Navigating the Next Housing Market Phase:

Insights & Action Steps for 2023

Change came quickly to the U.S. housing market in 2022: Rising home prices gave way to the rapid ascent of mortgage interest rates. Despite these changes, consumer enthusiasm has not dampened and the majority of consumers still consider market conditions to be favorable for home buying.[11]

While optimism exists, the current market is forcing mortgage companies to implement strategies to ensure survival and sustainability during this challenging period. In this report we'll take a look at previous market phases to gain a helpful perspective and discuss strategies to navigate the current landscape so your organization is ready for the next upward cycle.

[11] 2023 ServiceLink State of Homebuying Report

The U.S. housing market: how did we get here?

The first decade of the 2000s brought a protracted housing boom, abetted by the abundance of easy credit and liberal loan products. The "burst of the housing bubble," "mortgage meltdown," and Great Recession were all related and often directly attributed to the housing market. The second decade was characterized by recovery from the excesses of the one before it, with mortgage interest rates hovering around all-time lows for unprecedented stretches. Because the market events of the 2000s and 2010s were unique and far-reaching, people believed that they spanned the entire ten-year periods. In reality, the average economic cycle in the U.S. has lasted roughly five and a half years since 1950[12] and the housing market has historically ebbed and flowed similarly along with other sectors. But just as the calendar advanced into another ten-year span, yet another unique and far-reaching event reared its head: the twenties roared in with a worldwide pandemic, and housing played a major role.

The pandemic redesigned the permissibility, expectations, and prevalence of telecommuting. The temporary requirement for everyone to work from home gave many the ability to do so for the foreseeable future. This unleashed a demand for housing unconstrained by commuting distance for this newly empowered workforce.

House hunters had a tough time in 2021 — home prices were climbing at double-digit rates every month, competition was fierce, and multiple offers became routine. Concern grew among industry economists and experts that the pace and rates of home price acceleration were unsustainable, though they were reluctant to predict an all-out crash. The terms "adjustment" and "correction" became common in forecasts and data releases; and then an adjustment quickly began in March of 2022. The Federal Open Market Committee began raising the Federal Funds Effective Rate to combat inflation, touching off reactions in other markets that influence mortgage rates. Rates for a thirty-year, fixed-rate mortgage were 3.11% on December 30, 2021. When the Fed began its inflation-fighting quest in March 2022, rates climbed past 4% for the first time since May 2019, and had more than doubled to 6.29% by the end of September. The 30-year fixed-rate mortgage surpassed 7% for the first time since April 2002 on October 27, 2022.[13]

[12] National Bureau of Economic Research - NBER Determination of the Feb 2020 Peak in Economic Activity
[13] Freddie Mac Primary Mortgage Market Survey

Just as we were getting our post-pandemic footing, it began to appear as though the rug got pulled out from under the housing market. **The effects of these drastic market changes impact mortgage leaders the following ways:**

1

Less business:

Existing home sales and mortgage originations dropped 34% and 44% respectively between 2021 and 2022.

Year	Existing Home Sales[14]	First Lien Loan Originations[15]
2021	6,090,000	$4.3T
2022	4,030,000	$2.4T

2

Low morale:

A drastic drop in total addressable market (TAM) and rising costs are an understandable strain on companies and commission-based producers. Independent mortgage banks and subsidiaries of chartered banks reported a net loss of $2,812 on each loan they originated in the fourth quarter of 2022[16]. For producers, turnover is always a concern, but attrition will likely increase as some originators exit the industry.

Year	Turnover Rate[17]	Market Climate
2020	21%	Record-breaking origination volume
2007	51%	Great Recession

[14] National Association of Realtors
[15] Black Knight Inc.
[16, 17] Mortgage Bankers Association

3 Consumer confusion:

The slowing of home price growth and decline in the number of sales has fueled headlines that can be misleading to the public. Non-industry reports that say sales have “dropped” and that prices are down have contributed to an uneasiness among the public, while younger demographics believe affordability is beyond their reach.

