FEATURING

THE SEVEN COMMANDMENTS FOR
ACHIEVING BORROWER SATISFACTION

STRATMOR
INSIGHTS

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Can you believe it? Summer is finally here. Shorts, tee-shirts, sandals... And, amidst the summer fun, the June issue of STRATMOR Insights.

Senior Partner Garth Graham wrote this month’s lead In-Focus piece which, based on MortgageSAT data, lays out “The Seven Commandments for Achieving Borrower Satisfaction.” As Garth notes, these Commandments are simply common-sense rules that should not come as much of a surprise to anyone. What is surprising, however, is the steep price lenders pay in terms of borrower satisfaction when they fail one or more Commandments.

Mortgage Metrics Matters considers loan originator productivity as it differs between Banks and Independent lenders. You might be surprised to learn that Bank originators are more productive than originators working at Independents, even in high purchase loan environments.

In last month’s In The Spotlight section of Insights, we reviewed the top five lender responses to benefits and barriers questions. This month, we look at which of the twenty-eight Digital Mortgage capabilities considered have the highest level of adoption among lenders; specifically, the top five.

In Speaking Borrower Satisfaction, we report that the average satisfaction score of MortgageSAT lenders in May remained at 91, a very good score, despite a 28 percent increase in second quarter 2017 origination volume projected by the MBA in its May 2017 Mortgage Finance Forecast (including a 50 percent projected increase in purchase originations). And in this section’s Topic of the Month, we address the question of: How Much Does Closing Time Matter? The results here may surprise you, too.

Let me conclude with a plug for our 2017 Technology Insight Survey, which captures lender perspectives regarding the functionality, vendor support and implementation experience and success of commercial-off-the-shelf (COTS), proprietary Loan Origination Systems (LOS) and other origination systems. This information is vital to lenders considering updating or changing their existing systems and your participation is highly encouraged. To provide your valued insights and LOS experience, please CLICK HERE.

Lisa Springer, CEO

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THE SEVEN COMMANDMENTS FOR ACHIEVING BORROWER SATISFACTION

By Garth Graham

The competitive paradigm for the mortgage industry has changed from “a rising tide lifts all boats” high-growth environment during the early years of the last decade to a slower growth market in which winners will be lenders that can “steal share” from their competitors.

Key drivers of slow-growth, some of which are less-than-obvious, include:

1. **Unfavorable demographic trends.** Faced with an aging population, growth in household formations will slow, with immigration, a powerful contributor to housing and mortgage growth from 1970 through 2008, being something of a wildcard as Congress debates immigration reform.

2. **An increasing mismatch between the supply of and demand for housing.** An aging population coupled with decreasing family size, slower household income growth and high energy costs all point to smaller, higher-density housing located closer to or integrated with workplaces in order to reduce both commuting time and costs. This is in sharp contrast to the lower-density suburban housing stock sought by baby boomers and their children.

3. **Health care costs.** Health care cost inflation has far exceeded the general rate of inflation, pushing health care costs to almost 18 percent of GDP\(^1\). Continued high rates of health care cost inflation would push health care costs to 30 percent of GDP by 2030. At that level and given the fact that health care expenditures are largely non-discretionary, consumers will have much less disposable income for housing, education and other core household expenses.

4. **Global warming.** Models of global warming predict high weather volatility, including both wide and unseasonal temperature fluctuations and increases in natural hazards, e.g., hurricanes, tornados, torrential rains, etc., that result in flooding and wind damage. Wide temperature fluctuations will increase utility costs whereas increasing exposure to natural hazards will increase property-casualty insurance premiums. Clearly, these increased costs of home-ownership will be a drag on affordability.

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\(^1\)Health care costs were 6.7% of GDP in 1973.
Historically, lenders have competed for market share on the basis of price, closing on-time and a willingness to do riskier, harder to originate loans. Today, while price competitiveness is still important, the basis for competition is shifting towards providing borrowers with a superior customer experience.

