

# The Borrower Experience

## ETHNIC DIVERSITY MATTERS

AN EXCERPT FROM  
**STRATMOR**  
***INSIGHTS***

# The Borrower Experience



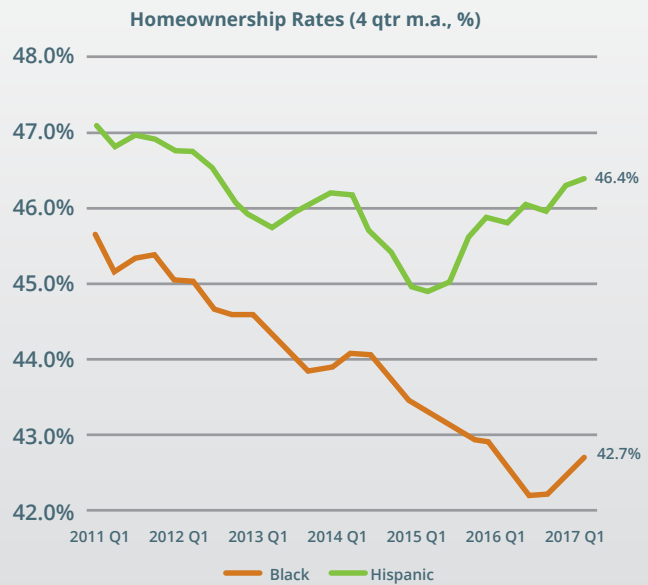
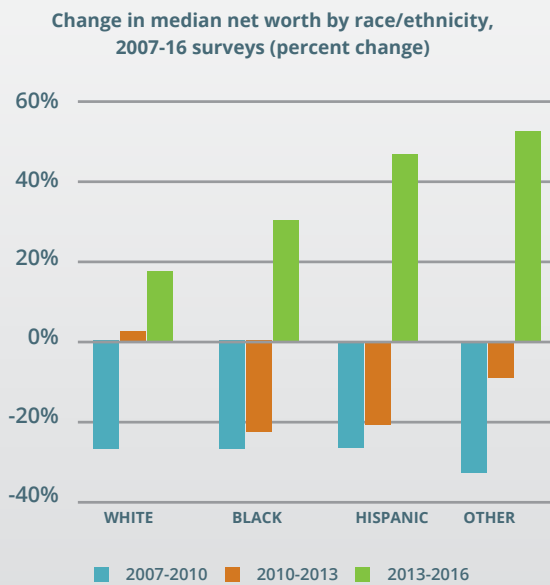
## ETHNIC DIVERSITY MATTERS

In STRATMOR's June 2018 In-Focus article, "Plight of the Independent Lender," we cited multiple factors contributing to this plight, including causes for recent negative or slow growth. Can improving the borrower's experience be a real growth opportunity?

Creating an origination strategy that includes targeting emerging markets such as ethnically diverse groups is a winning growth opportunity. According to the MBA's Economic Forecast presentation during the 2017 MBA Annual Conference, the change in median net worth among Blacks, Hispanics, and Other (Native Americans and Asians) has grown significantly since 2007. However, homeownership declined from 2011 to 2015 for Hispanics and until the first quarter of 2017, for Blacks. To capitalize on this growth opportunity, our industry must first determine why homeownership is declining among these groups and what we can do to reverse this trend. At STRATMOR, we believe that understanding this market well enough to create "delighted" borrowers is a great first step.



## Stabilization of Black and Hispanic Household Outcomes



Source: Survey of Consumer Finances, Census

From a growth strategy perspective, satisfied borrowers, regardless of ethnicity, are a lender's best referral source. For lenders who truly want to connect with this growing market, ethnic diversity among originators will be a key component to the success of this strategy. According to STRATMOR's Originator Census Study data (Chart 1), of the 13,755 originators included in the study, less than three percent were Black and less than seven percent were Hispanic.



