STRATMOR GROUP

FEATURING

WHAT'S AGE GOT TO DO WITH IT? DEBUNKING MYTHS AROUND LOAN OFFICER AGE

STRATMOR INSIGHTS

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WELCOME

Earlier this month, Janet Yellen gave her last policy update as Chairperson of the Federal Reserve. She validated the Fed's forecast of a moderately stronger economic outlook for 2018, which is a "notable upgrade" from previous forecasts. Also, the Federal Reserve agreed to raise its key interest rate and maintained its forecast for three hikes next year that will likely nudge up rates — most noticeably for credit cards, adjustable rate mortgages and HELOCs. The effects on fixed-rate mortgages are expected to be less pronounced.

A better economic outlook coupled with "less pronounced" mortgage rate hikes are positive factors as our mortgage industry heads into 2018. And I'd like to add — Wow, this year went by fast!

For our last issue of 2017, we're ringing in the New Year with more positive insights. Our In-Focus lead article, **"What's Age Got to Do with It?"** debunks myths surrounding loan originator age and the idea that mortgage LOs are "too old." I think you'll find this story by Senior Partner Jim Cameron insightful and entertaining as he applies data to the perceptions many mortgage bankers share.

Next, in this month's *Mortgage Metrics Matters* section, we look at the extent to which LO turnover varies by time of year and consider both what drives the timing of turnover and possible strategies to counter it.

And, in the **Topic of the Month** piece in our *Speaking Borrower Satisfaction* section, we illustrate channel usage and satisfaction by borrower age. At first blush, we might expect that as borrowers mature, their use of, and satisfaction with, Consumer Direct declines, but the results of this comparison are a bit more complicated.

From all of us at STRATMOR, we wish you, our STRATMOR *Insights* readers and our many clients, a happy holiday season and a happy and prosperous New Year.

Lisa Springer, CEO

STRATMOR
INSIGHTS

IN THIS ISSUE

WHAT'S AGE GOT TO DO WITH IT? DEBUNKING THE MYTHS AROUND LOAN OFFICER AGE

By Jim Cameron

There's a concern expressed by many lender CEOs that their loan officers are getting too old for the borrowers they need to serve. Many believe that the average LO is 52-55 years old, that the LO's age makes a difference in his or her productivity and that younger borrowers — like Millennials — would prefer dealing with an LO closer to their own age. Are these perceptions accurate? Senior Partner Jim Cameron takes a closer look at our perceptions — and reality.

Age: It's all Relative.

When I was about 20 my father celebrated his 50th birthday. I remember thinking: "Man, I can't imagine what it will be like to be that old." Twenty years later, when I was almost 40, 50 didn't seem all that ancient of days, and once I passed the big 5-0, 60, 70 and beyond didn't sound "old" any more. I recently found myself talking about my latest medical procedure and my high fiber diet and didn't think twice about it.

My youthful perception of age gave way to the reality in a life lived; it's time that we as an industry let go of our perception that loan officers, as a group, are too old. And, that "too old" loan officers aren't creating satisfied borrowers. The reality is in the data.

What is the Average Age of Loan Officers, Really?

STRATMOR's Originator Census Survey program data for 2013 through 2016, gathered from survey data covering thousands of distributed retail originators working at Independent and Bank-Owned lenders, tells a different story. In Table 1, Originator Census data shows both the average and median loan officer age to be in the 46-47 age range.

