STRATMOR GROUP

FEATURING

REGULATORY OUTLOOK 2018 REPORT: ABILITY TO REPAY (ATR) AND QUALIFIED MORTGAGE (QM) REGULATIONS

STRATMOR INSIGHTS

Volume 3, Issue 4
April, 2018

WELCOME

The recent MBA Technology Solutions Conference in Detroit was all about the latest, greatest and on-its-way technology, and it was overwhelming to see all of the new technology being introduced.

On the first evening of the conference, STRATMOR was honored to be recognized with an Innovation Award by the Progress in Lending Association for our MortgageSAT Borrower Satisfaction Program. The award recognizes truly game changing innovations in the mortgage space, and we are proud to be recognized as an industry innovator.

Those of you who are MortgageSAT users know the value the program brings: direct borrower feedback 24/7 and access to borrower satisfaction analysis from across the origination process including details at the regional, branch, loan officer and back office personnel and fulfillment levels. All of which is available 24/7 via an on-line portal supplemented by quarterly reports.

For those of you who would like to know more about our Innovation Award-winning borrower satisfaction program, call Mike Seminari, MortgageSAT director or email him at mike.seminari@stratmorgroup.com. You'll be glad you did!

While technology was center stage at the MBA Tech Conference, compliance and regulatory requirements were part of each discussion. In this month's lead story, "Regulatory Outlook 2018 Report: Ability to Repay (ATR) and Qualified Mortgage (QM)," Senior Advisor Rob Chrisman and Senior Partner Dr. Matt Lind report the results of the recent STRATMOR survey on this topic. The biggest take-away from the survey? The majority of responding lenders would leave well enough alone when it comes to ATR/QM. You'll find the complete summary of the results and all of the research beginning on page three.

Also this month in **Mortgage Metrics Matters**, Senior Partner Nicole Yung compares data from the 2016 Originator Census Survey to 2017 and in the **Borrower Experience** section, Senior Partner Dr. Matt Lind writes about how the borrower experience varies by origination channel from the perspective of both the MortgageSAT Satisfaction Score (SAT) and the Net Promoter Score (NPS).

By now you should have received an email from us about the launch of our 2018 Technology Insight Survey. This is the only independent technology survey in the industry today that gives voice to mortgage executives' experiences with their technology. Share your expert observations with your industry peers and take the survey! Here's the link.

Lisa Springer, CEO

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STRATMOR
INSIGHTS

April, 2018

REGULATORY OUTLOOK 2018 REPORT: ABILITY TO REPAY (ATR) AND QUALIFIED MORTGAGE (QM) REGULATIONS

By Rob Chrisman and Matt Lind, Ph.D.

All mortgage lenders, including brokers, have borne the brunt of a tidal wave of regulations in the last eight plus years. So, at first glance, one might think that mortgage lenders would broadly support major loosening — if not complete elimination — of most CFPB regulations.

Is this the case?

To get a better handle on what lenders think, we persuaded a few of our STRATMOR colleagues to work with us to develop and administer a survey of lenders that would address: (a) their ATR/QM implementation experience; (b), the impact of ATR/QM on ongoing loan origination costs; and (c), their attitudes towards changing, i.e., lessening, ATR/QM regulations. In this report, we present our key findings and share the details from the survey research.

KEY FINDINGS

More than 120 lenders responded to STRATMOR's survey addressing both their implementation experience and attitudes towards changes in ATR/QM regulations, ranging from no change to complete elimination. Key findings include:

ATR/QM Implementation Experience

- Lenders estimated that ATR/QM regulations added $139 per loan to their ongoing origination costs, with $44 of this additional cost recovered from borrowers through additional loan charges and fees.
- Therefore, net of costs recovered from borrowers, lenders absorbed ongoing origination costs of $95 per loan.

REGULATORY OUTLOOK 2018 REPORT: ABILITY TO REPAY (ATR) AND QUALIFIED MORTGAGE (QM) REGULATIONS

- Overall, lenders estimated their average investment in implementing ATR/QM regulations at $326,000, with only minor differences between Bank and Independent lenders.
  - » However, when broken down by lender size, lenders originating more than $5 billion invested $744,000 versus an average of $177,000 by lenders originating less than $1 billion.
- Between 50 and 55 percent of lenders felt that they had “enough time” or “more than enough time” to implement ATR/QM regulations.
- While differences between Bank and Independent lenders were small, lenders originating more than $5 billion expressed far more dissatisfaction with the time available for implementation than did smaller lenders.
  - » We attribute this difference to the fact that large lenders require more support because of the scope and complexity of their origination operations. It may also reflect the likelihood that larger lenders have larger, more sophisticated IT departments that demand more of their vendors.
- In general, lenders had less difficulty implementing ATR than QM.
  - » ATR was judged easier because other underwriting techniques (specifically, VA) provided a roadmap for ATR processes. QM regulations, however, were, and remain, ambiguous which leads to more oversight expense.

Attitudes Towards Changing ATR/QM Regulations

- Sixty-two percent of respondents favored little or no change to ATR regulations. For QM regulations, 54 percent favored little or no change.
- A lender’s attitude toward ATR/QM regulatory change is largely driven by their implementation experience as defined by the size of their investment and their satisfaction with LOS and third-party vendor support, irrespective of whether or not they felt they had adequate implementation time.
  - » Lenders investing more than $750,000 in ATR/QM implementation were 25 to 50 percent more likely to want a significant scale back or elimination of regulations than were lenders investing less than $250,000.
  - » Lenders rating LOS vendor support poor-to-fair were almost 70 percent more likely to want a significant scale back or eliminate QM regulations than were lenders who rated LOS vendor support good-to-outstanding.
  - » Lenders rating third-party vendor support poor-to-fair were twice as likely to want a significant scale back or elimination of QM regulations than were lenders who rated such support good-to-outstanding. For ATR regulations, a lender that rated third-party vendor support poor-to-fair was 50 percent more likely to want ATR regulations scaled-back or eliminated than lenders who held a favorable view of their third-party vendor support.