Chart 1

Ethnicity - Mortgage Originators	
Total Originator Census Population	
	Originators % of Total Originators
American Indian/Alaska Native	0.2%
Asian	2.1%
Black/African American	2.9%
Hispanic/Latino	6.9%
Native Hawaiian/Oth Pac Island	1.2%
Two or More Races	1.4%
White	57.6%
Other	
Not Specified	27.6%
<b>Overall</b>	<b>100%</b>

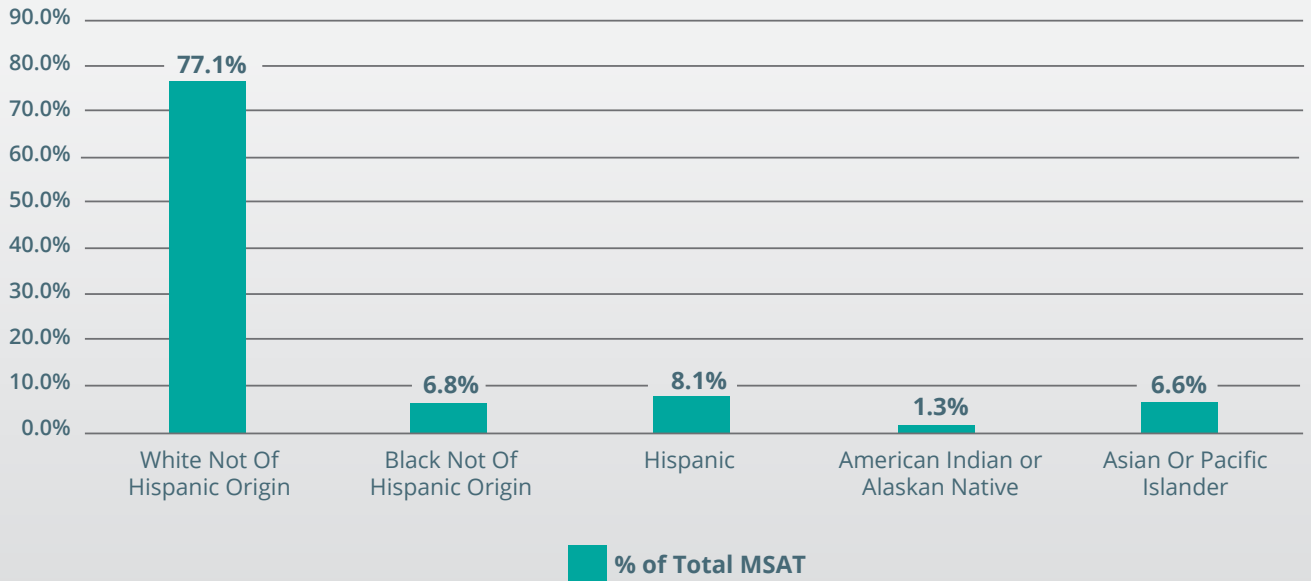
Source: STRATMOR Group's 2018 Originator Census Report

As a point of comparison, per Kaiser Family Foundation's 2016 Population Distribution report, the U.S. population is distributed as follows: White 61 percent, Black, 12 percent, Hispanic 18 percent, and Other (Asian, Native American and Hawaiian) about 9 percent. Based on these statistics, lenders have ample opportunity to diversify the originator team.

For insight into the borrower's experience by ethnicity, we draw on data from STRATMOR's MortgageSAT Borrower Satisfaction Program. Of the approximately 90,000 completed surveys received in the last twelve months, approximately 68,000 borrowers provided ethnicity information. Based on this data, approximately 77 percent of our respondents selected White, Not of Hispanic Origin. The rest of the respondents comprised all other ethnicities that originated loans with our lender clients as shown in Chart 2 — note that this resulted in only 23 percent of the respondent population.

