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FEATURING

DIGITAL MORTGAGE: GROWTH STRATEGY OR TECHNOLOGY EXPENSE?

STRATMOR
INSIGHTS

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WELCOME

In a few weeks the MBA will hold its 2018 Technology Solutions Conference and Expo in Detroit, Michigan. Detroit's renaissance of the last decade is due in no small part to one of the mortgage community's giants — Quicken Loans — and owner Dan Gilbert. While many bemoaned the work that it would take to get the city back on its feet, Gilbert saw the opportunities for growth. The move of Quicken's headquarters to Detroit, along with thousands of employees, was a transformational moment for the city.

"Transformational" is the word that describes the focus of our lead story this month: **Digital Mortgage: Growth Strategy or Technology Expense?** Senior Partner Michael Grad addresses what lenders need to do to deploy Digital Mortgage as an actionable growth strategy that defeats competitors and, at the same time, transforms the customer experience. Michael is supported in his article with insight from Senior Partners Len Tichy and Garth Graham, both tireless advocates of the business-drives-technology approach to digital strategy development. This article could be a transformational moment for many lenders embracing digital mortgage this year.

In **Mortgage Metrics Matter**, Senior Partner Nicole Yung shares results from STRATMOR's Compensation Connection survey about what lenders are paying for compliance managers and analysts and the components of their incentive compensation. While compliance functions are not glamorous, they are critical for mortgage lenders, though personnel compensation typically receive relatively little attention.

Finally, in our newest section, **The Borrower Experience**, Senior Partner Matt Lind analyzes the impact on both borrower satisfaction and Net Promoter Scores when more than one of the Seven Commandments of Borrower Satisfaction are breached. It can be surprising how unforgiving borrowers are when basic rules for good service are failed.

If you're headed to the MBA Technology Conference, don't miss STRATMOR's own Garth Graham and his Sunday April 15 special session: "The Disruptive Possibilities of the Digital Evolution." It is sure to be a transformational discussion filled with "Garth-like" entertainment.

Lisa Springer, CEO

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DIGITAL MORTGAGE: GROWTH STRATEGY OR TECHNOLOGY EXPENSE?

By Michael Grad

Adopting sound digital solutions that support lenders growth strategies can be as transformative to the mortgage industry as Uber was in revolutionizing the transportation industry and Amazon was in transforming the supply chain. For lenders to effectively grow and scale, a well-executed digital strategy should greatly improve the customer experience, streamline the loan manufacturing process, and when done in a compliant manner, will ultimately drive increased market share. Realizing the investment in a digital strategy for rapid growth requires lenders and their executive leadership team to ask each other this question:

How do I deploy an actionable growth strategy that crushes my competitors and, at the same time, transforms the customer experience?

Recently, I was asked to meet with a lender who was seeking advice about their game plan and to provide recommendations on their "Digital Mortgage" implementation plan and team structure. This lender also hoped we could help them identify any obstacles that might keep them from meeting the vendor-promised, three-to four-month implementation schedule for their new loan origination system.

I'm the guy that brought the wet blanket to the party.

First, a pragmatic, voice-of-the-customer, fact-based "digital" strategy is far more comprehensive than selecting and implementing a loan origination system (LOS) and Point of Sale system (POS). STRATMOR has participated in many strategic initiatives in the last few years in which lenders have heard the call to embrace "Digital Mortgage" as "Get a new, automated LOS."

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In-Focus

DIGITAL MORTGAGE: GROWTH STRATEGY OR TECHNOLOGY EXPENSE?

As an industry, we've approached digital from this perspective, allowing technology to drive business instead of setting business strategy that drives our technology choices. Our industry needs to move towards digital as the catalyst for growth, not as a reason to install new technology.

STRATMOR Senior Partner Len Tichy says that, "Purchasing new technology without a growth strategy that re-imagines the business from a 'customer focused' perspective is simply deploying new software with little to no ROI benefit."

In our engagements, STRATMOR advocates a holistic approach to "going digital" that begins with a well-designed business strategy and comprehensive implementation plan to support it that is driven by achieving operational results and improving the customer experience. In this article, we'll share the foundational concepts of our approach: Design a business strategy that incorporates a customer-first attitude focused on performance improvement and on optimizing distinct competitive advantages. In short, crush the customer experience with superior execution and you'll also crush your competition.