Survey Research

Respondent Profile

The survey population includes 122 responses that represented a diverse group of participants with respect to ownership, role and lender size, which allowed us to credibly analyze responses by respondent attributes.

In our analysis, Credit Union responses are grouped with Banks, and Builder/Realtor lenders responses are grouped with Independents. The resulting respondent mix is 52 percent Independents and 48 percent Banks — just about equal.

Considering the respondents role within their company, 25 percent of respondents came from production,18 percent from operations, 14 percent from compliance and 14 percent from executive/CEO roles. Additional responding roles came from Origination and Sales, Secondary/Capital Markets, Technology and Finance. Roles are well represented by the respondent mix who have larger stakes in both ATR/QM implementation and ongoing compliance.

In terms of lender size, more than 50 percent of respondents were lenders that originated less than $1 billion, 24 percent originated $1 to $5 billion, and 22 percent originated more than $5 billion.

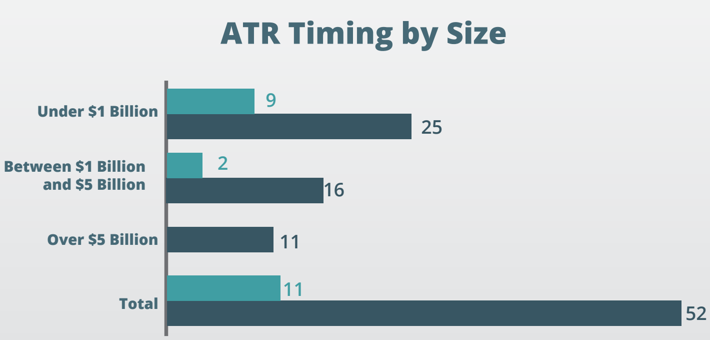
The ATR/QM Implementation Experience

Our survey included questions aimed at determining lenders' experiences implementing ATR/QM regulations primarily to enable us to see whether attitudes towards lessening such regulations correlated to a good or bad implementation experience.

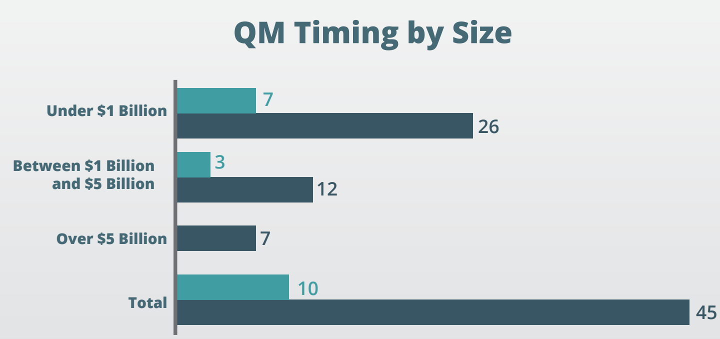
We asked lenders whether they felt they were given enough time by the CFPB to implement the requirements of ATR/QM regulations.

For both ATR and QM regulations, 46 to 52 percent of respondents felt that they either had enough, or more than enough, time. One significant difference in the numbers is illustrated in lender origination volume. Large lenders — those lenders originating more than $5 billion — expressed far more dissatisfaction with the time available for implementation than did smaller lenders. This was true for both ATR and QM regulations.

Illustration 1: Implementation Time Adequacy by Lender Size for ATR and QM



	Total	Over $5 Billion	Between $1 Billion and $5 Billion	Under $1 Billion
Had more than enough time	11	0	2	9
Had enough time	52	11	16	25



	Total	Over $5 Billion	Between $1 Billion and $5 Billion	Under $1 Billion
Had more than enough time	10	0	0	0
Had enough time	45	7	7	7

STRATMOR ATR/QM Survey, 2018. ©STRATMOR Group, 2018.

Why?

First, larger lenders have a bigger training challenge than do smaller lenders; e.g. more branches, more LOs, more back-office personnel. Second, larger lenders are more likely to have third-party origination channels, which add to the implementation complexity.

Our Technology Insights Survey has shown that with greater complexity comes greater lender demands and expectations for support from their LOS and third-party vendors. It is therefore not surprising that large lenders taking our ATR/QM survey reported that they received much poorer support from both their LOS vendor and other third-party technology vendors. And poor support is likely to result in unanticipated delays and missed implementation milestones.

Table 2 shows that 36 percent of lenders originating less than $1 billion ranked their LOS support of ATR implementation Outstanding or Good versus 24 percent for lenders originating over $5 billion. For QM implementation, the corresponding percentages are 37 and 25 percent respectively. Table 3 shows that the differences are starker on the adequacy of third-party vendor support where, for ATR implementation, 32 percent of lenders originating less than $1 billion ranked their third-party support as Outstanding or Good versus just eight percent for lenders originating over $5 billion. For QM implementation, the corresponding percentages are 31 and 13 percent respectively.