Chart 2

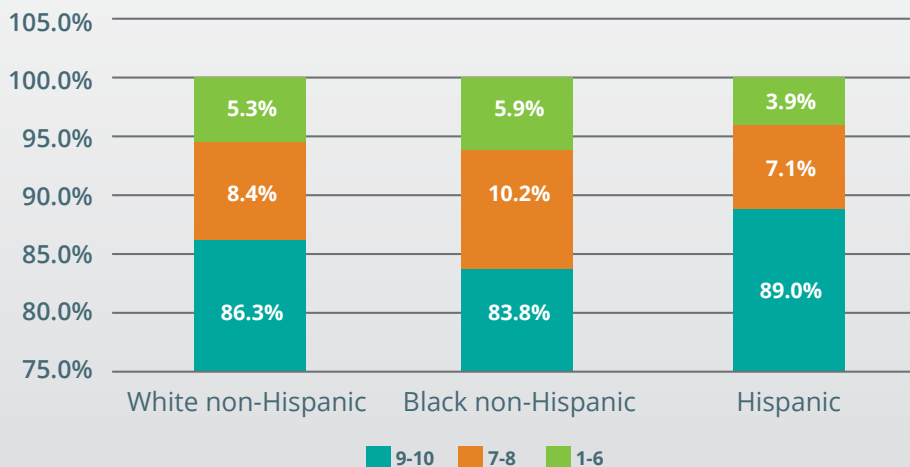
## % of Total MSAT



Overall, how satisfied are these up-and-coming growth segments? Chart 3 displays the distribution of borrower satisfaction scores recorded by MortgageSAT for the three primary ethnic groups over the one-year period July 1, 2017 to June 31, 2018. These three groups represented more than 60 thousand respondents.

Chart 3

## Satisfaction Segment vs. Ethnicity





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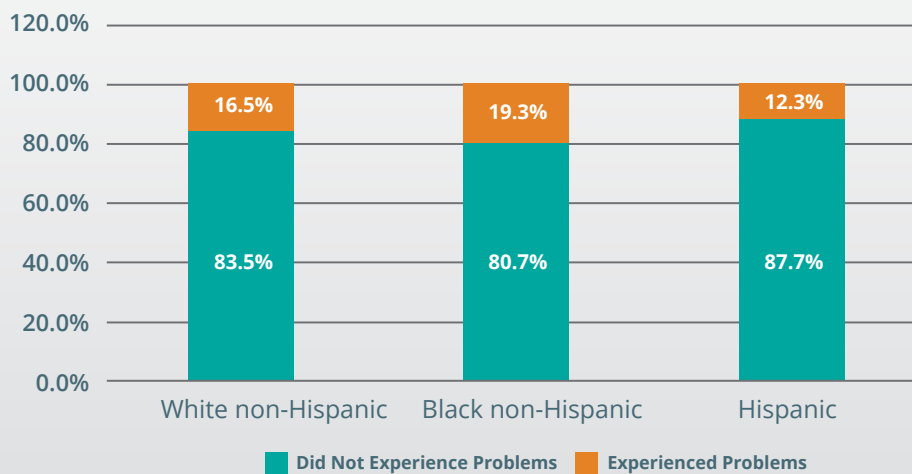


Relative to Hispanic borrowers, we see that a higher percentage of both White and Black non-Hispanics fell into lower satisfaction segments. For example, 5.9 percent of Black non-Hispanic borrowers were “detractors” — that is, borrowers who scored their satisfaction 1 to 6 out of 10 — compared to 3.9 percent for Hispanics. This data may indicate that Black non-Hispanic borrowers are roughly 50 percent more likely to have a bad borrowing experience than Hispanic borrowers.

Charts 4 shows that Hispanic borrowers experience substantially fewer problems (12.3%) than either White (16.5%) or Black (19.3%) non-Hispanic borrowers (the resolution rate of problems is virtually identical (about 78%) for all three ethnicities).

