FEATURING

WHAT LENDERS SAY: TOP OF MIND TOPICS IN 2017

STRATMOR *INSIGHTS*

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WELCOME

It was hard to keep pace at this year's Annual MBA Conference in Denver, which was in my back yard. STRATMOR had numerous substantive back-to-back meetings with lenders and vendors, some looking for specific assistance; others picking our brains on one topic or another; and many, just wanting to talk about their situation and the concerns they have regarding our current business environment.

Against this backdrop, we thought it would be a good idea to distill what we heard and opine about these topics in this month's *In-Focus* feature article. We also include feedback gathered in the PGR: MBA and STRATMOR Fall Peer Group Meetings, where large bank and independent lenders shared their concerns about the market. Ultimately, the biggest lender concern: "Where is the volume that we expected?" If you share these concerns, this *In-Focus* article is for you.

Next, in our *Mortgage Metrics Matter* section, we present some preview results from our newly-released 2017 Technology Insight Survey. Specifically, we note an interesting shift in lender priorities and, in addition, aggregated data on the overall user experience. Although this is not new, the level of lenders' dissatisfaction with their current LOS continues to amaze. In this survey's third year, however, we are starting to see vendors step up and listen to this feedback. Satisfaction overall, rose three percent based on our new survey results. This is a trend that STRATMOR hopes to see continue into 2018.

Finally, in the Topic of the Month in our *Speaking Borrower Satisfaction* section, we look at more ways to improve borrower satisfaction. Specifically, we focus on borrowers who are purchasing a newly-constructed home and how important it is for lenders to advise the borrowers up-front that they will likely need to provide documentation more than once if the original closing date is significantly delayed. So simple for lenders to do and, if overlooked, can create a negative impact on the borrower's overall experience.

I hope this issue gives you good food for thought and that you had a Happy Thanksgiving!

Lisa Springer, CEO

STRATMOR
INSIGHTS

IN THIS ISSUE

WHAT LENDERS SAY: TOP OF MIND TOPICS IN 2017

By Dr. Matt Lind

Every year, STRATMOR talks to hundreds of industry professionals, both lenders and vendors. As unique as each individual and each company is, they often share similar concerns and asked related questions about our industry.

STRATMOR Insights asked our principals and partners to address the common topics that are "top of mind" with mortgage industry leaders, particularly those we met with during the recent MBA Annual Convention in Denver, Colorado. After STRATMOR's many meetings at this event, and including our ongoing engagement activities, four issues stood out: **Housing Inventory, The Market, Growth,** and **Technology**. In this article, we share STRATMOR's perspective on each of these topics.

Housing Inventory

Lack of inventory is currently the biggest concern in the housing market and has been for all of 2017. And, lenders are asking: "What is at the root of the shortage that is restraining the purchase market?"

"This is the big question the MBA has been working on, and it is a difficult one to answer," says Senior Partner Jeff Babcock. "One partial explanation is that, with home values rising as fast as they are, the incentive to sell your home in order to move-up is watered down by the fact that you then have to go out and replace it at a high-cost, not to mention the possibility of a higher mortgage interest rate. Conversely, sellers looking to downsize — think empty nesters and retirees — may simply delay selling if they think they can get a substantially higher price by waiting six months or a year. But the real issue — and the concern — is that no one sees any economic forces that will change this situation soon.

"The housing shortage is an ongoing problem, and this has a direct impact on the purchase market. We aren't getting back to a $2 trillion market any time soon," says Babcock. "Lack of growth in the purchase market is going to constrain volume and we're more like a $1.6 to $1.7 trillion market as opposed to $1.8 to $2 trillion in 2018."

In their third quarter 2017 report, The National Association of Realtors® showed home prices climbed and sales declined. Single-family home prices in the third quarter increased in 92 percent of 177 metropolitan areas, and the NAR noted the pace of new listings was unable to replace what was quickly sold.

"Basically, there is a mismatch between the nature of the housing inventory available versus demand," says Senior Partner, Jim Cameron. "In certain locations, the high-end market is soft — there is less demand, more supply and prices are not appreciating as quickly. Moderately priced homes — they're flying off the market.