Table 1

AGE DISTRIBUTION - TOTAL POPULATION				
	2016	2015	2014	2013
Over 70	0.8%	0.9%	0.8%	0.9%
Between 65& 70	2.5%	2.7%	2.6%	3.3%
Between 60 & 65	5.6%	6.4%	5.9%	7.3%
Between 55 & 60	10.2%	11.1%	10.5%	12.5%
Between 50 & 55	14.0%	15.0%	14.2%	16.8%
Between 45 & 50	16.4%	17.9%	15.5%	16.7%
Between 40 & 45	15.3%	16.4%	15.3%	17.3%
Between 35 & 40	14.5%	14.8%	13.3%	13.1%
Between 30 & 35	10.2%	10.2%	7.6%	8.2%
Under 30	4.4%	2.9%	3.6%	3.5%
# of Originators in Sample	**19,660**	**16,766**	**13,503**	**8,311**
Average Age	46.5	47.1	46.7	47.5
Median Age	46.0	47.0	46.5	47.2

In the next table, Age Distribution for 2016, our Originator Census data also shows that, on average, Bank LOs are slightly older than LOs working at Independent lenders. However, despite having a lower average age for their LOs, Independents have a higher proportion of LOs age 65 and older (3.7 percent) than Banks (2.3 percent). From what I've heard from LOs, the generally superior retirement benefits at Banks allow their LOs to retire younger.

Table 2

AGE DISTRIBUTION FOR 2016			
	Total Population	Independents	Banks
Over 70	0.8%	1.0%	0.4%
Between 65& 70	2.5%	2.7%	1.9%
Between 60 & 65	5.6%	5.9%	5.1%
Between 55 & 60	10.2%	10.5%	9.7%
Between 50 & 55	14.0%	14.5%	13.2%
Between 45 & 50	16.4%	17.5%	14.3%
Between 40 & 45	15.3%	16.3%	13.2%
Between 35 & 40	14.5%	15.7%	12.1%
Between 30 & 35	10.2%	11.1%	8.5%
Under 30	4.4%	4.8%	3.5%
# of Originators in Sample	**19,660**	**13,146**	**6,514**
Average Age	46.5	46.3	47.0
Median Age	46.0	46.0	47.0

WHAT'S AGE GOT TO DO WITH IT? DEBUNKING THE MYTHS AROUND LOAN OFFICER AGE

But how do the age characteristics of LOs compare with the age characteristics of the American workforce? According to the Bureau of Labor Statistics (BLS), in 2016, the median age of loan officers, at 46, is about four years higher than the median age of all American workers, starting at 16 years old, but just two years higher than financial industry workers.

Table 3: Bureau of Labor Statistics on the Age of the American Worker (Numbers in Thousands)

Industry	2016								
	Total, 16 years and over	16 to 19 years	20 to 24 years	25 to 34 years	35 to 44 years	45 to 54 years	55 to 64 years	65 years and over	Median Age
Total Employed (000's)	151,436	4,965	14,027	33,722	31,562	32,720	25,524	8,916	42.2
Distribution by age group (%)		3.28%	9.26%	22.27%	20.84%	21.61%	16.85%	5.89%	
Total employed in Financial activities (000's)	10,404	88	602	2,338	2,313	2,419	1,865	779	44.3
Distribution by age group (%)		0.85%	5.79%	22.47%	22.23%	23.25%	17.93%	7.49%	

Bureau of Labor Statistics. https://www.bls.gov/cps/cpsaat18b.htm

But what is striking in comparing Originator Census with BLS data is the proportion of workers 35 years old or younger. Originator Census data for 2016 shows that 14.6 percent of LOs are 35 years old or younger whereas BLS data for workers involved in the Financial sector shows that 29.1 percent of workers fall into this same age group. At the other end of the age spectrum, looking at age 65 and older, Originator Census data for 2016 shows 3.3 percent of LOs in this older age group compared with 7.49 percent reported by BLS for this same age group of Financial sector workers.

