FEATURING

THE STATE OF THE DIGITAL MORTGAGE

STRATMOR INSIGHTS

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WELCOME

Welcome to this first edition of *STRATMOR Insights*, a free monthly Report from STRATMOR Group that will provide you with interesting and useful information drawn from our survey products, programs and consulting experience.

Each month, you will receive an email containing a table of contents and synopsis of the topics contained in that month's Report. If a topic interests you, just click on it in the table of contents to view or download it.

Each month's Report will typically consist of 3 to 4 short data-driven sections plus a longer *In-Focus* article containing STRATMOR's perspective on a key industry issue or development. This month's In-Focus section is written by STRATMOR Senior Partner Garth Graham and takes a fresh look at the evolution and outlook for the Digital Mortgage.

The *Speaking Borrower Satisfaction* section will track a national index of borrower satisfaction based on monthly results flowing out of STRATMOR's MortgageSAT borrower satisfaction program. This section will also include a Topic of the Month that looks at a single interesting MortgageSAT result; this month discusses borrower satisfaction among Hispanics.

The *In the Spotlight* section presents select results obtained from our Spotlight Survey program. Spotlight conducts a mini-survey every other month on a hot industry topic or issue and aims to fill the information gap that senior mortgage executives often face when industry information is stale or simply not available. This month's section considers results obtained from our *Loan Originator Hiring Insights Survey*.

Similarly, the monthly Mortgage Metrics Matters section will present select results coming out of one of our major proprietary "Mortgage Metrics" surveys. This month covers interesting results from our 2015 *Originator Census Survey*.

Finally, from time to time, we expect to have a *Special Report* section that presents useful findings and insights coming out of our day-to-day consulting practices.

Our hope is that STRATMOR Insights will both delight and surprise you with the data and insights it presents and thereby earn a "must read" position amongst all the information that you receive.

Lisa Springer, CEO

STRATMOR
INSIGHTS

IN THIS ISSUE

THE STATE OF THE DIGITAL MORTGAGE

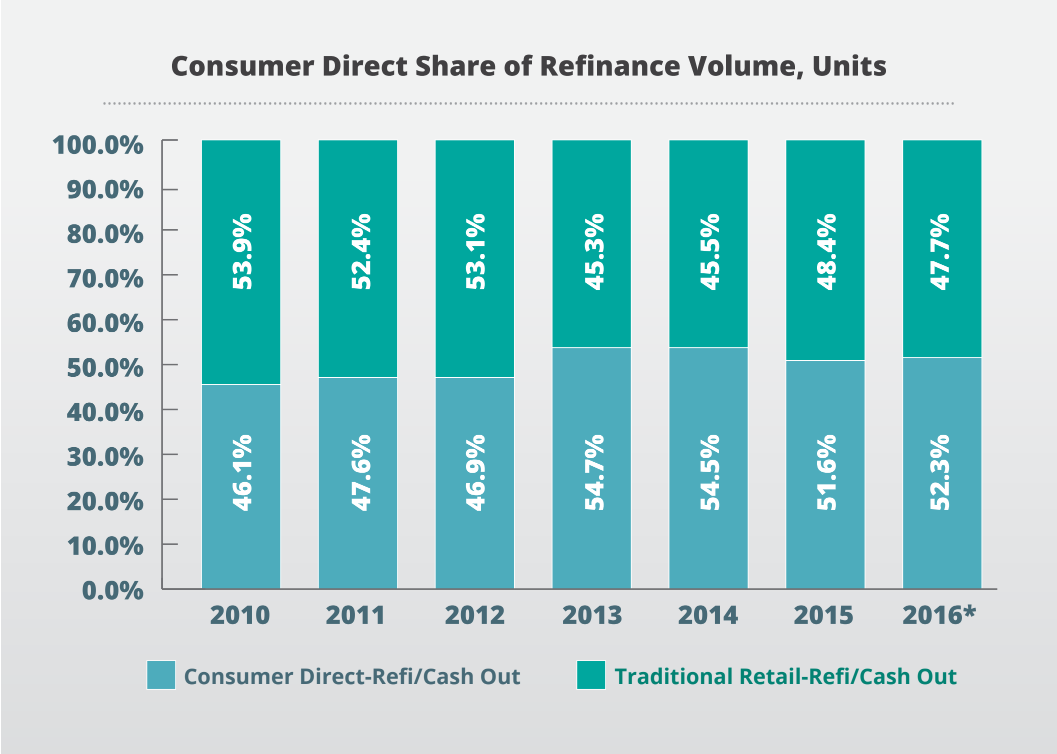
By Garth Graham

Roughly 20 years ago today, I was part of a team that started mortgage.com based on a vision that we could build a better process online, a process that would be more transparent to the customer, lower cost and much more scalable and efficient. At the time, our focus was on:

