STRATMOR GROUP

FEATURING

FANTASTIC BUSINESS ANALYSTS AND WHERE TO FIND THEM

STRATMOR *INSIGHTS*

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WELCOME

This month's issue of *STRATMOR Insights* leads off with an *In-Focus* piece by Sr. Partner Len Tichy that addresses a topic near and dear to my heart. Namely, the critical importance to IT project success of that often unsung hero, the Business Analyst (BA), the hard-to-find bridge builder who fills the gap between what a business asks for and what it gets. Importantly, Len writes not only about the role of the Business Analyst, but where to find them, using the story of our own Principal and superb mortgage BA, Jan Walters, as an example.

For those of you who are curious about the differences in compensation between Retail and Consumer Direct originators, this month's *Mortgage Metrics Matters* piece is a must read. In addition to the difference in total compensation, the piece also examines differences in the structure of variable compensation.

Even those of you who do not work for a Bank mortgage operation should read our April *In The Spotlight* piece on Bank mortgage loan referral practices. Starting with data on the relative volume of mortgage leads generated by various banking units, the piece also presents data-driven results both as to how intra-bank lead sources are incented and what banking unit pays the freight. Very interesting!

As reported in this month's *Speaking Borrower Satisfaction* section, February's Borrower Satisfaction Index came in at a score of 91, a robust two-point rise over January's score of 89. However, as we note, this Satisfaction pickup may reflect nothing more than the seasonal Winter lull in transaction volume. It will therefore be interesting to see if MortgageSAT lenders — with their generally high focus on borrower satisfaction — can sustain satisfaction scores at 90 or higher during the peak home purchase seasons.

Sometimes, repetition is a good thing. With that thought in mind, in our Topic of the Month portion of *Speaking Borrower Satisfaction*, we again review MortgageSAT data on the reasons — good and less good — that drive borrowers' choice of a lender and the resulting Satisfaction scores, this time for 2017 YTD. Pretty interesting stuff!

Lisa Springer, CEO

MEET WITH STRATMOR

Heading to New York next week to attend the MBA Secondary Conference? It's a great opportunity to connect with Rob Chrisman and Jim Cameron who will be in attendance. Email Rob (rob.chrisman@stratmorgroup.com) or email Jim (jim.cameron@stratmorgroup.com) to request a meeting.

MBA MORTGAGE BANKERS ASSOCIATION

STRATMOR INSIGHTS

April, 2017

IN THIS ISSUE

FANTASTIC BUSINESS ANALYSTS AND WHERE TO FIND THEM

By Len Tichy

How many important projects have we lived through that took way too long, failed to give us what we asked for, or worse, produced unintended negative consequences? Probably way too many. So, what went wrong?

Was there a competent Business Analyst (BA) involved to document the requirements and specifications to guide the team toward a desired solution?

Or, did we just tell a developer, System Administrator, or the LOS vendor — in a handful of jargon-loaded sentences — what we wanted and leave it up to them to figure out what we meant and how we expected the system to do it?

Or, did we throw the project to one of our key operations managers and hope that that person would figure it out and get it done — on top of his/her already heavy workload?

Bridging the Gap

Every time I hear a story about what didn't go right on a process or system improvement project I ask the question: Was there a fantastic Business Analyst working on it? The dearth of BAs in our industry is apparent in the tales of missed requirements, poorly-defined processes and defects that leaked through the testing process.

Fantastic Business Analysts aren't magical creatures. They are bridge builders, the ones who fill the gap between what the business asks for and what the business gets. They create the blueprint for a project by gathering and developing business

In-Focus

FANTASTIC BUSINESS ANALYSTS AND WHERE TO FIND THEM

and technical requirements, assessing functional needs, analyzing issues and translating business requirements into terms that technical staff understand. As an industry, we need many, many more skilled BAs — BAs who bring with them deep mortgage operational knowledge and the courage to challenge workaround processes, loosely-defined requirements and the "because that's the way we do it" mentality that can run a project into the nearest ditch.

Fantastic BAs make all the difference in improving the odds of project success. A fantastic BA locks onto understanding the business problem, digs for root causes, listens and carefully gathers requirements that enable a clear and complete articulation of the solution from all angles.

This may mean doggedly researching regulations, or persistently asking questions about the problem from every relevant perspective. It may mean spending time with busy executives, managers, and affected staff to see the needs through their eyes. And, it always means looking you in the eye when you are being fuzzy and have the courage to say, "Make me understand, so I can get this right."

