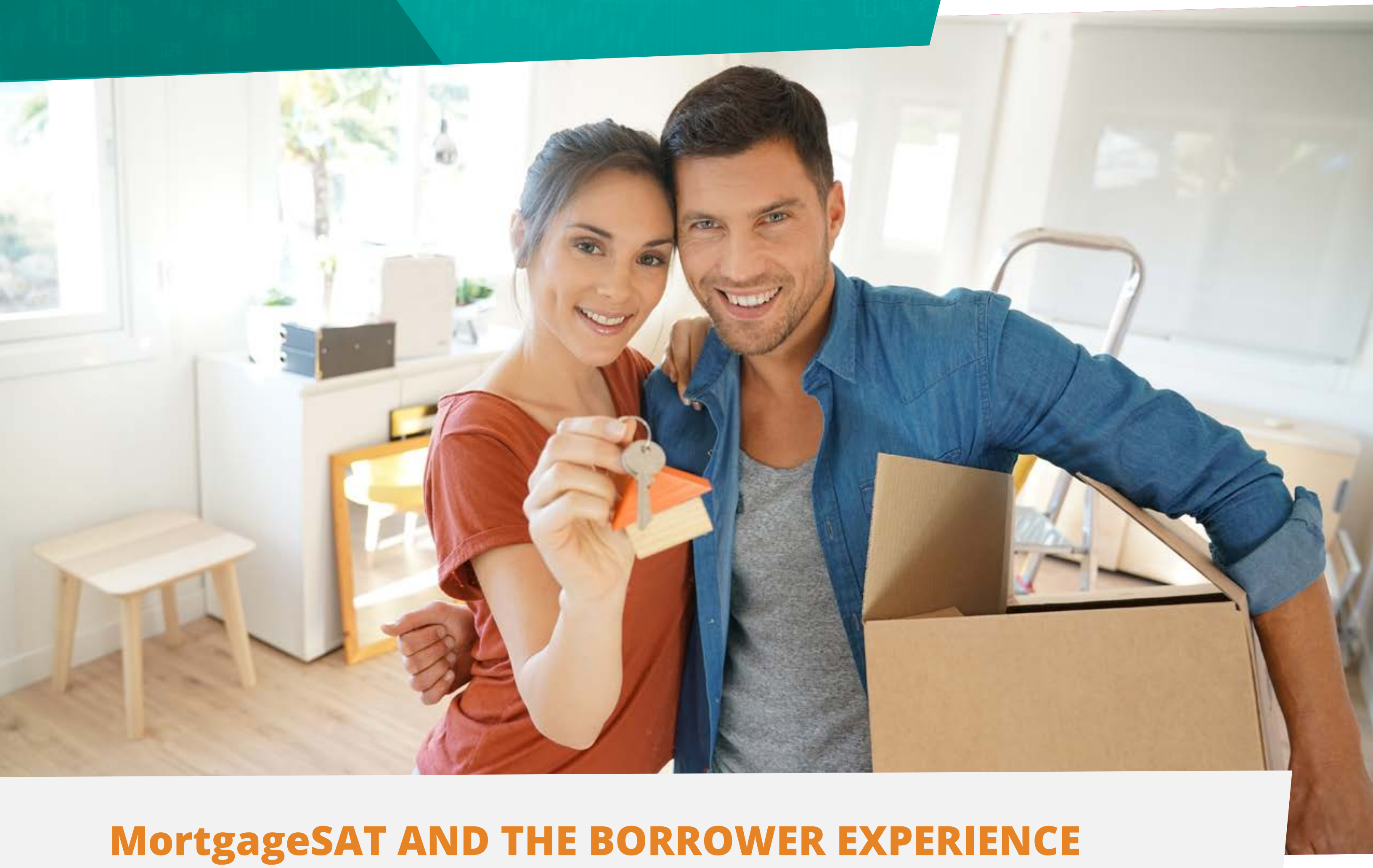
The Borrower Experience

MORTGAGESAT AND THE BORROWER EXPERIENCE

AN EXCERPT FROM

STRATMOR INSIGHTS

Volume 3, Issue 9
September, 2018



MortgageSAT AND THE BORROWER EXPERIENCE

A new calculator feature, now available on STRATMOR Group's website, enables lenders to estimate profit improvement opportunities that could be possible by using MortgageSAT based on the ability to minimize problems and improve the overall borrower experience.