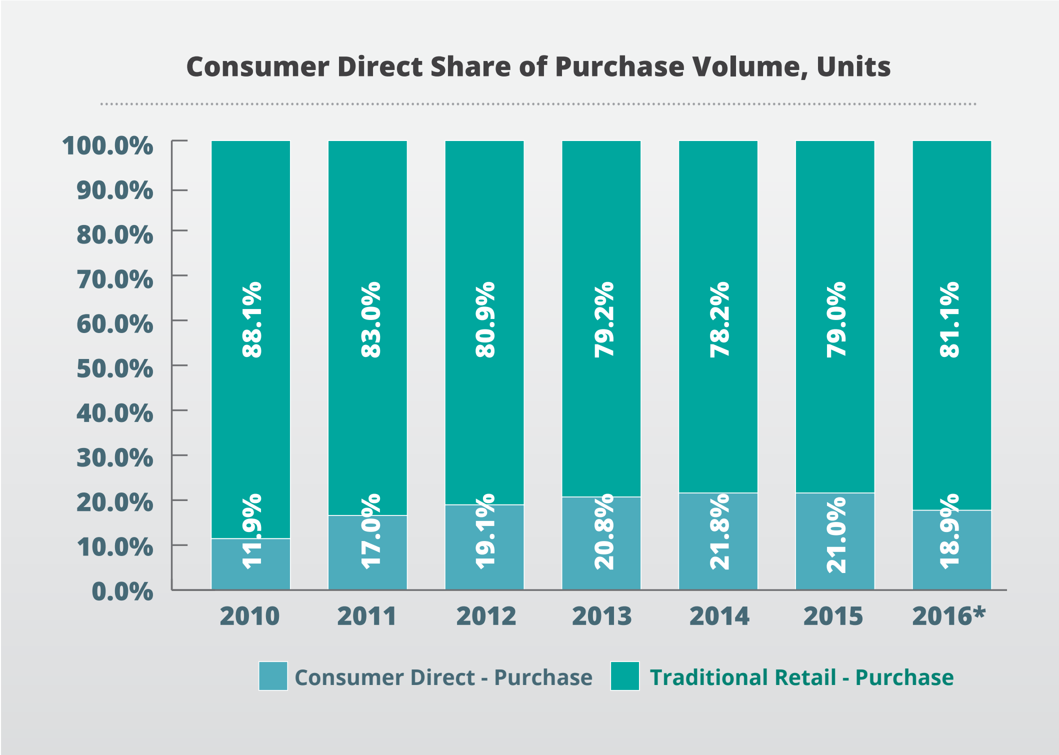
- Replacing much of the paper and documents demanded of borrowers with electronic capture of such documents from a variety of sources
- Moving the loan advisory and selection process to a call center where loan officer functions could be delivered in a consistent, controlled fashion supported by online decision tools

And 20 years later, this vision may finally be in sight. While mortgage.com is not around anymore – having been sold a couple of times since the first mortgage.com loan was originated in 1996 – online or direct lending is dramatically growing. This is evidenced by the data shown in the two charts on the next page that we recently shared at our Consumer Direct Workshop, attended by more than 40 industry leaders in the Consumer Direct space.

*Nearly **50% of refinance loans** are done through a call center – and call-center-based purchase lending has grown from **10% of units in 2010 to roughly 20% of units today**.*



*2016 data through May 2016



*2016 data through May 2016

These statistics often surprise people, but the careful reader may realize we are talking about *units*, not dollars.

What is the Digital Mortgage?

Today, the term "Digital Mortgage" has evolved to mean much more than just improving or digitizing point-of-sale and fulfillment functions. This evolution is being fueled by overall technology trends, including the growth of smart phones, high-speed internet and big data, which are creating new ways for borrowers and lenders to interact at virtually all points of the mortgage loan life cycle. This interaction includes functions both upstream of taking an application (lead generation) and downstream of closing (loan servicing and retention). So, what do I think the idea of the Digital Mortgage means now?

I believe there are three main features of the Digital Mortgage that lenders need to consider:

1. CONSUMER INTERACTION

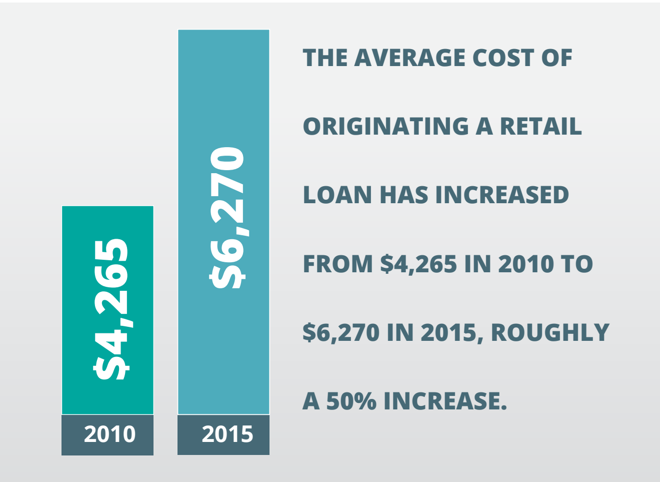
The first is the ability to interact with the consumer in whatever way they want and whenever they want to interact. This may seem obvious, but this is not how we have always done business. The traditional LO often tries to take the consumer OUT of the shopping cycle, and meet them face-to-face to complete a loan application. Call center businesses may try to drive everything to the web when really the customer might need more hand holding along the way, especially for a purchase deal.

The opportunity for the Digital Mortgage lender therefore is to be able to accommodate ALL borrower interactions – meaning the borrower can start online, call an LO, contact a call center, send a text, go back online, complete an application, get status pushed to him, then go back online to opt into a better verification process, then manage their status online, and then make their mortgage payments automatically to their servicer and get notifications when the payment is posted.

Now, you may be reading this and thinking: "That is a long sentence and it seems like Garth is going in circles." But that's exactly the point. The consumer IS going in circles, but if you have a communication and engagement plan across ALL of these touch points and contingencies then you are maximizing your ability to connect and convert a new customer or retain an existing borrower. And, in regards to loan origination, that process CAN and should include the retail originator, not just the call center. It's here that the best companies are figuring out a roadmap for Digital Mortgage that plays to their strengths and builds out their capabilities for the future.

2. AUTOMATED DATA VERIFICATION

The second part of the Digital Mortgage concept is getting data rather than documents to drive the verification process. The process of document "Stare and Compare" is old, dated and full of errors. It's also costly, and we have the data to prove it.



So, the idea that a dual monitor is advanced really demonstrates how much lack of advancement there actually is. Oooh, there's a document image on my left screen and my LOS data on my right screen!

It's far better to get source data directly and thereby skip the manual people-based verification process, meaning you can drive a better process that is faster and cheaper. You think being better, faster and cheaper is an impossible goal? Well, that is exactly what Uber has accomplished by creating a digital process to match drivers with riders.

So, imagine a process in which a consumer, very early in the process, logs into a consumer portal and authorizes the mortgage company to access their financial data directly from their bank account. That information is then captured and the borrower's new mortgage data record enters an aggregation phase in which additional information is captured, verified and then added to the record.

