone who understands the unique technical needs of the loan officer.

The new UI worked the first day of the MBA, and that was the first time I saw it completed. Beautiful. I was excited, Jeff and the LoyaltyExpress guys were excited, and the lenders who came by the booth and saw it were excited. To say it was "well received" is an understatement. LoyaltyExpress has been closing deals with it ever since. Jeff says that their business has seen a double-digit increase year-over-year already.

I asked Jeff what advice he would give to lenders about marketing in a digital mortgage world. He said:

Create new methodologies. Whether it's on the CD side in terms of the lead comes in and you have an automated lead communication program, or during the loan process and you're doing milestone updates or just a few educational things like, 'Here are three things to help you understand how long it will take you to get a mortgage.' Reinvest in that customer because everyone else will be going after them in a year or two. We keep it simple — stick with high quality and keep a methodology going.

A Few Final Thoughts

A question I frequently field is how I am "liking" the switch from leading design and development teams to being a consultant. My answer is that I am enjoying the change more than I could ever have imagined possible. For sure, there are things that I miss, but my favorite, most valuable time has always been the hours and days spent with users and customers. And, working for STRATMOR allows me to do more of that than I have ever done. As a result, I am able to help better align existing solutions to lender needs and work with vendors on filling gaps and realizing opportunities to better serve the lending community and the borrowers they serve.

In the case of LoyaltyExpress, I was able to blend a working knowledge of what lenders want with latest user interface technologies to bring to market a useful, usable and valuable solution which is making a difference to thousands of loan officers.

The takeaway from this story, is simply this: If you don't believe in the power of direct mail or think, like I did, that it's days were numbered in the new digital age of mortgage:

It's time to THINK AGAIN!

WE WELCOME YOUR FEEDBACK

Would you like to talk to David Moynan about Digital Mortgage marketing or your Digital Mortgage roadmap? Contact him at david.moynan@stratmorgroup.com.

TECHNOLOGY INSIGHT SURVEY

STRATMOR Group recently launched the 2018 Technology Insight Survey, the only independent technology survey in the industry today that gives voice to mortgage executives' experiences with their technology.

"Our goal in conducting this technology study is to offer lenders much needed, non-vendor-provided data on the technologies at work in the mortgage marketplace," says STRATMOR Senior Partner Garth Graham. "We are collecting data on a wide range of systems, and this year we've added more questions on Digital Mortgage technology, Customer Satisfaction survey tools, LOS solutions, closing and collaboration tools and other solutions.

"We need to hear from every lender," says Graham. "Vendors are definitely paying attention to this study. They want to improve their systems, and they want to hear what their clients have to say."

Share your observations with your industry peers — take this survey! Follow this link to the STRATMOR website: Technology Insight Survey.

In this month's Mortgage Metrics Matter article, we look at responses to two of the questions asked in the 2017 Technology Insight Survey:

Why do Lenders replace their Loan Origination Systems (LOS)?

What does it cost to replace an LOS?

Select Results from the 2017 Technology Insight Survey:

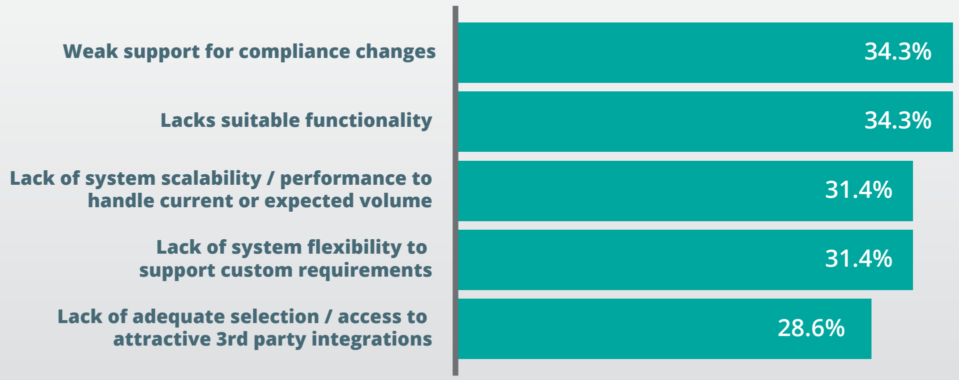
Q **Why do lenders decide to replace their LOS?**

A **Replacing an LOS is like replacing an engine while the car is speeding down a highway. It can be the most significant project a lender undertakes and a lender will only replace an LOS when it is deemed critical to the future of the business.**

In the 2017 survey, 17 percent of respondents indicated that they had decided to replace their Loan Origination System (LOS). This is a slight drop — two percentage points — from the 2016 results which indicates that most lenders plan to stay with their current system.

Because replacing an LOS is a major event, lenders were asked to cite the reasons they were embarking on a system replacement.