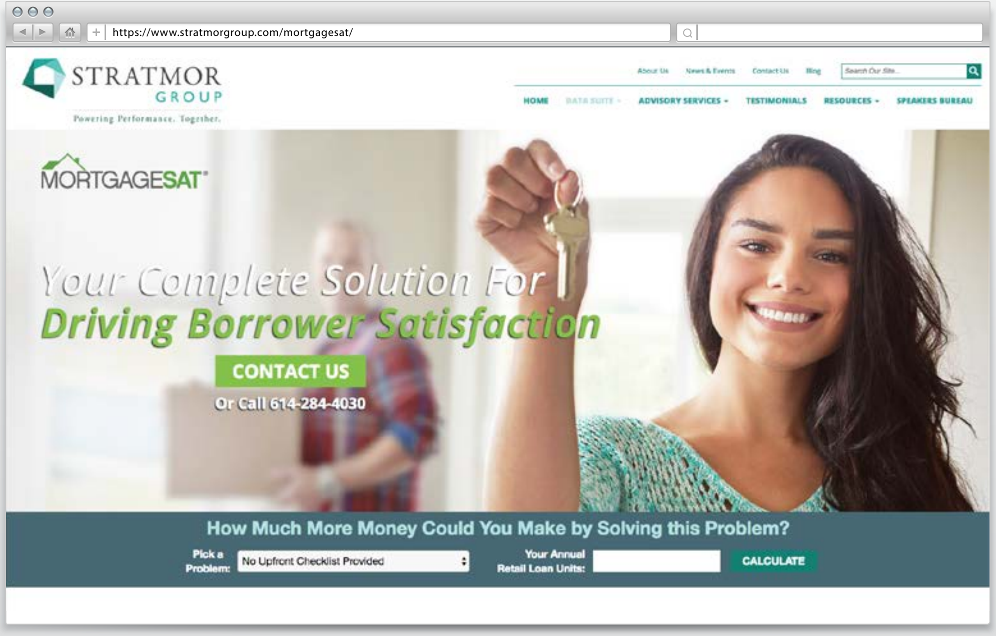
A new calculator, now available on STRATMOR Group's website, enables lenders to calculate the potential additional Retail lending profits that could be realized by satisfying one, or all, of the *Seven Commandments for Achieving Borrower Satisfaction*. These commandments represent the factors in the loan process that are most impactful to overall satisfaction. When adhered to, these mandates can lead to a material increase in borrower referrals. The complex probability formula behind the calculator was created by STRATMOR Senior Partner and M.I.T. graduate Matt Lind, who also holds a PhD in Applied Mathematics from Harvard University.

"Borrower satisfaction has long been considered a nice-to-have component of sales strategy, as opposed to a must-have," says Mike Seminari, Director of STRATMOR's MortgageSAT Program. "Now, with the ability to assign actual dollars to problems, satisfaction is demanding a priority seat at the table where budgets and forecasts are determined. Being able to say, 'Solving this problem for our borrowers will result in 'X' amount of incremental annual revenue,' is empowering lenders to invest in tools like MortgageSAT, monitor these high-impact aspects and drive real cultural change at their companies."