One reason for this shift is that prospective borrowers, as they shop for a lender, can now easily determine the customer experience provided by a lender through social media and firms such as Zillow (see the Zillow Web page on the right).

This is really no different than the information available to Amazon customers who, for virtually any product available on Amazon, can compare price, delivery specifications and performance for all sellers offering the product through Amazon.

While Digital Mortgage technology offers the promise of a vastly improved customer experience, it is likely to take several years or more for lenders to adopt Digital Mortgage functionality. And, because Digital Mortgage technology will be available to virtually all lenders from third-party technology providers, it will eventually be less of a differentiator than it is today for early adopters and innovators, e.g., Quicken Loans. But until such time as Digital Mortgage technology defines the customer experience, lenders will need to implement other strategies for improving the customer experience.

The remainder of this In-Focus article draws upon findings derived from STRATMOR's MortgageSAT borrower satisfaction program that pinpoint some relatively easy tactics — what I call the Satisfaction Commandments — that can provide significant improvements in overall borrower satisfaction; and, perhaps more importantly, significantly reduce the proportion of highly dissatisfied borrowers who may poison a lender’s well via negative posts to social media and “poor-mouthing” the lender to family and friends.

The satisfaction data backing up each Commandment covers the period January 1, 2016 through mid-June 2017 and represents the responses of roughly 150 thousand borrowers.
COMMANDMENT 1: Provide the borrower with an upfront checklist of the information they will need to provide.

When you provide the borrower with a checklist of the information they will need to provide, borrower satisfaction averages a score of 91 out of 100. Borrowers hate it if you come back later with information needs that should have been disclosed up-front. When this occurs, borrower satisfaction plummets to an average score of 52, a poor score that will not earn you favorable references or postings to social media.
COMMANDMENT 2: Contact the borrower well before the closing.
Borrowers hate hearing about the closing of their loan at the last minute. Doing so shows no consideration for the borrower’s time and the juggling of their schedule and prior commitments that may be required. When the lender gives the borrower adequate notice of the closing, they are rewarded with an average satisfaction score of 93. When they don’t, satisfaction falls to a low score of 60.
COMMANDMENT 3: Avoid asking the borrower to provide a document already provided.

Assembling the documents and other information required by the lender — tax returns, bank statements, etc. — can often be stressful and burdensome for many borrowers. So, it can be extremely annoying when the lender requests a document that the borrower has already provided. “I gave you what you asked for. Why can’t you keep track of things?” is what many borrowers think. And when this occurs, average satisfaction drops from a score of 95 to 77.
COMMANDMENT 4: Be proactive about keeping borrowers informed about status.

Borrowers want their lender to take the lead in keeping them informed about the status of their loan. Whether this is accomplished by email, a text message or by a call from the loan originator or processor makes relatively little difference and results in average satisfaction scores of 90 or higher. But if the borrower has to take the initiative (contact methods connoted by the orange bars), satisfaction is much lower, falling to a score of 60 if the borrower has to call the lender, which often requires leaving a message and waiting for a call-back. While logging into a lender website for status can provide the borrower with immediate status and avoid waiting for a call-back, average satisfaction nonetheless falls to a mediocre score of 83. Clearly, borrowers simply don’t want to have to take the initiative to determine the status of their loan.
COMMANDMENT 5: Close loans in the expected time frame.

Borrowers expect their loans to close within the time frame indicated by the lender. Initially, this is typically the date indicated in the Loan Estimate Disclosure which, for purchase loans, is typically the date anticipated for closing on the home purchase. Closing a loan later than the expected time frame makes borrowers very unhappy and results in a 21-point drop in average satisfaction. While many delays in the closing date may be unavoidable and often not the fault of the lender, what is important is managing borrower expectations.

<table>
<thead>
<tr>
<th>Satisfaction</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Closed in expected timeframe</td>
<td>93</td>
</tr>
<tr>
<td>Did not close in expected timeframe</td>
<td>72</td>
</tr>
</tbody>
</table>
COMMANDMENT 6: When problems arise, make every possible effort to resolve them.