"Especially in certain areas of the country, builders struggle because they can't profitably price and sell their low-to-moderately valued inventory," says Cameron. "The fixed cost of starting a new home of any size pushes the cost up for the builder, who says, 'I can't make money on a $150,000 home so I have to do $350,000 plus to be profitable.' This limits supply of houses in the more moderately-priced range and makes it tough for the upcoming Millennial market and first-time home buyers in general to buy a home."

The two demographics that lenders point to as having the greatest impact on the inventory issue: **Baby Boomers and Millennials**.

Says Babcock, "Baby Boomers are aging in place, saying 'I don't want to move. I have a low rate mortgage. I have roots. Sure, my house is too big, but what I might gain financially by selling may not be worth the personal give-ups.' "

According to the NAR, 85 percent of Baby Boomers say they have no plans to sell in the next year and homeownership among Boomers is at 78 percent. If they don't sell, others can't buy and they don't sell for the same reasons Millennial borrowers can't buy: supply, price and the nature of the existing housing stock. With more than 83 million Millennials (born 1982 to 2000) and 75.4 million boomers (born 1946 to 1964), the two groups are bound to keep bumping in to each other in the housing market.

"Research shows Millennials aspire to home ownership but aren't as willing to buy in the suburbs or exurbs as earlier generations," says Senior Partner Garth Graham. "So even if builders build in these areas, first-time homebuyers aren't necessarily buying. Until there are homes to buy that they want, Boomers will stay in their homes and the Millennials will continue to rent."

The Market

In a word: flat.

"With the lack of growth in the purchase market constraining volume, the margin compression that lenders experience in a flat market is widespread," says Babcock. "Different regions seem to be experiencing it at different levels, and it's more pronounced in some markets than others. Still, we're hearing lenders say, 'We'll compensate for the falloff in the market because of the recruiting we're doing or have done.' Everyone thinks they are going to steal share or that they are going to hold flat. Very few believe they will actually shrink.

"Lenders really need to look at the reality of how challenging the market will be next year," says Babcock. The MBA says the market will be down 6 percent in 2018, after being down 17 percent in 2017, a total of roughly 22-23 percent down over 2016. The questions lenders should be asking are: 'How much should we be downsizing to lower costs in line with anticipated lower volume?' What can we do to increase our share of a smaller market?'"

One risk few lenders seem concerned about is an acceleration in CFPB enforcement in 2018. Babcock hopes lenders will not let the January 1, 2018 HMDA change slip beneath the radar. "As one lender pointed out, HMDA will be able to look at Fair Lending violations via data at both a loan officer and a loan level," says Babcock. "Lenders should recognize that it will be easier for the CFPB to use big data and develop algorithms to look for Fair Lending violations."

A regional issue with national impact is the lack of competitive Jumbo pricing. Babcock says the domination of this market segment by a just a few large banks affects business in the West, Mid-Atlantic and Northeast regions most, but is also a factor in Chicago, Minneapolis and Denver as well. Jumbo loans account for 10-plus percent of the market, and for many lenders in a shrinking market, that's business that is not there for them to begin with.

"A very large branch of a lender I talked with lost 40 Jumbos in the last year," says Babcock. "They took the app, did processing and then lost to a 'Big Bank' on pricing. When you're doing $400 million a year and the average Jumbo volume is often $40 million plus, that's 10 percent of your business. We're also hearing that lenders are losing loan officers as their originators are migrating to where they feel that they might have a better Jumbo product."

The issue of Jumbo loans is complicated by potential Federal income tax reforms currently being considered by Congress. Lowering the cap on mortgage interest deductions, adding caps to real estate tax deductions and eliminating state tax deductions will lower the prices of higher-end homes and therefore the demand for Jumbo loans, especially in metropolitan coastal markets where real estate and state taxes are typically much higher than national averages.

