STRATMOR GROUP

In-Focus

DIGITAL UNBOUND: FIVE TIPS FOR MAKING THE MOST OF DIGITAL TECHNOLOGIES

AN EXCERPT FROM

STRATMOR INSIGHTS

Volume 2, Issue 10
October, 2017

DIGITAL UNBOUND: FIVE TIPS FOR MAKING THE MOST OF DIGITAL TECHNOLOGIES

By Garth Graham

Conferences are a great place to see cool tools, cool vendors and to hear from forward-thinking lenders. STRATMOR attends many industry conferences each year, and I do dozens of speaking engagements at these conferences and corporate events. I also get paid for some of these speaking engagements, which amazes my spouse who can't believe people would pay to hear me talk. I do this because I like telling jokes on stage — it's my own version of stand up without the risk of being booed and having drinks thrown at me. But I also take the content seriously, and conferences provide a chance to see some trends at a macro level because there are so many lenders in one place at one time.

Recently, I hosted the *Technology Supersession* at the 2017 MBA Annual Conference, and I spoke at the 2017 Digital Mortgage Conference sponsored by *National Mortgage News*. Also, I spoke at a large sales conference with more than 1,500 loan officers in attendance (and lived to tell the tale). In talking with attendees at these conferences, individually and in sessions, there are a lot of vendors offering new technology (digital!) and a lot of lenders who are spending more money on technology (ooh I need digital!). But what I noticed most is that many of the attendees of these conferences didn't have a clear sense of the problem they are trying to solve, other than a general sense of making the mortgage process "better."

In this article, I will share what I have learned and the five tips for making the most out of your digital mortgage investments.

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1. **Be sure you clearly know the business case for the investments you're making.**

   Without a very specific business case, it is very difficult to generate the additional revenue or lower the expense necessary to handle the investments that are being made in new technology. In other words, you must generate an ROI on the investment.

   At STRATMOR, we measure revenue, expense and profitability, productivity and nearly 4,000 other details (literally 4,000 rows in a spreadsheet — we LOVE data!).

   Origination costs have continued to climb and are likely to go higher in 2018. In fact, when refinance volume drops, profits often drop too, as the easy refinance transactions are replaced with the tough "must close on time" end-of-the-month purchase deals. The data shows that the profitability of mortgage entities is substantially lower than it has been since 2013 or 2014. Many of us remember how difficult the market was in early 2014 as margins depressed and the market contracted due to the lack of refinances. Lenders have to be prepared that this type of environment may be coming in 2018. Consider investing like 2014, not as if the profits of 2017 will continue.

   Costs continue to go up — since 2010 the cost to originate a retail loan has increased by $1,700 in sales and marketing expense (latest numbers) and $800 in operations per loan, creating a total cost of nearly $7,000 per funded loan. That is not a typo. Roughly 70 percent of the increase, indeed 70 percent of the total cost, is buried in sales and marketing. All the cost for sales and marketing, including LO commission, sales management, training, licensing and marketing now adds up to $4800 a loan. So, at some point, as you make these digital investments, you ought to be looking for ways to lower your sales and marketing costs.

   As you invest in new technology or processes, it's fine to say you want it to be "better," but shouldn't it also be a more efficient and/or a lower cost process, or provide a higher revenue per loan?

   And now a cautionary tale about Digital Mortgage: I was a founder of mortgage.com which was a very good online origination company, but lacked a consistent business model that guaranteed profitability. We had very high marketing acquisition costs, and tried many different partnerships, lead generation techniques and technologies to try and drive business. Guess what? When we sold to ABN AMRO in 2000, we took their large customer base and focused business model and leveraged the technology to make a lot of money for the parent. Suddenly the online tools worked very well when we had a built-in base of bank and servicing customers that were leveraging the tools. Online applications, online rates, online approvals, loan status on the web … ah, I remember it well.

   So, the new mortgage entities that are building technologies while also trying to acquire new customers through direct marketing could have a tough road ahead, while banks and mortgage bankers with built in customer bases ought to have an advantage due to lower marketing expense.

However, if the online experience is subpar, the consumers might migrate to the better tools.

Lenders, you need to have a business plan and a clear strategy for what to do with the digital tools. You can't just hope the next mortgage.com opportunity comes along.

2. **Make sure it works for your high producers**.

STRATMOR has a very interesting set of LO census data. Before you get the wrong idea, we don't wander around the U.S. asking LOs questions, but rather we take a census of the industry that is based on data supplied by lender clients. The interesting stat from the LO census is that roughly 40 percent of originators do 80 percent of the business; in effect, 4 out of 10 LOs are driving most of the volume and thus most of the revenue. What this means is that if you can increase the productivity of this top tier of originators by 25 percent, that increase would be equal the volume generated by the bottom 60 percent. And this bottom 60 percent has a 60 percent attrition rate (meaning they leave). Literally, if you could take your top people — who by the way are the least likely to leave the organization because they are already successful — and make them 25 percent more productive, it would flow to the bottom line very quickly. You would alleviate the expense of the bottom 60 percent, as well as alleviate the operations pressure created by the low producers who are not necessarily the most efficient or effective communicators or technical originators that you have. So how you make your retail people more productive might be exactly what you need to focus on as you look at new technology tools.

