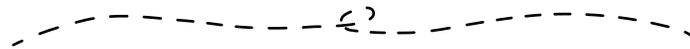




What's Next for the Mortgage Industry?

Creating Success in the Next Market Phase



Why is the customer retention rate for the mortgage industry so low compared to others? Part of the answer lies in the demand frequency for mortgages — people don't buy or refinance homes as often as they dine out, travel, or purchase other items. The rest of the cause comes from a lack of focused effort on retention — but as we move into a very different market phase, mortgage companies and loan officers can no longer afford to ignore it.

Find out how to increase customer retention by taking ideas from the “talk phase” into your business activities and simultaneously establishing long-term partnerships with customers that set you apart from the competition.



It's impossible to assess the state of the housing market and mortgage industry and determine how to move forward in a rising interest rate environment without considering the events of the last twenty years.

The U.S. housing market has been in uncharted territory for over two decades due to a confluence of circumstances and their aftermaths:

- The market spent the first six years of the new millennium on an upward trajectory and then another several years recovering from the financial crisis.
- Real estate values returned to their pre-crash peak late in 2017.
- The mortgage industry enjoyed multiple refi boom cycles powered by interest rates that remained below 5% for several consecutive years.

Companies and loan officers alike are wondering how to maintain, succeed, and grow as the market landscape feels like a series of natural disasters: margin compression, scarce inventory, extreme interest rate volatility, and explosive inflation. Understanding the industry's recent history can provide insight and inspiration necessary to sustain and succeed in the next market era.

Companies and loan officers who have been in the business since 2007 or before experienced business survival quite literally: Only five of the top 20 companies originating mortgages in 2006 still exist today.¹¹ Others who have entered the industry "post-meltdown" came up under new regulations and public expectations. Survival in the years following 2008 required regaining consumer trust and adapting to regulations meant to prevent a repeat of lending's troubled past. Companies and loan officers rose to the occasion and forged ahead in a new world of stricter underwriting standards and tighter credit availability. People were still purchasing and refinancing homes as the dust settled, and every year brought us closer to the housing market's complete recovery.

¹¹ Federal Financial Institution Examination Council

Technology presented another set of challenges the industry was forced to address during the 2010s:

- Limitations of heritage technology
- Outdated systems
- Voracious consumer appetite for a digital home buying and financing experience

The last ten years has brought a spate of vendor companies with missions to help lenders automate, be compliant and digitize the customer journey. It's safe to say technology will forever be a part of the real estate and financing processes and companies will always be in some phase of testing, implementing, adopting, and trying to get the expected benefits from the latest tech innovations and solutions.

In all, the 2010s were a productive decade for the lending industry. The market recovered from unprecedented events, and housing values progressed from the dismal days of 2011 when 22.1% of homes were worth less than the owners owed on their mortgages.²² U.S. homeowners began 2022 in stunning contrast to the bleak past: 44.9% of residential properties with a mortgage were considered “equity rich,” meaning that the combined estimated amount of loan balances secured by those properties was no more than 50 percent of their homes’ estimated market values.³³

The spring of 2022 forced the lending industry out of its long-running interest rate comfort zone. Rates jumped over two percent between the first week of January and mid-May. Lenders didn't need the Mortgage Bankers Association's Weekly Survey to show them that refinance volume dropped precipitously as rates rose — they saw it in their offices. The market is most assuredly moving into another phase.

So, what now?



²² CoreLogic

³³ ATTOM Data Solutions Q122 U.S. Home Equity & Underwater Report

Putting tech in its place

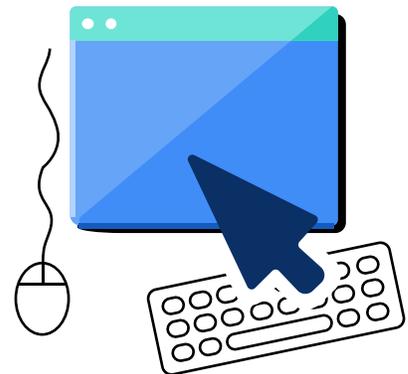
In times of change, it's normal to review business and marketing plans. What have companies and loan officers been doing for business development for the last several years? They've spent an enormous amount of time and money on technology. Tech investment and engagement wasn't a choice for the mortgage industry in the last market phase because business development and marketing became inextricably linked to compliance. **To succeed, or even exist, lenders needed to execute these critical functions simultaneously:**