Growth

To make up for lost Refi production and lower purchase volume, lenders are looking at a variety of ways to "grow through it." According to the MBA and STRATMOR Peer Group Roundtable (PGR) data, large lenders are interested in growing through acquisition and leveraging their mortgage factories to backfill lost production efficiently. Sales force quality and productivity are the biggest drivers in the acquisition picture.

"Give me a sales force with long tenure, that's purchase-loan driven, and has good, well-distributed sales results across the sales force and I'm good," says Cameron. "Getting the sales force to fire on all cylinders will put some big numbers on the board before going to market."

Entering new channels, offering new products, expanding into servicing and entering ancillary lines of business comprise other growth tactics being considered by many lenders. STRATMOR Principal Tom Finnegan says the overarching topics in his discussions with lenders focused on how to grow market share and improve or at least maintain profits in the face of an overall decline in market volume.

"Banks, in particular, are talking about ancillary lines of business that complement pure production," says Finnegan. "One bank I talked with is looking at expanding into warehouse lending as a complementary business. Many banks are thinking 'If we're not in a certain channel, should we be?' And a number of independents have expressed interest in doing reverse mortgages.

"If you were set up going into 2017 with above 80 percent purchase money business as a component of your overall production, then you are down a bit but not suffering in 2017," says Finnegan. "But if you went in lower, you have some ground to make up, and for those who have an opportunity to tap other channels or other sources of business from ancillary lines, that's what's on their minds."

As noted previously, reverse mortgages are also on the mind of many lenders. "We've been tracking the growing interest in HECM lending among traditional lenders for some time now," says Cameron. "The activity appears to be driven by a variety of factors, including favorable economic conditions and the growth in the HECM's core demographic. Baby Boomers are aging in place — staying in their homes — and lenders can add value by offering reverse mortgages as a financial planning alternative to this age group as they contemplate their financial plans for retirement." But FHA's recently announced losses on HECMs have hit the reserve fund very hard, and it is not yet clear how this will affect the future of the reverse channel.

Consumer Direct is also one of the most discussed growth opportunities among lenders this year.

"CD research shows that over the years, in addition to its large share of refinance production, CD units of purchase production have steadily grown," says Cameron. "CD works for both retention and acquisition of new customers, and lenders want to get better at it. They know that they need to play ball in the CD space or risk losing share. If you retain servicing, you need to have a good CD channel to be able to price competitively and maintain attractive production margins."

Among banks of varying size, Consumer Direct is considered strategically important. The techniques of digital mortgage are heavily utilized in CD. "When I talk channel expansion with banks, it's part of the mix," says Finnegan. "They're asking: 'Could I improve Consumer Direct and get to my non-mortgage customer base better?' Perhaps yes, if they have the channel but it isn't doing much right now. CD is on their minds, and the question is whether they can leverage it more effectively."

Technology

Technology is always on lenders minds and digital mortgage is where the conversation goes.

"Digital mortgage is the hot topic, including review of all the new solutions available. However, picking the right products are only part of the story," says Graham. "You also need to retool your processes and be sure your people are motivated and educated on the change to successfully leverage the new tools. A lot of lenders have begun to have the experience that just buying the product — the shining tool — without designing a process or having the right change management discipline in place will not lead to great results.

"Lenders have got to figure out how to pick digital mortgage solutions that can integrate into their sales and fulfillment operations, or lenders have to be good at integration themselves," says Graham. "All of these solutions might do one part of the process really well, but if it's not integrated with the other processes, it is very problematic."

Senior Partner Len Tichy says that lenders regularly share their LOS frustrations with him. He says lenders are feeling the challenge of managing increasing levels of complexity and risk in an information environment where dependence on third-party applications, services and data tightly integrated with the LOS is growing rapidly.

LOS vendors are migrating away from traditional proprietary LOS SDK's (Software Development Kits) toward more open API (Application Program Interface) strategies as their primary tool to enable systems integration and lender flexibility," says Tichy. "But for many LOS vendors and lenders, the implications of this new shift are not yet fully understood. For instance, who, exactly, will pay for API development and/or usage, and how much? Vendors are still trying to figure it out. Lenders also face effort and cost converting legacy SDK custom integrations to API."