Current Industry Overview

Timeline and deadlines are needful elements of any project, but what often sends strategy initiatives into a ditch is the technology providers (internal and vendors) pushing to get their platform up and running as quickly as possible to expedite their ability to recognize revenue. Without the right process design, stakeholder commitment, execution and adoption, it's understandable why so many implementations have either failed or didn't fully realize ROI opportunities. At some point in the launch process, the technology providers' needs trump the business' needs on the belief that this will be a streamlined implementation (less-than-six-months). When, in fact, there is no holistic plan/methodology to deliver.

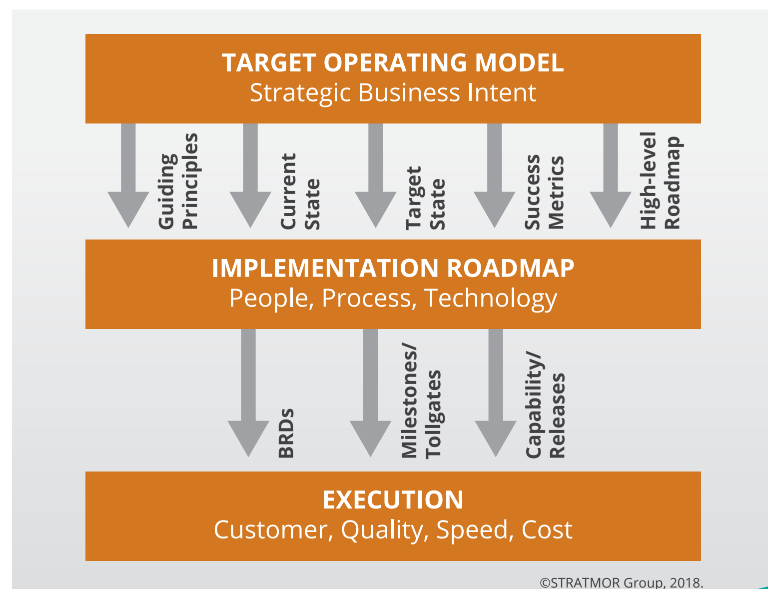
Some years ago, Len Tichy wrote an article for Mortgage Banking magazine in which he drew attention to how widespread IT project failure was, saying, "... we know that while there are firms that have enjoyed successful large-scale technology implementations, there are many more that have not. Stories and rumors abound about the more spectacular failures."

So here we are.

What the lender should really be asking is, "How do I gain/steal market share? How do I grow at the expense of my competitors while, at the same time, dramatically improving my customer's experience?

It all starts with strong stakeholder commitment and the ability for the lender to clearly identify:

- Vision, mission and guiding principles
- Short and long-term growth targets
- Game changing competitive advantages
- Voice of the customer
- Success metrics



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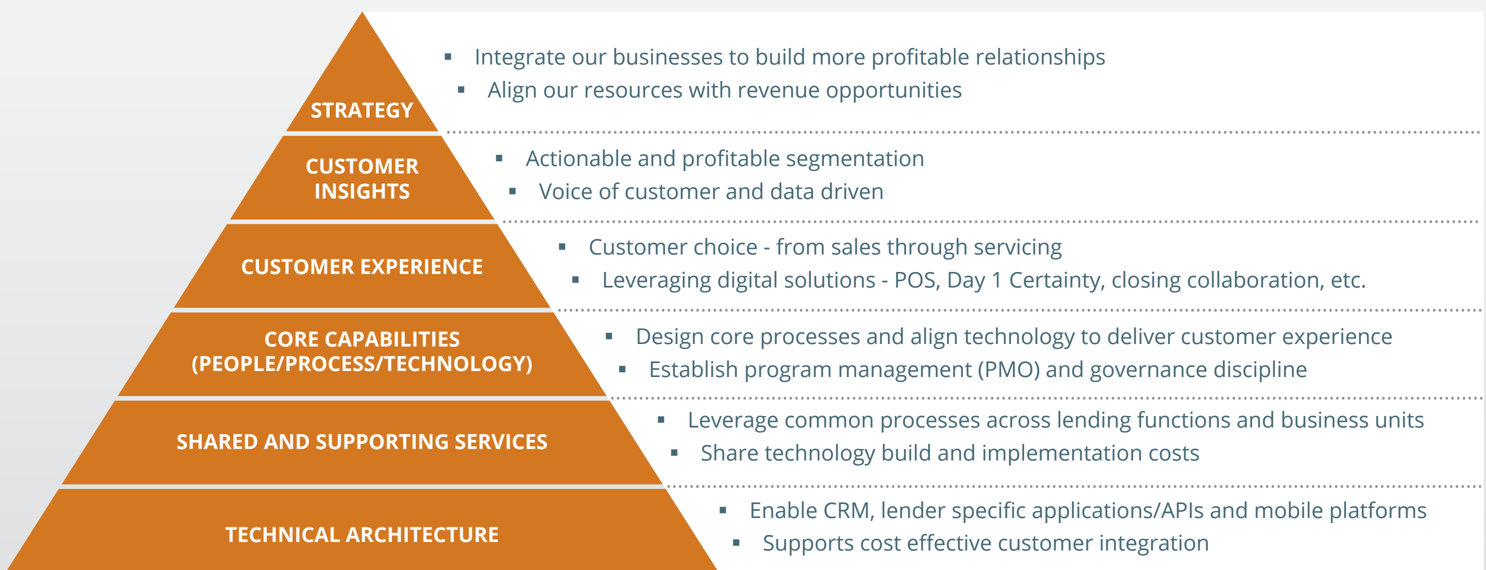
This is the challenge. How can we change the mortgage executive mindset to transition from IT tactics to growth strategy? From a digital strategy dependent on technology to a strategy committed to the achievement of growth objectives (which may or may not include technology changes)?