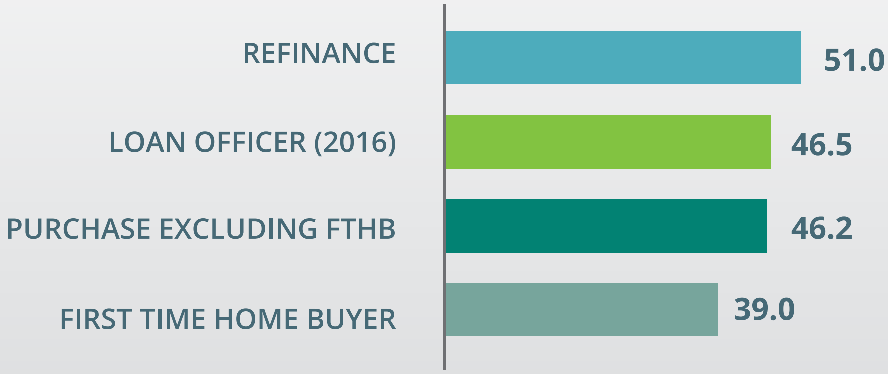
It seems that LOs start working as originators later in life and retire younger than the typical Financial sector worker.

What's the Age of the Average Borrower, Really?

Every month, STRATMOR gathers responses from 20,000 borrowers in our MortgageSAT Borrower Satisfaction survey. We have received responses from more than 125,000 borrowers in the last 12 months. One of the survey demographic questions is the borrower's age, and from this data, we can paint a pretty clear picture of the overall age of the borrower by loan type.

Table 4

Average Age of LO vs Borrower



MortgageSAT, 2017 ©STRATMOR Group, 2017.

Refinance borrowers, at an average age of 51, are actually four to five years older than the average LO who is 46-47. Purchase buyers, excluding First Time Home Buyers (FTHB), average 46 years of age, which is right on the LO average. In relation to refinance and repeat purchase borrowers, loan officers are definitely not "too old" — they are actually about the same age or younger.

Things get interesting with First Time Home Buyers. At an average age of 39, they are clearly younger than the average LO. While one might argue that we need younger LOs to serve younger borrowers in the go forward purchase-dominated market, we don't believe that the age of the LO correlates with borrower satisfaction, and we will explore this myth in more detail later in this article.

I admit, I was surprised that the average age of the repeat (non FTHB) purchase buyer is 46. It has gone up since the late 1970s when the average for repeat buyers was 35.9 and first-time buyers was 28.1. What has changed? Pew Research reports that a record number of Americans are living in multigenerational homes,[1] and that for the first time in modern history, "living with parents" has edged out all other living arrangements for 18-to 34-year-olds. [2] Whether they are delaying the hallmark milestones of life — first real job, marriage, children — or choosing different milestones altogether, people are not buying homes as early in their lives as in the past.

WHAT'S AGE GOT TO DO WITH IT? DEBUNKING THE MYTHS AROUND LOAN OFFICER AGE

Does Loan Officer Age Impact Productivity?

Here's another misconception that circulates: the age of the loan officer makes a difference in their ability to produce a high volume of loans. One hypothesis is that the older loan officers can't keep up with the fast paced, ever changing environment including leveraging the latest technology. Another hypothesis is that young LOs lag in performance because of their inexperience and lack of contacts and referral relationships. Neither of these hypotheses is true.

Take a look at Table 5. This data is also from the Originator Census survey and shows the average LO age in each production quintile ranked by dollar volume (note that average monthly production for each quintile has been adjusted for LOs who have been with their company less than a year). If age mattered, we would expect the average LO age to change significantly as we move from the top 20 percent of LOs to the bottom 20 percent. Clearly, this does not happen. In fact, the average LO age by production quintile is virtually the same at around 45 to 47.

Table 5

Total Population			
Origination Units			
	Avg Age	Monthly Production per FTE Equivalent	Purchase %
Top 20%	45.3	9.3	65.7%
20% to 40%	47.1	4.6	66.8%
40% to 60%	47.7	2.9	65.7%
60% to 80%	45.6	1.8	64.7%
Bottom 20%	46.5	0.7	65.6%
Overall		**3.9**	**65.7%**

MortgageSAT, 2017 ©STRATMOR Group, 2017.

Does the Age of the LO Makes a Difference to the Younger Borrower?

I don't know about you, but when it comes to making a major purchase, I want to work with an experienced sales person, someone who knows more about what I'm buying than I do and who can help guide me through the process. I care more about what the sales person knows than about his or her age.