The Borrower Experience

MortgageSAT AND THE BORROWER EXPERIENCE

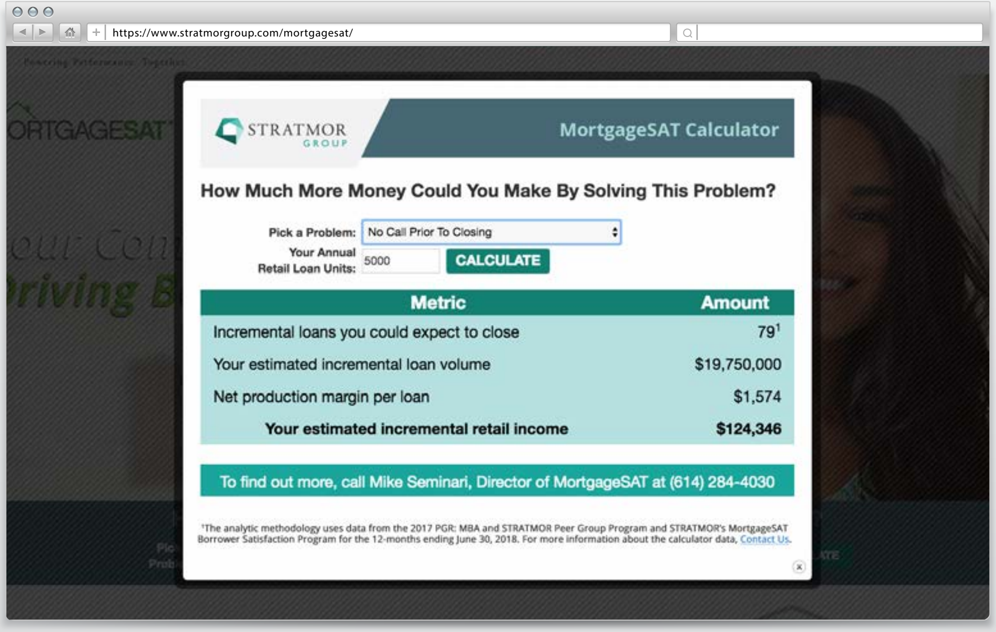
Figure 1



To use the calculator, select from the Pick a Problem dropdown menu. In this example, the problem is No Call Prior to Closing. Then, enter an annual number of Retail mortgage origination units. Here, 5,000 closed units were entered. Next, click the "calculate" button.

Clicking the "calculate" button generates a pop-up page that displays the results as shown in Figure 2 below. The Figure 2 table first shows an estimate of the number of additional closed loans and incremental loan volume that could be originated (79) by simply calling all borrowers prior to closing.

Figure 2



The number of additional closed loans (79) is then multiplied by the average net retail production margin, $1,574[1] per loan, to arrive at an estimate of the total additional retail income that could be realized, or $124,346[2]. In this example, the average retail margin per loan of $1,574 was taken from the 2017 PGR: MBA and STRATMOR Peer Group data — in practice, a lender would use their own net production margin.

"Lenders are often surprised by the amount of money they are leaving on the table," says Seminari. "Since most post-close surveys only scratch the surface of the borrower experience, lenders are largely unaware of the cracks and leaks that are costing them referred and repeat business. Borrowers may love their LO, but some misstep in the loan process soured their overall experience. The ability to translate NPS changes into potential revenue underlines the need for monitoring the Seven Commandments (and more) on every single borrower."

A Closer Look at the Numbers

Table 1 below shows the analysis driving the calculations in the example in Figure 2.

Table 1

Call Prior to Closing	
Your annual retail loan units	5,000
% borrowers with problem	7.60%
# borrowers with problem	380
Change in NPS	97
Cumulative change - promoters & detractors	369
Conversion rate - promoters to closed loans	21.33%
Incremental retail loans closed	79
Average retail net production margin per loan	$1,574
Estimate of additional retail income	**$124,346**

[1] Because the number of additional closed loans annually (79) is small relative to the 5,000 retail loans closed by the lender, the net production margin of $1,574 per loan excludes Corporate Administration expenses, which are assumed to be fixed.

[2] Significantly higher additional net retail income would have been realized for 2015 and 2016 when the net production margin per loan based on PGR data was $2,023 and $2,085 per loan respectively.

MortgageSAT AND THE BORROWER EXPERIENCE

Based on MortgageSAT responses from 105,000 plus borrowers for the 12-month period ending June 30, 2018, 7.6 percent of borrowers were not called prior to closing. Applying this percentage to a lender originating 5,000 retail loans results in an estimated 380 borrowers (7.6% x 5,000) who would not be called prior to closing.

As shown in Table 2 below, the Net Promoter Score (NPS)[3] for these 380 borrowers is -14, meaning that the number of "detractors" per hundred borrowers exceeded the number of "promoters" by a count of fourteen. Such a result indicates that the lender's failure to contact these borrowers is costing them referrals because detractors will likely "bad mouth" them to their family, friends and real estate agents.

Table 2

Call Prior to Closing	Yes	No	Delta
Sample Size #	97,129	8,032	
Sample Size %	92.40%	7.60%	
NPS	83	-14	97

What would the financial impact be if all of these 380 borrowers are contacted prior to closing?

"The NPS score for these 380 borrowers would increase from -14 to +83, a swing of 97 points that results in an additional 369 net promoters (380 x 97 ÷ 100)," says Dr. Matt Lind. "Based on MortgageSAT data, of the 369 additional promoters, an estimated 21.33 percent will give rise to a closed loan, a total of 79 additional closed loans. Assuming each such loan adds $1,574 to the bottom line, the total additional retail income is $124,346 (79 x $1,574). Wow!"