Roughly about one in every five or six loans will experience a problem in the course of origination. Problems with the appraisal, title, verifications or a change in circumstances can all present unanticipated problems that may cause delays, changes in the interest rate and/or the down payment, etc. Sometimes these problems can be resolved to the relative satisfaction of the borrower. When this happens, satisfaction scores come in at 77, not great but not disastrous. It’s when problems cannot be resolved to the borrower’s satisfaction — but the loan still closes — that satisfaction drops like a rock, falling to an average score of an abysmal 35. At this low level of satisfaction, you have a borrower who is potentially a real liability as regards comments on social media and bad recommendations. While in many, perhaps most such cases there may be no way to have resolved the problem, experience has shown that a post-closing call to the borrower from a high-placed lender executive — a call that shows concern about the borrower’s unhappiness — can turn around the situation. While the borrower may remain unhappy about the problem, hostility towards the lender can often be softened or eliminated.
**COMMANDMENT 7: Start the closing on time.**

Borrowers feel resentful if their closing doesn't start on time. And why not? The borrower(s) makes an effort to show up for the closing at the appointed time — possibly taking time off from work, hiring a sitter, etc. — and is rewarded by having to wait around until a lawyer or closing person shows up. Such treatment does not make for happy borrowers. When the closing starts late, borrower satisfaction drops from an average score of 92 to 76. While sometimes a late start is unavoidable, in most cases it should never happen. And the price paid by the lender can be high.

![Graph showing satisfaction scores](image)

**Conclusion**

By and large, the Satisfaction Commandments cited above are simply common sense and should not come as much of a surprise to anyone. What is surprising, however, is how steep a price lenders pay in terms of borrower satisfaction when they fail one or more Commandments. And in a world where information about the borrower experience provided by a lender is readily accessible to potential borrowers and increasingly important in their choice of a lender, we think that it behooves lenders to be intensely focused on the Commandments. Doing so is part of building a culture of customer service.

**LEARN MORE**

For more information about STRATMOR’s MortgageSAT turnkey borrower satisfaction program and the rich drill-down satisfaction data it can provide: Contact MortgageSAT Director Mike Seminari at mike.seminari@stratmorgroup.com.
The more you can understand and measure the key attributes of your sales force, the better able you will be to proactively manage them. This, more than anything else, will improve the franchise value of your company. Where do you go to find such data? The STRATMOR Originator Census Report can help.

About the Originator Census Report
Offered annually, the Originator Census Report Survey provides lenders with valuable insights into the makeup of their sales force and how it compares to peer lenders. In 2016, the report included input from more than 13,000 retail originators from Independent and Bank Owned/Affiliated mortgage companies, ranging in size from under $500 Million to over $10 Billion in annual production.

NOW Open – Take the Survey
The 2017 Originator Census Survey is now open. You must complete the Origination Census Survey to receive your report that includes 15 pages of individualized results (there is a fee to participate). The report will include data on:

- Productivity in units and dollars
- Age of Originator
- Turnover by Quintile, Age and Tenure
- Tenure
- Ethnicity
- Classification

If you are interested in learning more about the survey or would like to participate, click here.
How does Originator productivity differ for Banks versus Independents?

Across the board, the Originators at Bank Owned/Affiliated Lenders are more productive than their Independent Originator peers.

With reference to the chart below, in 2016:
- The average Originator closed 4.0 loans per month
- Bank Originators were 10 percent more productive, originating 4.4 loans on average.
- Independent Originators averaged 3.7 loans per month, about 10 percent less productive.

Loans Closed per Originator per Month - 2016

- Independent — 3.7
- All Lenders — 4.0
- Bank — 4.4

LO productivity for purchase loans is more favorable for Independents than for Banks:
- Independents originated 2.7 purchase loans per month in 2016 versus 2.5 loans per month for Banks.
- This result reflects the general view that LOs at Independents are “hunters” who work the Realtor base for purchase leads, whereas Bank LOs are “gatherers” who work from the flow of refinance leads that come to the Banks.
Is the productivity gap between Bank and Independent Originators a new phenomenon?