This model of computerized data exchange is already mature and available to our industry, and we are seeing adoption begin to rise by both direct lenders AND by retail lenders who are committed to a better process. Think here of Quicken's® "Rocket Mortgage℠." By using this approach, we eliminate the paper documents that previously carried this data. We also eliminate the human effort required to process that paper. We are left with only the data we require to manufacture the loan, which is all we ever wanted in the first place.

The bank accounts held by Americans today are already home to a surprisingly diverse set of consumer financial data. Information about automatic payments via ACH and automatic payroll deposits from employers can be used to automatically verify information that previously took time, third-party information providers, human vendor managers and expense. This same data set can also be analyzed with computer algorithms that can identify inconsistent deposits or other indications of risk that require further investigation.

3. PREDICTIVE LEAD GENERATION

The third part of the Digital Mortgage concept involves the opportunity in marketing, specifically lead generation. With a big data strategy, the home finance industry can use the information we have available to us — countless data elements — and sort and analyze through the hundreds of millions of people in the United States in an effort to predict or know in virtually real time which individuals will likely need a mortgage or are currently looking for a mortgage. Such knowledge will allow lenders to target their marketing directly to high-likelihood mortgage customers and build a relationship. Far from eliminating the LO from the equation, this approach allows front-line salespeople to reach out and build relationships with those borrowers most likely to be receptive.

Outlook for Digital Mortgage

Digital Mortgage processes can certainly make the "borrowing experience" much better for the borrower and less expensive and thus more profitable for the lender. But the real boost to the rise of the Digital Mortgage is going to be when it becomes the normal way of doing business with investors. And that time is coming. Fannie Mae® and Freddie Mac are both now working on approaches to accept direct processing and underwriting data feeds from vendors, to analyze that data, and to customize their AU findings based on what the data is saying. So, the industry could quickly evolve to where having such a direct data process will become the standard that the agencies expect, not just a process that consumers expect.

Despite what I see as the inevitable rise of Digital Mortgage processes over the next five years, many in the industry think that the digital mortgage or the online mortgage is not going to work, or will only work for a small subset of borrowers who can do it all on a self-service basis. In other words, not everyone will be able to ride a "Rocket" to close their loan without help.

Well, I agree, and so does Quicken Loans®. You see, Quicken is not just the purveyor of the Rocket Mortgage℠, they are also the largest direct mail lender in the industry, make more outbound phone calls than anyone else, and have a process to measure and always drive for higher levels of customer satisfaction. For Quicken, the Digital Mortgage is not just about self-service. Rather, it's a full service approach that recognizes the need to interact with borrowers in the multitude of ways that borrowers want.

Conclusions

We see, therefore, that the Digital Mortgage is about harnessing data and technology to generate better leads more efficiently, improving the ability of LOs to provide borrowers with sound advice, eliminating the paper-based gathering of processing and underwriting data and replacing it with direct electronic feeds from credible data sources and interacting with both prospective and existing borrowers in virtually any way they want at virtually every point of the mortgage loan life-cycle.

Innovation and leadership are not always about doing something totally different. It's sometimes just enough to recognize the inevitable and get out in front of it. I believe this view totally applies to the Digital Mortgage. Lenders that accept its inevitability and become early-implementers will competitively thrive. Lenders that don't will lose their competitiveness and decline. For me, that inevitable outcome just took 20 years to come around. To contact Garth Graham for more information, click here.

ORIGINATOR PERFORMANCE METRICS DRIVE VALUE

Insights from the STRATMOR ORIGINATOR CENSUS SURVEY

For years clients have asked STRATMOR, "What is the value of my mortgage company?" While the answer to that question depends on many factors, one of the biggest indicators of value is in the tenure and effectiveness of the Retail salesforce. Well-managed lenders know how much of their volume comes from the top producers, how turnover varies by production strata and the purchase mix of their own originators. However, there were no benchmarks to understand how their performance compared with peers.

It's important to know more than the performance metrics for your own originators – you must also know how their performance compared to your peers.

Knowing that there was a gap in the market for this critical data on a Retail salesforce, STRATMOR created and launched the *Originator Census Survey* in 2014. The latest set of results cover 2015 activity for 18 Independents and 15 Bank Owned or Affiliated mortgage companies – a total of 33 participants. The census collected information for 14,444 originators from companies with under 100 LOs to those with over 1,000.

