FEATURING

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

## STRATMOR INSIGHTS

Volume 2, Issue 10
October, 2017

# WELCOME

**Here at STRATMOR, one of the foundations of our consulting practices is to help our clients articulate their vision for the future — what we call their Target Operating Model ("TOM") — against which they determine the actions they will need to take to move from their current operating state to their TOM. Establishing a TOM helps makes it clear what problem is being solved by each of the various action plans in a lender's operating plan.**

This need for clarity of purpose is at the heart of this month's *In-Focus* article, in which Sr. Partner Garth Graham lays out five tips that can help lenders assure that they are making the most of their investments in digital mortgage technology.

In the *Mortgage Metrics Matters* section, we present select data derived from our 2016 *Originator Census Survey* that addresses how originator age and tenure varies between retail and consumer direct origination channels. Interesting stuff!

Finally, the Topic of the Month within our *Speaking Borrower Satisfaction* section considers if borrower satisfaction varies materially across various regions of the country. Wouldn't any lender want to know the extent to which their borrower satisfaction scores — whether better or worse than average — simply reflect the geographic markets in which they originate?

**Lisa Springer, CEO**

STRATMOR
**INSIGHTS**

## IN THIS ISSUE

# 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.

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




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.


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!

## WE WELCOME YOUR FEEDBACK

Do you have a story to share about how your company is making or has made the transition to Digital? We'd love to hear about your experience. Connect with Garth on LinkedIn or by email at garth.graham@stratmorgroup.com. ■

# ORIGINATOR AGE AND TENURE

*EXCERPTS FROM THE STRATMOR ORIGINATOR CENSUS SURVEY*

**The more you can understand and measure the key attributes of your sales force, the better able you will be to proactively manage them. And more than anything else, a high performing sales force will improve the franchise value of your company.**

STRATMOR's *Originator Census Survey* provides lenders with valuable insights into the makeup of their sales force and how it compares to peer lenders. In 2017, the results included input from more than nineteen thousand Retail Originators from Independent and Bank Owned/Affiliated mortgage companies ranging in size from under $500 Million to over $10 Billion in annual production.

For the Fall update, STRATMOR collected data for Consumer Direct Originators. The inaugural sample includes seven companies and more than one thousand CD Originators. Like the Retail results, the 2017 survey covers the 2016 report.

## PARTICIPATE IN THE ORIGATOR CENSUS

When you participate in STRATMOR's *Originator Census Survey*, you receive a report that includes 15 pages of individualized results. The 2017 survey is now closed but the 2018 survey that will cover 2017 results will open in January 2018. If you are interested in learning more about the survey or would like to participate, contact originatorcensus@stratmorgroup.com.