- Accommodate consumer desire to shop and transact digitally
- Generate, capture, and work leads with referral partners
- Ensure compliance at scale

Exploring and implementing various types of technology to find the solution that provides the desired results involves everyone from decision makers and producers to support staff. Many organizations spent years in some phase of trial and error in pursuit of best-in-class solutions, particularly to support marketing efforts. CRM companies promoted their platforms as simple ways to automate and execute the following business development activities in a compliant fashion:

- Capture, manage, and nurture leads
- Manage and deliver in-process updates and communication
- Execute post-close, lifetime and other marketing campaigns
- Segment and communicate with multiple databases

CRMs made it possible to deploy all types of campaigns and communication that companies and loan officers always knew they should — effortlessly. All the focus and effort spent finding and adopting technology that facilitated compliant business development felt like marketing. In reality, it was managing. Consistent customer outreach is certainly better than none at all and a thank you email is better than the best closing gift that never gets sent. But the ability to deliver timely, relevant and consistent communication was far from an innovation in the mortgage and real estate industries — it was necessary to keep up with consumer sophistication. The latest tech will never be a substitute for expertise and the human element during the largest financial transaction most consumers will ever make. However, the real value of skilled, experienced loan officers wasn't fully tested in a market climate where home values climbed upward in an impressive recovery⁴⁴ and interest rates remained below 5% for over ten straight years.⁵⁵



⁴⁴ National Association of Realtors (NAR)

⁵⁵ Freddie Mac Primary Mortgage Market Survey

The shift from a transactional to customer-for-life mentality has been discussed in the mortgage industry for years, but the market hasn't forced a full, true conversion. Even though lawmakers and regulators mandated an upgrade in loan officer education and professionalism, average lenders only retain 20% of their customers,⁶⁶ leaving a full 80% as open game for competitors. Furthermore, 71% of borrowers forget their loan officer's name after 13 months.⁷⁷

Birthday cards and newsletters can help with name recollection, but if four out of five of a lender's past customers went elsewhere during the last market phase, how can loan officers sustain and grow their practices when the market volume shrinks?

"We've seen the population of high-quality refinance candidates plummet. The 11 million refinance candidates at year-end had fallen below 3.8 million by the end of February. Lenders now find themselves competing for fewer candidates." Sandra Madigan, Black Knight Inc. – March 2022

"Reduced affordability prompts some buyers to pull back from the market. The housing market is slowing down by design as the Federal Reserve tightens monetary policy in order to tame inflation. Early data signals the housing market is normalizing." Mark Fleming, Chief Economist, First American Financial – May 2022

Paving the way forward

The next chapter for the U.S. housing market brings rising interest rates, margin compression, and stiff competition for fewer business opportunities. Platitudes will fly in C-suites, sales meetings, and planning sessions — most likely starting with "trim the fat." Once the paring down is complete or at least underway, everyone will be looking for the "silver bullet." But the fix is not singular — it lies in ideology, and activities that were once optional, but are now essential.

Two business mentalities that must move beyond the talk phase into the core of lenders' business plans and operations are **customer retention** and **partnership**.

It's easy to make a case for the value of customer retention in any industry. Customer acquisition costs will vary due to multiple factors, including but not limited to market conditions and what's happening in the economy overall. Here are two commonly cited statistics that emphasize the importance of retention versus acquisition:

- It costs between six and seven times more to get a new customer vs. keeping the customers you already have⁸⁸
- If you improve retention by just five percent, profitability has been shown to grow by anywhere between 25 and 95 percent⁹⁹

⁶⁶ Sales Boomerang

⁸⁸ Marius Kiniulis

⁷⁷ HomeBinder

⁹⁹ Fredrick Reichheld, Bain & Company – Inventor of the Net Promoter Score



These statistics may not play out as literally in the mortgage industry as they do in other fields because most studies include home lending with financial services or real estate. Additionally, unlike most companies, lenders engage in both B2B (real estate agent and other referral partners) and B2C marketing. The mortgage industry is also distinct from other industries tracked in these types of studies because of the size of the transactions and homeowner tenure. The average homeowner stays in their home for 13 years,¹⁰ which means most people will make three to five primary residence purchases in their lives. The lifetime customer value (LCV) for a loan officer is significant in terms of dollars, but the number of potential transactions is nominal when compared to how many times a consumer will make a retail, travel, or hospitality purchase. Customer retention also includes referral business, which can significantly boost the LCV for every closed loan. Lenders can no longer afford to rely on hope and closing anniversary emails as a main retention strategy as overall market volume decreases.