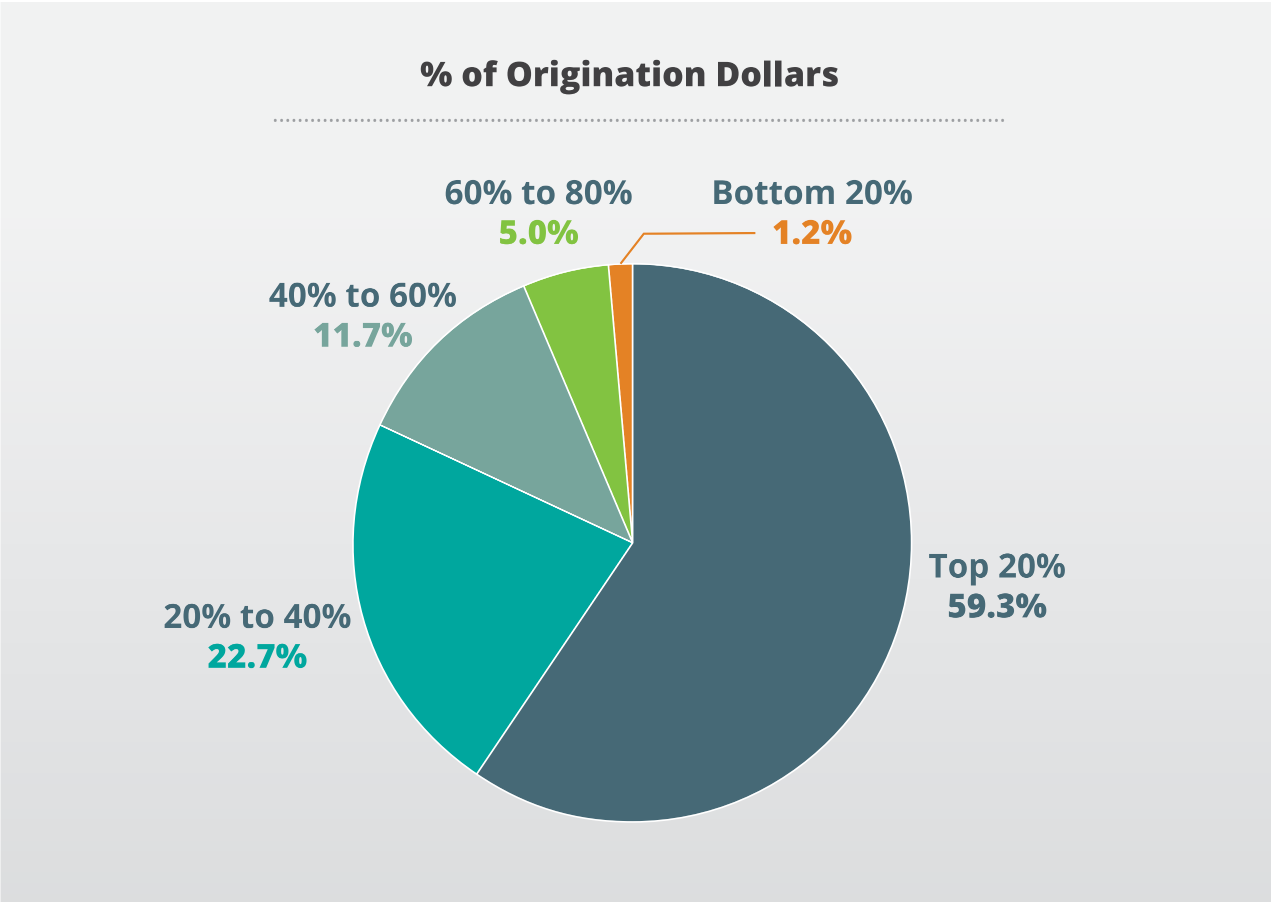
Excerpts From the Survey Results

The following are the results from a few of the key questions answered by the most recent *Originator Census Survey*:

Q **Does the 80/20 rule hold for Retail producers? Do the Top 20% of Originators produce 80% of the volume?**

A **Based on the responses, the answer is NO.**

- **The Top 20% of Originators originate roughly 60% of a company's volume.** This holds true across Company Type, Company Size and Operating Model.
- **To get to 80% of origination volume, lenders need production of the Top 40%.** A significant portion of lenders' volume is generated by less than half of their sales force.