That said, I'm seeing articles and hearing people say that the younger generation — Millennials, for one — prefer a loan officer their own age; that they are looking for a loan officer they can relate to. The implication is that they don't want to or don't like working with loan officers who aren't their age, or that their experience with an LO older than themselves was not a good one.

What is the effect of loan officer age on the borrower experience at any age? Unfortunately, I'm not aware of data that directly measures borrower satisfaction at various borrower ages versus LO age. But, we do have borrower satisfaction data from STRATMOR's MortgageSAT Survey Program that allows us to make some inferences about the impact of borrower age and LO age on satisfaction.

Specifically, if a borrower segment like Millennials (roughly, ages 18 to 34) preferred LOs nearer their own age, in a world where the average LO is 46-47 years old, we would expect borrower satisfaction as a function of the borrower's age to decline in lower age groups. Such is not the case. As we see in Table 6, there isn't a significant difference in the Borrower Satisfaction Scores between age groups.

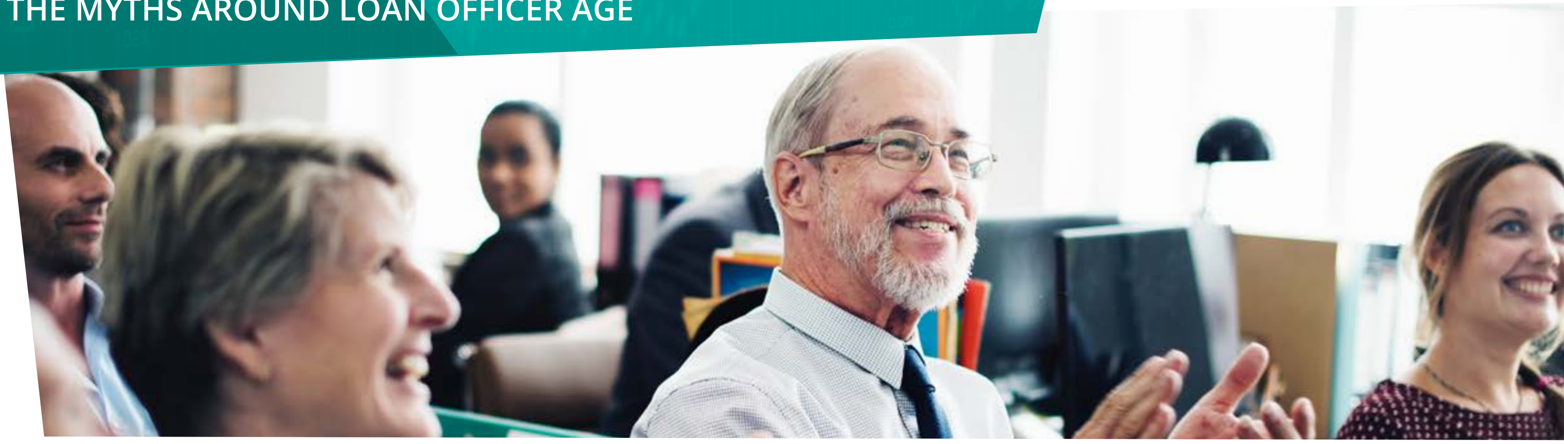


Table 6

Borrower Segment by Age (01/01/17 - 12/8/17)						
	18-24	25-34	35-44	45-54	55-64	65 and older
First-Time Homebuyers						
Sample size #	2,480	13,899	8,606	5,639	3,346	1,707
Sample size %	6.95%	38.96%	24.12%	15.81%	9.38%	4.78%
Satisfaction	90	90	90	91	90	90
All Homebuyers						
Sample size #	3,506	25,500	23,453	19,091	14,492	9,714
Sample size %	3.66%	26.63%	24.49%	19.94%	15.13%	10.14%
Satisfaction	90	90	91	91	91	89

MortgageSAT, 2017 ©STRATMOR Group, 2017.