Renters/Non-Homeowner Sentiment[18]	Gen Z	Millennials
Believe they would have to win the lottery to afford to buy a home	52%	57%
Believe they would have to make life changes to be able to afford a home	94%	95%

4 Outside forces:

Several economic conditions have affected consumer purchasing power, with inflation as a main contributing factor. Housing-related price jumps include an 11.2% annual increase in the national average for closing costs for a single-family property[19], and a 19% year-over-year construction cost increase in 2022[20]. Supply chains, labor shortages, and natural disasters have also helped to erode spending power, and hence, the ability to save for down payments and afford a home. These same factors have driven homeowners insurance costs to rise as well. Home insurance premiums in the US are rising faster than ever before — increasing at a record rate compared to the previous year (see the Embedded Insurance section for details). Homeowners and potential buyers are seeing and feeling the impact of these increases on their total PITI payments.[21]

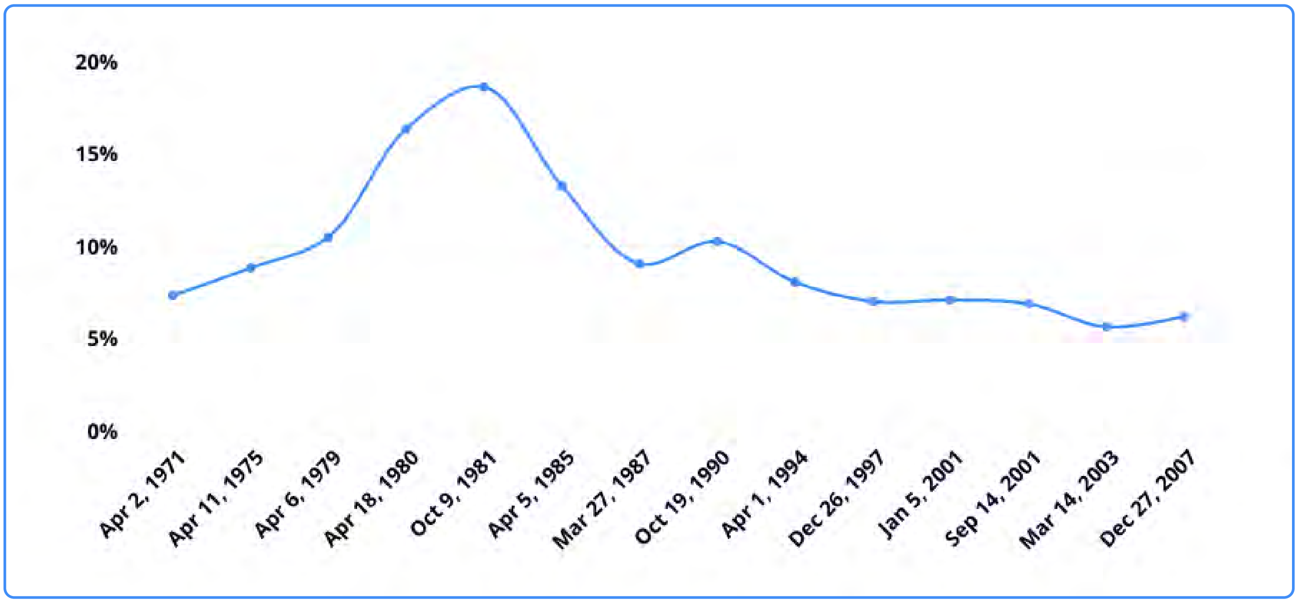
While the last 22 years of the U.S. housing market included a parade of unprecedented events, the conditions we′re seeing today have the earmarks of past market cycles: the deceleration of home price growth, a higher mortgage interest rate environment, and the corresponding decrease in the number of home sales and mortgage originations. So, how can looking back help us with today’s challenges?

[18] Zillow
[19] CoreLogic’s ClosingCorp
[20] National Association of Home Builders (NAHB)
[21] Matic 2022 Mid-Year Premium Trends Report

Harnessing hindsight: understanding today's housing market through historic trends

Rate changes can be more of a challenge for the market than home prices, and there are young families in the market for homes today that have never seen rates at current levels. But a sampling of rates for a 30-year FRM through the decades offers a great deal of perspective on the rate increases that began in 2022. Looking back at rates from the 1970s, through the peak in October of 1981, post September 11, and up to the start of the Great Recession, we can see that the U.S. housing market has still managed to survive and forge ahead despite some dramatic interest rate eras.