No, our results consistently show that Bank Originators close more loans per month than Independent Originators.

The spread for 2016 and 2015 were consistent, but the gap narrowed in 2014. This is not surprising given that the purchase volume for 2014 was approximately 73 percent versus 66 percent for 2015 and 2016. STRATMOR expects that productivity for these two groups will be more similar as the market tilts to purchase volume.

Despite the purchase and refinance mix, the average number of loans originated per month for Originators has stayed in the range of four loans per month, although it dropped to three loans per month in 2014 as the overall market volume dropped by 40 percent from 2013. This anomaly suggests that unless the market volume drop is prolonged, lenders do not aggressively cut Originators. Instead, both the company and the Originator accept lower overall production.

The Originator Census Survey is now open for participation. If you are interested in participating, [click here](#).
TOP 5 DIGITAL MORTGAGE CAPABILITIES

Recently, STRATMOR launched a Spotlight Survey addressing lender adoption of Digital Mortgage. Seventy-three lenders responded, offering their views on the many features and components of Digital Mortgage, the perceived benefits and barriers to adoption. This month, we look at the top five lender responses to the question: Which Digital Mortgage capabilities have the highest level of adoption amongst lenders?

ABOUT THE SURVEY
The STRATMOR Spotlight Survey addressing Digital Mortgage, including perceived benefits and barriers to adoption, was launched March 7, 2017, and remained open until April 25, 2017. Seventy-two lenders participated (34 independents, 38 banks). Responses represented all production channels.
Out of the twenty eight capabilities considered, the top five that lenders have in production span all four functional areas considered:

- General Communications Capabilities with Borrowers
- Application and Approval Capabilities
- Loan Processing Capabilities
- Closing Capabilities

The top three are online capabilities that interact with and allow the borrower to execute disclosures, upload documents or complete a survey about their borrowing experience. Lenders are also using CRMs to stay in contact with borrowers throughout the sales cycle and beyond. Finally, digital functionality is being used to pass appraisal information to the agencies.

These top five capabilities are basic and, for many lenders, have been in place for years. While not shown here, the percentage of lenders that have more advanced Digital Mortgage capabilities in production, for example providing borrowers with online approvals, falls to low double or single digits.

Digital Mortgage Capabilities - TOP 5
% in production or in development

<table>
<thead>
<tr>
<th>Capability</th>
<th>In Production (Live)</th>
<th>In Development</th>
</tr>
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<tbody>
<tr>
<td>Ability for the borrower to execute disclosures online</td>
<td>66%</td>
<td>15%</td>
</tr>
<tr>
<td>An online borrower satisfaction survey process</td>
<td>60%</td>
<td>8%</td>
</tr>
<tr>
<td>Ability for the borrower to upload documents and respond to conditions online</td>
<td>58%</td>
<td>16%</td>
</tr>
<tr>
<td>Lead management or CRM system that enables sales to nurture relationships with borrowers over and extended sales timeline</td>
<td>55%</td>
<td>19%</td>
</tr>
<tr>
<td>Appraisal data submitted for agency review for rep/warrant relief</td>
<td>49%</td>
<td>15%</td>
</tr>
</tbody>
</table>

For further details on Digital Mortgage capabilities, purchase the full results report. The detailed report also includes the level of adoption of 28 unique digital capabilities and segregates results by Banks vs. Independents and Large vs. Mid-Size lenders.

To purchase the report, click here.

Find Out What Your Peers Are Doing About Key Industry Issues
Do you wish you could quickly find out what your peers at other lenders think about key issues and developments? And what actions they are considering, planning or have taken? If so, then you should consider participating in our STRATMOR Spotlight Surveys program, a fast turnaround, short survey program that gives senior mortgage executives a unique way to obtain the information they need to formulate effective strategy. Click here to learn more.
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 a 12-month look-back period — starting the look-back with the May 2017 satisfaction score for this June 2017 edition of STRATMOR Insights.