The Big Story Isn't That LOs Are Too Old

The big story here is that like all Corporate America, the mortgage industry is facing an aging workforce. As an industry, we need to be bringing in younger talent to become the knowledgeable, dependable loan officers that serve borrowers of all ages.

But, I'll bet that if you surveyed college graduates majoring in business along with recent MBAs, you'll find very few who have identified mortgage lending as a potential career path. How many mortgage lenders target recent college graduates as LOs and have the effective training and support programs to make them successful?

Instead, mortgage lenders typically seek to grow their market share by cannibalizing successful LOs from other lenders in a business-as-usual game of musical chairs involving costly signing bonuses and guarantees that may be great for the LO but not for the lender.

In a STRATMOR Spotlight Survey conducted in 2016 we addressed originator hiring practices and "Newbie LOs." As Table 7 shows, 42 percent of lenders reported that at least half of their Newbie LOs failed to meet their minimum application volume target (averaging around 4.5 per month) within their proscribed ramp-up period (typically 6 months or more). For LOs who were experienced at time of hire, only 12 percent of lenders reported that half or more failed to meet minimum application volume (averaging around six applications per month) within the proscribed ramp-up period (typically four to six months), despite the tougher expectations.

Table 7

Percentage of LOs Who Fail to Meet a Lender's Minimum Application Within Their Proscribed Ramp-Up Period			
	Experienced LO When Hired	Newbie LO When Hired	Total
0.0% to 4.99%	7%	3%	6%
5.00% to 9.99%	0%	3%	1%
10.00% to 14.99%	20%	14%	17%
15.00 to 24.99%	29%	17%	24%
25.00% to 49.99%	32%	21%	27%
50.00% to 74.99%	7%	28%	16%
75.00% or Higher	5%	14%	9%
Total	100%	100%	100%

STRATMOR Originator Census Survey, 2013-2016. ©STRATMOR Group, 2017.

Unless lenders develop better tools and techniques for attracting and developing new originator talent and retaining existing talent, it may well be that playing and paying for musical chairs is the less costly option. And, if consumer direct and self-service origination technologies become dominant long-term for both refinance and purchase originations, the problem may simply go away, with LOs losing the market power and leverage that they have today.

Yes, we need to increase the ranks of qualified LOs, but also, we need to stop perpetuating the myths of the "too old" LO. If Doctor Oz and everyone else who said, "Forty is the new 30" is right; and the American psychologist Walter Pitkin is right (in 1932 he published the self-help book Life Begins at Forty); then the 47-year-old loan officer is in the prime of life.

[1]Pew Research Center. "A Record 60.6 Million Americans Live in Multigenerational Households," August 11, 2016. D'Vera Cohn and Jeffrey S. Passel. http://www.pewresearch.org/fact-tank/2016/08/11/a-record-60-6-million-americans-live-in-multigenerational-households/

[2] Pew Research Center. "For the First Time in Modern Era, Living With Parents Edges Out Other Living Arrangements for 18- to 34-Year-Olds. May 24, 2016. Richard Fry. http://www.pewsocialtrends.org/2016/05/24/for-first-time-in-modern-era-living-with-parents-edges-out-other-living-arrangements-for-18-to-34-year-olds/

WE WELCOME YOUR FEEDBACK

Interested in discussing the myths around LO age? Connect with Jim by emailing him at: jim.cameron@stratmorgroup.com .

ORIGINATOR CENSUS

SELECT RESULTS FROM THE 2017 ORIGINATOR CENSUS SURVEY

The more you can 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 for more than nineteen thousand Retail Originators from Independent and Bank Owned/Affiliated mortgage companies ranging in size from under $500 Million to over $10 Billion in annual production. For the Fall update, STRATMOR also collected data for Consumer Direct Originators.

