Accenture Mortgage Cadence

Five New Year's Resolutions for Residential Mortgage Lenders
The mortgage industry enters uncharted territory as 2013 gives way to 2014.

As refinance gives way to purchase lending, hunkering down, which the industry often does when volume declines, is not a growth strategy. Previously stated in our article the Trickiest Shift, we noted that the market transition is different this time, launching what may be the most prolonged purchase market since the 1950s.
Thriving in the Purchase Market

2014’s shift to purchase lending is atypical. It likely signals the start of an upward trending rate cycle, something not seen since the early 1950s when the last great housing boom began. Rising rates are not the only reason to think and act differently about new market dynamics, though. Other factors, also previously unseen, influence every borrowing and lending decision.

Regulatory oversight and the volume of new regulations have never been greater. Lenders must comply with the Ability to Repay (ATR) Rules by January 10, 2014 while concurrently determining how to work within the Qualified Mortgage (QM) Rules. As lenders were putting the finishing touches on ATR and QM, out came the Know Before You Owe (KBYO) Final Regulation on November 21. While KBYO’s effective date is not until August 1, 2015, the timing and complexity make the point: the shift to purchase lending has never occurred in as dynamic a regulatory environment.

The myriad of economic factors playing in the background are unusual, too. Quantitative easing, qualitative tightening, employment, and student loan debt each play a role in either the supply of credit or in the demand for housing. Quantitative easing began its taper as a result of the FOMC’s December 2013 meeting. Qualitative tightening, in place since the housing crisis began, continues to impede access to credit. Employment started a stronger rebound during 2013 as well, though consumers are likely to wait until they feel more secure before committing to homeownership. Student loan debt is juxtaposed against pent-up homeownership demand. Would-be first-time home buyers may have to delay their purchase due to debt loads.

In light of these market forces, lenders must react. We believe the key to a successful 2014 lies in addressing five important behaviors. Lenders that thrive in 2014 and beyond must think, act and respond differently than ever before given these market forces.

Resolution #1: Recognize Market Differences

The time to strategize for a long-run purchase market is now.

The desire to be a homeowner, according to the Joint Center for Housing Studies of Harvard University’s 2013 State of the Nation’s Housing Report, remains strong despite the regulatory and economic climate. According to the Study, the majority of consumers aged 45 and younger plan to own a home at some time in the future.

Purchase activity, as it grows, will be different than it was in the boom years of the early 20-oughts. Buying, selling, then buying again is unlikely to be as common. Investors that flipped homes are giving way to many first-time buyers who have been on the sidelines because of the recession. Here, too, the Study is helpful; pent-up demand as well as demographic shifts are expected to lead to annual household growth of 1.2 million per year for the remainder of the decade. While not all will purchase homes immediately, this is a market segment every lender should court. When they decide to purchase a home, they will think first about the lender who took the time to educate them about homeownership.

As household formation returns to pre-recession levels, the number of households aged 65 and older will increase by 9.8 million, many of whom are likely to age in place. Savvy lenders will create attractive HELOC and second mortgage products, as well as reverse mortgage programs, that allow this demographic the financial flexibility to remain in their homes.

Resolution #2: Adapt to borrower behavior

Borrowers are fickle. Their habit of changing lenders mid-stream is timeless. The reasons are simple. Mortgage lending is intensely competitive. Lenders go all out for every loan because more production is better. That’s what separates the winners from all others. Borrowers, for their part, often did not know how to compare one loan from the next. Switching in the middle of the mortgage process, therefore, is often due more to perceived rather than real advantage.

Borrowers are emboldened. The housing crisis made real estate information ubiquitous. Borrowers are also savvier than they were in the 20-oughts. Today’s would-be financers have a better idea of how to compare loans and lenders. Their expectations of the mortgage process are greater, too. All consumers, regardless of the good or service they are pursuing, want all possible information immediately, available wherever they happen to be on whatever device they have in their pocket, briefcase, backpack or purse. A home loan is no different. If borrower allegiance were in question prior to 2007, no doubt today’s fickle, emboldened borrower is likely to be even less loyal.