Chart 4

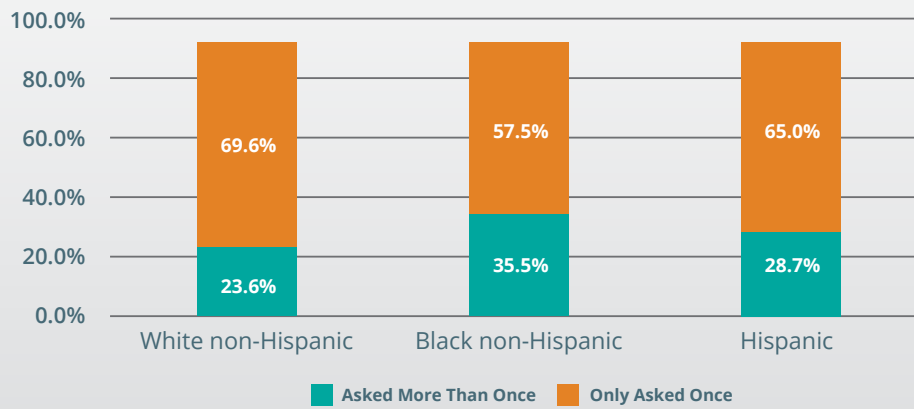
## Origination Problems vs. Ethnicity



MortgageSAT data tells us that, irrespective of ethnicity, satisfaction scores drop from about 96 to 72 when a borrower experiences a problem. But satisfaction scores are impacted by much more than just origination problems. For additional insights, we looked at how borrowers of different ethnicities fared in terms of the top four of STRATMOR’s Seven Commandments of Borrower Satisfaction — must do performance factors — for which a failure to perform will kill borrower satisfaction. We found here several lender failures that were significantly more prevalent among minority borrowers, especially Black non-Hispanic borrowers.

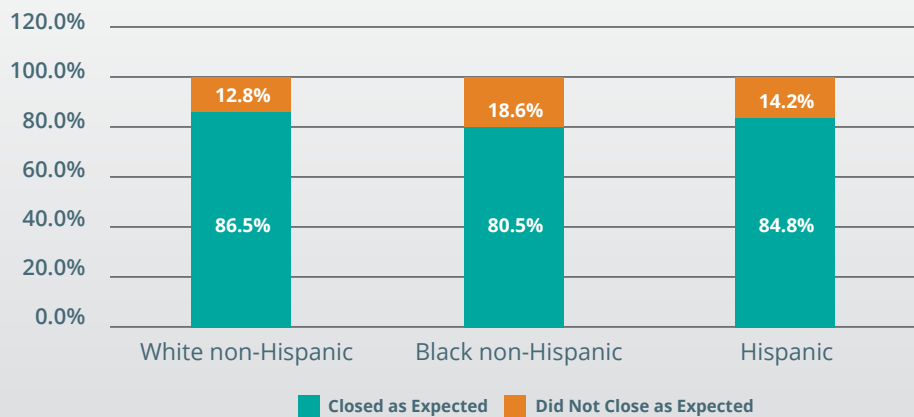
1. **Asked for a Document More than Once.** Black non-Hispanic borrowers were 50 percent more likely to be asked for the same document more than once. For Hispanic borrowers, the rate was about 22 percent.