A fantastic BA also knows where to search for answers amongst the company's systems, processes and people while others continue to work loans and keep the business running. In his seminal book Software Requirements, Karl E. Wiegers says, "A talented analyst can make the difference between a project that succeeds and one that struggles." [1] The only certain thing we have in today's mortgage industry is uncertainty. In these days of ever changing regulations, systems and challenges, a skilled and talented BA is essential.

Lenders need skilled BAs. So, where do mortgage executives find such talent? These precious and scarce resources do not pop out of colleges freshly minted and ready for immersion in projects requiring them to "speak mortgage," the acronym-heavy language that reflects a deep understanding of a mortgage operation's problems. For example, what non-mortgage speaking analyst or mere stenographic note-taker could make this real-time observation of a dysfunctional workflow and recommend a solution:

> *"Closers are spending considerable time trying to understand all the pricing accommodations that were granted on a loan to understand if credits are due to the borrower and establish the correct amount of cure as a result of any fee changes that exceed tolerance or any accommodation that was improperly disclosed on the LE."*
>
> *Excerpted from a recent STRATMOR operational review*

[1] *For insight into the technical aspects of the BA role, STRATMOR follows the analysis principles of Karl Wiegers. More can be found on his website, processimpact.com, including his article "So You Want to Be a Requirements Analyst?"* http://www.processimpact.com/articles/be_analyst.pdf

In-Focus

FANTASTIC BUSINESS ANALYSTS AND WHERE TO FIND THEM

When an outside search doesn't turn up the talent, growing your own BAs from within may be the best option. In this regard, it is probably much easier to teach someone with mortgage DNA the technical skills needed to be a BA, than the other way around. In STRATMOR's experience, individuals with good critical thinking skills, strong common sense and deep mortgage experience are the best candidates.

Look for mortgage savvy individuals who are collaborators, who are smart enough to know that they don't have all the knowledge on a subject and who will use others to help fill in the blanks. Look for people who don't give you the easy or politically correct answers, but who have the courage and determination to push for the best solution for the whole company.

Wanted: Practical People Skills

Strong BAs must develop skills that are more people-than-technically-oriented. Look for individuals who demonstrate a propensity to:

- **Facilitate** information/requirements gathering using good interviewing techniques and driving out the necessary detail.
- **Listen** carefully and translate the business needs in terms that technical staff can understand.
- **Organize** the data and put it together in documentation that is easy to understand for the whole team.
- **Analyze** the current state to find root causes of problems or help evaluate solutions — they are great problem solvers.
- **Collaborate** with others, knowing there may be multiple options to be evaluated.
- **Develop** complete solutions by thinking through all primary (typical) processes or workflow / factors without getting bogged down chasing after every nuance.
- **Think** outside the box — they don't stop at the obvious.
- **Write** with the three C's: their documentation is clear, concise, and complete.

Jan Walters, a Principal at STRATMOR who has brought her highly developed business analysis skills to more than 70 projects, says that new BAs need patience, too, with themselves and from their managers. "An early-career BA will most likely handle small projects just fine, and probably mid-size projects that are not too complex as well. But massive complexity and details, large scope, dependencies, and schedule pressure to a project will challenge if not overwhelm the less experienced BA."

Read more about Jan's career on the next page.

Design a Fantastic Role

As you look at the current mortgage technology landscape and the competitive challenges lenders are facing, it is hard not to conclude that virtually all mid-tier and large lenders need strong internal program management teams to leverage technology to improve business performance in sales and all areas of back-office operations.

Two emerging trends that underscore this point are: the emergence of new Digital and FinTech offerings from a plethora of companies; and the direction many of our leading LOS companies are taking in moving toward API-centric approaches to integrating Digital and all other third-party applications and services. Bottom line, you need talented internal resources to extract maximum value for your technology platform.

If you agree with our assertions that fantastic BAs are vital to strategically important projects and effecting perpetual operational improvements, here are some recommendations for developing scarce BA talent from within:

- Management needs to commit to a program to develop Business Analyst in the company.
- Define the BA role as part of a dedicated team responsible for orchestrating operational initiatives.
- Identify potential internal candidates who exhibit the personal and professional attributes described in this article, especially the broad and deep operational experience in the mortgage process and survey their interest in pursuing this type of role on a permanent basis.
- Recruit from your candidates those that show the best aptitude for the role and invest in BA technical training for them as needed, available from a competent consulting / technical training firm.

