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The Trickiest Shift
Mortgage industry ups and downs are nothing new, it being one of the more cyclical financial service segments. This makes it fascinating and interesting: **mortgage companies require careful, thoughtful management in order to prosper.** These ups and downs also present a great deal of opportunity.

The latest shift in the mortgage industry is the uptick in rates that began in May of this year, likely marking the end of what may well be noted in the history books as the longest, steepest period of downward trending rates in more than 200 years. When mortgage rates repeatedly decrease, borrowers repeatedly refinance, exactly what’s been happening since the mid-1980s. Rates have risen from time to time over the last 30 years, a few times significantly. Remember 1987’s Black Monday? This time is different from the marginal increases of the last four decades, however, for two reasons. **First**, this increase signals the start of what could be the next rate cycle. Looking at the long history of US interest rates, it’s easy to see that these cycles tend to run in roughly 50 to 60 year terms – 25 or 30 years up, 25 or 30 years down. While we won’t know for sure for a year or two, this looks like the start of a new up-cycle, which means fewer refinance opportunities. It also means we could be headed for the largest purchase market since the 1950s and 1960s. **Second**, regulation is more prominent today than at any time in mortgage lending history. The Qualified Mortgage and Ability to Repay Rules (QM/ATR) debut January 10, 2014, marking a completely new way for lenders to view the business. What loans will lenders make? How will they decide? Making only qualified mortgages is a viable option that provides lenders with protections not previously available. Making non-qualified mortgages presents opportunities too hard to ignore. The full impact of QM/ATR will play out in the early months of 2014 as the industry works on the next significant changes. Know Before You Owe (KBYO) will likely make significant changes to the disclosures all borrowers must receive at application and throughout the mortgage cycle. After QM/ATR and KBYO, there will be others mandated by Dodd-Frank, keeping the role of compliance dominant for years to come.

Though this sounds dire, there is good news. People still want to own homes. According to the Joint Center for Housing Studies at Harvard University, the majority of consumers 45 years and younger still plan on purchasing a home. The American Dream lives on despite the housing crisis and the recession. Homeownership does face a few headwinds. One of them, the employment picture, is steadily improving. Increasing housing prices and rising rates are piquing interest: would-be buyers don’t want to miss the deal of the century. Student loan debt is a barrier, though, and may postpone the buying decision for many.

Lenders that plan to thrive in this new cycle will have to be serious about housing finance. The early adopters put it this way: “We used to be financial institutions that offered mortgages. We’re now mortgage lenders that offer other financial services”. These lenders also know they must invest in technology, consulting and outsourcing to drive the efficiency necessary to succeed. Origination costs are at their highest levels in history. Lending profitability and competitively demands driving down these costs. That’s always taken concentrated effort; this time, the effort required will be extraordinary.

Shifting focus from refinance to purchase has never been an easy adjustment. This one is the trickiest, however, since there is so much more in play. More in play means greater opportunity.