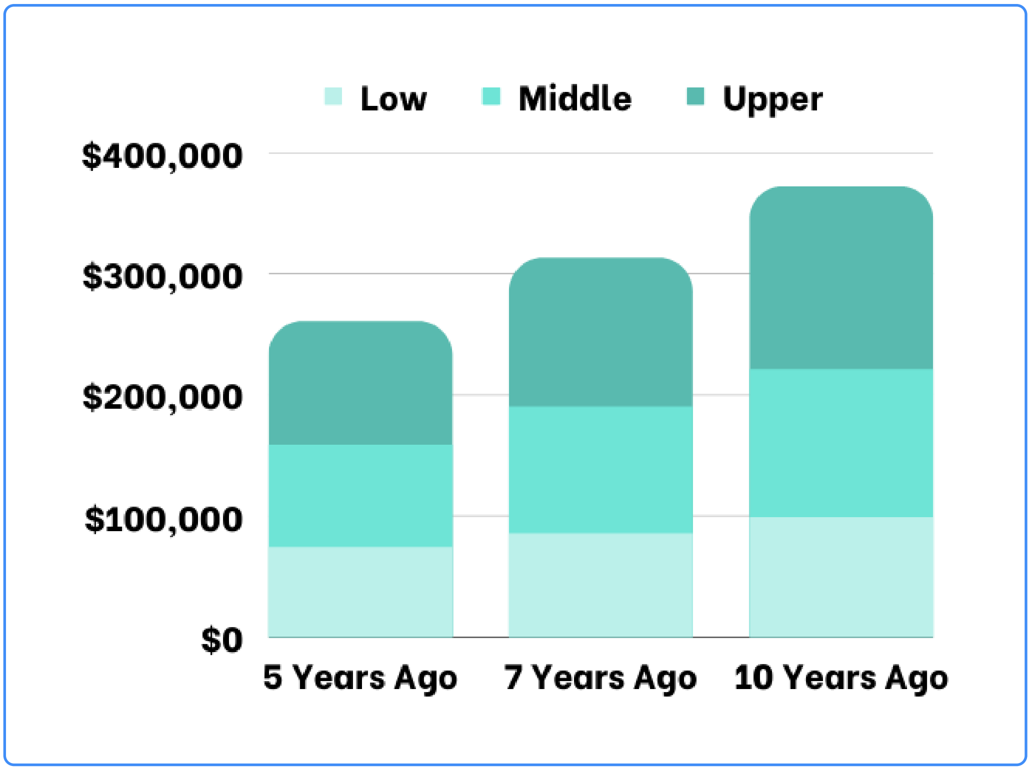
Rates for 30-yr FRM through the years[22]:



[22] Freddie Mac Primary Mortgage Market Survey

Investors often preach that success is “about time in the market, not timing the market.” — and this appears to be true. Homeowners have done very well over the years by many standards of measurement. The National Association of Realtors® (NAR®) published their “Wealth Gains by Income and Racial/Ethnic Group” report that shows the concrete value of homeownership for all income levels.

Wealth gains in the last 5, 7 & 10 years by income group:



NAR® Chief Economist Lawrence Yun said of the report, “This analysis shows how homeownership is a catalyst for building wealth for people from all walks of life. A monthly mortgage payment is often considered a forced savings account that helps homeowners build a net worth about 40 times higher than that of a renter.”

Results like these are assuredly among the reasons that many lending, real estate, settlement, and other housing market professionals remain in the business. They also provide compelling reasons to stay focused and optimistic as we move into a new phase that shares similar characteristics to markets past. However, it’s important to keep in mind that the changes technology has brought upon the housing market, lending industries, and consumer behavior introduce an entirely new layer to the current cycle that successful mortgage companies have addressed.