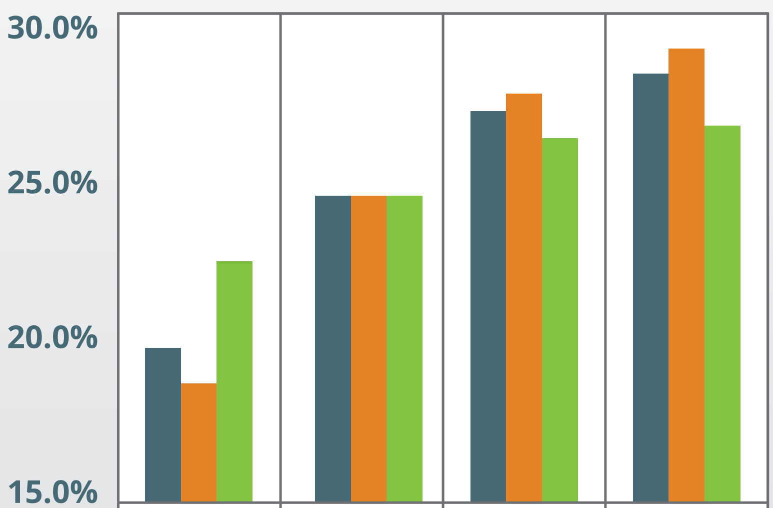
STRATMOR INSIGHTS

The following are select results from the 2017 Originator Census Survey.

Q **Does the time of year affect Originator turnover?**

A Yes, in Retail, Originator turnover is highest in the fourth quarter. This holds true for both Banks and Independents. While Banks show a steadier turnover rate throughout the year, the Independents show significantly higher turnover in the last quarter.

Timing of Turnover by Quarter



	1Q	2Q	3Q	4Q
Total Population	19.9%	24.5%	27.2%	28.3%
Independents	18.7%	24.5%	27.7%	29.0%
Independents	22.5%	24.5%	26.2%	26.7%

Mortgage Metrics Matter

ORIGINATOR CENSUS

STRATMOR INSIGHTS

Are Independents more like Scrooge or like Santa? Are low performers at both Banks and Independents getting pink slips in their company holiday greetings? Our data says no. The spike in fourth quarter turnover in the Independents is led by the Originators. In fact, those Originators who turnover in fourth quarter have higher average production and overall longer tenure than the Originators who left in any of the other quarters.

This suggests that the Originators use the fourth quarter, which is traditionally a slower volume quarter, to look for new opportunities. Unlike other positions that pay annual bonuses at the end of the year or even in first quarter, Originators are paid monthly. They don't have an incentive to stay until those bonuses are paid.

Lenders interested in boosting Originator retention might consider including a portion of compensation that would be paid based on overall annual production. The promise of the payment of this "kicker" might be enough to keep Originators from shopping for new lenders during the holiday season.

PARTICIPATE IN THE 2018 ORIGINATOR CENSUS SURVEY

When you participate in an Origination Census Survey, you receive a report that includes 15 pages of individualized results. The 2017 survey is now closed but the 2018 survey that will cover 2017 results will open in January 2018.

If you are interested in learning more about the survey or would like to participate, contact originatorcensus@stratmorgroup.com or click here to register.

