A New Normal

Volume is low now, but 2012 is predicted to be even worse. How do lenders survive? Here are some ideas…

We got some more bad news from the MBA. The trade associated said that despite lower forecasted mortgage rates, weaker projected economic growth in 2012 led to a reduction in MBA's origination forecast for that year to $931 billion, which would be the lowest volume originated since 1997.

Jay Brinkmann, MBA's Senior Vice President of Research and Education and Chief Economist said, "We have lived through a series of unprecedented events over the past month: the debt ceiling crisis, S&P's downgrade of U.S. Treasury debt, the ongoing sovereign debt crisis in Europe, a commitment by the Fed to keep rates near zero for the next two years and stock market volatility that has reached levels not seen since the fall of 2008."

Brinkmann continued, "As negative as much of this outlook appears to be, there are some indicators that have been more promising. None of these factors suggest any strong growth, but in total they do suggest a path out of this slowdown. Thus, we have revised our projections from previous estimates for GDP growth downward from 1.9 percent growth to 1.5 percent growth for 2011 and from 2.8 percent growth to 2.3 percent growth in 2012. Given the overall path of economic growth, we expect that the unemployment rate will stay above 9 percent for the remainder of 2011 and drop only slightly below 9 percent by the end of 2012.

"Nothing in the housing market data suggests any significant change from our previous expectation of a frustratingly slow period with lackluster sales volumes. Purchase application volumes remain stuck at low levels, and even fell further in response to the volatility surrounding the events described above. Relative to last month, we have reduced our estimate for purchase originations in 2012 significantly, matching our more pessimistic outlook for the economy, the job market, home sales, and home prices."

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So, there's the bad news. Volume will continue to be down, but I believe that there is hope. This is not the end of the world. What are we to do? In this column every month you hear me preach about automation, so this time I thought I would ask the experts for their thoughts.

First, I talked to Prudence Green, VP of client services at Xerox Mortgage Services. She said, "Everyone has been busy. Now that it's slow they can look at technology investment. You want intelligent collaboration that goes cradle to grave. We at Xerox are constantly looking to evolve processes. The ability to handle exceptions is key. You should have technology to handle the normal loan, but you want technology to handle those 20% of loans that are not in that normal category, as well."

But Green is not suggesting that the human factor isn't needed. "Everyone wants to increase customer service. Everyone wants to feel special. As such you need to look at everything "e". Things like e-signatures, and e-disclosures are very important today. You also need to look at load balancing. Lenders need to shift resources because maybe a branch closed or a new branch just came online," she said.

"Essentially, lenders want one click. The ability for 30 things to happen with one click is huge. When you are doing something 50 or 60 times a day, eliminating the number of clicks is huge. You also want technology that drills down to the document level. This is where e-disclosures and e-signatures are important. You have to be forward thinking and proactive."

Second, I chatted with Lester Dominick, president and CEO at Mortgageflex. He added, "The market today offers limited opportunities to create demand, so when discussing competitiveness in a down market, the real topic is how to win and maintain market share. While every market is unique, the simple answer is to turn competitors' weaknesses into your strengths. If competitors do not offer products for niche markets, then become the niche product expert. If competitors have customer service issues, then excel in the areas where they perform poorly and convey that message to the consumer. The ideas are endless."

But as we all know, lenders are sometimes technology resistant. They need concrete ROI before moving forward on anything. So, I asked Lester: How can technology really help lenders now?

He answered, "There are three primary areas where I see technology making a positive impact. First, expanding business opportunities, secondly, lowering operating costs while improving customer service and loan quality, and third, better execution results in the secondary market.

"To acquire more business opportunities, technology should support corporate go-to-market strategies. If the strategy is to retain and recruit the best loan officers, they must be provided with the best point of sale and lead management technology available. If a strategy is to reach a certain demographic segment, perform market research and discover ways to reach that segment, whether it's through affinity groups, trusted advisors or the internet. Open new channels to engage the consumer including the use of websites and apps for tablets and smart phones. Offer technology resources to business partners to make doing business easier and more efficient.

"Operating costs can be significantly lowered with the use of workflow, imaging and electronic delivery to produce loans," he continued. "The use of business rules combined with workflow improves compliance and loan quality without adding additional personnel. Electronic interfaces triggered by workflow can be used to automate steps in the loan process that previously required personnel to execute. The data from these interfaces is used to validate data for loan quality and fraud prevention, order required services, and deliver documents to participating parties. The use of Business Intelligence (BI) provides feedback to managers to use for everything from monitoring quality control to resource management. BI also gathers data to identify process improvement areas."

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Speaking of data, he pointed out that, "Quality data in the pipeline results in lower hedging costs and better executions in the secondary market. Consequently, secondary marketing managers with reliable data make better trades."

Lastly, I reached out to Kevin Collins, President, Lending Solutions, Fiserv. He reaffirmed the MBA's dismal forecast. "We're feeling the same way from a forecasting standpoint," he said. "2012 isn't getting any better. We do see lenders investing in technology now to prepare for a rebound, though. Lenders want to drive down operation cost, look to cross-sell opportunities, reduce redundancies, and improve compliance controls."

To this end, Fiserv has taken bold action. The company has just gone live with its first client on its new common origination platform. The application handles consumer, home equity, commercial and mortgage lending. "You need to be on one platform to get all the advantages that automation offers," argued Collins. "The market has been asking for this for years. The No. 1 want among our clients was to have one LOS for all loan products. We started on mortgage in 2008 and 2009.

"Since we've gone through this ugly cycle, people have taken a look at what technology they could have used that would have helped them. Lenders are now investing to reduce redundant systems. And with the rules-based capability we can change things on the fly, which speaks to the changing regulatory environment. It's about agility."

There you have it, three experts agree that technology is what will help lenders survive the new normal. ❖

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