A final thought. While employing fantastic BAs may seem expensive, it is penny-wise, pound-foolish to think you can "save your way" to successful complex problem-solving and process innovation. Just as great execution in sales, secondary marketing, and operations management takes superior talent, so too does the work of the Business Analyst. You get what you pay for.

Blueprint for a Great BA

Jan Walters

As any STRATMOR client who has worked with Jan Walters will tell you, she is a gifted mortgage industry specialist. She possesses those rare qualities that all lenders want: big picture understanding, broad and deep real world operational experience, and detail-oriented execution skills. The perfect combination of knowing "why" a lender wants to do something and knowing "how" to get it done right.

"I didn't grow up wanting to be a Business Analyst," says Walters. "A ballerina, yes. A scientist, maybe. A fashion designer, absolutely — in fact, my bachelor's degree is in fashion design. A BA in the mortgage business? Never crossed my mind."

Continued

In-Focus
FANTASTIC BUSINESS ANALYSTS AND WHERE TO FIND THEM

Like most people who come into the business, Jan started in a small retail origination shop. Her first job was as part of a two-person team handling post-closing issue resolution, though it wasn't long before she created a post-closing/shipping department and took on the role of leader of the new department.

"I learned a lot by working with the branches and closing agents about what to do and what not do," says Jan. "Developing a sense for what needs to be done and who needs to be doing it gave me the foundation I needed to be an asset when operational changes came."

Soon Jan found herself in the middle of every new product release, every new branch opening or acquisition, and every new policy and procedure driven by regulation changes. She was charged with figuring out the business requirements and how to implement changes in procedures, systems, reports, and training to satisfy them. She later transitioned to a liaison role between the overhead departments, the vendors, and the production branches. The position quickly evolved into an operations support team that managed vendor relationships, provided product information to all staff, ran system-specific improvement projects for all areas of the company, and provided training and support to the retail branch network.

"Because of these experiences, I was given the opportunity to create the first dedicated BA positions in our mortgage company," says Jan. "I was fortunate to touch virtually all areas of mortgage lending operations, and I started to think globally, rather than from the perspective of just one department. I learned how to listen more effectively by spending time with the branches, to learn exactly how they did things, what their issues were, and what they felt would help in specific scenarios. I worked hand in hand with our developers, learning to see through their eyes and understand their vision of the highest, best use of a given system."

Jan also learned how to be a good team player. Experience taught her how change affected people, and she took care to bounce ideas off the people most affected by the proposed changes. "I sought out ideas and input from others, she says. "I figured out how to escalate issues so that I didn't just add more noise to the situation. Mostly, I got things done."

Jan realizes that she did BA work long before she or the company she worked for recognized that what she was doing was, in fact, BA work. "Working on complex projects has given me the greatest job satisfaction in my work life," says Jan." Looking back, I see that I did become a designer — not of clothing but of mortgage business processes."

LEARN MORE

To contact Len Tichy for more information, click here.

RETAIL VS. CONSUMER DIRECT ORIGINATORS

INSIGHTS FROM THE STRATMOR COMPENSATION CONNECTION SURVEY

Since 2010, STRATMOR Compensation Connection has been providing lenders with valuable insights into not only levels of cash compensation but more importantly into how incentive plans are structured. Determining compensation amounts and structure is fundamental to ensuring that your organization hires and retains the best talent while simultaneously controlling costs and justifying compensation to your stakeholders.

Currently, we offer the following compensation survey modules:

- **Executive Management**
- **Retail Sales**
- **Consumer Direct Sales**
- **Fulfillment (All Channels)**
- **Production Support**

The Compensation Connection Survey is built in modules to allow lenders to choose their level of participation. The results presented pull from both the Retail Sales and the Consumer Direct Sales modules. The results reflect lenders from all geographies and origination volumes.