Mastering the mechanics of API development (especially for smaller lender IT organizations) may require new technical skills to manage the API maintenance burden across many integrations. Assuring performance reliability and data integrity will require close collaboration among two or three entities to diagnose and cure problems when they arise.

Senior Partner Nicole Yung cites, "We just got the data from our latest 2017 Technology Insight Survey which notes that Customer Experience and Integrations have risen to the top the list of key technology developments that are important to lenders. This represents a significant shift in priorities as Compliance Tools, now rated fifth in importance, were the top concern in both our 2015 and 2016 studies. Integrations are the top concern for these lenders, followed closely by the inability to support customization and then poor customer support."

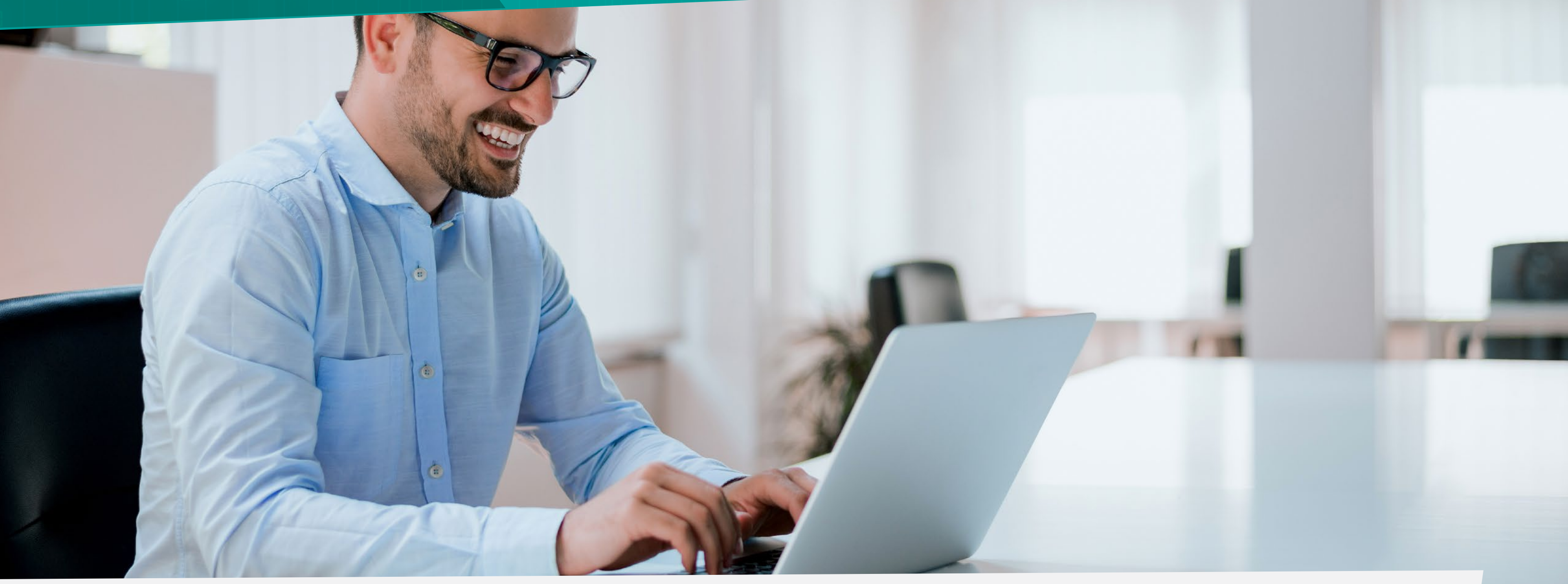
"Our industry is looking for something big, something disruptive," says Tichy. "This is a great time to be an aggressive lender that wants to grow and is willing to invest in innovative technologies and the internal talent needed to orchestrate innovation and overcome the inevitable challenges that come with it." The new STRATMOR Tech survey results are now available for purchase. Click this link for more information.

