Mortgage Metrics Matter

SELECT RESULTS FROM THE 2017 COMPENSATION CONNECTION SURVEY

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COMPENSATION CONNECTION

Determining compensation amounts and structure is fundamental to ensuring that your organization hires and retains the best talent while simultaneously controlling costs and justifying compensation to your stakeholders.

In our consulting practice, STRATMOR often works with companies to not only determine the correct split of compensation between base salary and incentives, but also to guide the company through the process of finding the right balance of incentive plan components that will provide fair compensation and deliver superior results to the company.

As a recent example, using findings from our Compensation Connection survey program, a STRATMOR client redesigned their executive team incentive plans to better align incentives with company performance and overall corporate goals, including growing the sales force and updating their LOS. In this article, we take a closer look at c-suite compensation.

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COMPENSATION CONNECTION

Select Results from Compensation Connection

Q **What portion of total compensation is made up of incentives for key executive team members?**

A **As STRATMOR looks across the executive suite, the amount of incentives paid as a percentage of total compensation varies depending on how close those executives are to the front-line.**

While our Compensation Connection survey covers eleven positions within the c-suite, this analysis focused on three vital roles within any mortgage company — CEO, Head of Secondary or Capital Markets and Chief Technology Officer (CTO) / Chief Information Officer (CIO). The information provided in our tables is for the calendar year 2016 and represents a national average for lenders of all sizes and both independent mortgage banks and bank-owned mortgage companies.

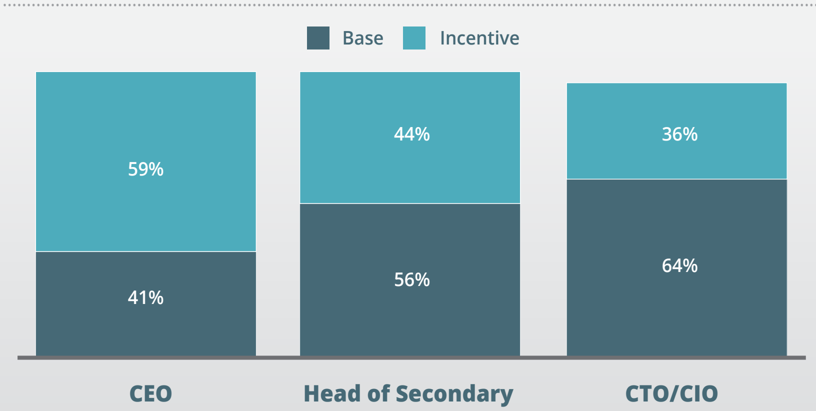
As shown in the chart below, the proportion of incentive or variable compensation reflects the level in which each position has direct responsibility for overall company performance.

The CEO directs all departments and is instrumental in building the sales team, maintaining operational efficiency, setting pricing guidelines and ensuring the company's technology delivers value. On average, in 2016, CEO compensation was 59 percent incentive or variable compensation. By structuring a plan that allows for the CEO to be rewarded as the company profits, the company has aligned the CEO's objectives with the company's objectives.

For the Head of Secondary or Capital Markets, the sphere of influence is narrower but has a greater impact on originations. By having responsibility for pricing, lock desk and secondary execution, the Head of Secondary touches a key component of company performance — revenue. But, because this position does not have control over the entire P&L, the amount of incentive is a step down (44 percent) from the CEO.

While technology is a key tool in loan origination, the CTO/CIO is relatively removed from direct revenue generation. Therefore, at 36 percent, the incentive pay for this position is less than the the incentive pay of the Head of Secondary.