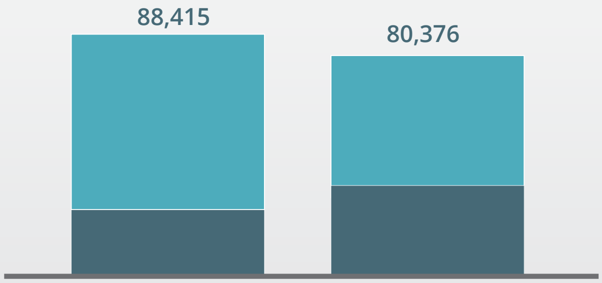
Excerpts from the Survey Results

Q **How does Total Compensation differ for Retail Originators versus Consumer Direct Originators?**

A **Based on our survey data for 2015 results, traditional Retail Originators made, on average, 10 percent more than their Consumer Direct counterparts despite originating only 4 loans per month versus 8 loans per month for Consumer Direct.**

- For 2015, Retail Originators averaged total compensation of $88,415 versus $80,376 for Consumer Direct Originators.
- While Retail Originators averaged higher overall compensation, it was due to higher Incentives (Commissions).
- The Consumer Direct Originators were paid a higher Base Salary and/or Draw amount than the traditional Retail Originators. However, their average Incentives were smaller even with higher productivity.
- Because the company is responsible for generating leads in a Consumer Direct model, it pays lower commissions. In a traditional Retail model the Originator is responsible for all lead generating activities.

2015 Total Cash Compensation



	Retail	CD
Incentive/Variable Compensation	64,597	47,414
Base + Overtime	23,818	32,962
	88,415	80,376

Mortgage Metrics Matter
COMPENSATION CONNECTION SURVEY

STRATMOR INSIGHTS

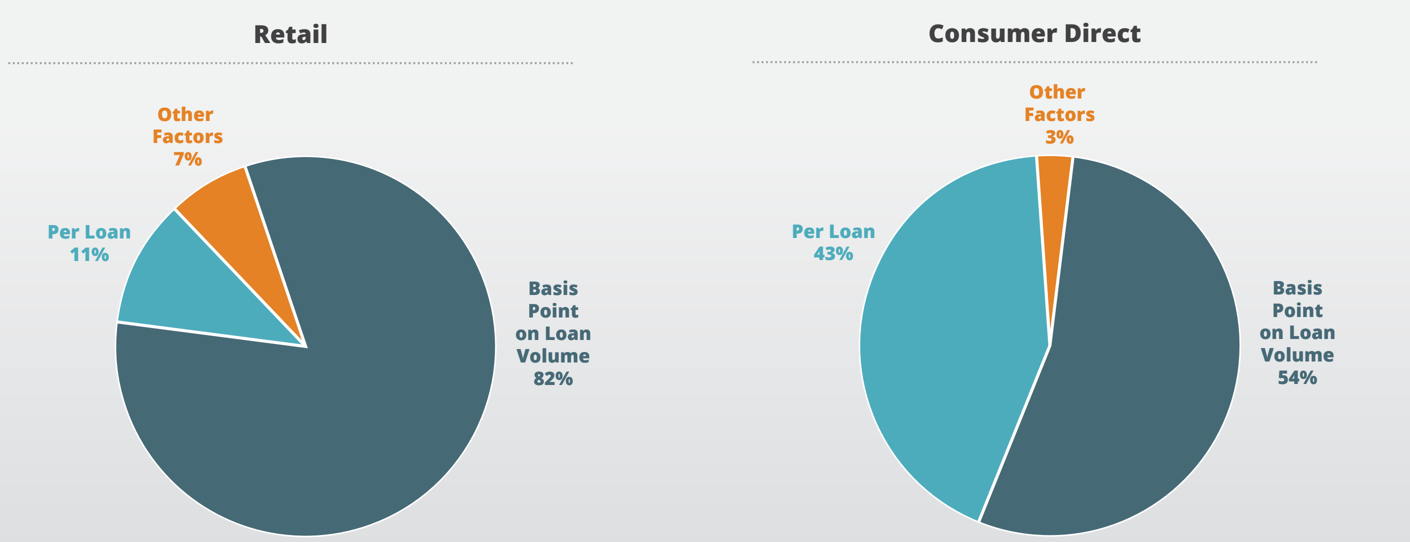
As part of the Compensation Connection Survey, STRATMOR asked lenders to report how their incentive plans are structured.

Q **Are the compensation plans different for Retail versus Consumer Direct?**

A **Retail Originators are primarily paid basis points on loan volume originated at 82 percent of Incentives. By contrast, the Consumer Direct Originator payouts are split between basis points on volume and payouts based on units.**

- In Consumer Direct, the Originator often has little or no control of the types of loans that are coming into the call center. The company wants to incent the CD Originator to close all loans and not sacrifice smaller loans in hopes that a larger loan is next in the queue. Thus, they pay incentives based on units originated.
- For both groups, other factors such as team goals, customer service scores and quality measures make up less than 10 percent of Incentives.