In Summary

STRATMOR's consultants see mortgage market that is likely to shrink near-term and cannot depend on the traditionally reliable drivers of longer-term growth, e.g., demographics, income growth, immigration, improved affordability, etc. In such a challenging go-forward business environment, we believe that the watchwords for success will be "stealing share" and improving the "borrower experience," both of which will require a combination of superior sales management and use of technology. And based on our recent large-lender PGR and MBA Annual Convention meetings, some lenders get-it, and many more don't.

WE WELCOME YOUR FEEDBACK

Would you like to talk with a STRATMOR team member about a "top of mind" topic? Contact us and we'll set up a time to talk with you.



LENDER LOS INSIGHTS

EXCERPTS FROM THE LOS TECHNOLOGY INSIGHT SURVEY

STRATMOR's 2017 LOS Technology Insight Survey (TIS) captures and consolidates incisive information provided by more than 200 lenders regarding commercial-off-the-shelf ("COTS") and proprietary Loan Origination Systems (LOS), the scope of available functionality they provide.

The 2017 LOS Report covers the following topics in addition to detailed lender feedback on 12 unique Loan Origination systems including satisfaction, user experience and a functionality assessment:

- LOS Market Share
- Overall Satisfaction
- User Experience
- Implementation Experience
- Expenditures
- Required Resources

The 2017 report also includes information regarding other mortgage technologies that work with an LOS throughout the process, such as:

- Document Preparation
- Lead Management/CRM
- Point of Sale
- Pricing Engine Software
- Fee Engines
- Closing Collaboration Software

PURCHASE THE SURVEY

For lenders who did not participate in the survey, the cost to purchase 2017 Report is $4,000 and can be purchased at https://www.stratmorprograms.com/2017TechInsight. Lenders who participated in the survey can purchase the report at a discounted price of $2,500. If you participated in the survey and do not have the participant code, contact us at technologyinsight@stratmorgroup.com.

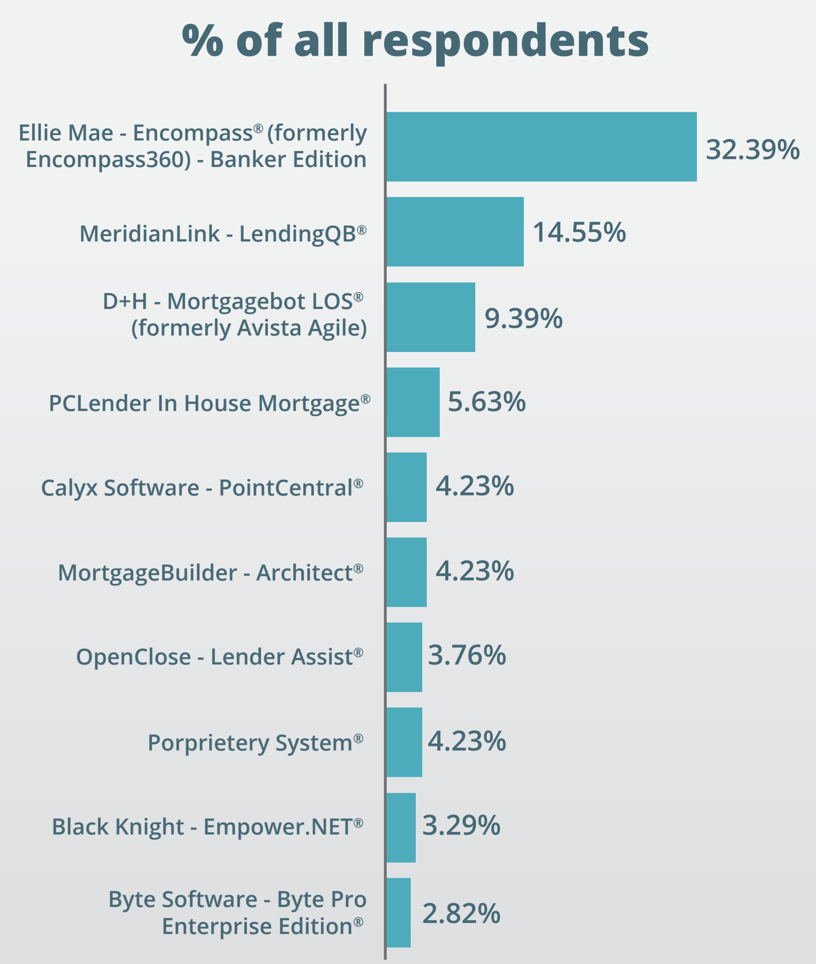
Mortgage Metrics Matter

LENDER LOS INSIGHTS

The following are select results from the 2017 LOS Technology Insight Survey.