"We also know from MortgageSAT data that the average NPS score is around 75. This means 5,000 closed loans would result in 3,750 promoters (5,000 x 75 ÷ 100) whose referrals would result in 800 closed loans (16% x 5,000), a conversion rate of 21.33 percent."

According to Seminari, a conversion rate well below 100 percent makes intuitive sense. "Not all Promoters will be asked for a lender referral or endorsement by a friend or relative and not all of them will post their satisfaction on the lender's website or the website of a third-party, like Zillow. We can also expect that some will have an unsatisfactory servicing experience that may cool their enthusiasm for the lender despite having had a positive origination experience."

[3]The NPS score is defined as the average number of borrowers out of each 100 borrowers who registered a Satisfaction score of 9-10 out of a possible 10 (so-called Promoters) minus the average number who registered a Satisfaction score of 1-6 out of a possible 10 (so-called Detractors).

STRATMOR INSIGHTS

"Still, in addition to continuing to be a source of positive referrals, Promoters can become repeat borrowers and often influence real estate agent recommendations," says Seminari. "There is an argument to be made that the conversion rate of Promoters to closed loans is actually higher than 21.33 percent."

Table 3 shows the additional retail income that can be achieved if a lender could fully optimize adherence to the other six additional Commandments for Achieving Borrower Satisfaction. However, the additional income realized by eliminating failures associated with any one of the Seven Commandments will depend upon where a lender starts with the percentage of failures in the other six Commandments.

Table 3

	Provide an Upfront Checklist	Call Prior to Closing	Request Documents Once	Within Expected Time Frame	Close Loan at Expected Rate and Fees	Resolve Problems	Start Closing on Time
Your annual retail loan units	5,000	5,000	5,000	5,000	5,000	5,000	5,000
% borrowers with problem	2.31%	7.60%	30.15%	14.19%	12.02%	4.53%	7.13%
# borrowers with problem	116	380	1,507	709	601	227	357
Change in NPS	108	97	48	54	53	97	50
Cumulative change - promoters & detractors	125	369	724	383	319	220	178
Conversion rate - promoters to closed loans	21.33%	21.33%	21.33%	21.33%	21.33%	21.33%	21.33%
Incremental retail loans closed	25	79	155	82	68	47	39
Average retail net production margin per loan	$1,574	$1,574	$1,574	$1,574	$1,574	$1,574	$1,574
Estimate of additional retail income	**$39,350**	**$124,346**	**$243,970**	**$129,068**	**$107,032**	**$73,978**	**$61,386**

"It's a bit like dieting," says Lind. "The rate at which you will lose weight on a specific diet will depend upon the weight at which you start the diet. If you start from a very high weight, you will consume less calories and likely lose weight more quickly. But as you lose more and more weight, your daily calorie consumption also needs to decline to keep in step with the rate at which you wish to continue to lose weight."

MortgageSAT AND THE BORROWER EXPERIENCE

STRATMOR **INSIGHTS**

"The implication of this interdependency is that the additional retail income gained by eliminating more than one of the problems in Table 3 is not simply the sum of the individual additional retail incomes but rather, the result of a somewhat complex probability formula. This formula is what drives the calculator result if you select 'All Problems' from the Pick a Problem drop down menu," says Lind.

"The MortgageSAT calculator takes complex calculations based on a wealth of industry data and makes it easy to use," says Seminari. "Pick a problem, plug in your annual loan units, and you can see the money you're likely leaving on the table. This tool can help lenders create a sense of urgency in finding and fixing issues with processes and personnel within their organizations because it helps show the value of correcting problems that negatively impact borrower satisfaction. In the current lending environment, borrower satisfaction and revenue gains are inextricably tied to one another."

TRY THE NEW MSAT CALCULATOR

Visit the MortgageSAT web page at www.stratmorgroup.com/mortgagesat/ where you'll find the MortgageSAT Calculator and more information on the MortgageSAT Borrower Satisfaction Program. For additional information on the methodology of the calculator, contact Matt Lind at matt.lind@stratmorgroup.com. Contact Mike Seminari at mike.seminari@stratmorgroup.com or at 614.284.4030 to learn more about MortgageSAT.