STRATMOR expects this number to continue to increase as lenders focus on non-volume drivers of revenue and costs savings and as their systems mature to allow for the accurate tracking and reporting of these metrics.



Compensation Connection Survey, 2016. ©STRATMOR Group, 2017.

PARTICIPATE IN THE SURVEY NOW

The 2017 *Compensation Connection Survey*, which covers 2016 results is now open for registration. If you are interested in learning more about the survey or would like to participate, click here.

BANK REFERRAL PRACTICES

Bank mortgage divisions or subsidiaries have built-in sources of mortgage referrals from the customer bases associated with various Bank business lines. But which lines are expected to generate the most referrals? What types of incentives are paid for referrals? And who pays for these incentives?

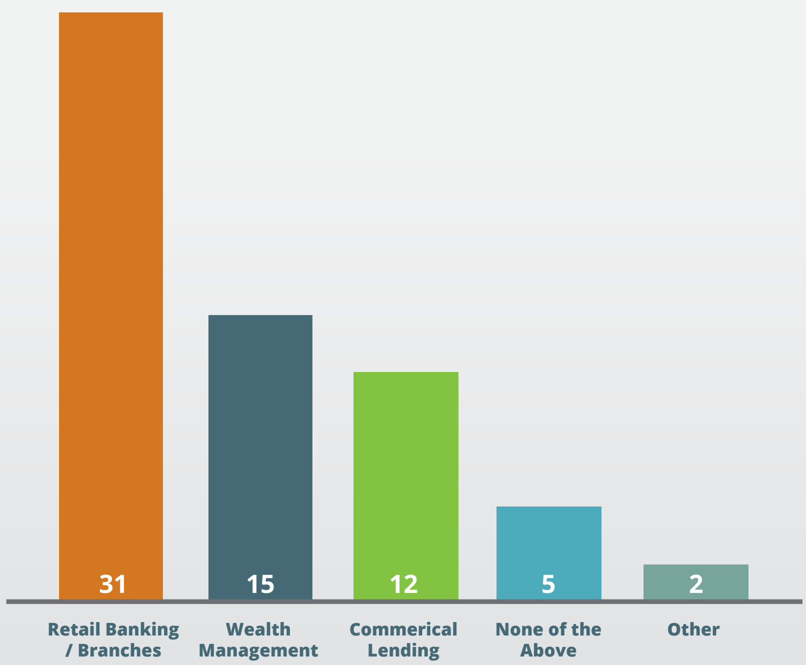
ABOUT THE SURVEY

The *STRATMOR Spotlight Survey* addressing Bank referral practices, including the compensation for such referrals, was launched in June 2015, with results released in July, Thirty eight (38) banks, including twenty nine (29) Divisions and nine (9) subsidiaries participated in the survey.

Q **From which Bank business lines does the Bank's mortgage business expect significant referral of potential mortgage loans?**

A **Retail Bank branches are viewed as the dominant source of mortgage referrals.**

- 82 percent of respondents expect the Retail Banking organization to provide mortgage referrals.
- 13 percent of respondents do not expect any of the other Bank divisions to refer leads to mortgage.
- Wealth Management and Commercial Lending are expected to send referrals by roughly one-third of the respondents.



	Retail Banking / Branches	Wealth Management	Commerical Lending	None of the Above	Other
% of Total	82%	39%	32%	13%	5%
# of Respondents	31	15	12	5	2

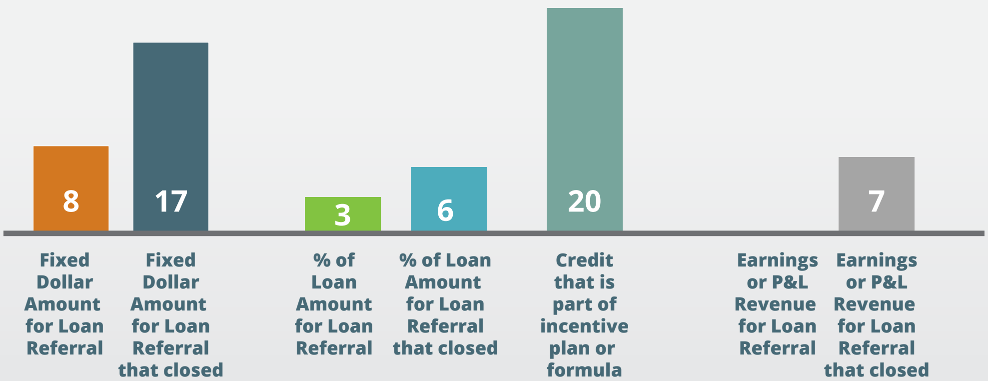
STRATMOR INSIGHTS

Q What types of incentives are credited to or paid to individuals, bank unit managers or bank units for referrals of mortgage loans to the mortgage unit?