Executive Compensation Splits



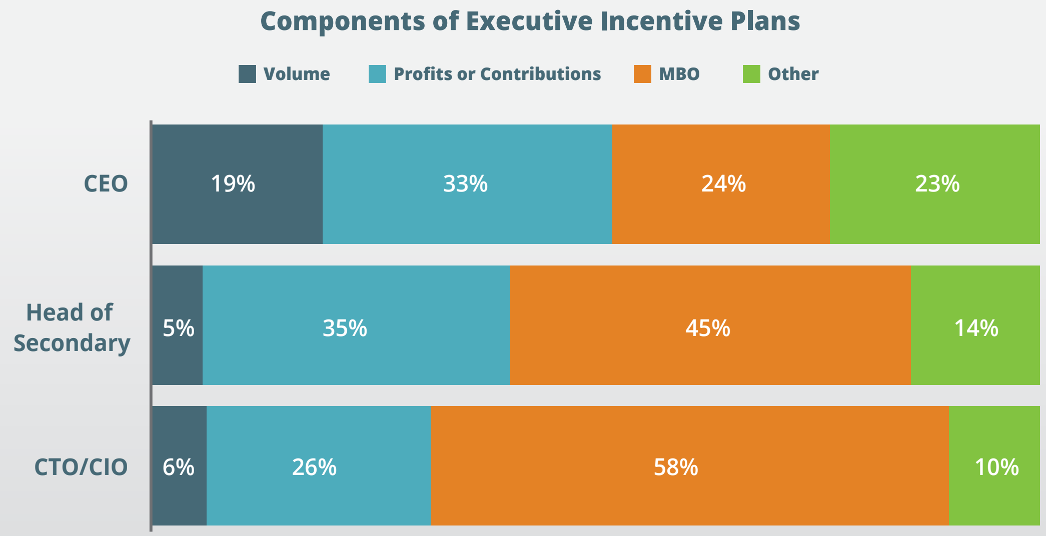
STRATMOR Compensation Connection Survey, 2017. ©STRATMOR Group, 2018.

These are only three examples from the c-suite, but the pattern holds for all positions that STRATMOR Compensation Connection covers — the more direct influence an executive has on revenues and expenses, the higher the percentage of incentive compensation that executive is paid.

Q **What are the most common components of executive compensation plans?**

A **The most common features of executive incentive plans are company volume, profits, or some measure of contribution and position-specific objectives or goals; however, the split of each of these will vary by position and reflect the nature of that specific position.**

The CEO incentive plans are more heavily weighted to volume and profits than either the Head of Secondary or CTO/CIO. This is not surprising given that it's the role of the CEO to build an organization to deliver loans profitably. It is interesting that on average, almost half (47 percent) of CEO incentive is based on achievement of goals or MBOs or "Other" components. (In the study, we find that the most common "Other" items are discretionary awards and payouts based on parent company performance.) Having more than just volume and profit included in CEO compensation allows for incentives to achieve other company goals like recruiting and retaining loan officers, completing an enterprise-wide project, installing a new LOS or achieving specific cross-sell goals within the company.



STRATMOR Compensation Connection Survey, 2017. ©STRATMOR Group, 2018.

For the Head of Secondary and CTO/CIO, volume plays a limited role in incentives and profit makes up roughly one-third of the payout. The bulk of the plans for these positions is based on MBOs or role specific goals. These goals could include a certain level of execution gains for the Head of Secondary or the successful implementation of an LOS integration for the CTO/CIO and will typically vary from year-to-year and from company to company. For these positions, less than five percent of incentives are based on overall company performance and the majority of the "Other" awards are discretionary in nature.

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Executive compensation plans should consider the level of influence the position has on overall company performance and should be structured in a way as to align personal performance goals to the overall company objectives.

Making the Compensation Connection

Since 2010, STRATMOR Compensation Connection has provided valuable insights into what mortgage lenders are paying for critical positions and how compensation is structured. We gather data from across the industry through our Compensation Connection Survey, and then we report the details on what loan officers, processors, underwriters and key executives are being paid — and we analyze their compensation structure and benefit packages.

As an incentive to participate in the survey, STRATMOR provides participants with a customized summary report comparing the participant's company data to industry averages. We also offer the survey in modules to allow participants to select the area or areas for which they are providing information:

- Executive Management
- Retail Sales (Head of Production to Loan Officers)
- Consumer Direct Sales
- Fulfillment (All Channels)
- Production Support

We are recruiting participants for our 2018 Compensation Connection Survey, which covers compensation for the full year of 2017. If you are interested in participating in the survey, or would like to learn more about the Compensation Connection Survey Report, visit our website or email Nicole.Yung@stratmorgroup.com.