## Asking For A Document More Than Once



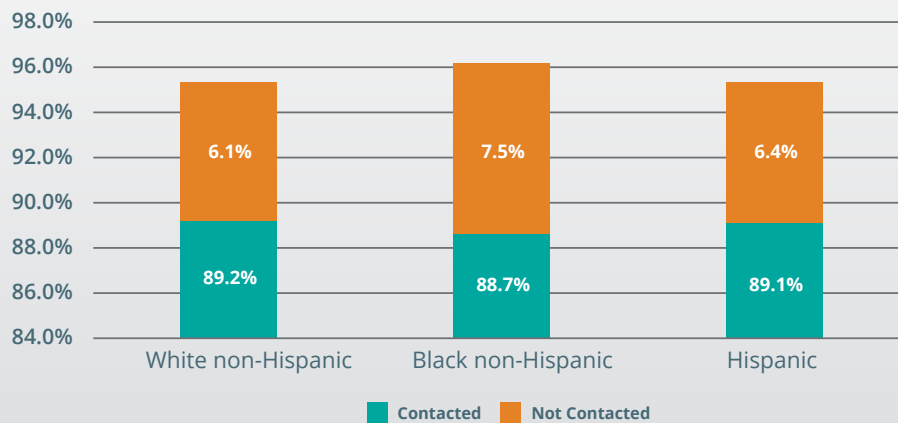
2. **Close Loans in the Expected Time Frame.** For 18.6 percent of Black non-Hispanic borrowers, their loans did not close in the expected time-frame. This compares to 12.8 percent of White non-Hispanic borrowers and 14.2 percent of Hispanic borrowers.

## Close Loans In The Expected Time-Frame



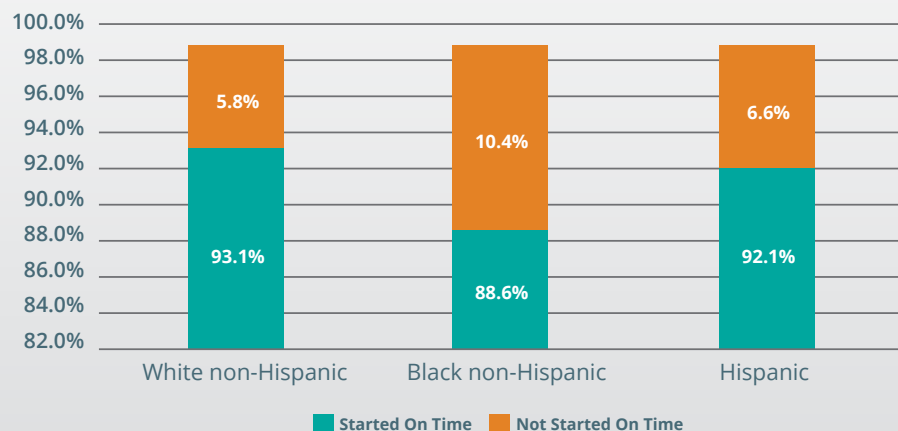
3. **Contact the Borrower Before Closing.** While the differences are not large in absolute terms, Black non-Hispanic borrowers are about 25 percent more likely not to be contacted by their lender before closing.

### Contact The Borrower Before Closing



4. **Start the Closing on Time** — 10.4 percent of the closings for Black non-Hispanic borrowers did not start on time. For White non-Hispanic borrowers, the comparable metric is 5.8 percent; for Hispanic borrowers, 6.6 percent.

### Start The Closing On Time





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## What's a Lender to Do?

Are lenders effectively connecting with diverse ethnicities? It's hard to say definitively, but our data identifies great possibilities for improving those connections which could ultimately lead to referrals. Some steps you can take:

1. Incorporate ethnic diversity into your Target Operating Model and then take the time to understand the buying habits and preferences of all borrower segments.
2. Ensure that your origination team is ethnically diverse as well. This message is two-fold. It validates your company's diversity position and it encourages deeper connections with this growing borrower segment.
3. Measure overall borrower satisfaction by ethnicity. If you don't look at how the borrower experience may vary by ethnicity, you simply cannot uncover holes in your process. Tools like MortgageSAT can help you measure this.
4. Track overall satisfaction by ethnicity at production and back office units. How effective are your marketing and sales efforts to reach multiple ethnicities at the branch and corporate levels?
5. Analyze satisfaction by ethnicity at a functional level; specifically, in terms of STRATMOR's Seven Commandments of Borrower Satisfaction.
6. Consider calling a sampling of your "unsatisfied" diverse borrowers — those who gave your company a 1-6 satisfaction score. Find out what happened and why.

## WE WELCOME YOUR FEEDBACK

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](mailto:mike.seminari@stratmorgroup.com) ■