A More than half (53 percent) of the lenders provide a credit for referrals as part of the Bank personnel incentive plans.

The next most popular incentive structures are:

- To pay a fixed dollar amount for closed loans (45 percent)
- To pay a fixed dollar amount for each referral (21 percent)



	Fixed Dollar Amount for Loan Referral	Fixed Dollar Amount for Loan Referral that closed	% of Loan Amount for Loan Referral	% of Loan Amount for Loan Referral that closed	Credit that is part of incentive plan or formula	Earnings or P&L Revenue for Loan Referral	Earnings or P&L Revenue for Loan Referral that closed
% of Total	21%	45%	8%	16%	53%	0%	18%
# of Respondents	8	17	3	6	20	0	7

We note here that any approach that provides credits or payments for referrals, as opposed to referrals resulting in closed loans, runs the risk of anything being "tossed over the transom," resulting in potentially significant wasted sales effort. Therefore, lenders crediting/paying strictly on referrals need to carefully monitor the quality of referrals by source.

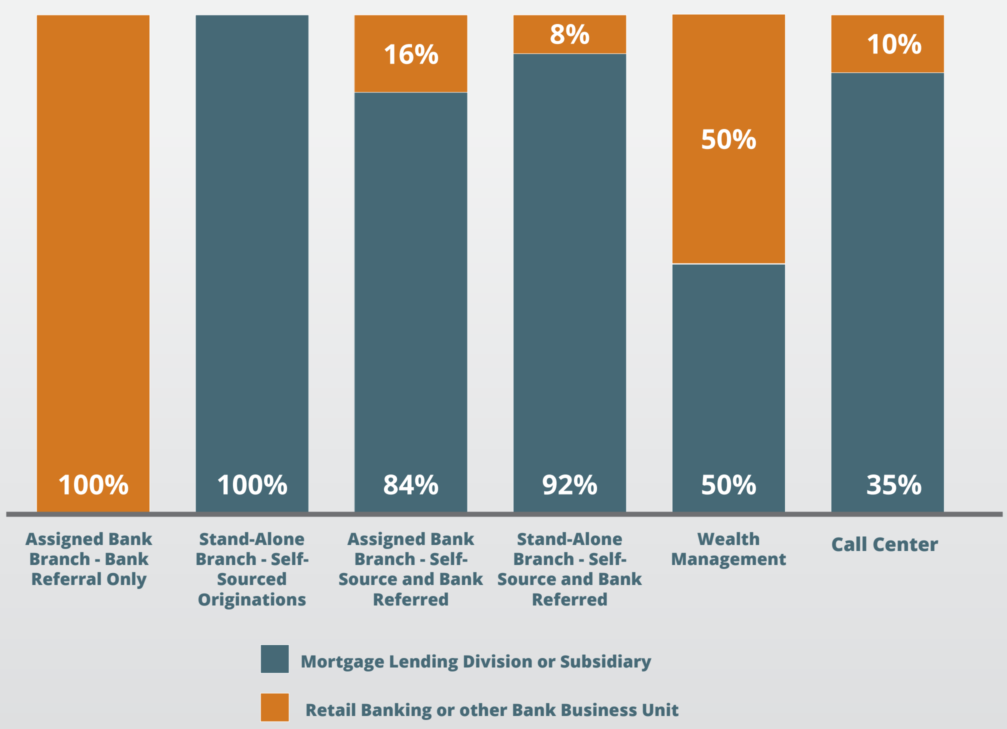
STRATMOR INSIGHTS

Q **Which organization(s) pays for the compensation of each type of mortgage sales person?**

A **In general, the Mortgage Division/Subsidiary is responsible for Loan Officer Compensation.**

However:

- When the Loan Officer is expected to exclusively serve in-bank customers, the Retail Bank will pay the compensation of the sales person.
- 100 percent of the LOs who originate only Bank Referrals are compensated by the Bank.
- 50 percent of the LOs who originate from Wealth Management customers are paid by the Bank.
- In cases where the Bank operates a more Independent-like model, the Mortgage Division/Subs are 100 percent responsible for LO compensation.