STRATMOR's Recommended Approach: Start with a Target Operating Model (TOM)

STRATMOR believes in a top-down, customer-first strategy that drives core capabilities and processes that are supported by an enabling technology infrastructure. We use a Target Operating Model as our foundation — the TOM model below illustrates how to optimally create a "desired state" growth strategy that clearly identifies growth opportunities, incorporates customer insights, and drives core capabilities and processes supported by an enabling technology infrastructure. Not the other way around. Technology should not be the driver of your business strategy but a primary ***Enabler***.



Improve the Customer Experience

At the core of growing our market share is our customer, the mortgage loan borrower. These customers are the same people who work all day on laptops, use Amazon Prime to order toothpaste, use their phones to buy movie tickets and who have voice-activated, virtual digital assistants in their homes that answer questions and play music on command. They order everything from books to food through online services, and they expect to do so without ever talking to another human being.

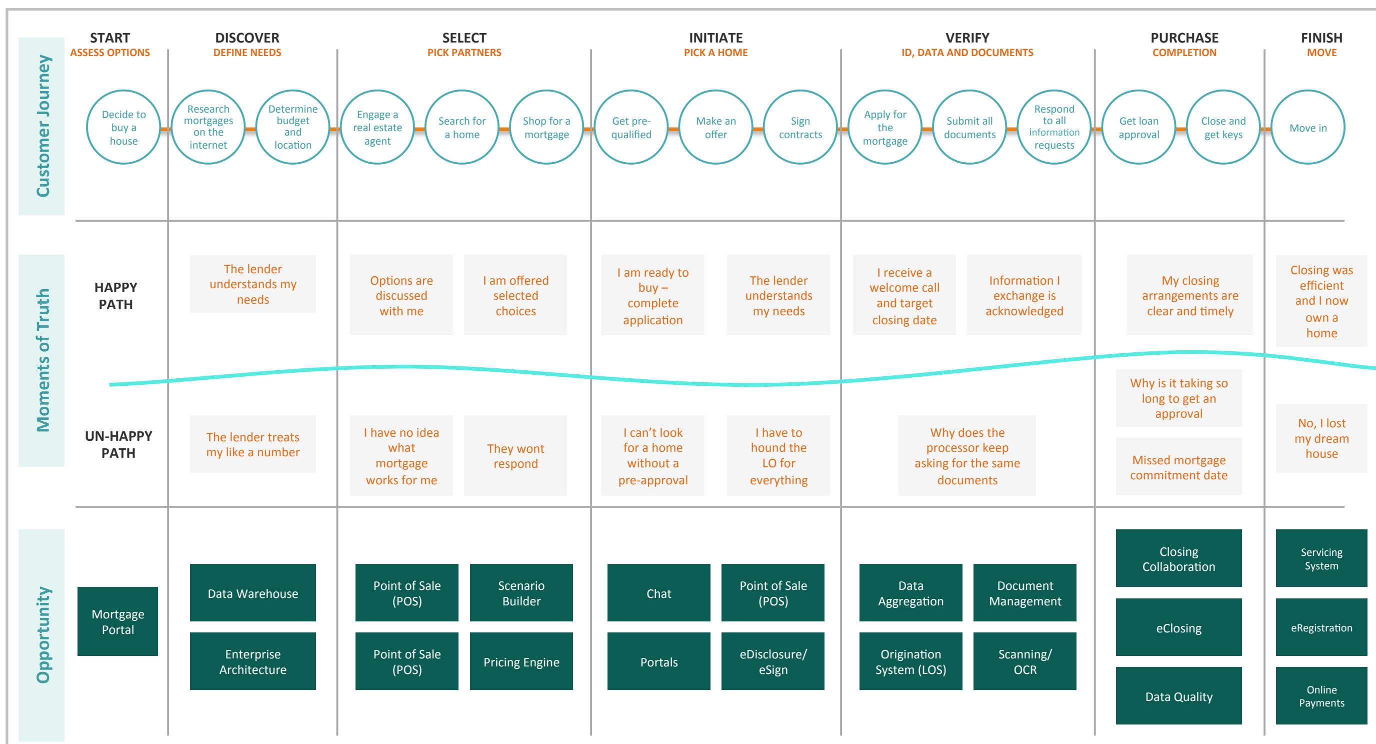
They expect their mortgage experience to be just as quick, and just as easy. Hence the term "digital."