Mortgage Metrics Matter

ORIGINATOR PERFORMANCE METRICS DRIVE VALUE

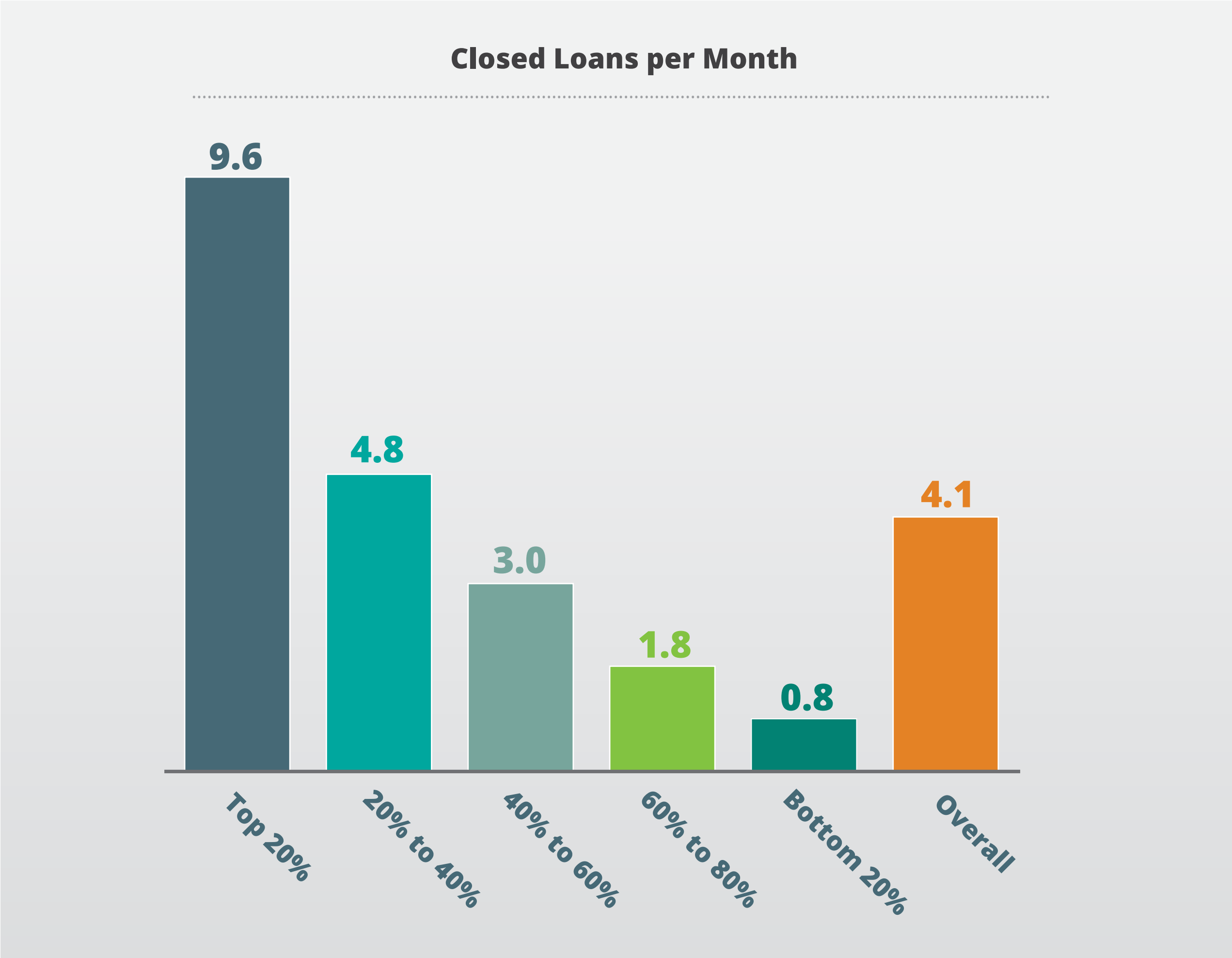
Q

How many more loans per month does a Top Producer originate versus one at the bottom? What about those in the middle?

A

The Top 20% produced more than twice the average and twice the unit production compared to the next tier (20%-40%).

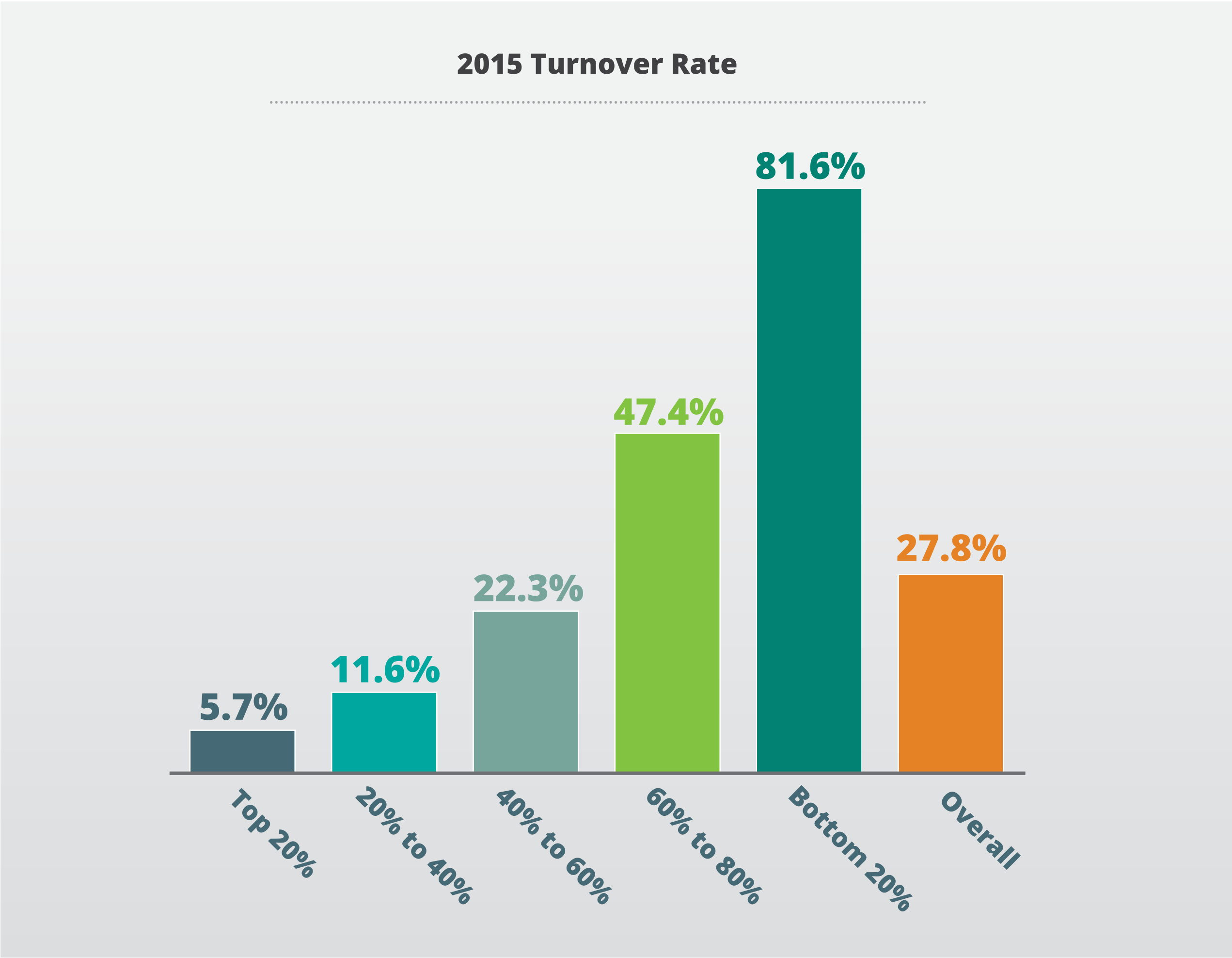
- **Overall, Originators booked 4.1 loans per month** or $9.6 million in annual production volume.
- **The Top 20% averaged 9.6 loans per month** for $28.4 million in annual production volume.



Q **Do my Top Producers turnover at the same rate as my Lower Producers?**

A **Based on the responses, the answer is NO. Lenders are able to retain the Top Producers. Given that the Top 20% are responsible for 60% of volume, the retention of these key sales people is critical.**

- **Turnover was only 5.7% for the Top 20% of Originators versus 28% for All Originators.**
- **The highest turnover is for the lowest producers with a turnover rate of 82%.**



If you are interested in learning more about the full data set collected in the *Originator Census Survey* or would like to participate when the survey opens again for 2015 data, click here.

LOAN ORIGINATOR HIRING INSIGHTS

Optimizing performance in today's mortgage marketplace requires attracting and retaining top talent. As shown in the data shared from the STRATMOR *Originator Census Survey* in this issue, top producing originators are critical to sustained growth and building value. STRATMOR's *Loan Originator Hiring Insights Survey* was designed to answer important questions about the recruitment process for loan originators.