Table 2: Adequacy of LOS Vendor Support by Lender Size

	Under $1 Billion	Between $1 Billion and $5 Billion	Over $5 Billion	Under $1 Billion	Between $1 Billion and $5 Billion	Over $5 Billion
	ATR			QM		
	% of Respondents by Category					
Outstanding	5%	0%	4%	4%	0%	4%
Good	31%	23%	20%	33%	23%	21%
Okay	22%	27%	20%	19%	33%	17%
Fair	22%	27%	16%	22%	23%	18%
Poor	14%	10%	24%	13%	10%	25%
N/A	8%	10%	16%	7%	10%	17%

Table 3: Adequacy of Third-Party Vendor Support by Lender Size

	Under $1 Billion	Between $1 Billion and $5 Billion	Over $5 Billion	Under $1 Billion	Between $1 Billion and $5 Billion	Over $5 Billion
	ATR			**QM**		
	% of Respondents by Category					
Outstanding	5%	0%	4%	4%	0%	4%
Good	27%	17%	4%	27%	17%	9%
Okay	38%	30%	36%	36%	30%	35%
Fair	17%	33%	24%	18%	30%	22%
Poor	8%	10%	20%	7%	13%	17%
N/A	6%	10%	12%	7%	10%	13%

STRATMOR ATR/QM Survey, 2018. ©STRATMOR Group, 2018.

The impact of ATR/QM on ongoing loan origination costs

Our survey found that lender investment in implementing ATR/QM regulations was virtually the same for Bank and Independent lenders but varied significantly as a function of lender size, as show in Table 4.

Lenders originating less than $1 billion invested, on average, just $177 thousand to implement ATR/QM regulations versus an average investment of $744 thousand by lenders originating over $5 billion, a more than four-fold increase.

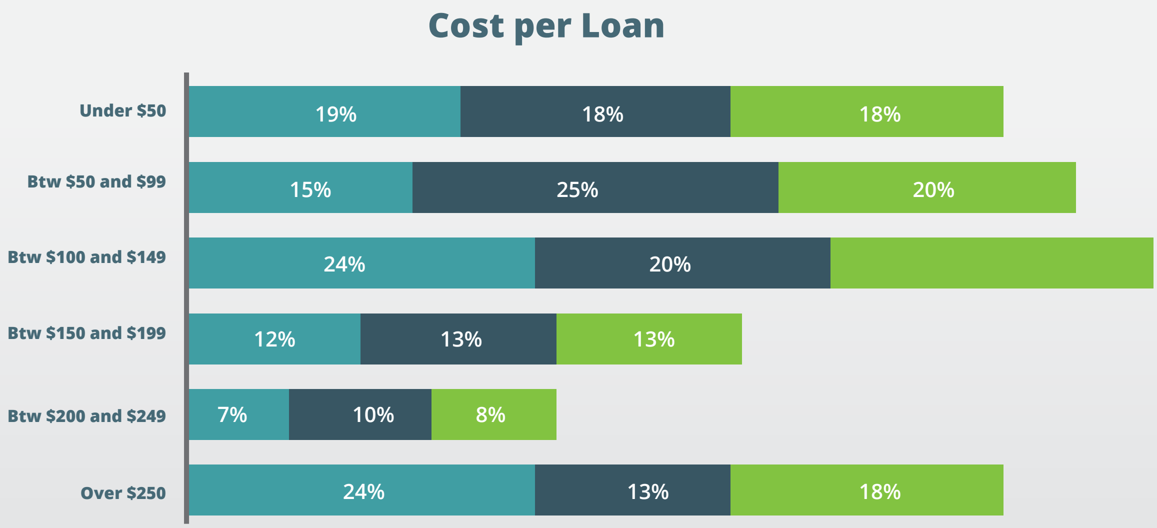
Table 4: Investment by Lender Size

	Under $1 Billion	Between $1 Billion and $5 Billion	Over $5 Billion
	% of Respondents by Category		
Under $100K	58%	30%	4%
Btw $100K and $249K	28%	27%	12%
Btw $250K and $499K	26%	23%	24%
Btw $500K and $749K	3%	13%	12%
Btw $750K and $1M	0%	3%	12%
Over $1M	3%	3%	36%
Average Investment (K)	$177	$311	$744

STRATMOR ATR/QM Survey, 2018. ©STRATMOR Group, 2018.

Chart 5 below presents the distribution of overall ATR/QM compliance costs per loan. Banks estimated that compliance with ATR/QM regulations added $147 per loan to their origination costs, 11 percent higher than the $131 per loan estimated by Independents.

Chart 5: Cost per Loan by Lender Type



	Over$250	Btw $200 and $249	Btw $150 and $199	Btw $100 and $149	Btw $50 and $99	Under $50
Bank	24%	7%	12%	24%	15%	19%
Independent	13%	10%	13%	20%	25%	18%
Total	18%	8%	13%	22%	20%	18%

STRATMOR ATR/QM Survey, 2018. ©STRATMOR Group, 2018.

Per loan cost differences were larger when based on lender size (Table 6). Small lenders — those originating less than $1 billion — estimated an average increase of $133 per loan versus $167 for large lenders, a 25 percent difference.

Table 6: Cost per Loan by Lender Size

	Under $1 Billion	Between $1 Billion and $5 Billion	Over $5 Billion
	% of Respondents by Category		
Under $50	22%	20%	8%
Btw $50 and $99	14%	30%	25%
Btw $100 and $149	29%	10%	17%
Btw $150 and $199	11%	20%	8%
Btw $200 and $249	11%	3%	8%
Over $250	14%	17%	33%
Average Cost per Loan	$133	$128	$167

STRATMOR ATR/QM Survey, 2018. ©STRATMOR Group, 2018.