Q **What are the top systems being used by lenders?**

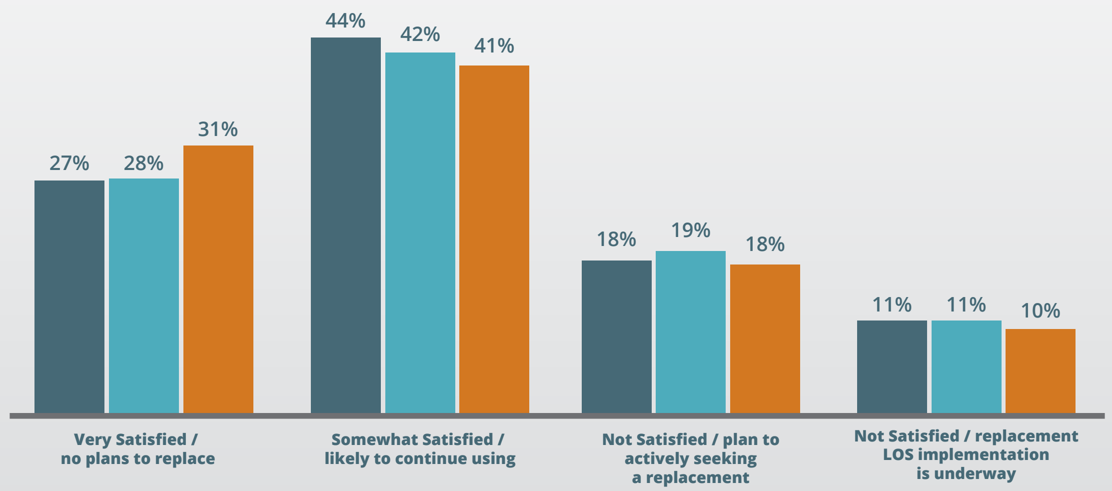
A Ellie Mae — Encompass is the clear leader in lender share for the third year running. LendingQB and Mortagagebot round out the top three. This year's TIS results included lender feedback on 27 systems down from 37 in the 2016 results. This signals that the LOS market is consolidating. As further proof of the consolidation, the top three LOS — Ellie Mae Encompass, Lending QB and Mortgagebot — gained lender share in 2017 versus 2016.



STRATMOR Technology Insight Survey, 2017. ©STRATMOR Group, 2017.

Q **How satisfied are lenders with their Loan Origination System (LOS)?**

A **The results are mixed. As with past years, there are a group of lenders (31%) that are 'Very Satisfied' and have no plans to replace their current LOS. This group is up a full three (3) percentage points over 2016 findings. While this is not a huge jump, it is encouraging to see more lenders reporting that they are Very Satisfied with their LOS. The largest group of respondents (41%) indicate that they are 'Somewhat Satisfied' and will likely continue to use their system. While these lenders are not actively looking to replace their system, their responses indicate that they are not 'raving fans' of their LOS.**



But 28 percent of lenders are not satisfied with their LOS, with 18 percent of lenders indicating that they are actively seeking to replace their current LOS and another 10 percent of lenders currently implementing a new system because they are 'Not Satisfied' with their current system.

Thus, despite an increase in the top category, there is still a considerable number of lenders who are actively looking to replace or are in the process of replacing their LOS. Those systems that lack adequate third-party integrations, compliance tools and customer support will lose their lender customers in favor of products that offer superior functionality and support.