Speaking Borrower Satisfaction

STRATMOR **INSIGHTS**

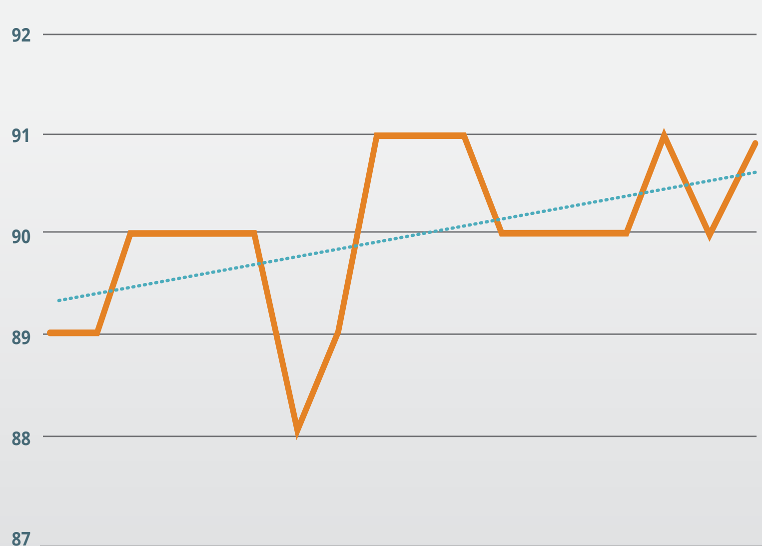
OVERVIEW

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 an 18-month period from June 2016 through November 2017.

18-Month Satisfaction History



	Jun, 2016	July, 2016	Aug, 2016	Sept, 2016	Oct, 2016	Nov, 2016	Dec, 2016	Jan, 2017	Feb, 2017	Mar, 2017	Apr, 2017	May, 2017	Jun, 2017	July, 2017	Aug, 2017	Sep, 2017	Oct, 2017	Nov, 2017
Satisfaction	89	89	90	90	90	90	88	89	91	91	91	90	90	90	90	91	91	91

MortgageSAT, November 2017 ©STRATMOR Group, 2017.

Borrower Satisfaction Dips Slightly in Late October

This month's chart shows a satisfaction score of 90 for October 2017, down one point from October's score of 91 reported in last month's issue of STRATMOR Insights. This change results from surveys covering October closings that are not received until November.

Since February 2017, borrower satisfaction has hovered between 90 and 91, including the peak-demand periods of the Spring and Summer months. We have speculated in the past about a possible borrower satisfaction wall or peak score beyond which it will be very difficult for any lender to achieve. The thinking here is that no matter how excellent a lender's service is, there will always be a percentage of borrowers who will be unhappy with their experience because they didn't qualify for the rate and term they expected, were annoyed by a request for additional information (even justifiable requests) or experienced one or more of the seven deadly lender sins[1] that "Just happen."

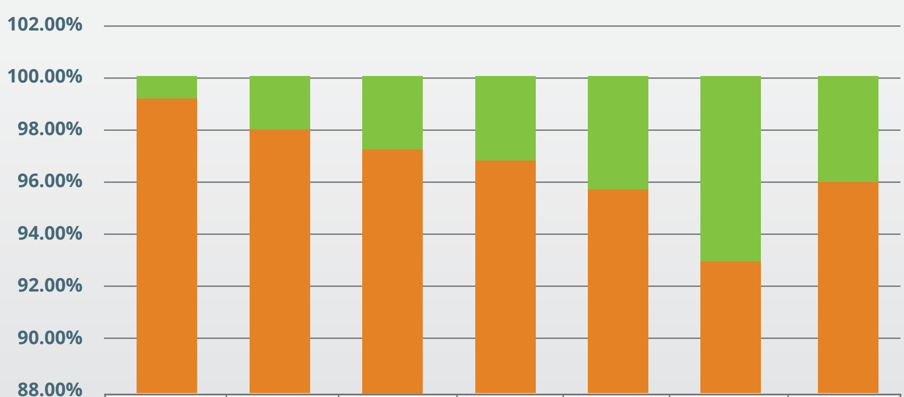
It will be interesting to see if the new wave of digital technology — embodied in the so-called "Digital Mortgage" — allows lenders to break through this possible satisfaction wall.

TOPIC OF THE MONTH — CHANNEL USAGE AND SATISFACTION BY AGE

Adding fuel to the question of whether younger borrower segments prefer LOs their own age, this month's Topic of the Month looks at usage of retail branches versus consumer direct call centers by borrowers in different age segments using 2017 year-to-date MortgageSAT data.