Navigating the current environment

As housing-related industries have been feeling the effects of a shrinking TAM, mortgage companies and producers must find ways to offset decreased volumes without compromising standards and service. **The four key themes to navigate a downward cycle include:**

1. **Reducing costs through increased efficiencies**
2. **Increasing ancillary revenue**
3. **Attracting new business while maintaining a low cost to acquire a customer (CAC)**
4. **Retaining existing customers and be ready for the market the turn**

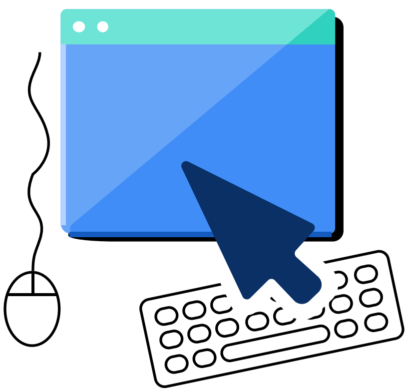
Reducing costs through increased efficiencies

From software as a service (SaaS) that has low utilization and lacks an ROI to antiquated processes that could easily be automated — now is the time for mortgage companies to evaluate and implement changes across the business. Here are three ways to reduce costs and increase efficiency.

1. Evaluate your current tech stack and eliminate unnecessary systems and services.

Go through each software expenditure and ask yourself if it is business critical, value add, or something that can be cut. This process will also help identify duplication of tools that offer similar features. To determine how to handle tech in the "value add" bucket, dig deeper to understand the utilization and ROI from the tool by asking the following questions:

- How frequently is the tool leveraged?
- What are the benefits of the tool?
- Is there a direct ROI from the tool, such as revenue or time savings?
- If we remove the tool, what is the trade off?
- Did the vendor deliver what was promised?
- How have issues been handled?
- Are our expectations being met?



The answers to these questions can aid in deciding whether to cancel, as well as provide leverage in renewal negotiations. For systems in use by internal and support staff, now is the time to make a choice, commit to one, and eliminate the other(s). Staff resistance to change is lower in changing markets.

For company-provided marketing and business development technology, evaluate the level of adoption. If producers and teams are not using the offered systems, determine the ability to shift dollars from a system with low usage to what the salespeople prefer. If the system(s) your production teams are using are more expensive than what you provide, consider subsidizing it rather than paying for it in full.

2. Audit of operations and processes and introduce automation.

Even the smallest of inefficiencies — when multiplied across hundreds or thousands of loans — can make a big difference in your bottom line. Evaluating your current processes can identify areas of improvement. For loan originations, start by walking through the process from start to finish and identify each discrete step in the process such as application, document collection, processing, identity and document verification, underwriting, closing, and post-closing. Within each step, take note of how much time they take, which steps contribute to the most friction, where bottlenecks occur, what handoff looks like, and where loans stall.

Homeowners insurance verification is one example of a process that is both time consuming and inconsistent across carriers. As improving efficiency becomes a priority, lenders are beginning to **introduce automation during the verification processes**, which can help redirect headcount and eliminate uncertainties with staffing volumes.

Other parts of the process that contribute to the most friction or lead to the most stalled loans are likely the best target for optimization. As you begin to form action plans, tie each proposed optimization to one or two KPIs, such as average loan cycle time, cycle stage length, pull-through rate, fallout rate, or application approval rate. Begin benchmarking the KPIs now before implementing changes.

3. Consider accessible Artificial Intelligence (AI) and ensure your team is leveraging the capabilities to be more efficient.

As AI continues to rise, leaders are understandably wondering how they can use it to streamline tasks and save on expenses. AI can most assuredly find use in the housing industry, but before jumping in, it's important for companies to review the current state of their technology and understand what they can – and can't — do with AI. Below are a few ways to start this process.