Attracting and retaining top originator talent is critical for sustained growth and profitability.

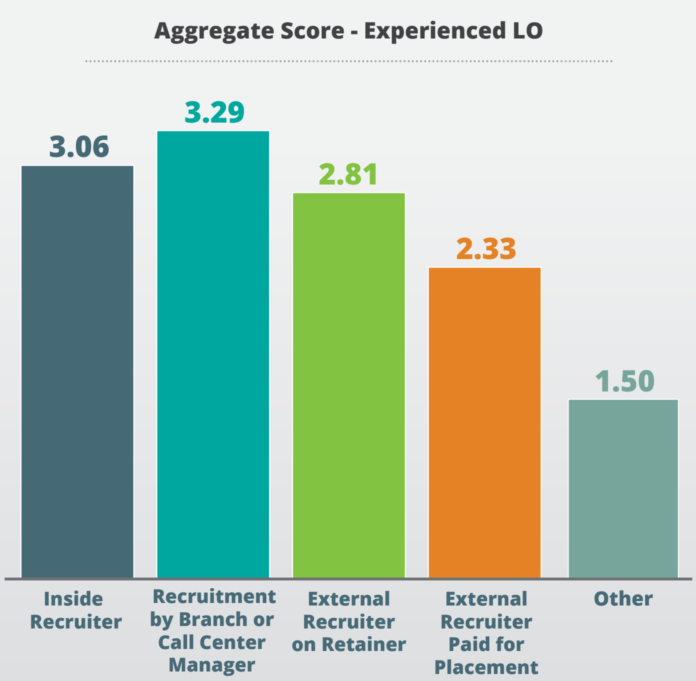
Excerpts From the Survey Results

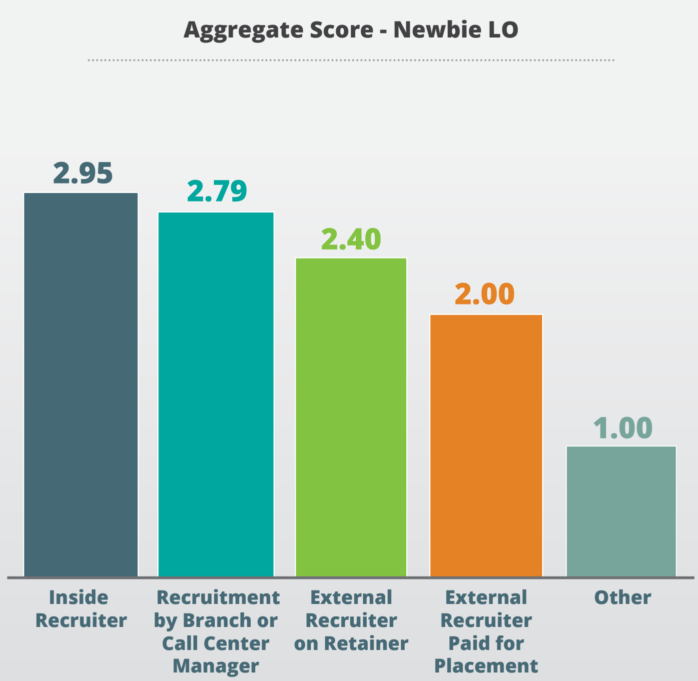
The *Loan Originator Hiring Insights Survey* was launched on April 15, 2016 and remained open until May 30, 2016. Responses were received from 43 unique lenders in this first survey.

Q **Using a 5-point scale where 1= Very Unsuccessful and 5 = Very Successful, respondents were asked to rate the effectiveness of various recruitment methods.**

A **The results indicated that recruitment effectiveness varied widely by recruitment resource and candidate experience level.**

- **Branch Managers scored highest (3.29) for recruiting Experienced LOs** (originators with more than 6-months experience as a retail LO).
- **Inside Recruiters scored the highest (2.95) for recruiting Newbie LOs** (originators with 6-months of less experience).