Top 5 Reasons for System Replacement



STRATMOR Technology Insight Study, 2017. ©STRATMOR Group, 2018.

Overall, lenders indicated that when a system lacks support for key compliance changes or does not keep pace with the functionality requirements, that system will be replaced.

In 2017, some systems simply did not keep up with the rapidly changing compliance requirements. As a result, 34 percent of those companies replacing systems indicated that weak vendor support for compliance changes was a key driver in replacing a system. Lack of functionality tied with lack of support for compliance changes as the top reason lenders switch systems.

Further, systems that are not built to scale with lenders as production grows or that are not built to allow lenders to customize the system to their individual workflow or product needs were cited by more than thirty percent of lenders who are replacing the systems as reasons for replacing their systems.

Finally, lenders are increasingly looking at ancillary technologies and are looking for easier ways to integrate those technologies with the LOS. Lenders are willing to replace an LOS to have better integrations to third party software.

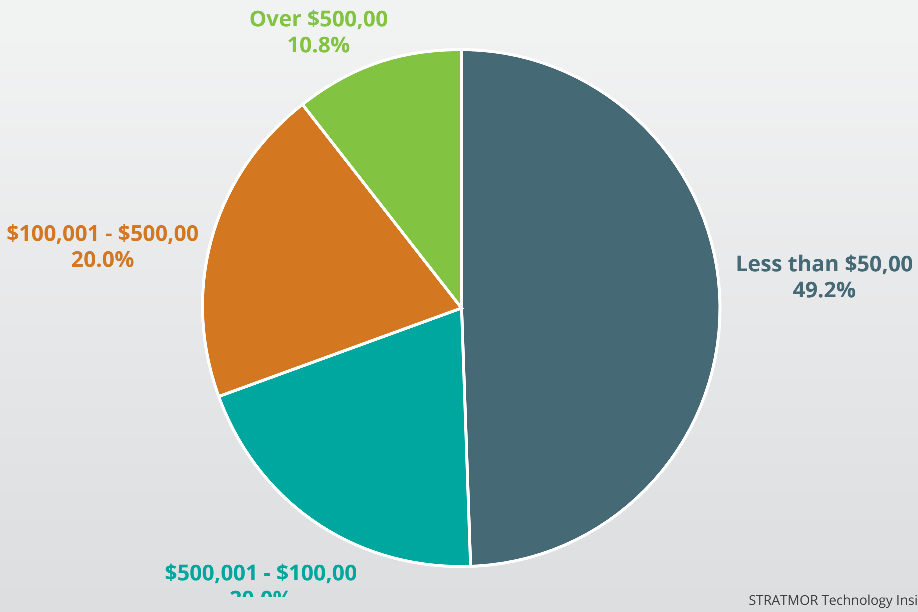
Q **How much does it cost to implement a new LOS?**

A **System replacement is a significant undertaking from an organizational perspective and it can require a significant investment.**

If a lender is looking to replace their current system, it is important to understand that for any system, the cost of implementation varies based on the lender characteristics, the discipline of project management and the level of customization required at "go-live."

In the survey, lenders were asked the following question: Roughly what was the total upfront cost paid to the LOS Vendor(s), including licensing and initial implementation professional services fees to install your LOS and begin live production? This question was open to all respondents, not only the ones who were in process or recently implemented a new LOS.

Cost to Implement LOS



STRATMOR Technology Insight Study, 2017. ©STRATMOR Group, 2018.

Roughly half of the lenders indicated that the cost to implement a new system was under $50,000. As you can imagine, these respondents tend to be smaller (Under $2B) in terms of overall originations and FTE count. The larger lenders (Over $2B) spent more on implementation which can be attributed to number of production channels, number of locations, and total FTE count as well as the systems being implemented. The desire to roll out a customized system will also drive up the costs on installing a new system.

Mortgage Metrics Matter

TECHNOLOGY INSIGHT SURVEY

Are you changing your LOS in the next 12 months? Would you like to know the Digital Mortgage benefits—and the barriers?

STRATMOR's 2017 Technology Insight Study includes data on how lenders feel about their mortgage technology experiences, both systems and vendors services. This information is vital to lenders considering updating or changing an existing system to meet the digital mortgage needs of today's borrowers.

Our published results for last year's 2017 Technology Insight Study includes comprehensive mortgage technology data, analyzed and quantified by STRATMOR's team of data experts.

Key study metrics included:

- Digital Mortgage benefit and barrier perceptions
- Detailed findings on the top Point of Sale and Origination systems
- Lender satisfaction ratings and functional assessments of CRM, POS, LOS and key ancillary systems
- Adoption levels of key Digital Mortgage functionalities

Purchase your copy of the latest Technology Insight Survey here.