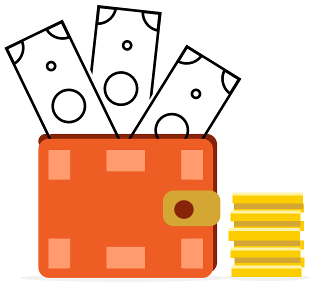
Though AI now makes news on a daily basis, it can't solve every issue in the housing industry. The home purchase and finance processes are still the largest financial transactions most consumers ever make, and there simply aren′t computer-generated ways to handle certain parts of real estate and mortgage transactions. For example, AI can help real estate agents write certain clauses, but it can′t be trusted with the finer points of negotiation and expectation management. In lending, AI could assist a borrower in writing an explanation letter for a change in compensation or past credit issue, but it has yet to be able to determine when one is needed or whether such a letter could be the difference that gets a borrower approved. AI can be useful to companies and producers as a complement or supplement; but it′s not ready to be a replacement.

Housing industry professionals can tap AI to speed up and improve communication by creating templates for teams to leverage internally, such as FAQs. However, all AI-generated material should be reviewed and verified due to its limitations. ChatGPT, for example, is only updated with data from September 2021, so any content referring to market conditions could be outdated. Always ask the system to cite its sources and ensure the material is verified as relevant, accurate, and compliant. While AI can help with content ideation, language, and general concepts, to ensure usefulness and accuracy, it needs to be supplemented with current information, proprietary messaging, and your own insight.

AI can absolutely save time and assist with organization, research, and some usable material, but this technology still requires human operators to get the best results and most benefit.

Increasing ancillary revenue

Adding even 1% to your revenue can translate into thousands or millions of dollars in increased profit over the course of a year, depending on the size of your business. Additional revenue from products and services that are adjacent to your core business can offset downcycle years.



There are many options to get started and there's no one-size fits all approach that works with every situation. One option in particular has been proven time and again to be successful in moving the needle on the metrics that matter most to your business: Embedded homeowners insurance.

Embedded insurance refers to the process of insuring a purchase — any purchase — either at the point of sale or at other key moments throughout the homeownership experience. In reference to homeowners insurance, specifically, the term comes from the fact that the process of insuring the home is "embedded" directly within the experience of buying or owning a home.

Embedded homeowners insurance specifically refers to the processes and policies that mortgage lenders, originators, and servicers use to help borrowers find insurance. Often, this takes place as a part of the financing process, but it can also take place at other key junctures of the homeownership experience. A lender or servicer who must notify a borrower that their escrow payment is going to increase due to rising insurance costs might, for example, leverage an embedded insurance solution to prompt the user to shop around for new coverage that offers cheaper rates.

How does embedded homeowners insurance work?

When people set out to buy a home, homeowners insurance is sometimes the furthest thing from their minds. They're thinking about things like getting pre-approved for a mortgage, sifting through listings, conducting their inspection, and making an offer on their dream home. Often, they won't even start to consider homeowners insurance until they're ready to close, when the lender asks for proof of insurance.

While this is understandable — especially in the case of first-time home buyers — it can cause headaches for mortgage lenders and originators. In a best-case scenario, it might add a couple of days or a few weeks to the closing process, driving up your costs. Rate-lock extensions alone can cause lenders to lose tens of thousands of dollars a month.

But in a worst-case scenario, it could lead to a mortgage being denied in underwriting. Calculating a customer's front end debt-to-income ratio (DTI) requires you to know all of their housing expenses — including their homeowners insurance premium. It's not uncommon for a loan officer to walk away from a loan or two every month because the borrower's DTI ends up being just a little too high once the insurance estimate is added in.

Embedded insurance solves these and other problems by automatically connecting your borrowers with potential homeowners insurance carriers the moment they are ready to close.

Usually, lenders accomplish this by partnering with an embedded insurance platform (like Matic) which provides an interface that the borrower can use to easily shop for an insurance policy. What, exactly, this interface looks like will depend on your partner and your business, but it can take the form of:

- White-labeled landing pages
- Embedded widgets directly on your website
- One-click buttons that loan officers can embed in their LOS
- Automated processes that are embedded directly within the loan process

The result? Your borrowers start thinking about homeowners insurance earlier in the buying process, reducing the risk of an elongated close cycle and rate-lock extensions. And because the cost of insurance is known earlier, it also reduces the risk that your borrower might price themselves out of a loan.