3. **Make sure the technology is easy to use.**

Based on our Technology Insight Survey, one of the biggest challenges lenders face in implementing change is "getting loan officers to change." In fact, this challenge is listed as the second biggest obstacle to changing technology, with cost being number one. It makes a lot of sense to resolve the LO change issues in order to nail the ROI that then addresses the cost issue.

Be sure you focus on the tool that delivers value to your high producers, besides being easy to use. We often see technology solutions that don't address this issue; in fact, they require extensive training and guidance to get the LOs to use them. Now, think about the other easy digital or technology solutions that you use in your life. How many of them required training? Did you get "trained" on how to use Amazon? Did you read the iPhone manual or just start using it, and then occasionally watch a YouTube video for a few interesting tips? Here's the trick — you don't want to achieve ease of use by stripping out too many features. When you look at systems that are super slick but will not handle enough of the actual tasks performed by the user, then the technology is not going to be used because it's just not valuable enough. In other words, it becomes easier to NOT use.

4. **Be valuable to the borrower**

Lenders who engage with consumers and create a collaborative online and offline experience will have better success in converting their opportunities. If, early on, you create an online portal that the borrow finds slick, easy to use, and

high value — similar to other tools they use in their lives like Amazon and Google — then they are more likely to stick with you through the mortgage cycle. One of the challenges in our industry is that many of the purchase opportunities in this market are the "long tail", meaning they are often early in the purchase cycle. Perhaps the borrower hasn't found a house, or is in a market where there are inventory challenges and it will take them a while to find a house. Staying in touch with them, and continuing to collaborate as they go through this long cycle, is a key driver to ultimately having higher lead conversion. If you have a process that enables you to collaborate with them automatically, you can handle more leads, spend more time building relationships and have better success getting the loans to application.

Of course, you can't talk a borrower into buying a new house, and you can't solve the inventory problem. But, if you are the trusted advisor, and have an efficient follow up system, then you will have more success with those that do end up buying a home. And, you'll have more funding. Once again, this makes top producers even more successful, and you can wring out the cost by making them more efficient. This means the marketing return on investment is solid, and you can continue to generate new leads and invest in more options for loan officers to be more successful.

Now, here is the final benefit to a successful automated and digital process — you will have developed relationships with the customers who then will be more likely to generate online testimonials after closing. In fact, we recently worked with two clients who are now generating over 250 Zillow testimonials each month, and these clients are retail lenders who are not actually buying a lot of leads from Zillow. And those online testimonials provide confidence to other prospects that you are a good lender to work with, driving higher lead conversion. It's a full circle solution — IF — it's properly designed and managed effectively.

5. **Develop a process that takes in to account the big three: People, Process and Product.**

   I often hear: "If I just had the new whiz bang product, I could fix my problems." While that may contribute to your success, you will not be successful if you don't manage the change necessary with the people involved, and have a process that is designed for success. At STRATMOR, we see lenders who might have subpar technology but are successful because that have good people and a well-defined and managed process. But, we don't see lenders who are able to use technology to overcome poor people and poor processes. The best lenders have all three. A good example — we recently saw two lenders doing Day 1 Certainty pilots with dramatically different results. They had the same model (retail) and the same technology solution — and yet, the adoption level was 50 percent higher at one lender. Why? People and process were better defined, measured and managed at that lender. You need to have a process that recognizes and manages change with all three to wring out potential benefits.

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Another benefit of looking at the digital opportunities across all three Ps — you can begin to realize the difference between customer value-and non-value-added tasks. Have the technology focus on the non-value-added tasks and have the people freed up to do the value-added tasks. For example: in our customer satisfaction research, STRATMOR has data showing that customer satisfaction is much higher when the LO calls the borrower before closing, when the LO attends closing and when at least some status updates are handled by outbound phone calls (rather than solely through automation). So, these three activities are value added because they drive higher satisfaction. But many LOs, especially high producers, will be challenged to have the time to perform these tasks. But what if the digital solutions begin to free up time for LOs, making them more efficient and freeing up time for those value-added tasks? And, if the LO is expected to source their own business, then freeing up time will be a value added in the form of developing more relationships with referral sources or other marketing type activities.

The Next Opportunity

So, before you go to your next conference, ask yourself these five questions:

1. **What is our company's business case for investing in Digital Mortgage?**
2. **Is the tool we are considering going to work for our high producers?**
3. **Is it an easy tool for users to adopt or is it going to take months to train them to use it?**
4. **Will this tool help us with the market we are in now — Purchase — with longer term lead nurturing?**
5. **Are we prepared to invest, to ensure our People, Processes and Product are going to work well together and really make a difference to our bottom line?**

Carry this honest assessment of where you are and what you are ready to do with you and get answers from the cool tools, cool vendors and advanced-thinking lenders at your next conference. And if you want me to help or even come speak to your group, let me know. My rates are reasonable, and the jokes are free!

CONTACT GARTH GRAHAM

Need Help with Digital Mortgage Technology? Contact Garth for assistance:

Phone: 954.325.7816
Email: garth.graham@stratmorgroup.com
LinkedIn: https://www.linkedin.com/in/garthgraham