"For too long, the mortgage industry has focused first and foremost on the metrics and operational details of the back-office transaction. But, in today's world where start up disrupters and incumbent market leaders alike are doing everything they can to make it easy for the customer to buy from them, lenders, too, need to be much more focused on the customer (borrower) experience," says Tichy. "A digital strategy is not an IT strategy. It's a customer focused business strategy that means having a customer-first mentality and culture. Then the lender uses technology to enable that strategy." Enabling technology is defined as:

- Online without device or usage limitations
- Automated to eliminate the need for manual intervention
- Real-time — 24/7 and response time measured in milliseconds
- Easy-to-use, and meets the customer's needs by bringing important information forward

The example below illustrates the customer's journey, from a customer's view. The lender has opportunities to greatly enhance the experience for the customer and enable a dramatically reduced cycle time through improved operations.

Note: The dips in blue line depict gaps in the process that negatively impact the borrower's experience.



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By following this path, lenders can strategically focus on staffing issues such as recruitment and training, process improvements, and potential technology solutions to fill these gaps.

Strategy Reimagined

Now, re-imagine the business with the voice of the customer in mind and an understanding of your key business drivers.

Whether your overarching business driver is customer experience, cycle time, cost per loan, profitability, revenue growth, or anything else, you must prioritize two to three of these drivers to guide your path forward. Accordingly, you must define the TOM and core processes down to a level of detail that can drive truly robust business requirements for your growth strategy. In my view, the lender who drives cycle time as low as possible generally wins.

Once your business drivers are locked in and you are committed to your target operating model, you can make day-in, day-out tradeoffs on features, functionalities and costs as you implement your strategy. You have only so many levers to pull.

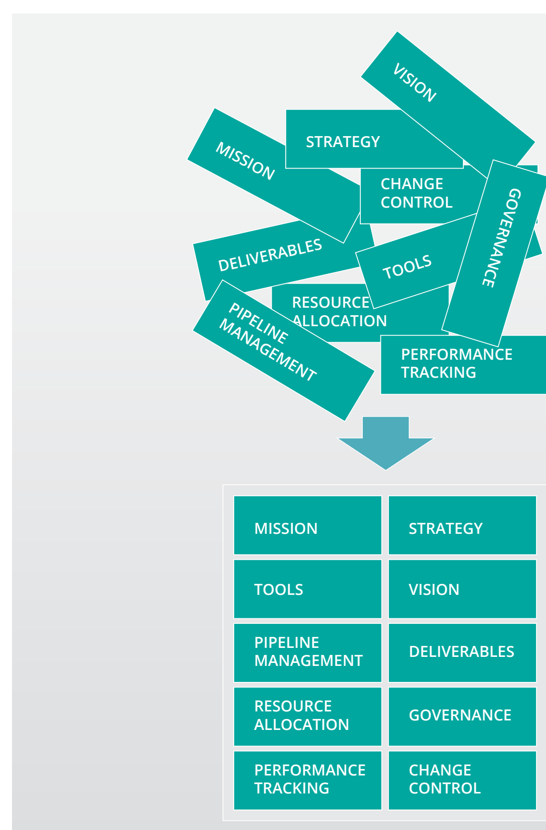
For example, when reviewing a digital mortgage implementation roadmap, maybe you'll let go of some of the whiz bang stuff on the pricing engine because you know that your old pricing engine works, and you know the cost to integrate isn't that much because you know your standard map and your processes. So, you decide to do something different timewise — save the three months of work and push the whiz bang stuff to the next release.