STRATMOR Spotlight Survey, 2016. ©STRATMOR Group, 2017.

In The Spotlight
BANK REFERRAL PRACTICES

Find Out What Your Peers Are Doing About Key Industry Issues

Do you wish you could quickly find out what your peers at other lenders think about key issues and developments? And what actions they are considering, planning or have taken? If so, then you should consider participating in our STRATMOR *Spotlight Surveys* program, a fast turnaround, short survey program that gives senior mortgage executives a unique way to obtain the information they need to formulate effective strategy. Click here to learn more.

If you are interested in a free download of the complete *Spotlight Surveys* or would like to participate in the STRATMOR *Spotlight Surveys* program, click here. ■

Speaking Borrower Satisfaction

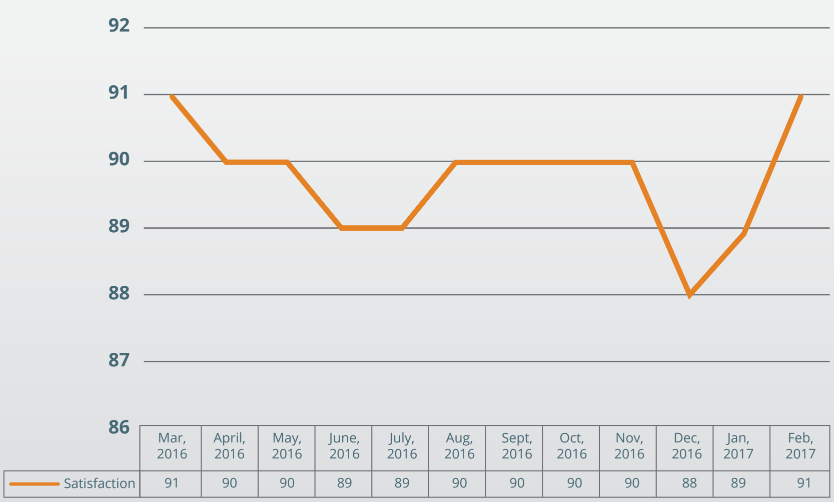
OVERVIEW

Each month's edition of *STRATMOR Insights* includes a *Speaking Borrower Satisfaction* section containing a National Borrower Satisfaction Index plus a Topic of The Month based on data collected by STRATMOR's *MortgageSAT Borrower Satisfaction Program*.

National Borrower Satisfaction Index

The National Borrower Satisfaction Index Chart below displays the Total Borrower Satisfaction Score for MortgageSAT participating lenders over a 12 month look-back period — starting the look-back with the February 2017 satisfaction score for this April 2017 edition of *STRATMOR Insights.*

12-Month Satisfaction History



	Mar, 2016	April, 2016	May, 2016	June, 2016	July, 2016	Aug, 2016	Sept, 2016	Oct, 2016	Nov, 2016	Dec, 2016	Jan, 2017	Feb, 2017
Satisfaction	91	90	90	89	89	90	90	90	90	88	89	91

MortgageSAT, February 2017 ©STRATMOR Group, 2017.

Total Borrower Satisfaction Bounced Back

After remaining at a score of 90 for four consecutive months, August through November 2016, Total Borrower Satisfaction dropped sharply in December to 88, a score not seen since January 2016. We opined that this satisfaction decline reflected back-office staff taking time-off during the Holiday season and speculated that satisfaction would recover by February 2017, as occurred during 2016. In fact, the satisfaction score bounced back to 89 in January 2017 and jumped 2 points in February, reaching a satisfaction score of 91.

Outlook for Spring Home Buying Season

As we moved into the home buying season beginning in March, we expected loan applications to increase, putting greater demands on fulfillment operations, likely resulting in lower service levels and a decline in satisfaction.