Survey results also showed that lenders recovered about 32 percent of the increased origination costs per closed loan through increased fees charged borrowers.

As noted in the Key Findings section, ATR/QM compliance is estimated by lenders to cost $139 per loan. About $95 of this $139 cost per loan is absorbed by lenders, with borrowers absorbing the remaining $44 per loan through loan charges and fees.

Attitudes Towards Lessening ATR/QM Regulations

Sixty-two percent of respondents favored no or modest changes to ATR regulations. For QM regulations, 54 percent felt that way; and in both cases, there was little variation between Banks and Independents.

Lender size also did not appear to make a significant difference in attitude towards regulatory change. For example, 58 percent of lenders originating under $1 billion favored no, or modest, changes in ATR regulations versus 54 percent of lenders originating over $5 billion. For QM regulations, the comparable results were 50 percent versus 48 percent.

Lender attitudes towards regulatory change did, however, vary significantly with the size of the investment made by lenders in people, system, processes and policies (Table 7).

For example, with ATR regulations, 65 percent of lenders that invested less than $250 thousand favored no, or modest, changes in regulations versus 47 percent of lenders that invested over $750 thousand. That's almost a 50 percent difference. For QM regulations, the equivalent results were 57 versus 47 percent respectively, less pronounced but still significant.

Table 7: Attitudes by Lender Investment

Investment Made In People, Process & Policy Changes						
	Under $250K	$250K and $750K	Over $750K	Under $250K	$250K and $750K	Over $750K
	ATR			QM		
	% of Respondents by Category					
Make no changes - regulations are good in current state	22%	13%	7%	14%	10%	7%
Modest changes to current regulations	43%	50%	40%	43%	40%	40%
Significant scale back of current regulations	29%	30%	40%	35%	43%	40%
Eliminate them entirely including a roll back of current regulations	6%	7%	13%	8%	7%	13%

STRATMOR ATR/QM Survey, 2018.

This result was somewhat surprising to us because we expected that the larger the investment, the more likely a lender would be to support the status quo. Perhaps what's going on here is that the larger the investment, the greater the resentment.

Although not as pronounced as a lender's investment, the adequacy of implementation time also appeared to make a difference in lenders' attitudes towards regulatory change.

The respondent's role also came into play with the lenders' attitudes toward change. Table 8 shows that, of the six the positions recorded, between 60 and 70 percent of respondents favored no, or modest, changes in ATR regulations. For QM regulations, COOs, CFOs and Heads of Production favor significant scaling back of the regulation.

Table 8: Attitudes by Position

	CEO	COO	CFO	CEO	COO	CFO
	ATR			QM		
	% of Respondents by Category					
Make no changes - regulations are good in current state	29%	23%	33%	13%	4%	0%
Modest changes to current regulations	41%	36%	33%	56%	39%	33%
Significant scale back of current regulations	24%	36%	33%	25%	52%	67%
Eliminate them entirely including a roll back of current regulations	6%	5%	0%	6%	4%	0%
	Head of Production	**Compliance**	**Other**	**Head of Production**	**Compliance**	**Other**
	ATR			QM		
	% of Respondents by Category					
Make no changes - regulations are good in current state	13%	15%	13%	13%	14%	17%
Modest changes to current regulations	47%	45%	50%	37%	48%	38%
Significant scale back of current regulations	31%	35%	27%	37%	33%	34%
Eliminate them entirely including a roll back of current regulations	9%	5%	10%	13%	5%	10%

STRATMOR ATR/QM Survey, 2018. ©STRATMOR Group, 2018.

For example, 33 percent of CFOs favored no changes to ATR regulations; virtually zero percent favored no changes to QM regulations. Thirty-three percent of CFOs favored a significant scale back of ATR regulations and 67 percent favored scale backs of QM regulations. Although not as pronounced, COOs exhibited similar aversion to QM regulations.

It seems that the brunt of QM regulatory compliance and impact was, and is being, felt by the COOs and CFOs. As one thoughtful CFO commented:

"QM and to a lesser extent, ATR, remain unknown risks at this time given the lack of legal challenges in the courts related to the consumer benefits of QM or ATR. ATR was a bit easier to implement, as other underwriting techniques (specifically, VA) provided a roadmap to the ATR work. QM remains ambiguous, and as a result likely is still causing more oversight expense."

In Tables 9 and 10, we see the effect of LOS and third-party vendor support on attitudes towards regulatory change, especially QM regulations.

When LOS vendor support was outstanding or good, 62 percent of respondents favored no or modest changes in QM regulations. But when LOS vendor support was judged fair to poor, only 36 percent favored little or no change. Comparable percentages for ATR regulations were 63 and 57 percent respectively, a relatively small decline.

Table 9: Adequacy of LOS Vendor Support

	Outstanding/ Good	Okay	Fair/Poor	Outstanding/ Good	Okay	Fair/Poor
	ATR			**QM**		
	% of Respondents by Category					
Make no changes - regulations are good in current state	20%	17%	16%	16%	15%	5%
Modest changes to current regulations	43%	45%	41%	46%	48%	32%
Significant scale back of current regulations	34%	28%	34%	35%	33%	50%
Eliminate them entirely including a roll back of current regulations	3%	10%	9%	3%	4%	14%

We see similar results with third-party vendor support. Here too, when third-party vendor support was fair to poor, 60 percent of lenders favored significant scale back to complete elimination of QM regulations. On the other hand, when third-party vendor support was good to outstanding, only 31 percent of lenders favored scale backs or elimination.