The first step toward advancing customer retention from a goal to tangible results begins with redefining customer perception and relationships.

Mortgage professionals have a tremendous opportunity to distinguish themselves as partners rather than salespeople due to the significance, magnitude, and intricacy of the loan process for borrowers. The sales cycle itself involves sensitive financial material and the in-process phase affords time to counsel and bond with clients. Though real estate agents help people to find the homes, the lender is directly associated with the money that makes owning them possible. Eighty-seven percent of home buyers financed their home purchases in 2021,¹¹ so the majority of U.S. home sales afford an opportunity for lenders to create long-term relationships.

¹⁰ U.S. Census Bureau – American Community Survey

¹¹ NAR

Loan officers must establish themselves as more than the person to call when you're looking for a mortgage.

The idea of lenders becoming “trusted advisors” is not new; it was central to a lot of marketing messaging the mortgage industry used in the wake of the financial crisis to set themselves apart from negative stereotypes and rebuild public trust. For too many companies and producers, elevating beyond a sales and transactional mentality has been more of a theory than a consistent practice due to years of low interest rates and frequent refi churn. Simply “getting and keeping a company or loan officer’s name out there” will not be adequate to generate or grow business going forward.

Some lenders offer clients a list of professionals such as plumbers, electricians, and painters as a way of establishing themselves as a resource. That’s likely appreciated; but while it may save your client some time, does it add value? To advance beyond “the person that did the loan” to a strategic partner, lenders need to remind their clients that their expertise is relevant beyond closing. The first six months after funding is a time when the experience of going through approval and underwriting and the work a loan officer did for a borrower is still fresh. **Here are three things loan officers can do to solidify a partnership with people during the immediate post-close phase:**

- Introduce partners such as insurance or planning professionals that can save them money and help them advance other financial goals. For example, you can **offer insurance through Matic**, where borrowers get access to the best coverage and rates from 40+ A-rated carriers.
- Offer to assist when they are considering other purchases and to advise them on the potential impact on their overall credit and debt picture.
- Let them know that you will provide annual equity position review — and why it’s important.



The industry has reached an era when loan officers must regularly demonstrate their value to consumers and reinforce it through their marketing outreach. Fortunately, consumers themselves provide the mortgage industry with the perfect way to establish their relevance outside of the times when they're thinking of or getting ready to buy or refinance a home.

It's time to address what consumers don't know and show them what you do.

Theory must become practice

Establishing customer partnerships that lead to repeat and referral business (retention) lies in how well you connect with and remain relevant to people who are not in a “mortgage state of mind.” Of course, lead nurture and in-process customer experience must be executed well for those who raise their hands to do business with you. But actual business development will occur from educating the public about options they don’t know exist — especially in a changing market. This approach differs from traditional marketing initiatives because it’s proactive. Think of it as “initiative marketing.”

An abundance of data about consumer sentiment and behavior specific to the real estate and mortgage industries is available at no cost. Government-sponsored enterprises (GSEs) Fannie Mae and Freddie Mac provide weekly and monthly data as well as periodic special reports. Data providers and trade organizations also regularly release information that can be mined for initiative marketing gold. Consider the following statistics that include mature and experienced homeowners as well as renters:

- 85% of consumers overestimate the FICO score required to obtain a mortgage¹²
- Only 23% of consumers are aware of low down payment loan programs¹²
- The typical down payment for first-time home buyers in 2021 was 7%; the typical down payment for repeat home buyers in 2021 was 17%¹³
- 50% of active duty military and 31% of veterans believe a VA loan can only be used once¹⁴

Staying apprised of what the public doesn’t know or is concerned or confused about allows the mortgage industry to connect with and educate people in ways that set them apart from others who simply promote themselves. Conducting a first-time home buyer seminar is fine; but if your target audience has eliminated themselves because they believe they need a higher credit score or a 10% down payment, it’s harder to fill seats. Promoting the fact that you offer Veterans Administration loans is ineffective if a service member or vet believes they have “used up” their eligibility.