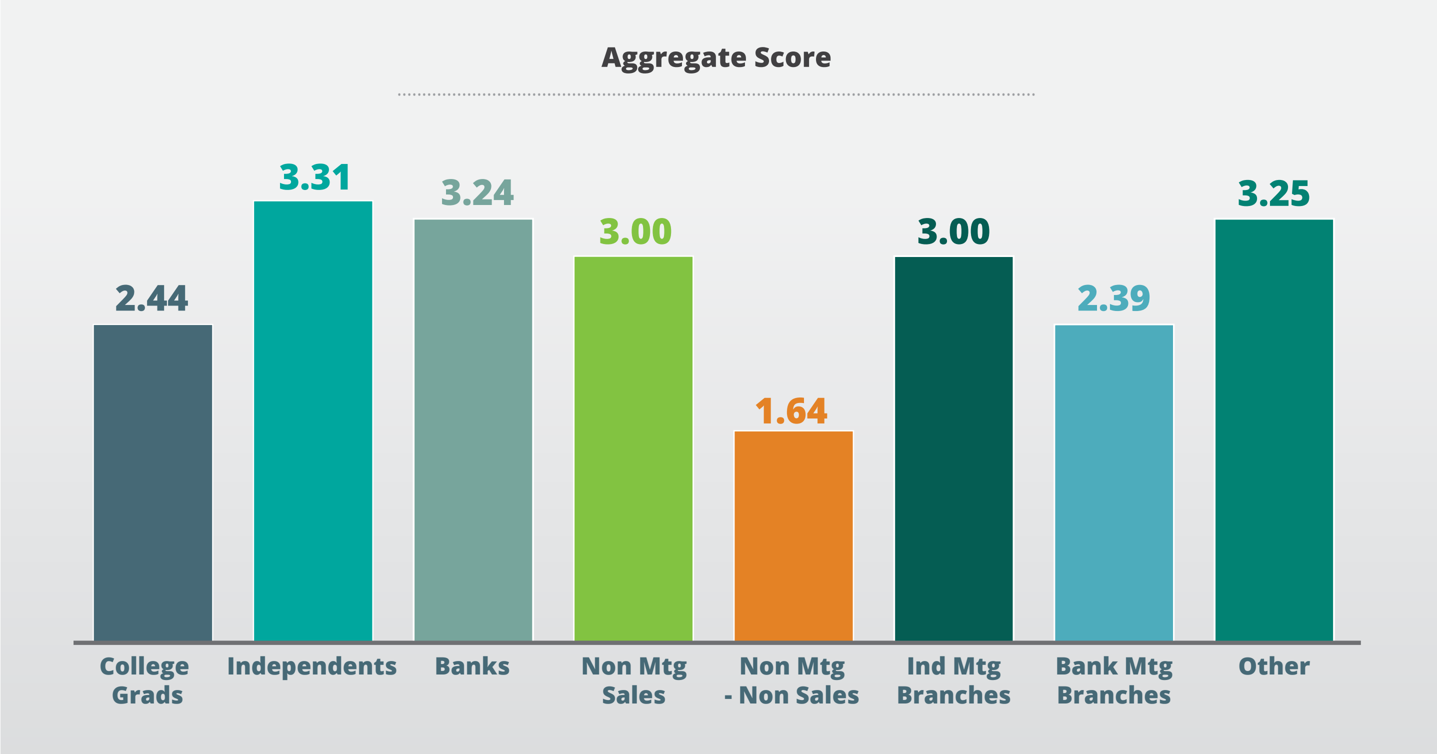




Q **Which recruitment sources are most likely to result in successful retail LOs?**

A **The results indicated that:**

- **Recruiting individual LOs from Independent (Score = 3.31) or Bank Owned mortgage companies (Score = 3.24) were rated the most effective.**
- **Recruiting Sales Professionals from outside the mortgage industry** was also ranked as an effective source of new LOs (Score = 3.00).
- **Recruiting whole branches from Independents was ranked as effective (Score = 3.00) but was less effective than recruiting individual LOs,** probably because when recruiting a branch you get wheat and chaff.



If you are interested in purchasing and downloading the complete results of the *Loan Originator Hiring Insights Survey*, click here.

Speaking Borrower Satisfaction

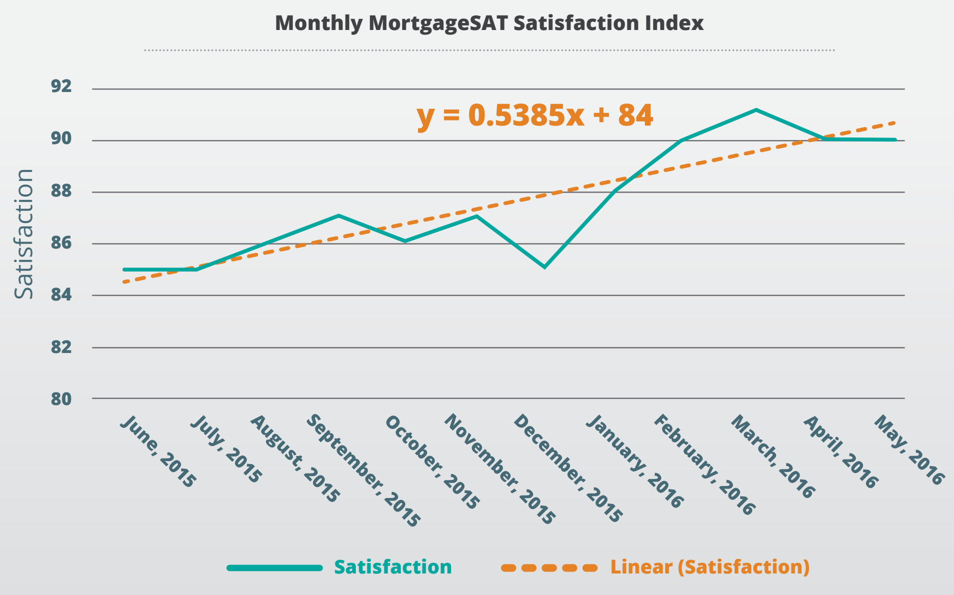
OVERVIEW

Each edition of STRATMOR Insights will contain a Speaking Borrower Satisfaction section containing a National Borrower Satisfaction Index plus a Topic of The Month, each of which will be 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 with the preceding month. The chart also includes an orange dashed best-fit linear trend line along with the equation for that line.

In the Chart below, we see from the equation for the orange dashed best-fit linear trend line, that from June 2015 through May 2016, **borrower satisfaction has on-average increased by 0.54 points per month.**



Two things about the results are particularly noteworthy:

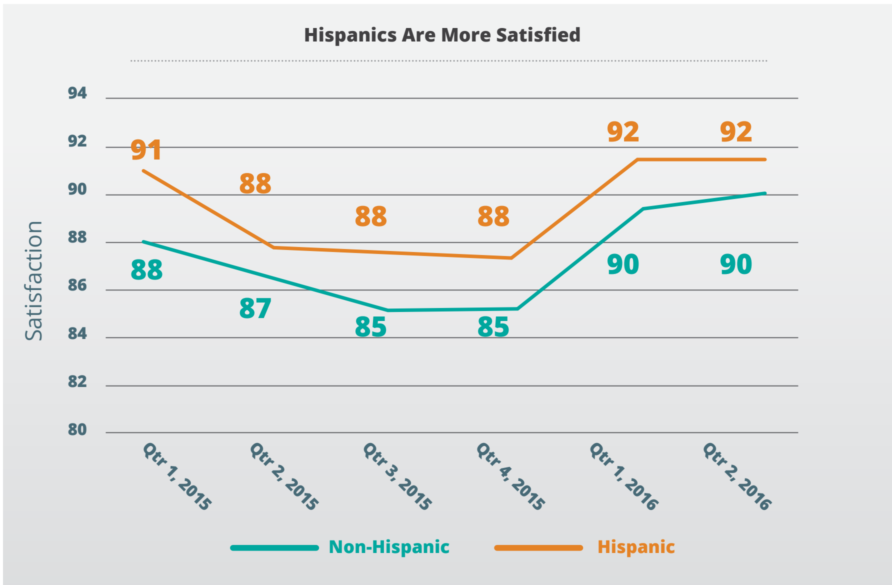
- Recent borrower satisfaction scores have been averaging about 90 out of a possible 100. This strikes us as remarkably high for a financial product with a complex process. It also runs contrary to the much maligned image of the industry.
- After remaining fairly level from June through December 2015, borrower satisfaction rose sharply during 1Q 2016 which, as we have noted elsewhere in industry media, was just when the new TRID closing disclosure requirements came into effect.