While fair to poor vendor support also decreased the percentage of lenders who favored little or no change in ATR regulations, the decrease was far less pronounced than it was for QM.

Table 10: By Adequacy of Third-Party Vendor Support

	Outstanding/ Good	Okay	Fair/Poor	Outstanding/ Good	Okay	Fair/Poor
	ATR			QM		
	% of Respondents by Category					
Make no changes - regulations are good in current state	26%	14%	15%	24%	12%	5%
Modest changes to current regulations	44%	45%	40%	45%	41%	35%
Significant scale back of current regulations	26%	27%	40%	28%	37%	50%
Eliminate them entirely including a roll back of current regulations	4%	14%	5%	3%	10%	10%

Final Thoughts

The lending community wants to do the right thing, and when it comes to complying with regulatory actions, virtually every lender and vendor has put in the time and the money needed to meet the regulations set before them. The "sunk costs" of meeting these regulatory actions cannot be recovered, and new CFPB regulations aimed at benefiting borrowers have added many hundreds of dollars to origination costs, currently split between the lender and the borrower.

It is understandable that more lenders than not don't want to see changes to the ATR/QM rules. Just when they've figured out how to comply with rules, "change" is in the air. Unfortunately, even elimination of the regulations will likely require costly changes in the processes, systems and training, and lenders will have to spend more time and more money to undo what is in place. Lenders are looking for ways to keep the costs down for themselves and the borrower, not add to them.

As an industry we must be cognizant of "prospective costs," which are future costs that may be incurred or changed if an action is taken. The statistics, and opinions, in STRATMOR's research should serve as a reminder that industry-wide changes impact borrowers, and that future changes should be given careful consideration.

WE WELCOME YOUR FEEDBACK

Would you like to talk more about ATR and QM? Contact Rob Chrisman at rob.chrisman@stratmorgroup.com or Matt Lind at matt.lind@stratmorgroup.com. ■

ORIGINATOR CENSUS

The better you understand and measure the key attributes of your sales force, the better able you will be to proactively manage them. And more than anything else, a high performing sales force will improve the franchise value of your company.

STRATMOR's Originator Census Survey provides lenders with valuable insights into the makeup of their sales force and how it compares to peer lenders.

In 2017, the results included input from more than 13,000 Retail originators and 1,900 Consumer Direct originators from Independent and Bank Owned/Affiliated mortgage companies ranging in size from under $500 Million to over $10 Billion in annual production.

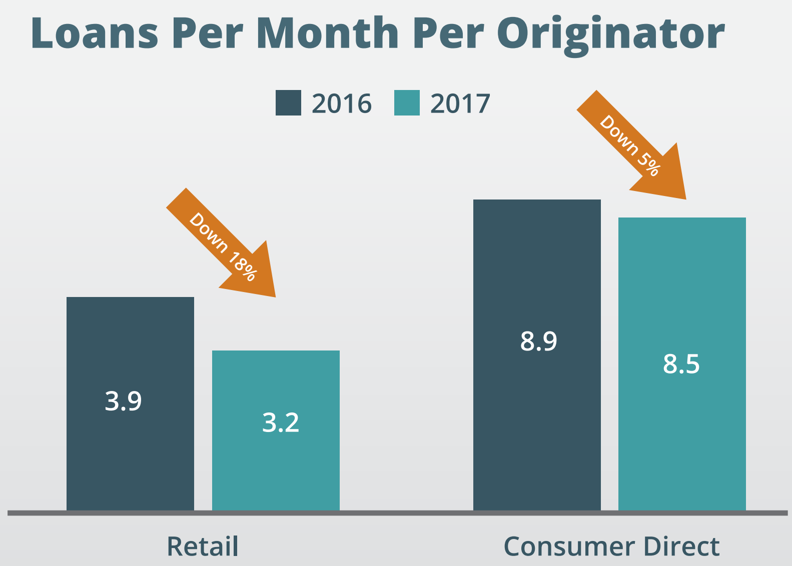
Participants in Origination Census receive a report that includes 15 pages of individualized results. If you missed the Spring survey, you can still participate in 2018 by registering now for the Fall survey. Participants in the Fall survey also have access to the full Spring results (Spring results are provided after the Fall survey closes). If you are interested in learning more about the survey or would like to participate, contact originatorcensus@stratmorgroup.com.

Select Results from the 2017 Originator Census Survey

Q **What changed in this year's Originator Census findings?**

A **For 2017, the average retail originator closed 3.2 loans per month, down from 3.9 in 2016 which represents a drop of 18 percent. This is not surprising given the roughly 15 percent drop in overall market volume. What this data tells us is that lenders were not cutting Retail originators as volume dropped. Instead, fewer loans were being originated by roughly the same population. Many lenders believe that to beat the market headwinds they should add originators and "grow through the downturn." While this is possible, the data shows that it is not what happened in 2017.**

By contrast, Consumer Direct productivity only dropped five percent for the same period. A Consumer Direct originator averaged 8.5 closed loans per month in 2017 versus 8.9 in 2016. This sample includes Consumer Direct lenders that are primarily engaged in New Customer Acquisition activity as well as those who operate a Servicing Retention or Affiliate Referral model. For both lead sources, the productivity drop is not as dramatic as that in the Retail channel. This data suggests that Consumer Direct lenders are more likely to manage their salesforce to productivity standards. The centralized environment makes it easier to add or lay off sales people with changes in lead flow.



