LET'S GO SHOPPING

By Dan Green

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Mortgage rates and rates in general remain low. Housing prices remain low and affordable. That won't last, however, as housing prices are once again on the rise at rates not seen since 2006. Soon, very soon, refinancing will fall out of fashion; purchase-money lending will once again be en vogue. Lenders live for this type of lending: it is, after all, the heart and soul of the mortgage business.

Low rates and rising home prices will give way to a purchase market. Other factors contribute, too. Pent up demand, people who have been waiting out the housing crisis, the recession and the weak employment picture are shrugging off economic worries to take advantage of the opportunity to own a home more affordably than has been possible for decades.

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Lenders have to be ready. Just as buying homes is stylish for borrowers, looking at and acquiring new mortgage origination and processing systems is once again fashionable for lenders. There are at least three reasons for this new trend, yet before explaining what they are, it is important to understand why they are.

During a recent presentation to a group of lenders a colleague and I began joking about the 100 years refinance wave. While this is an obvious exaggeration, it is true this refinance boom has lasted a great deal longer than any other in history. It is easy to see why when reviewing the 140-year history of 10-year Treasury rates; the precipitous downward slope of the rate curve that actually began in 1985 has no rival in recorded US financial history. The benefit has been a continuous supply of profitable mortgage loans, most of which have been refinances, at least since 2009.

But have they been profitable? During conversations about lending profitability with many lenders over the past nine months it is apparent two things are true. First, mortgage lending has been an important, profitable business for their organizations. Borrowers have clearly benefitted, too, as everyone who has refinanced has improved their personal cash flow by hundreds of dollars per month. Yet the other truth, the quieter truth, is that a lot of money has been left on the table in the form of inefficiency and low productivity. Lenders have accepted this situation because operations are profitable. It is also very difficult to swap systems in the midst of high volumes while attempting to keep up with production.

That's the why of the trend. High volume masks inefficiency. Nothing new there. Yet everyone realizes today's production levels are not sustainable. The market will settle into respectable purchase volumes sometime late this year or early next. Still plenty of business, yet nothing like we have been experiencing, and lower volumes will not mask inefficiency. Lower volumes will cast a big, bright light on them.

Inefficiency and low productivity are the first reason lenders are looking at new systems. In the go-go days of the housing rush of the early 2000s lenders were obsessed with efficiency and productivity. The Internet, its tools, its promises, its potential, unlocked the byzantine strictures of traditional mortgage lending. Borrowers could (and can and should) apply on their own, online, without the help of a loan officer. Borrowers could (and can and should) get a loan approval at the point of sale rather than waiting more than 40 days as had been the custom. Lenders benefitted, too: complete, decisioned applications courtesy of the Internet arrived hourly, seven days a week, 24 hours a day just waiting to be processed in a paperless, fully electronic environment if you were willing to go that far. Those that did go that far reaped the benefits earning the low-cost/high productivity lender merit badge.

Then 2007 happened and all that was forgotten. More immediate concerns, like mounting delinquencies and looming foreclosures, took precedent. And they had to. Yet most of that is behind us now; it is time to get back to efficiency and productivity because they always were, and are, the keys to profitable, competitive mortgage lending. Whether we can return to the merit badge days of low-cost/high productivity lending is the question. While the remarkable measures of the early 2000s may not be immediately repeatable, they are certainly worth striving for.

Borrower experience is the second reason to search out new systems. Today's borrower is different than those of pre-housing crisis days. They're more sophisticated, more wary and much more online. They want to know everything, and they want to know it right now. That includes what is happening with their mortgage, and they don't want to make a phone call. Borrowers want to apply online. They want an answer, a decision, immediately, and they want to check progress when it is convenient for them, wherever they happen to be with whatever device is in their pocket, briefcase or purse. This is the new mortgage lending. If you want to compete, if you want to de-commoditize your mortgage offering, you have to pay keen, close attention to designing and delivering an experience that exceeds borrower expectations. The truth is many legacy lending systems fall short in this area.

Compliance is the third reason to shop, and it is very much linked to borrower experience. It occurred to me the other day that borrower experience is one of the reasons we dwell in this compliance-heavy world. Many of the new rules to which lending is now or is becoming subject are ostensibly designed to help borrowers gain a better of understanding of what it means to finance. Know Before You Owe, the new disclosure regulations, are thus intended. The Qualified Mortgage Rules are the same. Even though they seem targeted at lenders, the real aim is to keep borrowers from supposed harm.

Embracing compliance is the

only path. Make it part of your value proposition, which brings us right back to borrower experience. Today's borrowers are looking for lenders they can trust. Educating them and helping them understand all of the new rules surrounding the loan that finances their largest asset is a competitive advantage.

Yet being compliant is not easy. In the old days of lending, back before the Internet, we relied on highly skilled mortgage teams with years of experience to keep us within the rules. It was possible thanks to their knowledge and because the rules were nowhere as numerous or as complex. It is a different story today. Mortgage teams cannot be expected, without some help, to one hundred percent adhere to all the regulations that govern lending.

That's why technology, technology that has been designed and maintained with today's compliance environment in mind, is essential. Nothing follows rules better since, at their core, that is all systems really are: rules. Once established, technology will do the same thing every time, time after time, in the same way. This is not to say, however, that all systems and solutions are created equal. Compliance is just as difficult for solutions companies as it is for lenders. Solutions companies have to embrace compliance as well—make it part of their value proposition—and work every day to keep their customers within the rules.

Can lenders return to pre-housing crisis efficiency levels? Heck yeah. Can lenders provide an experience about which borrowers will rave? Heck yeah. Can lenders embrace compliance, making it a competitive advantage? Heck yeah. How are lenders going to accomplish these super-human mortgage feats? They are going to look for and implement systems that enable them. This is why lenders are shopping and this is what they are looking for their new solutions to help them accomplish.

Accomplishing these objectives is the necessary positioning for the near-in, long-term purchase market, which will be unlike every other one for the past four decades. It will likely last a long-time. With it will come many benefits, not the least of which will be the opportunity to build long-term, sustainable borrower relationships. Be ready. ❖

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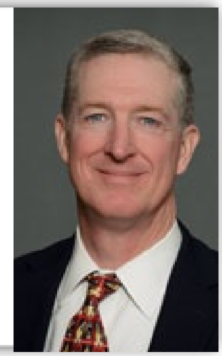
About the Author

Dan Green is Executive Vice President, Marketing at Mortgage Cadence. With the objective of building a strong, cohesive and recognizable brand, Dan Green oversees all marketing and communication strategies through his work with customers, partners, industry organizations and the Mortgage Cadence team. Prior to joining Mortgage Cadence, Green served as Prime Alliance Solution's Chief Operating Officer and Chief Marketing Officer following an eight-year career with CUNA Mutual Mortgage where he was responsible for origination, servicing, lending technologies, process reengineering and education.



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