Borrower Satisfaction Remained Steady

As we can see from the chart, satisfaction dropped during the Holiday season in late 2016. We opined at the time that this two point satisfaction decline resulted from back-office staff taking time-off during the holidays and speculated that satisfaction would recover by February 2017. In fact, the satisfaction score bounced back from 88 in December 2016 to 89 in January 2017 and jumped an additional two points to reach 91 in February, March and April 2017.

Last month we speculated that as we moved deeper into the 2017 home buying season that began in March, we would
typically expect loan applications to increase, putting greater demands on fulfillment operations and possibly resulting in lower service levels and a decline in borrower satisfaction. But rather than decline in May 2017, the average satisfaction score of MortgageSAT lenders remained at 91, a very good score, despite a 28 percent increase in second quarter 2017 origination volume projected by the MBA in its May 2017 Mortgage Finance Forecast (including a 50 percent projected increase in purchase originations).

Again, as we noted last month, this suggests to us that when lenders make borrower satisfaction a key performance metric, service levels rise. Indeed, since MortgageSAT allows lenders to measure satisfaction both by branch and back-office units, these units will begin to compete to achieve the highest satisfaction scores. And, as we have previously observed, there’s a lot of “low hanging fruit” steps by which to improve borrower satisfaction.

**TOPIC OF THE MONTH— HOW MUCH DOES CLOSING ON TIME MATTER?**

One of our favorite songs is “Get Me To The Church On Time” from that classic musical My Fair Lady. We all know that if the bride or groom shows up late, the other party to the “closing” will not be a happy camper.

But without pushing the wedding metaphor too far, it’s not unreasonable to ask how borrower satisfaction is affected by a closing date that differs from expectations.

Through May 2017, more than thirty-eight thousand borrowers responded to the MortgageSAT survey. LOS records for roughly sixty-three hundred of these borrowers included data on the expected or initial target date for the when the closing would occur in addition to the actual closing date.

Using this data, the graph above charts borrower satisfaction as a function of the difference between the actual closing date and the initial target date that, post-TRID, is communicated to the borrower via the Loan Estimate disclosure.
What Is the Time Threshold?
Considering refinance loans (the orange line), we see that while an earlier-than-expected closing earns high satisfaction scores, closing on time or even up to 15 days late does not cost the lender much in borrower satisfaction. But beyond 15 days late, satisfaction scores drop sharply, falling to a relatively poor score of 73 for closings that are greater than 30 days late (compared to a score of 98 for refinance loans that close more than 15 days early).

Refinance Loans Vs. Purchase Loans
Borrowers anticipating the lower payments resulting from a refinance clearly are unhappy when that reduction is delayed. And borrowers seeking a cash-out refinance to consolidate credit-card debt may face unanticipated late charges if their loan closes much later than expected.

Surprisingly, borrower satisfaction for purchase loans is relatively unaffected by a closing date that is later than the initial target or expectation. However, in the case of purchase loans, the initial target is set with an eye towards when the home purchase transaction is expected to close, a date that frequently is delayed by the borrower for reasons that have nothing to do with the lender.

Lessons Learned
So the message here is to not close refinance loans significantly later than the borrower was led to expect, which may be more of a sales communications problem than a back office efficiency issue. Since refinance borrowers may choose a lender based on a quoted time-to-close, LOs may get out in front of their back office in order to get the loan. But based on the data presented above, such exuberance may have reputational costs for both the LO and the lender.

If you are interested in learning more about STRATMOR’s MortgageSAT Borrower Satisfaction Program, [Click here](#). Or to reach out directly to Mike Seminari, Director of MortgageSAT, at 614.284.4030 or mike.seminari@stratmorgroup.com.
TELL US YOUR THOUGHTS
We invite you to take a quick 2 question survey so that we can continue to provide you with valuable information in our STRATMOR Insights report.

CLICK HERE