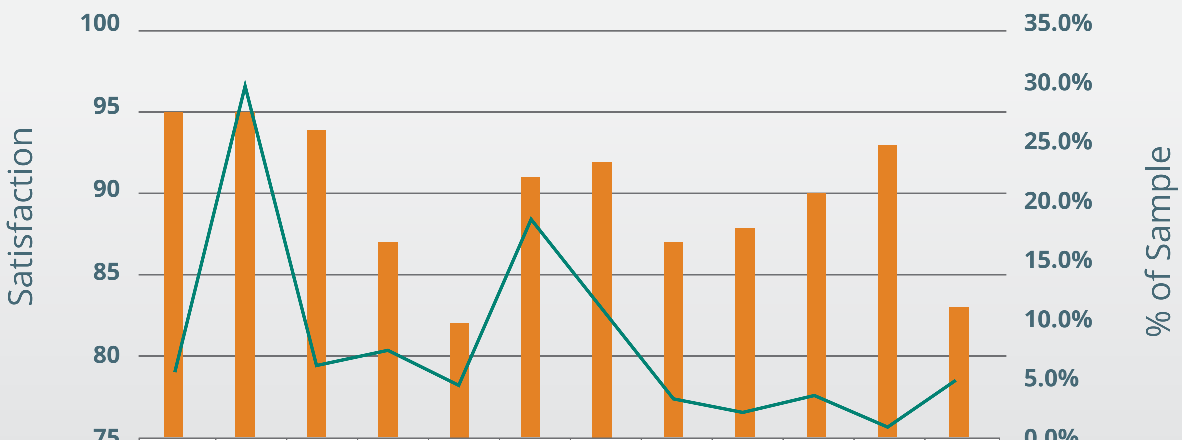
As can be seen from the chart on the preceding page, this is exactly what happened in the Spring of 2016. It will therefore be an interesting test to see if MortgageSAT lenders — with their generally high focus on borrower satisfaction — can buck this cycle and sustain satisfaction levels at 90 or higher during the peak home purchase season.

TOPIC OF THE MONTH: CHOOSING A LENDER

Good Reasons and Less Good Reasons

As we all know, borrowers choose the lender they do business with for many reasons. Foremost among these reasons, as is clear from the chart below, is a borrower's interaction with the originator or loan officer (prior to deciding to proceed with a lender).

Satisfaction Vs. Reasons for Choosing Lender



	Lender has a good reputation	My interaction with the originator or loan officer	Lender has the ability to close the loan on time	Previous mortgage was with same lender	Builder or employer provided a financial incentive	Realtor's referral	Referral from friends, family or associates	Specific loan product	Banking relationship	This lender had the best interest rates	Lender's availability of online tools	Other
Satisfaction	95	95	94	87	82	91	92	87	88	90	93	83
% Sample	6.05%	30.65%	6.27%	7.48%	4.48%	19.05%	10.81%	3.41%	2.26%	3.77%	0.93%	4.87%

MortgageSAT, February 2017 ©STRATMOR Group, 2017.

Speaking Borrower Satisfaction

TOPIC OF THE MONTH: CHOOSING A LENDER

- **For 2017, through mid-April, almost 31 percent of borrowers cited originator/loan officer interaction as their primary reason for choosing their lender.**
  - » Borrowers who chose on this basis, reported a very high satisfaction score of 95.
- **Not surprisingly, a relatively high 19 percent of borrowers cited a referral from their Realtor as the primary reason for choosing their lender.**
  - » But since Realtors only get involved in purchase transactions, the influence of a Realtor referral for purchase transactions thus far this year is actually about one-third higher.
  - » Those borrowers who chose their lender primarily based on a Realtor's recommendation reported a satisfaction score of 91 (Very Good), but materially less than satisfaction of those borrowers whose choice was based upon their interaction with the loan originator.
- **Borrowers who chose based on a lender's reputation — roughly 6 percent of all borrowers — also reported a very high satisfaction score of 95.**
- **At the other end of the satisfaction spectrum — at a pretty mediocre satisfaction score of 82 — were those borrowers who chose their lender because of financial incentives provided by their builder or employer. For many such borrowers, the incentive may not have been worth it.**

The message of these results is clear: Good loan originators result in highly satisfied borrowers who are also more likely to comment favorably on social media, thereby enhancing a lender's reputation, which attracts more borrowers.

If you are interested in learning more about STRATMOR's *MortgageSAT Borrower Satisfaction Program*, click here. Or to reach out directly to Mike Seminari, Director of MortgageSAT, at 614.284.4030 or mike.seminari@stratmorgroup.com ■

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SURVEYS

We invite you to download survey results or learn more about our open surveys and available survey results.

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SPOTLIGHT SURVEYS

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TELL US YOUR THOUGHTS

We invite you to take a quick 2 question survey so that we can continue to provide you with valuable information in our *STRATMOR Insights* report.

CLICK HERE