Additionally, incorporating embedded insurance into your mortgage origination process offers you an easy way to begin generating cross-sell revenue, allowing you to claim more value from each new deal.

Of course, before selecting any partner, it's important to ensure that their technology and practices are compliant with all applicable regulations and consumer data privacy laws.

For mortgage servicers, offering products and services that are complementary to homeownership throughout the entire lifecycle of a mortgage is a great way to keep customers engaged, loyal, and generate ancillary revenue.

The home insurance market has become increasingly volatile with large carriers pulling out of coastal regions and insurance premiums increasing on average 19.3% YOY due to inflation and the rising cost of building materials.[23] Given the market conditions, when considering embedded insurance providers, more than ever it is important to offer your customers a marketplace with choice — rather than a direct carrier model — as it will increase their chances of finding a policy as well as savings. Customers who find homeowners insurance through Matic, for example, save an average over $500 per year.[24]

Additionally, an insurance marketplace and digital agency will help them save time shopping as they can comparison shop multiple carriers at once, saving your customers hours of work researching their options. Providing your customers with a product they need that helps them save money is a great way to generate revenue and build loyalty.

[23] Premium increase based on average premium renewal data for customers with a renewal date between January 2023 through May 2023 compared to the previous year purchase date.
[24] Average calculation includes homeowners who became Matic policyholders between January 2022 and December 2022, found savings, and the prior insurance premium amount is known to Matic.

Attracting new business with a low CAC

Referral partnerships is one of the best ways to attract new business with a zero to low CAC. The most common partnership in the housing sector occurs between lenders and real estate agents, since the majority of home purchase transactions are financed.[25] The percentages of home sales that were financed in 2022 clearly illustrate that agents and loan officers need each other:

- First-time home buyers: 97%
- Repeat home buyers: 73%
- All home buyers: 78%

But there are other partnerships that can be extremely valuable for lenders. Many mortgage companies and loan officers have cultivated relationships with other professionals in a position to refer business through chambers of commerce, community service and other collaboratives, and networking organizations. Community involvement and networking through professional peer groups are great ways to build referral partnerships.

There are mutually beneficial ways to establish relationships and accelerate trust with non-real estate referral partners, who might include tax professionals, financial advisors, and attorneys of different specialties. A few situations in which non-real estate professionals could refer clients include:

- CPAs could refer a renter whose tax position could be improved from buying a home. Divorce attorneys could refer a buyer or seller that emerges from a marriage dissolution.
- Financial planners could refer buyers and sellers in various phases of their lives.

The potential seems limitless, but the effort to establish these relationships deters many lenders from pursuing them. Here are three ways to meet and build relationships with non-industry professionals:

1. Ask for insight

Formulate a series of questions for the different professionals you wish to cultivate as partners. Choose questions that relate to real estate and financing needs. Let them know that you would like to use their answers in various marketing materials such as newsletters, blogs, and marketing campaigns. For example, for a tax professional, you could ask them to provide expertise around closing costs that can be written off or comment on significant tax changes from the last year.

You can approach several professionals to compile varied and accurate information. This approach can also increase the chance to form a strong connection that will result in referrals.

[25] National Association of Realtors® 2022 Profile of Home Buyers and Sellers

2. Spotlight their expertise

Once you've obtained information from a professional, feature it in a blog, video, or social media post. You can also incorporate the information into different types of marketing campaigns for both consumers and other partners. For example, you could use a tax professional's information on the deductibility of closing costs in conversations and outreach with real estate agents to help them leverage it in negotiations. Share any tax benefits of owning real estate or with prospects, past clients, and your database of contacts. You can also use quotes from one non-real estate partner when approaching and communicating with other potential partners. Always share a copy or link with the professional you're featuring, and tag them when appropriate and permissible.