The chart below compares the proportion of MortgageSAT borrowers who originate their loan through a retail branch versus a consumer direct call center (CD). First, it should be said that the overall split in the chart below — 3.44 percent for CD, 96.56 percent retail branch — reflects the heavily retail branch orientation of MortgageSAT lenders and hence, is much lower than the CD share of the industry as a whole.

Channel Usage by Borrower Age Segment



	18-24	25-34	35-44	45-54	55-64	65 and older	All Ages
CD%	0.87%	1.90%	2.98%	3.79%	4.66%	7.21%	3.44%
Branch %	99.13%	98.10%	97.02%	96.21%	95.34%	92.79%	96.56%

MortgageSAT, November 2017 ©STRATMOR Group, 2017.

Nonetheless, it is clear that use of CD within the family of MortgageSAT lenders increases with borrower age, seemingly defying the expectation that older borrowers prefer the more personal relationship inherent in dealing with a retail branch LO. In fairness, it should be said that many retail LOs, like call center LOs, deal with borrowers by phone, never meeting face-to-face until possibly the closing if the LO chooses to show up. So too, the idea that younger borrower segments, for example, Millennials, prefer dealing with LOs their own age and transacting in a higher-tech way, is also brought into question.

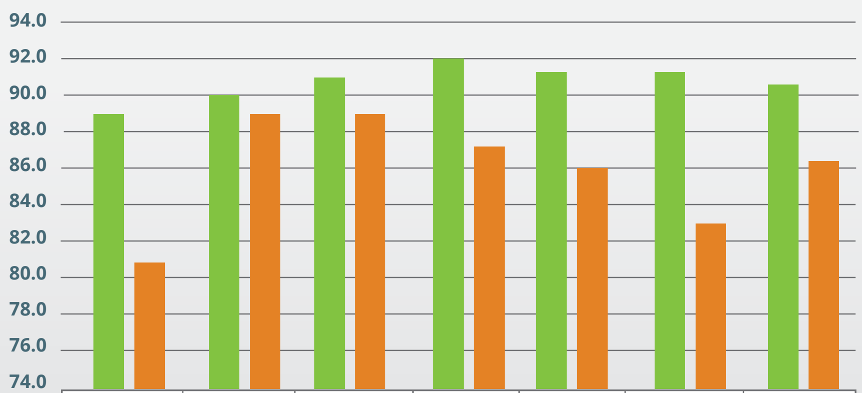
In terms of borrower satisfaction, MortgageSAT data clearly shows little variance in satisfaction by age within a channel, except for 18- to 24-year-olds and 65 and older borrowers getting their loan via Consumer Direct.

Speaking Borrower Satisfaction

CHANNEL USAGE AND SATISFACTION BY AGE

This suggests that first-time homebuyers (18 to 24-year-olds) have a higher satisfaction rating when they are in direct contact, and under the guidance of the originator, to help them through the process. Similarly, older borrowers also seem to prefer a more personal interaction with their originator versus a less personal on-line experience.

Satisfaction by Channel and Age



	18-24	25-34	35-44	45-54	55-64	65 and older	All Ages
Branch	89.0	90.0	91.0	92.0	91.0	91.0	90.8
CD	81.0	89.0	89.0	87.0	86.0	83.0	86.6

MortgageSAT, November 2017 ©STRATMOR Group, 2017.

The consistently lower satisfaction scores of the CD channel versus traditional retail branches — about a five-point difference on average across all age groups — is largely a result, we think, of the fact that call center LOs attend closings only four percent of the time. In fact, when a call center LO does attend a closing, the average borrower satisfaction score increases to 93.

Because call centers usual serve a widely dispersed geographic market, call center LOs will typically not be able to attend a closing. For local retail LOs, especially in a purchase loan environment, attending the closing is very important as they depend on Realtor referrals for leads; and Realtors are quite sensitive to the satisfaction of their clients with the lender to whom they have referred their client.

[1]See "The Seven Commandments for Achieving Borrower Satisfaction" in the June 2017 issue of the Insights report. ■

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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