What a TOM and business drivers provide is a governance framework that can be the tie breaker and keep leadership and the project team(s) focused on the next deliverable, not wandering around saying 'I'd like to add this" and end up spending months trying to determine whether something requested is a priority and therefore, in or out of scope.

You don't have to go through the digital transformation alone. Most mortgage companies would benefit from having help developing and implementing a digital strategy. Remember, this strategic advice is not coming from a technology vendor (although they are a key player and at the table). You need an outside advisor, someone who is focused on your interests, your whole strategy and not on doing a matchup of your strategy to their technology.

We recommend finding a seasoned mortgage consulting firm who has disciplined, rigorous program management and technology implementation methodology, and that will roll up their sleeves and work beside you to get the work done like we do with our clients. This team should be able to facilitate a strategy and high-level design workshop that is a non-evasive, quick, high-value-added work session to get you and your leadership team aligned to the program being implemented. This team should also engage with your leadership team so everyone is on the same page and set a date to get started.

Depending on the size and scope of the release plan/IT roadmap, it will take six to nine months to get a new digital mortgage system running and people trained. Less complex system changes will be closer to six months; for larger, enterprise integration releases there may be one at nine months, the next at 12, then another at 18 and so on, depending on the complexity of the company (e.g. size, number of channels, distributed or central fulfillment, etc.). Don't let the vendor convince you otherwise.



DIGITAL MORTGAGE: GROWTH STRATEGY OR TECHNOLOGY EXPENSE?

Our Senior Partner Garth Graham is an industry digital icon. He advocates that lenders want clarity of vision and expect their "digital" strategy and corresponding solutions to also be future proof.

"Everyone is talking about Digital Mortgage, and they often call us seeking advice on how to become 'more digital,' " says Graham. "Often the lenders think it's as easy as picking a product — such as a new Point of Sale system — and that will make them 'digital.' However, I have observed that that many lenders struggle with a clear sense of the problem they are trying to solve with technology, beyond the general idea of 'making the mortgage process better.' I think it's important to understand the "why" before prescribing the "how." Lenders should take the time to define the business case for any investments they are planning. Without a very specific business case, it is difficult to generate the additional revenue or lower expenses to the level necessary to generate a return on investment in new technology. This is what leaders should demand — that they know why they are doing this and what they will get out of a successful project."

The Challenge Ahead

In the end, the two biggest challenges to successfully implementing a growth strategy are the leader and change itself. There must be a commitment by the executive and the leadership team to holistic — people, process, technology — change. The executive must walk the talk — will the company have to change incentive plans to make this work? Are you trying to break the old culture mold and do things a new way? Then model the behavior you're asking of your people.

The toughest challenge is changing the processes, and getting people to adopt the changes.

For that staff resource who has been doing something on the current system for years (often decades) in a culture that rewards firefighting and heroism over efficiencies and results, that person will have to give up their "Save the Day" glory role and adopt a process that actually runs smoother based on exceptions. Your new team will not rely on firefighters who earned their stripes and were promoted and paid and bonused for being good firefighters. Now you're going to ask these people to be pro-active leaders. This is a completely different model, and many people are not comfortable making the switch.

Adoption, ultimately, is the key to the success of any transformational change. Some will make it. Some will not. And, the leader must say to the team, "Look around you, 20 percent of you will not be here when this project ends." The message needs to be communicated to the team, and some cultures are just that blunt — others more diplomatic. Regardless of how it's said, the sponsor and executive committee need to communicate that we need this type of change. And then, the leaders need to lead the change.

WE WELCOME YOUR FEEDBACK

Would you like to talk about your strategy for growth? Contact Michael Grad at: michael.grad@stratmorgroup.com. ■

COMPENSATION CONNECTION

Determining compensation amounts and structure is fundamental to ensuring that your organization hires, motivates and retains the best talent while simultaneously controlling costs and justifying compensation to your stakeholders.

In our consulting practice, STRATMOR often works with companies to not only determine the correct split of compensation between base salary and incentives, but also to guide the company through the process of finding the right balance of incentive plan components that will provide fair compensation to the executives and employees and encourage the right behaviors to deliver superior results to the company.