GET 2017 TECHNOLOGY INSIGHT SURVEY RESULTS

You can purchase the 2017 Technology Insight Survey results by clicking here.

Speaking Borrower Satisfaction

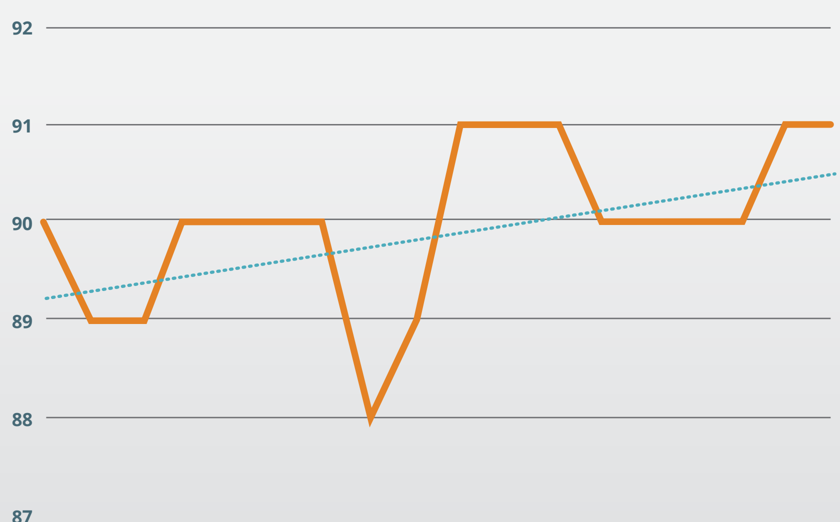
OVERVIEW

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

National Borrower Satisfaction Index

The National Borrower Satisfaction Index Chart below displays the Total Borrower Satisfaction Score for MortgageSAT participating lenders over an 18-month period from May 2016 through October 2017.

18-Month Satisfaction History



	May, 2016	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
Satisfaction	90	89	89	90	90	90	90	88	89	91	91	91	90	90	90	90	91	91

MortgageSAT, October 2017 ©STRATMOR Group, 2017.

Borrower Satisfaction Up Slightly

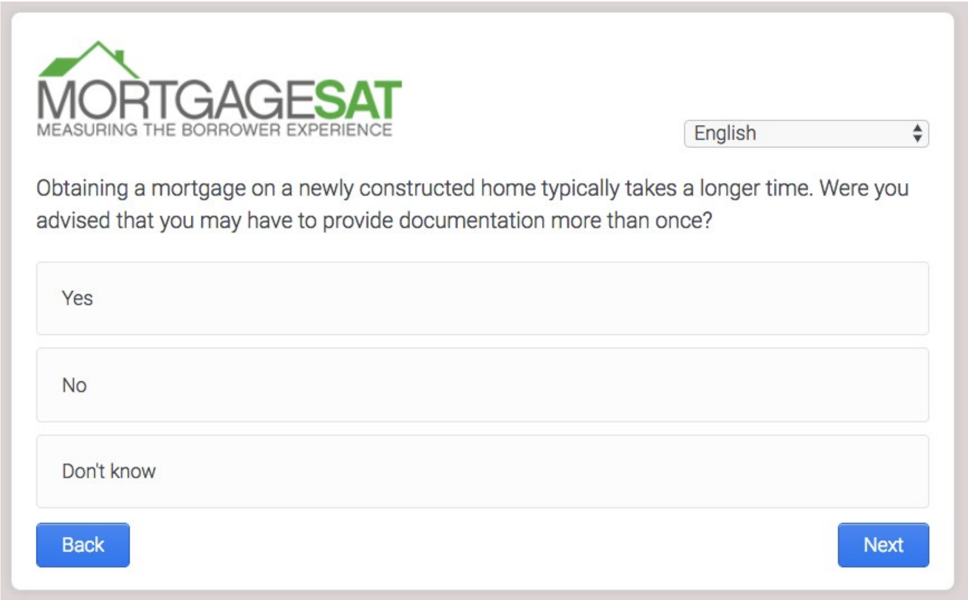
As we can see from the chart to the left, the satisfaction score of 91 for September and October of 2017 was one point higher than for the same months in 2016. We attribute some portion of this not insignificant one-point pickup to the roughly 20 percent lower origination volumes in 2017 over the same period in 2016. And, at 91, September and October 2017 scores were also one point higher than the June through August 2017 scores of 90, even though origination volumes during June through October were roughly the same. This suggests that MortgageSAT lenders are simply delivering better service. This interpretation is also supported by the upward sloping trend line.