STRATMOR Compensation Originator Census, 2017. ©STRATMOR Group, 2018.

Mortgage Metrics Matter

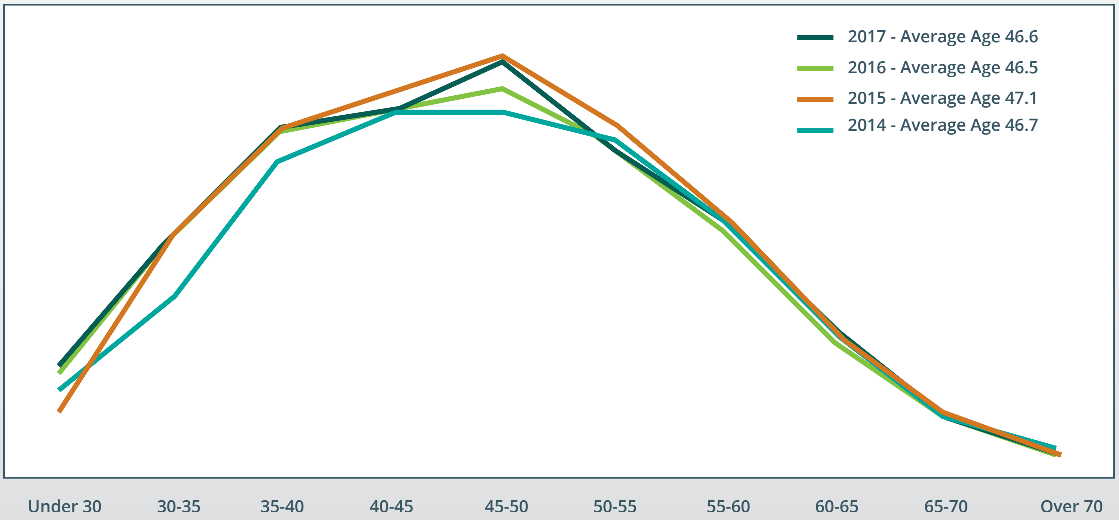
ORIGINATOR CENSUS

Q **What stayed the same for 2017 versus prior years?**

A **The average Retail originator is still roughly 46 years old, about the same average age as in the last four years. When we chart the data collected over the last four years, there is virtually no difference in the results.**

While we don't expect to see a major shift in any given year, it is surprising to see that there was not more movement in the Under 30 category. The talk of hiring younger loan officers to serve the Millennial market dominates industry conferences, but we don't see the industry making significant traction in bringing on LOs in this age group. In fact, there are twice as many originators over 60 than there are under 30.

Originator Age Distribution



STRATMOR Compensation Originator Census, 2017. ©STRATMOR Group, 2018.

Where we do see a significant number of younger originators is in Consumer Direct. The average age of Consumer Direct originators for 2017 was 38.7. Consumer Direct is the channel with the largest number of LOs Under 30, with 21 percent of the population in this category.

Consumer Direct is the channel where young talent is entering the industry. In a centralized call center environment, it is easier to provide training and mentoring than it is in a traditional "bricks and mortar" retail model. In Consumer Direct, the company is generating leads, even in a New Customer Acquisition model. This enables the loan officer to cultivate skills in converting leads and serving the customer versus creating a referral network. For Retail, the originator is responsible for generating leads and the LO must cultivate a personal network. This may be more difficult for a younger originator given that the bulk of the transactions have been for borrowers who are over 40.

The Borrower Experience

OVERVIEW

Monthly, STRATMOR gathers borrower data through our customer satisfaction measurement program, MortgageSAT. STRATMOR analyzes the results from more than 10,000 customers across all participating lenders and creates the National Borrower Satisfaction Index.

Then, in each issue of *Insights*, we highlight the results for one of the many categories tracked by MortgageSAT and offer suggestions on using this information to improve the borrowers' experience. This month, we take a big-picture view of the borrower's experience by origination channel.

Not surprisingly, the borrower experience varies across the three primary origination channels — Retail, Consumer Direct (CD) and Wholesale (Broker).

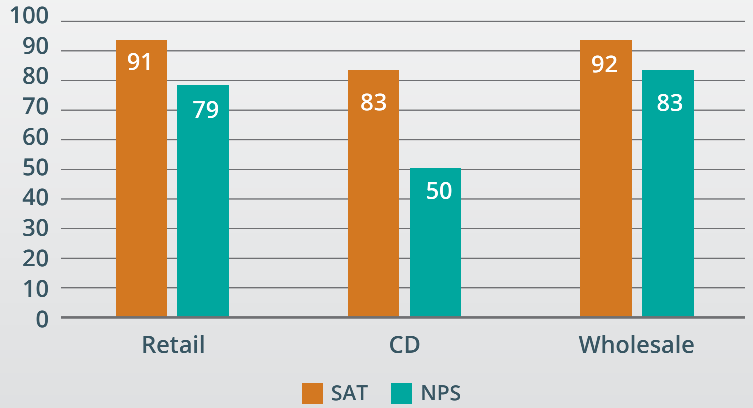
The Borrower Experience

WHICH CHANNEL DOES BEST?

As Chart 1 illustrates, the Borrower Satisfaction Score (SAT) and Net Promoter Score (NPS) are highest for the Broker channel and lowest — by significant amounts — for the CD channel, with the Retail channel scores close on the heels of the Broker channel.