While most of the energy around compensation plans is focused on Originators, there are many other key positions within any mortgage company. Compliance, as an example, is critical for mortgage companies but little attention is typically focused on how compliance personnel are compensated, especially in terms of bonus structures geared toward company objectives. STRATMOR's Compensation Connection closes this gap via a Production Support module that includes market results for key support positions, including Compliance Managers and Compliance Analysts.

Select Results from Compensation Connection

Q **What are companies paying for Compliance Managers and Analysts?**

A **Based on STRATMOR's 2017 results, Compliance Managers are paid, on average, $95,000 annually and a Compliance Analyst averaged approximately $60,000 for the same period. In our study, total compensation includes base salary, overtime and incentive pay.**

In talking about compensation, most people think of the average as the "market" rate. At STRATMOR, we look at average compensation; however, we believe there are other statistics that are equally important. For each position in STRATMOR Compensation Connection, participant lenders are provided reports showing not only the average, but also the median and a range of percentiles for each component of compensation. This helps lenders understand the variation in compensation levels, including highs and lows for a given position.

For the Compliance positions, the median and average are similar, which indicates that "market" compensation is concentrated at these levels. If there are significant outliers at either the top or bottom of the ranges, there will be a large difference between median and average.

For Compliance Managers, compensation ranged from a low of approximately $71,000 to $134,000. This is a fairly large range and the variance can be due to geography, span of control, tenure and individual qualifications. However, as noted above, the median and average are similar at $95,000, which is a true mid-point for compensation for this position.

	Total Cash Compensation					
	Bottom 10%	Bottom Quartile	Median	Top Quartile	Top 10%	Average
Compliance Manager	$70,993	$75,542	$95,292	$106,647	$133,980	$95,504
Compliance Analyst	$44,564	$49,363	$58,449	$66,559	$80,816	$59,951

STRATMOR Compensation Connection Survey, 2017. ©STRATMOR Group, 2018.

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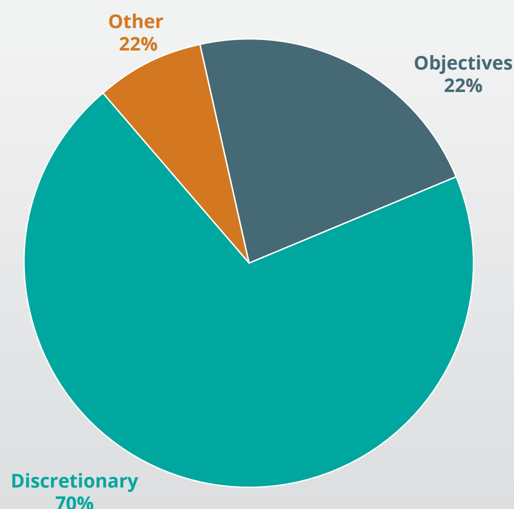
Q **What are the most common components of Compliance incentive compensation?**

A **The majority of Compliance Managers (75 percent) were paid some incentive in 2016. This incentive made up approximately 10 percent of overall compensation. So, if the average compensation for this position was $95,000, then the incentive represented $9,500. Unlike sales positions or fulfillment positions that are closer to the loan, incentives for Compliance Managers are not based on volumes. Instead the incentives are primarily discretionary awards (70 percent) and based on the achievement of objectives (22 percent).**

The incentives for Compliance Analysts are even more heavily weighted to discretionary awards (82 percent). However, these incentives make up less than three percent of total compensation. For a Compliance Analyst who averages $60,000 in total compensation, only $1,600, on average, is incentive based. The questions then are: "How important is this role, and, as such, do we have the right rewards program in place to be commensurate with our risk management objectives?"

Compliance Manager



STRATMOR Compensation Connection Survey, 2017. ©STRATMOR Group, 2018.

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Making the Compensation Connection

Since 2010, STRATMOR Compensation Connection has provided valuable insights into what mortgage lenders are paying for critical positions and how compensation is structured. We gather data from across the industry through our Compensation Connection Survey, and then we report the details on what loan officers, processors, underwriters and key executives are being paid — and we analyze their compensation structure and benefit packages.

As an incentive to participate in the survey, STRATMOR provides participants with a customized summary report comparing the participant's company data to industry averages. We also offer the survey in modules to allow participants to select the area or areas for which they are providing information:

- Executive Management
- Retail Sales (Head of Production to Loan Officers)
- Consumer Direct Sales
- Fulfillment (All Channels)
- Production Support

We are recruiting participants for our 2018 Compensation Connection Survey, which covers compensation for the full year of 2017. If you are interested in participating in the survey, or would like to learn more about the Compensation Connection Survey Report, visit our website or email Nicole.Yung@stratmorgroup.com.