TOPIC OF THE MONTH — LITTLE THINGS MEAN A LOT

Inattention to little things can be costly in terms of borrower satisfaction, and in the June 2017 Insights feature article, "The Seven Commandments for Achieving Borrower Satisfaction," we focused on seven things a lender must do to assure high borrower satisfaction. This month we add to that list of "musts" by looking at how borrower satisfaction takes a big hit when a lender fails to advise borrowers purchasing a newly-constructed home that they may have to provide documentation more than once.

Borrowers financing the purchase of a new home under construction by a local or national builder are typically faced with an uncertain closing date since the completion of construction is not certain. If construction goes well beyond the original estimated closing date, certain documentation, e.g., verification of employment, credit report, statement of assets, etc., will likely need to be updated for the lender to extend the permanent financing commitment (note here that we are talking about permanent financing, not a construction-permanent loan).

Through November 8, 2017, about 5,177 or 7.60 percent of the 68,159 purchase borrowers responding to the MortgageSAT survey in 2017 were borrowers purchasing a new construction home. In the 2017 MortgageSAT survey, such borrowers (and only such borrowers) were asked the following question:


MORTGAGESAT
MEASURING THE BORROWER EXPERIENCE
English

Obtaining a mortgage on a newly constructed home typically takes a longer time. Were you advised that you may have to provide documentation more than once?

Yes

No

Don't know

Back Next

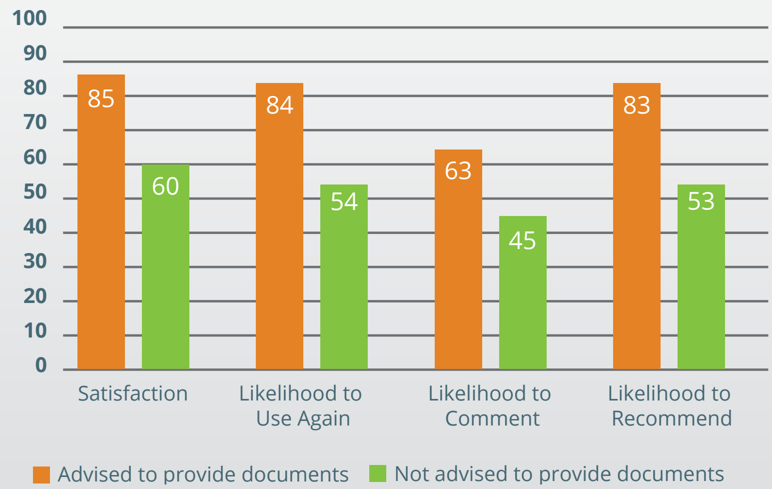
About 15 percent of borrowers answered "No."

Speaking Borrower Satisfaction

LITTLE THINGS MEAN A LOT

The chart below illustrates how not advising new construction borrowers that they may have to provide documentation more than once impacts their borrowing experience and likely future behaviors.

Impact of Not Advising New Construction Borrowers That They May Need to Provide Documentation More Than Once



MortgageSAT, October 2017 ©STRATMOR Group, 2017.

Not advising new construction borrowers drops overall satisfaction from a score of 85 to 60. And, it gets worse, since in terms of future behavior, not advising borrowers drops their Likelihood to Use Again score from 84 to 54 and their Likelihood to Recommend from 83 to 53. In other words, by not advising new construction borrowers that they may need to provide the same documentation more than once, the lender has likely lost a repeat borrower and favorable referrals. This is a costly error that can be avoided through clear, consistent communications with the borrowers.

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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