Chart 1

Borrower Satisfaction and NPS by Channel



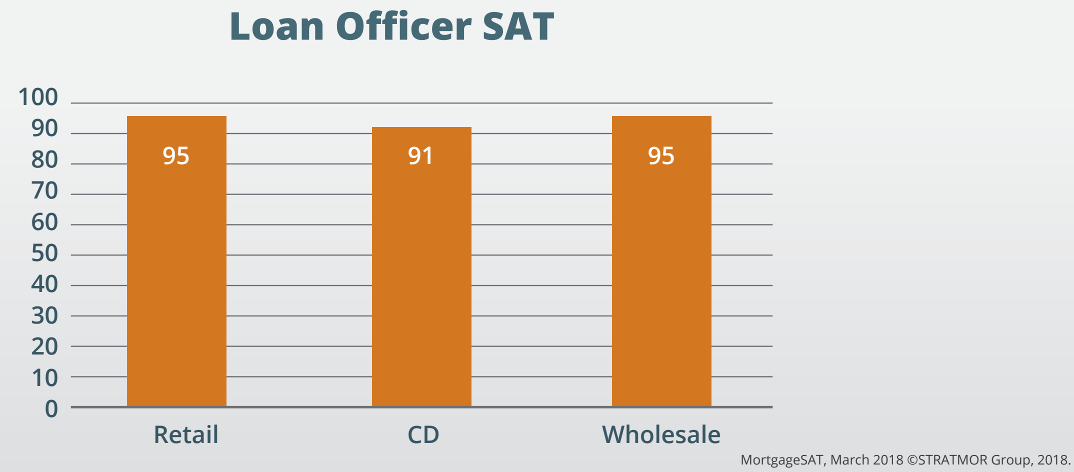
MortgageSAT, March 2018 ©STRATMOR Group, 2018.

Why are both the SAT and, in particular, NPS scores so much worse for CD than either the Retail or Broker scores?

One possible reason is that CD loan officers deal with the borrower remotely and may come across as less engaging than Retail LOs and Brokers (many of whom also never meet the client face-to-face). However, the results in Chart 2 suggest this is a minor factor since borrower satisfaction with their LO does not vary significantly by channel and is generally high.

The Retail and Broker channel scores may be higher because both rely more heavily on referrals — referrals from friends/family and Realtors are the top two reasons borrowers choose Retail and Brokers versus CD. Retail loan officers and Brokers appear to have a more vested interest in ensuring a smooth loan process because their next deal depends on it. When CD is selected, the borrower's existing relationship with the lender is the top reason the borrower chose CD. Furthermore, many CD lenders encourage more of an assembly line process where the loan officers are largely uninvolved in the process after they pass the loan to a processor.

Chart 2



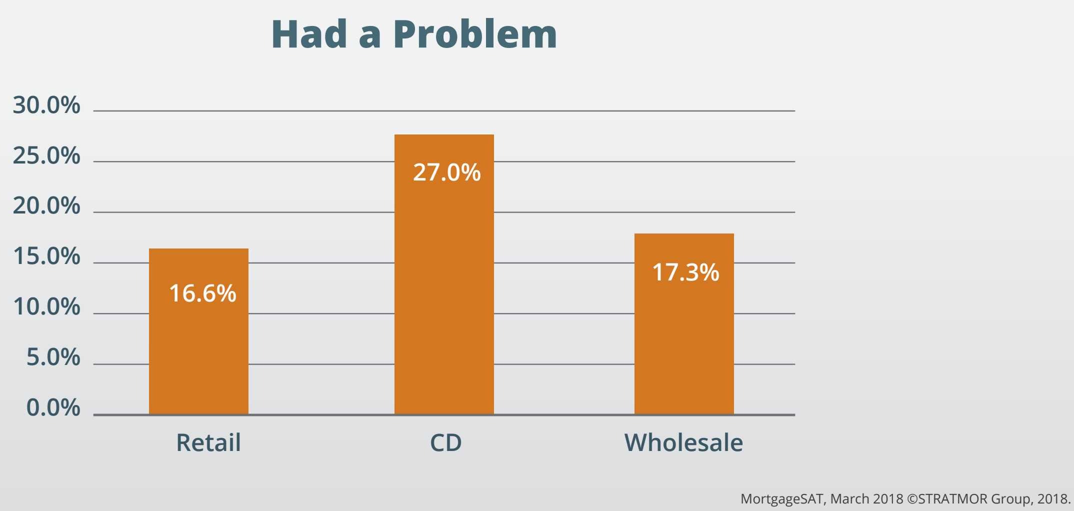
What the Numbers Show

A deeper analysis suggest that the problem lies in the fulfillment process. CD originations simply generate more problems. The top three most-cited problems for all channels:

1. Application Process/Doc Requests
2. Communication
3. Underwriting

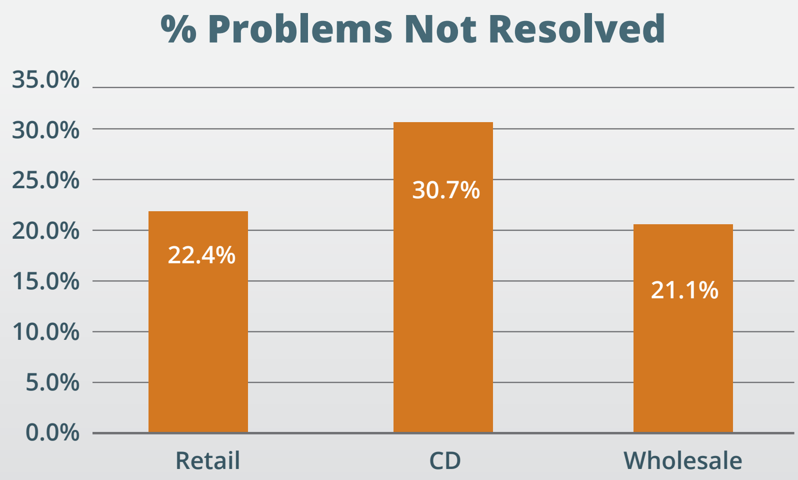
As Chart 3 indicates, the likelihood that a borrower has a problem in the CD channel (27 percent) is roughly 60 percent greater than in the Retail channel (16.6 percent) or the Wholesale/Broker channel (17.3 percent).

Chart 3



To make matters worse, as Chart 4 makes clear, the percentage of CD problems that are not resolved (30.7 percent) is much higher than the unresolved percentages for either Retail (22.4 percent) or Wholesale/Broker (21.1 percent). Indeed, about 8.3 percent of CD originations involve a problem that is unresolved versus 3.5 percent for Retail originations and 3.6 percent for Wholesale/Broker originations. And, we know that SAT scores and, by extension, NPS scores, drop significantly when an origination problem goes unresolved.

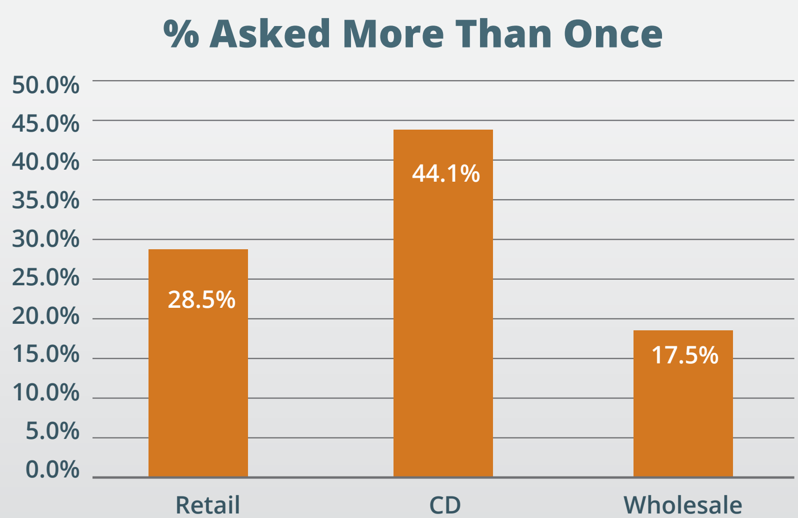
Chart 4



MortgageSAT, March 2018 ©STRATMOR Group, 2018.

For example, Chart 5 shows that the percentage of borrowers who are asked more than once for a document already provided — a sin under the Seven Commandments for Achieving Borrower Satisfaction — is much higher in the CD channel (44.1 percent) than it is in either the Retail channel (28.5 percent) or the Wholesale/Broker channel (17.5 percent). Considering all channels, requesting the same document multiple times reduces the SAT score from 90 to 77.

Chart 5



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The Borrower Experience

WHICH CHANNEL DOES BEST?

Overall, there are substantially more fulfillment-related problems in the CD channel than there are in either the Retail or Wholesale/Broker channels, which has a significant effect on satisfaction scores. Why this is the case is not clear; however, one possible reason is that without the hand-holding of an LO throughout the process, miscommunication and unmet expectations are more likely, which the borrower interprets as “problems.” After all, in many organizations, the CD channel utilizes the same back office as the Retail channel and therefore, we might expect little or no difference between the percentages of problems and problems resolved between Retail and CD. And in situations where CD has its own dedicated back office, we might expect even fewer problems unless the CD fulfillment staff is systematically less experienced than the Retail staff.

What’s a Lender to Do?

Problems in the fulfillment process create unhappy borrowers who make their dissatisfaction known in their reviews. Benchmarking your data against the MSAT lender data in Charts three and four can help you determine where your company stands in comparison to your peers. Also, across channels lenders should consider the following to pinpoint problems in the borrower’s experience:

1. **Identify systemic problems.** Breakdown and categorize the problems by type or source, whether people, processes or systems. If your customer satisfaction survey tool collects comments from borrowers, review this feedback and use it to inform your discussion of the causes of their dissatisfaction. Was it because of the type of problem? Are there issues with the problem-resolution process? Are their personnel issues?

2. **Take corrective action.** Take steps now to correct “low hanging fruit” problems and determine how you will address more complex issues. Look for ways to revise your processes, train your staff and improve your system interfaces with the borrower.

3. **Monitor customer feedback and respond.** Check customer feedback often and respond to their concerns before their concerns turn into problems the borrower shares with others. Lenders with STRATMOR’s MortgageSAT program receive real time alerts on highly-dissatisfied borrowers so that they can respond before borrower complains to regulators or on social media. If you use a survey service to gather borrower feedback, use it as a management tool to help you to create more satisfied customers.

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

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"By means of its powerful borrower satisfaction management tool, MortgageSAT, STRATMOR has led the way to fundamentally change the way lenders manage and apply borrower feedback."

- Anthony Garritano, Chairman and Founder of the Progress in Lending Association

For more information about the MortgageSAT Program please email mike.seminari@stratmorgroup.com.