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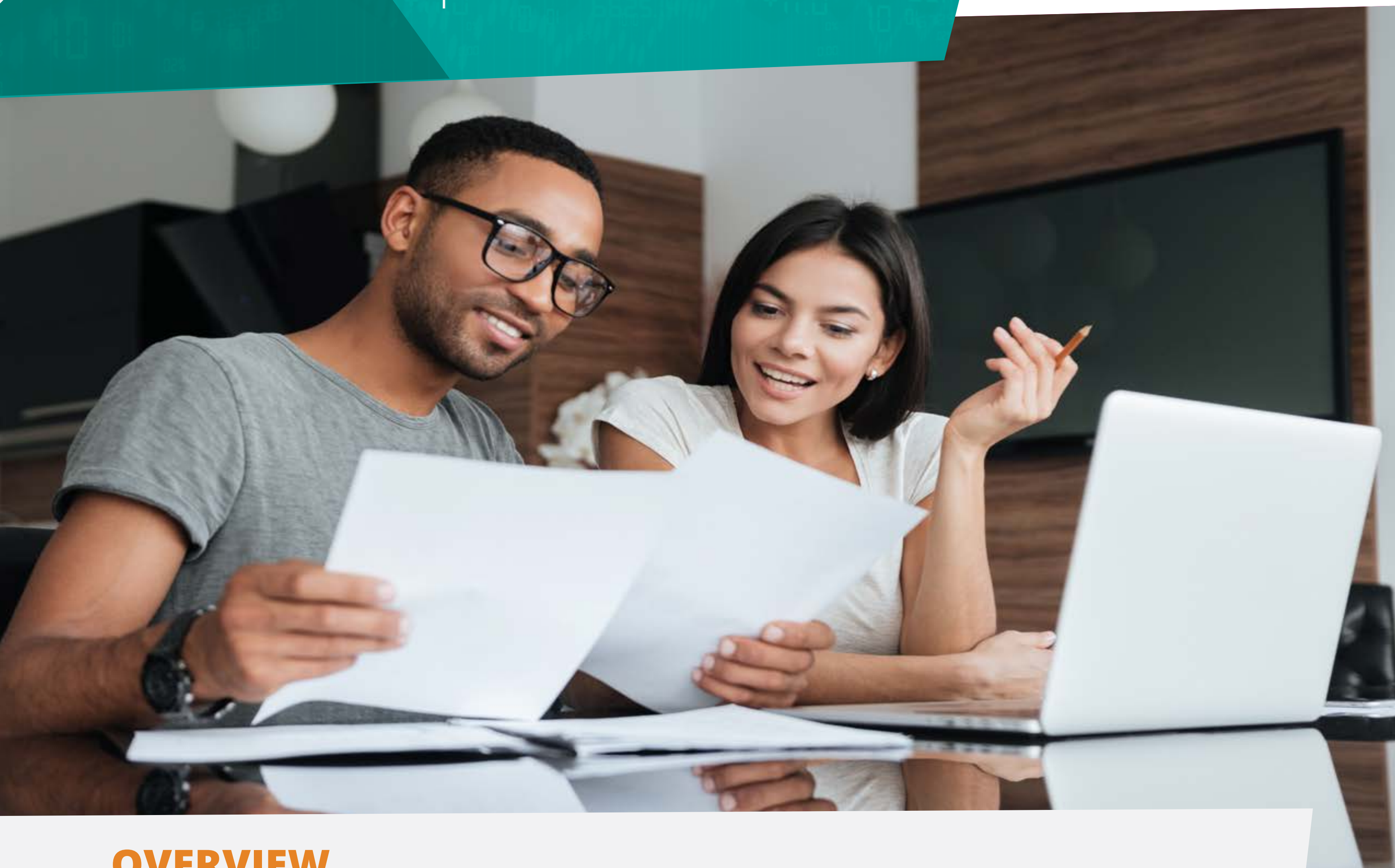

OVERVIEW

In "The Seven Commandments for Achieving Borrower Satisfaction," Senior Partner Garth Graham identifies the key components of the borrower experience which, if not done well by the lender, result in a sharp drop in borrower satisfaction.

The loan officer carries the primary responsibility in fulfilling the commandments, which are:

COMMANDMENT 1: Provide the borrower with an upfront checklist of the information they will need to provide.

COMMANDMENT 2: Contact the borrower well before the closing.