Thriving lenders will adapt to borrower behavior, aggressively converting applications to closed loans at much higher than historical rates. How? Transparency throughout the entire mortgage process that provides regular pro-active borrower contact from origination through closing. If your mortgage offering is not on-line, time to get there. A recent survey by Accenture reveals sales of mortgages via the internet increased 75% while sales at branches fell 16%. It’s clear: borrowers choose to meet their mortgages and their lenders in the digital rather than in the physical world.
Resolution #3: Adopt a manufacturing mindset

Fewer, harder loans.

Purchase transactions are more complex than their refinance counterparts. Real property is exchanged. More parties are involved. More documentation is required. More time is spent. More energy is expended. These variables conspire against even the wiliest lenders to drive down efficiency and increase costs.

Creating a mortgage is a manufacturing process. Manufacturing processes count units when measuring efficiencies, yet the mortgage industry is fixated on dollars. Since loans have no concept of their size, successful lenders will diligently measure and track unit-based efficiencies, squeezing every possible improvement from tightly controlled loan manufacturing processes. The one metric to watch: closed loans per employee. Typically, the higher it rises, the lower cost to close falls.

Wise lenders will cast their mortgage operations in a manufacturing light, building efficiencies by focusing on objective, repeatable processes. Unit-based measurements become essential for both management and comparative purposes.

Resolution #4: See compliance as an opportunity

Welcome to the compliance age.

Regulation is one of the factors likely to impact mortgage volumes during 2014 as lenders and borrowers adjust to the new rules and new processes. While complying is mandatory, lenders must lend and borrowers want to borrower.

Mortgage volume is projected to drop by one-third in 2014. Estimates of the percent of non-Qualified Mortgages being made today range from a low of 25% to as much as 60%. Using the lower-end estimates for the sake of argument, non-QM lending could help offset market contraction. Looked at another way, if the market shrinks by one-third and non-QM loans account for another 25% of market volume, lending activity could decrease by 55%, an amount no lender can withstand. Non-QM lending bears serious consideration.

Help borrowers understand the new rules. Consider the longer-term as well as the specific and immediate opportunities the new regulations, and specifically the non-Qualified Mortgage Rules represents. See compliance as the opportunity it is.

Connect with borrowers on another level. The longer-term opportunity is working with borrowers to rebuild trust in housing finance. Today’s regulations are about transparency; they aim to provide borrowers with abundant information that aids their financing decision. Pro-actively educating borrowers as well as consumers about the regulations can be strategically differentiating.

Specifically and immediately, lenders should take a hard look at the Qualified Mortgage (QM) Rules. Unlike the Ability to Repay (ATR) Rule, QM is optional: lenders are free to lend outside of them. While there are implications to doing so, the reason to consider this move is opportunity.

Resolution #5: Embrace technology

The right tools for the job are crucial in every situation.

Single, comprehensive mortgage lending platforms that guide loans from application through funding are no longer optional. Market conditions, borrower expectations, efficient operations and compliance requirements each demand a complete solution that offers transparency and data integrity throughout the mortgage cycle.

Mortgage lending technologies fall into two broad categories. First is origination, the definition of which can mean different things to different lenders. In this context, origination means all the technologies required to open, process, underwrite, close/paper, fund and deliver a loan to the secondary market or into a portfolio. Rather than disparate systems that specialize, one system that handles all duties can put lenders in a more competitive position. The single, all-in-one origination system has come of age. The second broad category is a new frontier in lending technologies and is not typically thought of as lending technology because, strictly speaking, it is not. Systems that generate as well as manage leads will be the indispensable tools of thriving mortgage lenders. Purchase-money lending is different from refinance lending in many ways, starting with the loan’s gestation period.

The idea to purchase a home often begins as many as 18 to 24 months before the purchase takes place. This can be especially true for first-time home buyers. Locating these borrowers and cultivating them while they are planning their move can be a critical success strategy. And, since it is an established fact borrowers are fickle, nurturing and managing them throughout the mortgage cycle is every bit as important as finding them in the first place.
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