



Process Improvement

Looking Further At This Year

I talked with several high-powered executives about what we should expect this year. Here's what they said:

By Tony Garritano

The Mortgage Bankers Association projects 2018 purchase originations to reach \$1.167 trillion, a 7.3 percent increase from 2017. But the MBA forecast also calls for a 28.3 percent drop in refinance originations, to \$430 billion. Overall, MBA expects mortgage originations to decrease to \$1.597 trillion in 2018, from \$1.688 trillion in 2017.

For 2019, MBA forecasts total originations to increase to \$1.64 trillion, with purchase originations rising slightly to \$1.24 trillion and refinances dropping to \$395 billion.

In addition to the updated forward-looking forecast, MBA upwardly revised its estimate of

much next year. On the tax side, that may open up spending and liquidity.

"It's hard to say about what to expect with new regulation this year," he continued. "It is unlikely that we will see heavy changes though."

Langner has more than 25 years of executive experience in the financial services and software industries. A former COO, executive vice president and chief sales officer at Ellie Mae, Langner played a significant role in Ellie Mae's initial public offering and helped transform Encompass, the company's loan origination software (LOS), into an industry leader. Most recently, he served as president of PC Lender,

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originations for 2016 to \$2.05 trillion from \$1.89 trillion, to reflect the most recent data reported in the 2016 Home Mortgage Disclosure Act data release.

MBA Chief Economist Mike Fratantoni said 2018 home purchase originations could increase at nearly double the clip from 2017.

"The housing market has been hamstrung by insufficient supply, with inventories of homes remarkably low, given the home price growth we've experienced," Fratantoni said. "The job market remains strong; demographic trends are quite favorable; mortgage credit is becoming more available to qualified borrowers; and home prices should continue to rise. All the pieces are in place for stronger growth in 2018 and beyond."

The executives that I spoke to agreed with the MBA outlook. "Based on the MBA forecast there is about a 5% decline overall projected," said Joe Langner, CEO at Blue Sage. "Based on what we are hearing from our clients that's right. I'm also hearing that rates may not increase

a provider of SAAS mortgage lending solutions. Langner's previous roles include general manager and executive vice president for Sage Inc., a leading, global ERP & CRM provider, and senior vice president at Dun & Bradstreet, where he oversaw the expansion of the company's brand into the small business market.

Lenders are going to be very keen to buy new technology this year. "There are a few large lenders that are very focused on digital mortgages, like Quicken and Wells Fargo. Robotics will redo repetitive tasks in a digital way," believes Jim Smith, President of Property Solutions.

"The regulatory environment drives everything we do. The MBA put out a white paper on GSE Reform. With that plan other elements are there that will benefit the industry if implemented this year."

Jim's directive is to provide products and solutions that meet the needs of the customer. Jim also serves as one of Computershare's U.S. Diversity Champions where he is

committed to continuing to build a more diverse workforce throughout the United States. Prior to joining Computershare, Jim was a senior executive of Clear Capital as well as President of Urban Lending Solutions where he oversaw all areas of the company, including operations, finance, product development, technology, and sales.

"I don't see any volatility overall," pointed out Les Parker, SVP, Strategic Business Development, LoanLogics. "Refinances are declining, but overall originations will be stable. Refis are very volatile because its based on rates, but purchases will see a steadily increase.

"What's even more clear is that the role of technology will expand. Digital mortgages will grind toward larger adoption, but it won't be fast. Technology will focus on things like HMDA and back office operations."

LoanLogics was founded 12 years ago to improve the transparency and accuracy of the mortgage process and improve the quality of loans. LoanLogics serves the needs of residential mortgage lenders, servicers, insurers, and investors that want to improve loan quality, performance, and reliability throughout the loan lifecycle. It develops advanced solutions that help clients validate compliance, improve profitability, and manage risk during the manufacture, sale, and servicing of loan assets. Achieving these goals was the motivation in the development of the industry's first Enterprise Loan Quality and Performance Analytics Platform.

"I agree with the MBA's outlook," continued Parker. "There might be some non-QM product this year. There are some initiatives within the MBA to open up safe harbor. There is large investor appetite that might fuel an increase in those types of originations. Refi volume however is definitely on the decline."

"Our expectations are that refinance volumes should be down since rates are expected to rise," agreed Gagan Sharma, President and CEO of BSI Financial. "There is an expectation that the Fed will raise rates again in December. As a result, the rate-and-term refi product should be a smaller part of the refinance market. We may see an increase in cash-out refinance since many borrowers who have been in their homes for a while may have significant equity in their homes. In parallel, we may see an increase in non-QM

lending as the borrowers who had a negative credit event over the last few years continue to rehabilitate their credit and lenders are more willing to work with them.

"Technology will continue to drive change in the mortgage marketplace," noted Sharma. "We think of the Rocket Mortgage type of consumer as an experience that consumers will start to expect almost as a baseline, especially for a refinance product. In the purchase market, since the consumer typically needs more handholding and there is a need to work more closely with the Realtor, a different solution will need to be thought of. We have seen lenders build pre-qualification ability within mobile apps. We expect to see continued investment in supporting the purchase transaction.

Sharma acquired BSI from its former parent in 2006 and transformed the company from a small lender into an innovative and thriving loan servicing provider, growing BSI by over 70 times since his acquisition. Sharma was recently named EY Entrepreneur Of The Year 2017 Award Finalist in the Southwest Region.

Prior to acquiring BSI, Sharma founded a global outsourcing company serving the financial services and technology industries. He raised institutional equity financing and increased its labor force to more than 1,200 people before selling it. Prior to that, Sharma was a consultant with Deloitte, advising clients on matters of strategy and operations in the financial services and high tech industries.

"We do expect non-QM lenders and even the GSEs continue to provide more options for borrowers. They may be in terms of expanded underwriting or low downpayment programs. We believe that a reduction in the rate-and-term refinance opportunity will be an impetus for the industry to focus on this underserved market," pointed out Sharma.

Taking all things into consideration, the executives that I talked to are very optimistic about all things to come in 2018 and beyond. "As I mentioned, rates will have an impact on the refinance market, with the market likely evolving from a rate-and-term market to a more cash out market. On the other hand, we believe that the purchase market will likely be less sensitive since that is a function of the life situation that a borrower may be in. With the economy continuing to do well, we believe that a 25 or even 50 basis points increase in rates, while impacting affordability on the margins, has to be looked at in the context of continued improvement in the job market, increase in wages etc," he concluded. ❖

Tony Garritano is chairman and founder at PROGRESS in Lending Association. As a speaker Tony has worked hard to inform executives about how technology should be a tool used to further business objectives. For over 10 years he has worked as a journalist, researcher and speaker in the mortgage technology space. Starting this association was the next step for someone like Tony, who has dedicated his career to providing mortgage executives with the information needed to make informed technology decisions. He can be reached via e-mail at tony@progressinlending.com.