3. Return the favor

Use current market conditions and information to alert non-real estate referral partners of opportunities for them. Here are two industry news items that allow you to present opportunities to potential partners:

- **All-cash sales accounted for 27% of transactions in March, down from 28% in February and one year ago.**[26] Financial advisors may not know how many consumers are paying all cash for real estate. Encourage them to do an ROI analysis using the current median existing-home price for all housing types if a buyer makes a 25% or 50% down payment, finance the balance, and invest the rest of what they would have put into the non-liquid asset.
- **There are 2,362 down payment assistance (DPA) programs currently available in the U.S**.[27] The proliferation of DPA is not surprising in a rising rate, tougher affordability, and slowing sales environment. Financial advisors, tax professionals, and attorneys could find these programs interesting and valuable for children of clients or clients themselves.

Reading trade publications and industry data releases becomes even more interesting when you consider how the data can apply to other professions. Connecting with potential partners in this way can help expand your influence and pipeline.

Real estate and lending will always be intertwined. In addition to taking great care of current partners, proactively reach outside the industry to other professions to boost business and credibility.

[26] National Association of Realtors® Existing Home Sales March 2023

[27] Down Payment Resource

Retaining existing customers and be ready for the market to turn

The premise that "it costs more to win a new customer than to retain the ones you have" is a long-standing business adage, backed by real research. In a time when IMBs are suffering significant losses per loan and there's no refi boom in sight, repeat and referral business is critical for lenders and their real estate partners.

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 mass email campaigns as a main retention strategy.

Loan officers must establish themselves as more than the person to call when someone is 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.

In the following years, though, elevating beyond a sales and transactional mentality has been more of a theory than a consistent practice due to low interest rates and frequent refinance churn. Historic practices will not be adequate to generate or grow business going forward. Two simple ways to help loan officers expand their relationships and influence include:

- Introducing partners such as insurance or planning professionals that can save them money and help them advance other financial goals
- Offering to assist when borrowers they are considering other purchases and advising them on the potential impact to their overall credit and debt picture

The best audition for future business is a successfully closed loan. Lenders must lay the groundwork for repeat and referral business from the beginning of each transaction and define themselves as partners at the onset of every borrower relationship. Companies and producers who prioritize customer retention will lead the industry going forward.

Focus and effort on customer retention can also help lenders strengthen and grow relationships with real estate agents, who can also benefit from an increase in customer retention.

Consider these stats from the National Association of Realtors® 2022 Profile of Home Buyers and Sellers:

- 89% of buyers said they would definitely or probably recommend their agent to others. Buyers have typically already recommended their agent once since purchasing their home.

- Buyers seem to be largely pleased with their real estate agents. But other NAR data showed that the typical REALTOR® earned 16% of their business from repeat clients and customers, and 20% through referrals from past clients and customers in 2022.

Being that the average consumer only participates in three to five real estate transactions in their lifetime, it's safe to say that real estate agents could benefit from higher repeat and referral percentages. All marketing plans lenders make with real estate partners should have a retention element.

The bottom line

It's useful for professionals to look back over past market phases to gain perspective and consider what did and didn't work over the course of a cycle, a career, or a company. Snapshots of interest rates from the seventies through the early 2000s show that the levels we're seeing aren't out of line with housing market history, but they came on fast and surprised an American public used to atypical rate ranges for extended time periods. Though the current market is showing hallmarks of the past, the future of the housing market is promising. Here's how a sampling of how Gen Z feels about homeownership:

- 87% would like to own a home in the future[28]
- 68% consider homeownership a way to build personal wealth[29]

In 2019, Millennials surpassed Baby Boomers as the largest demographic in the US.[30] At 68.6 million people,[31] Gen Z is a slightly smaller group, but no less significant from an economic standpoint. Gen Z is an optimistic and receptive group that presents tremendous opportunity for the industry: they may be young, but they must be considered in planning and messaging today.

Whether or not the U.S. housing market of the 2020s settles into patterns of the past, companies and producers can better address today's market challenges by:

- Tapping hindsight to gain perspective
- Reviewing ROI for systems, processes, and people
- Introducing ancillary and complementary revenue stream
- Expanding partnerships to professions outside the housing market to acquire new customers at a low cost
- Committing to customer retention efforts
- Connecting with the next generation of homeowners

[28, 29] Gen Z Planet [30, 31] U.S. Census Bureau

Looking back is helpful for those who wish to think ahead. Where will you place your attention and efforts this year?

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.

Matic