# Mortgage Metrics Matter

## ORIGINATOR CENSUS SURVEY

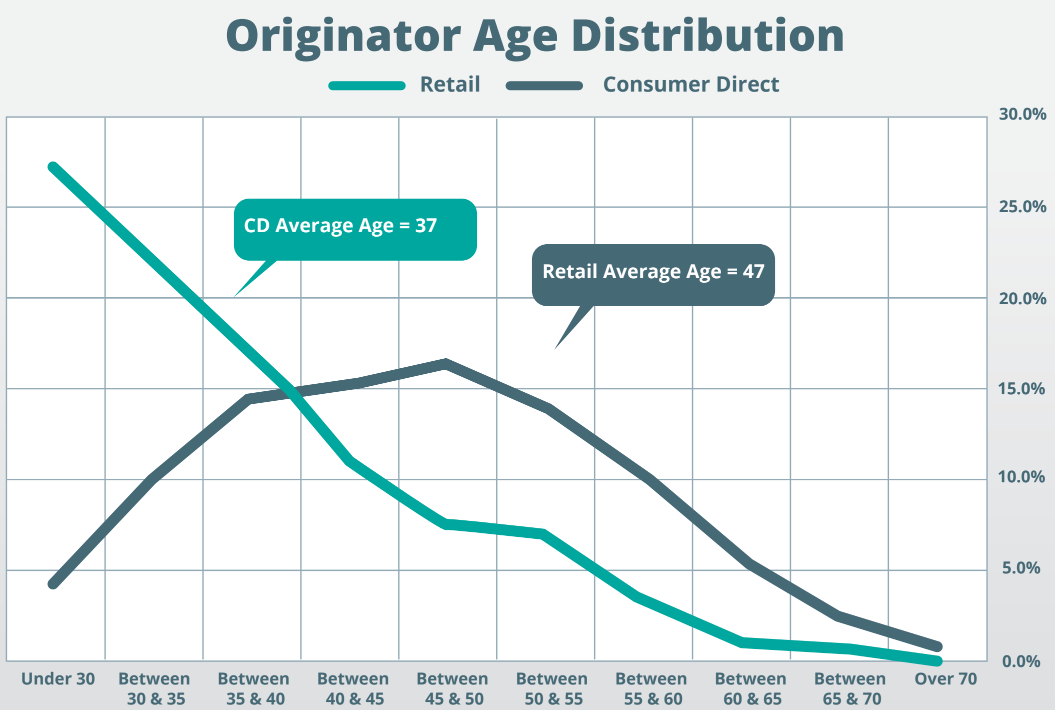
STRATMOR INSIGHTS

**The following are select results from the 2017 Originator Census Report (covering 2016 Survey data).**

**Q** **How does Originator age vary between Retail and Consumer Direct Originators?**

**A** **On average, Consumer Direct Originators are ten years younger than Retail Originators.**

- The average age of Consumer Direct Originators is 37 versus 47 for Retail Originators.
- Consumer Direct Originators skew to the Under 30 age group with more than a quarter of the population in this category.
- Retail Originator age follows more of a bell curve shape with the greatest cohort in the 45 to 50 age group.
- There are certainly Retail Originators Under 30, but not in the same proportion that we see in Consumer Direct.




STRATMOR Originator Census Survey, 2016. ©STRATMOR Group, 2017.

For all of the talk in the industry about adding "new blood" or hiring Millennials, it appears that call centers are where the Originator group is gaining ground. A Consumer Direct call center allows people new to the industry to work in a centralized environment which facilitates training and coaching. Furthermore, for many lenders, Consumer Direct is a new origination channel that they must staff from scratch.

Q **Are Retail Originators more tenured than Consumer Direct Originators?**

A **Yes. The average tenure of a Retail Originator is 3.1 years versus 2.5 for Consumer Direct Originators. While this might indicate that the Consumer Direct Originator is more likely to move than the Retail Originator, the turnover for both groups is roughly 30 percent.**

## Average Originator Tenure - 2016




Because we don't see a big difference in turnover, the difference in tenure is likely due to the Consumer Direct lenders hiring at a faster pace than the Retail lenders. It does not point to slow growth in Retail overall, but emphasizes that (especially for the lenders in our study), Consumer Direct lenders are adding new sales people at a higher rate. The influx of new hires will serve to dampen the average tenure.

### PRE-REGISTER FOR THE 2018 ORIGINATOR CENSUS SURVEY

You can register today to take the first Originator Census of 2018. If you are interested in participating, click 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 look-back period looking back from the September 2017 satisfaction score.


| | Apr, 2016 | 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 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Satisfaction | 90 | 90 | 89 | 89 | 90 | 90 | 90 | 90 | 88 | 89 | 91 | 91 | 91 | 90 | 90 | 90 | 90 | 91 |

MortgageSAT, September 2017 ©STRATMOR Group, 2017.

### Modest Improvement in 2017

As we can see from the chart, the satisfaction score during the peak home purchase/finance months in 2016 (March through July) dropped from a high of 90 in March to 89 in June and July. Per previous *Insights* issues, we believe that this fall-off reflects the increased volume that must be handled by back office personnel during the peak origination months, resulting in more processing errors and delays.

Over the same period during 2017, satisfaction for MortgageSAT lenders during the peak volume season has modestly improved, with satisfaction scores ranging from 91 in April to 90 during the peak volume closing months (May through August). We should note here that the August 2017 satisfaction score of 91 reported in the September

issue of *Insights* declined to 90 for this October issue. This change is caused by the lag between end-of-the-month closings and responses to the MortgageSAT survey. Because of this lag, the September issue did not include many responses by those borrowers whose loans closed during the last week of August.

