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Texas Congressman talks GSEs and housing finance reform
PURCHASE MARKET ISN’T HERE YET, BUT RETOOLING SHOULD START NOW

By Ghazale Johnston and Kelly M. Adkisson
There is little debate that the refinancing wave is winding down and we are approaching a return to a purchase mortgage market. But as refines retreat in the face of rising interest rates and the housing recovery continues to drive up purchase volume, lenders can expect a significant period of transition.

In other words, while lenders are starting to accept more purchase applications, the impact of the refinancing boom will not disappear overnight. Refinance volume still represents an estimated 62% of the overall market today. The Federal Housing Finance Agency’s recent decision to extend the Home Affordable Refinance Program could enable up to an additional 2 million borrowers to become eligible for the program.

The transition from a heavy refinance focus creates a challenge for banks: how to retool the business to address a market that is increasingly trending toward purchase volume, while still managing a large backlog of applications.

In short, lenders must manage a high wire act, continuing to meet demand for refinances at the same time as anticipating the more complex purchase market. They need to confront the reality that the market’s changing dynamics will require a more nimble operation, one that is differentiated by strong customer service and speed.

During the refinance boom, for example, lengthy cycle times were common. But once the purchase market picks up steam, customers won’t tolerate cycle times longer than 30-45 days. Borrowers will be more attuned to the process, expecting more frequent access and greater transparency from lenders. In turn, lenders will need to keep borrowers informed through more tailored customer engagement routines and self-service options.

As lenders deal with the evolving market, there are several key areas worthy of investment.

One would involve the enhancement of the customer experience. Lenders need to focus on delivering a more personalized customer experience throughout the loan origination process. Unlike the refinance market, where HARP loan customers have relatively few options, a purchase market will require lenders to compete for borrowers’ business.

In today’s digital world, customers expect more sophisticated communication options than lenders have traditionally offered. Thus, lenders need to offer borrowers real-time access and the ability to update their loan information either online, or through a smartphone or tablet application. In addition, features such as “document upload” through a mobile device allow borrowers to provide more timely responses to lender requirements.

Consumers have become accustomed to convenient services in all areas of their lives. So when they shop for a mortgage, those lenders who have invested in making the mortgage process easy will stand out.

Another area worthy of investment might involve the improvement of skills. Since the refinance boom began a few years ago, banks have scaled up by hiring underwriters and loan processors.

But they now face a dilemma: how to address ongoing refinance demand while also retraining staff to manage the expected influx of purchase mortgages.

Processors and underwriters who have joined the workforce during the refinance boom may not have ever worked a purchase transaction.

For others, it may have been years since they reviewed an appraisal or calculated income. Lenders are discovering that their agents who are trained in the relatively straightforward HARP rules are not necessarily equipped for the more complex purchase market, with its tighter deadlines and multiple third parties.

Building the necessary skills organically is going to be increasingly more important since a talent gap exists in the marketplace and traditional recruiting channels are not enough. Lenders can address the gap with formal rotational programs, which enable staff to get exposure to different products and their respective requirements.

For the foreseeable future, balancing refinancing and purchase mortgages is the name of the game. But those lenders who retool to effectively deal with both scenarios will be the winners.

Lenders should also consider developing internal certification programs that allow managers to get a quick read on employees’ proficiency levels and which types of loans they are equipped to support.

Another area of consideration should be the effective use of third parties.

As the market evolves, the strategic use of third-party service providers takes on greater importance. For instance, a lender could employ a channel strategy that leverages an experienced business-process-outsourcing provider to manage the entire direct-to-consumer channel, which is typically slanted to refinance applications.

This option allows lenders to focus on bolstering their retail channel — where the largest spikes in purchase volume are expected and the greatest opportunity for cross-selling exists.

Alternatively, using a technology-savvy broker-price-opinion provider with a predictable manufacturing capability may be a lender’s best option for efficiently tackling purchase market requirements and delivering a superior borrower experience.

For the foreseeable future, balancing refinancing and purchase mortgages is the name of the game. It won’t be an easy task; nor will it prove one whose execution will be straightforward.

But those lenders who retool to effectively deal with both scenarios will be the winners.

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**KEY CONCEPTS**

- The transition from a heavy refinance focus creates a challenge for banks.
- They need to find ways to enhance the customer experience.
- They face a dilemma: how to address refinance demand and retrain staff to manage purchase mortgages.

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