Customer retention and successful strategic partnership development require a shift to initiative marketing that:

- Addresses the market
- Accurately reflects the consumer climate
- Informs and presents timely options

¹²12 Fannie Mae, Report: Lenders Have an Opportunity to Close the Knowledge Gap

¹³13 National Association of Realtors 2021 Profile of Home Buyers & Sellers

¹⁴14 Navy Federal Credit Union

The AI Test

It may seem like a Herculean task to hunt for relevant data points, decide which to use for different market segments and create material suited for each. However, if you don't want to dedicate the time and resources to create specific campaigns and material for every segment, it's possible to generate compelling, relevant content that can work for multiple groups if it passes the "AI" test:

A = Applicable: Does the material apply to the audience right now?

I = Interesting: Is the material interesting?

The AI test sounds simple, but meeting at least one of the standards will pique interest across a broad audience. You can test its validity by picturing a typical banner ad for a mortgage professional featuring a photo, logo, a list of products like FHA, VA, and conventional loans along with contact and compliance information. Is it applicable? Perhaps, if someone was looking for a lender in that moment. But is it interesting?

The statistic about widespread lack of knowledge about credit scores is a great example of cross-segment marketing that passes the AI test: A social media post, blog, or email blast informing an audience that 85% of homeowners and renters overestimate the minimum credit score to obtain a mortgage is interesting and applies to most people. Delivering that easily-accessible information from Fannie Mae gives the loan officer an opportunity to mention how many "credit myths" are out there and invite people to connect and ask any credit questions they may have. An offer to help friends, family, and coworkers who have questions on the topic can also elevate your data point to water cooler and dinner table talk.



The next level: initiative marketing and referral partnerships

The most common referral partnerships lenders have are with real estate agents. Initiative marketing can help loan officers establish, maintain, and grow relationships with their agents by sharing their content and using it to co-market to agents' databases of prospects, past and present clients, and contacts. The following data from the National Association of Realtors'® (NAR) monthly Existing Home Sales Report provides a great initiative marketing idea for loan officers and agents to pursue:

- All-cash sales accounted for 26% of transactions in April 2022, down from 28% in March and up from the 25% recorded in April 2021.

According to NAR's press release, second and vacation homes account for a major portion of all-cash sales. This stat provides an opportunity to mine past client databases for people who are thinking of purchasing a second or vacation home. Based on the NAR information, a portion of those potential buyers also may be thinking of paying cash. **There are two initiative marketing angles for this statistic:**

1. Cultivate relationships with financial advisors by alerting them to the cash buyer trends and request their input on alternative purchase scenarios.
2. Present these potential second and vacation home buyers with scenarios and show comparisons between locking up their cash in a property versus getting a mortgage and keeping the rest in savings and investments.

Though this data applies to a sophisticated portion of the market, the premise can be generalized and used in social media posts, blogs, and general consumer outreach. This type of insight and strategy elevates lenders and their partners above the competition.

Where do people go when they want answers? The internet. But when it comes to getting a mortgage, they still chose traditional professionals in 2021:

- 53% of home buyers chose a traditional lender to finance their home
- 17% used an online or digital lender¹⁵

The "human" mortgage industry still owns the market.

Concerted customer retention and strategic partnership development fueled by initiative marketing is the key to maintenance and growth in the next era.

¹⁵ ServiceLink – 2022 Home Buying Report

Take control of the future

- **Expand as the market retracts.**

The rate climate and refinance volume of the last several years make low retention rates in the mortgage industry understandable; but they're no longer acceptable. Companies and producers who prioritize customer retention will lead the industry going forward.

- **The best audition for future business is a successfully closed loan.**

Lay the groundwork for repeat and referral business from the beginning: Define yourselves as partners at the onset of every borrower relationship. Go beyond a mission statement that describes your goals and values and tell borrowers what you can help them with after closing.

- **Don't just watch the market, move it.**

Companies and producers must present insight and solutions. Use initiative marketing to educate the public, address concerns, and feature options that consumers don't know they have. Automated marketing capabilities make deployment easy, but it takes commitment, expertise, and creativity to be relevant, compelling and remembered.



Partner with Matic

Interested in partnership opportunities? **Contact us** to learn more about how Matic can help you drive borrower retention and generate additional revenue while making every client feel like your number one priority.



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