As cited last month, the flatness of the trend line hints at the possibility that satisfaction scores in the low 90s may represent an operational barrier that will only be breached if lenders deliver a top borrower origination experience every time. This may prove extraordinarily difficult since MortgageSAT data shows that any one of a handful of simple errors during the process can materially lower borrower satisfaction (see "The Seven Commandments for Achieving Borrower Satisfaction" in the June issue of *STRATMOR Insights*).

## TOPIC OF THE MONTH — SATISFACTION VERSUS REGION
### Does Geography Affect How Lenders Treat Borrowers?

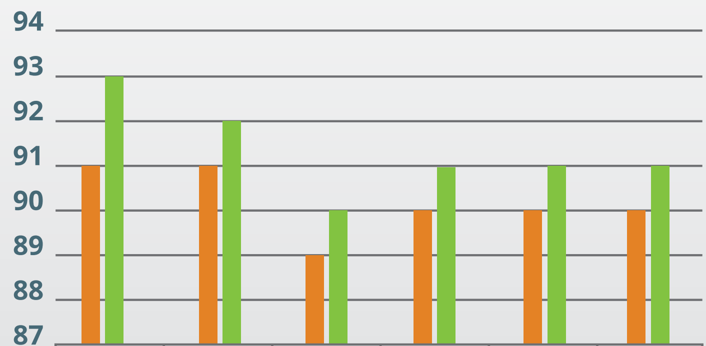
Last month, as part of our three-part series addressing the extent to which borrower attributes affect satisfaction, we considered satisfaction versus Race/National Origin, Marital Status and Loan Amount. This month we look at borrower satisfaction versus region.

To get at the question of regional differences, we first broke down MortgageSAT results into US regions as follows:

| WEST | SOUTHWEST | SOUTHEAST | MIDWEST | NORTHEAST |
|---|---|---|---|---|
| CA | AZ | AR | KS | CT |
| CO | NM | AL | IA | MA |
| AK | OK | LA | IN | ME |
| HI | TX | MS | IL | NH |
| MT | | FL | MN | NJ |
| NV | | GA | ND | NY |
| OR | | NC | MO | RI |
| UT | | SC | MI | VT |
| WY | | TN | OH | |
| ID | | KY | WI | |
| WA | | WV | NE | |
| | | VA | SD | |
| | | DC | | |
| | | DE | | |


Given these regions, the bar chart below illustrates both borrower satisfaction and likelihood to use the originating lender again by region for 2017 through October 7.

## Satisfaction/Likelihood to Use Again by Region




| | West | Southwest | Southeast | Midwest | Northeast | Total |
|---|---|---|---|---|---|---|
| Satisfaction | 91 | 91 | 89 | 90 | 90 | 90 |
| Likelihood to Use Again | 93 | 92 | 90 | 91 | 91 | 91 |

MortgageSAT, September 2017 ©STRATMOR Group, 2017.

The above results suggest that mortgage lenders treat all borrowers much the same, resulting in borrower satisfaction scores that do not vary materially based on region. The results also suggest that borrower expectations of their mortgage experience do not vary by region.

When combined with our in-depth look over the last three months at how borrower attributes affect satisfaction, this month's results again confirm what we have suspected for some time: the mortgage industry treats all borrowers equally, regardless of age, gender, race, marital status, income level, residency status and location. The data proves it.

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 ■

# GET THE **DATA-DRIVEN** ADVANTAGE

STRATMOR Group offers a suite of data products and mortgage advisory services to power your performance.

PGR MBA AND STRATMOR PEER GROUP ROUNDTABLES — LEARN MORE

---

COMPENSATION CONNECTION — LEARN MORE

---

TECHNOLOGY INSIGHT — LEARN MORE

---

ORIGINATOR CENSUS — LEARN MORE

---

MORTGAGESAT® MEASURING THE BORROWER EXPERIENCE — A STRATMOR Group Program — LEARN MORE

---

CONSUMER DIRECT WORKSHOP — LEARN MORE

**Contact us today to learn how these products and services can give you a data-driven advantage!**