COMMANDMENT 3: Avoid asking the borrower to provide a document already provided.

COMMANDMENT 4: Be proactive about keeping borrowers informed about status.

COMMANDMENT 5: Close loans in the expected time frame.

COMMANDMENT 6: When problems arise, make every possible effort to resolve them.

COMMANDMENT 7: Start the closing on time.

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Chart 1 below, for example, illustrates the big hit to borrower satisfaction that results if the LO fails just Commandment 1.

Chart 1

MortgageSAT, February 2018 ©STRATMOR Group, 2018.

But what happens if the loan officer fails multiple commandments?

Using full-year 2017 MortgageSAT data, Chart 2 illustrates what happens to the aggregate Overall Satisfaction (on a scale of 1 to 100) and the Net Promoter Score (NPS) as the number of commandments breached increases, starting from zero and running up to six breaches in the order listed above (but excluding Commandment 6).

Chart 2

MortgageSAT, February 2018 ©STRATMOR Group, 2018.

Table 1 below further breaks down Overall Satisfaction and NPS scores as the number of failed commandments increases. In this chart, when normalized to 100 borrowers, the NPS score equals the number of borrowers registering an individual Overall Satisfaction score of 9-10 on a 1 to 10 scale — "promoters" — minus the number of borrowers registering an individual Overall Satisfaction score of 1-6 — "detractors."

Table 1

# Commandments Failed/Breached	Individual Satisfaction 1 - 6	Individual Satisfaction 7 -8	Individual Satisfaction 9 - 10	NPS	Overall Satisfaction
0	6	9	84	78	90
1	48	22	30	(18)	53
2	59	21	20	(40)	44
3	82	12	6	(76)	25
4	88	9	3	(85)	20
5	94	5	2	(92)	13
6	94	4	2	(92)	11

MortgageSAT, February 2018 ©STRATMOR Group, 2018.

What the Numbers Show

As commandments are breached, both Overall Satisfaction and NPS drop sharply.

When no commandments are breached:

- Overall Satisfaction = 90
- NPS = 78 (84 minus 6)

When just one commandment is breached:

The number of borrowers out of 100 who register a Satisfaction Score of 9-10 falls from 84 to 30, and the number who register a Satisfaction Score of 1-6 increases from 6 to 48, resulting in an NPS score of negative (18) — 30 minus 48.

In effect, out of every 100 borrowers, only 30 can now be expected to sing your praises while 48 will give you a "thumbs down."

When two commandments are breached:

- The number of borrowers out of 100 who register a Satisfaction Score of 9-10 falls from 30 to 20 and the number who register a Satisfaction Score of 1-6 increases from 48 to 59, resulting in an NPS score of (40) — approximately 20 minus 59.

When more than two commandments are breached:

- Scores continue to decline, with Overall Satisfaction and NPS reaching plus 11 and (92) respectively when six commandments are failed. Note that at this extreme, 94 out of 100 borrowers are detractors, a horrible situation.

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Particularly startling in these results is how sharply NPS drops after just one breach, dropping from plus 78 to negative (18). Where purchase loans are involved, real estate agents look for happy customers, and it doesn't take too many unhappy purchase borrowers to "sour the well" of real estate agent referrals for an LO and the lender. A single breach may be one breach too many.

What's a Lender to Do?

The performance or behavior of the LO is common to each commandment and, likely, an LO who consistently fails to provide the borrower with something as basic as an upfront checklist is more likely to fail one or more of the other commandments. Consider the following for improving the borrower's experience with your team:

- **Pay attention to the borrower's feedback.** Many lenders do borrower satisfaction surveys but fail to effectively use the information gathered, or don't ask the types of questions that could help them better manage the people, processes and technology involved. STRATMOR MortgageSAT lenders have real time access to borrower reviews and scores at the individual employee level and can react quickly to negative comments and scores. Consider adding MortgageSAT to your toolkit, and if you use a survey service to gather borrower feedback, use it as a management tool, not just as a source of good PR.
- **Be proactive** — train and train again. Set up your loan officers and back office personnel with the right training and tools that will help them provide outstanding service to the borrower. Provide ongoing training for all on improving the borrower's experience and individual training for LOs struggling with specific service issues.
- **Be brave, be kind, and say goodbye.** Some people are just not cut out to be loan officers, and you may have one that is not attuned to providing exceptional customer service. If you cannot correct poor service behavior, releasing the individuals involved may be the best path to help maintain your team's high service standards and your company's reputation.

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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