Speaking Borrower Satisfaction

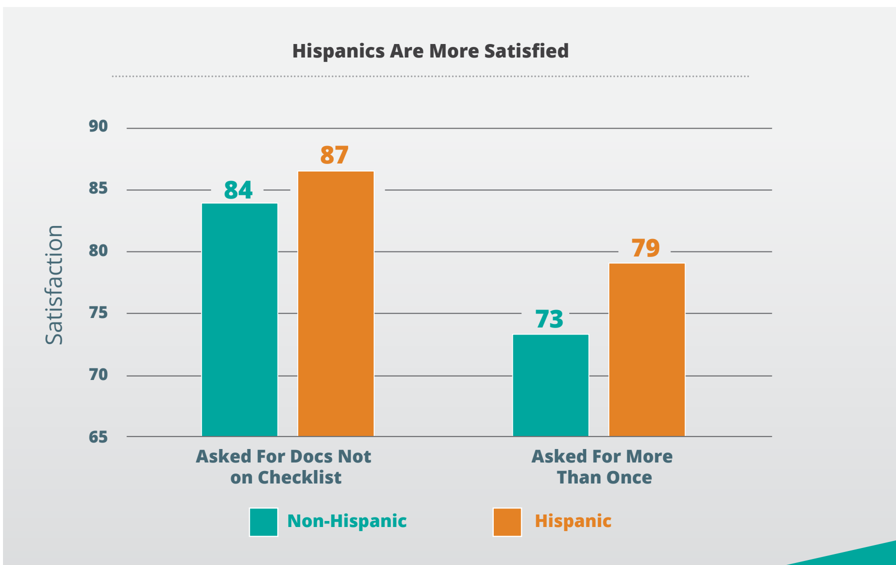
TOPIC OF THE MONTH: HISPANIC BORROWERS

TOPIC OF THE MONTH: *Borrower Satisfaction Among HISPANICS*

An analysis of *MortgageSAT Borrower Satisfaction Survey* data broken out by demographic criteria shows clear separation in satisfaction levels between Hispanic and non-Hispanic borrowers.



FINDING #1:
Hispanic borrowers tend to be more satisfied with the mortgage process overall.



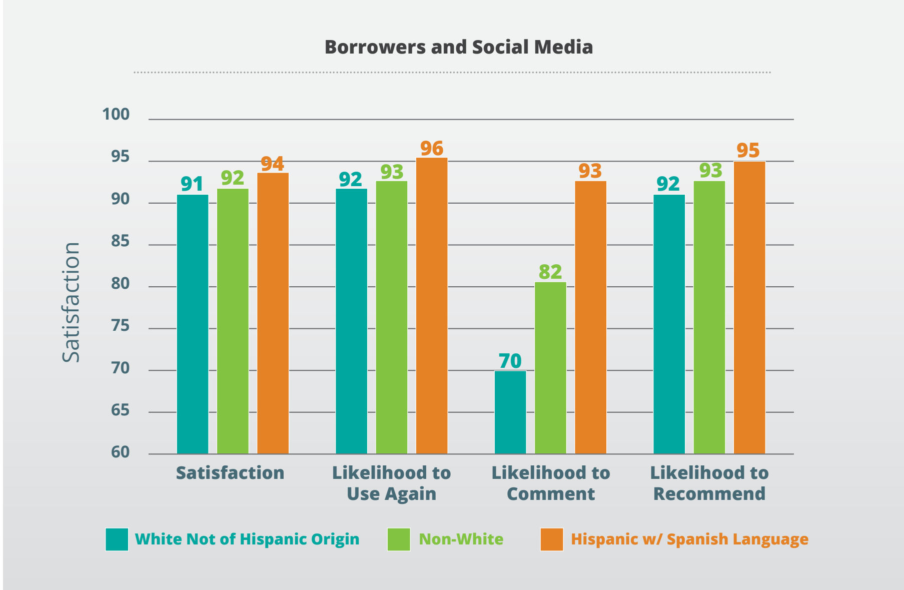
FINDING #2:
Hispanic borrowers remain more satisfied than the non-Hispanic cohort even when there are hiccups in the loan origination process (e.g., asked for documents not on the checklist supplied by the lender, or asked for the same documents repeatedly).

Though not shown in the chart, Hispanic borrowers report fewer problems in the process than non-Hispanics.

Speaking Borrower Satisfaction

FOCUS OF THE MONTH: HISPANIC BORROWERS

FINDING #3:
Hispanics who were engaged in their own language were more likely to return to the lender again, recommend its services to friends/ family and comment on social media.



Among those borrowers who participated in the borrower satisfaction survey in the Spanish language, we again see satisfaction levels several points higher than the non-Hispanic white population. While offering a satisfaction survey in a borrower's native language is not the same as guiding that borrower through the entire origination process in that language, it does stand to reason that doing so can create much more satisfied, loyal and vocal customers.

Lenders with a significant presence in Spanish-speaking (and in other foreign language) markets would do well to consider the benefits of engaging their customer base in their own tongue. After all, an outspoken army of satisfied brand ambassadors is a goal worth striving for, in any language.

To learn more about *MortgageSAT Borrower Satisfaction Program*, click here.