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Measuring Customer Satisfaction in Mortgage:

A White Paper

***C**ustomer **R**elationship **M**easurement*

evolving as a new requirement

The U.S. home finance industry was profoundly changed by the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act. The new federal regulator born of this act, the Consumer Financial Protection Bureau (CFPB), is, in the words of current CFPB Director Richard Cordray, a new regime that will oversee our industry in perpetuity. The Bureau's first work was to write hundreds of new rules that are still in the process of being rolled out. Lenders have seen regulators come and go over the years, but the changes the CFPB is bringing to our industry now are unprecedented. Among the most significant of these changes is the way mortgage lenders and their third party suppliers engage in relationships with customers, and whether lenders can measure the impact of their processes on the consumer. In this way,

CFPB is making *real* CRM (Customer Relationship Measurement!) a new focus for lenders.

The traditional measures of success in mortgage banking include the number of loans made, number sold into the secondary market, market share, profitability, and other financial matrices. Far down the list (if measured at all) has been customers' satisfaction with the transaction and the overall borrowing experience. Customer Relationship Measurement has not been an area in which banks have invested much time, attention, and capital, choosing to spend those resources on the development of wholesale networks, correspondent relationships or capital markets efforts. Relationships that mattered the most to mortgage bankers tended to be those with other financial services companies and government regulators. And even those relationships were measured in financial terms.

The CFPB is making it clear that this must change. For the first time in our industry's history, the safety and soundness of the financial institution is just one part, albeit an important one, of what the government hopes to safeguard through legislation, regulation, oversight and enforcement. The other part has to do with American consumers' experience throughout the mortgage lending process, and importantly, their understanding of each step along the loan production line. The Bureau expects consumers of mortgage banking services and products to walk away from every engagement with a sense of clarity and satisfaction with the transaction. Naturally, this poses a problem for lenders not called upon before to perform such measures. And unlike financial measurements, most factors relating to customer satisfaction are qualitative in nature, leaving mortgage executives at a loss to find effective ways to collect, analyze, and draw actionable conclusions about consumers' feelings about their buying experience. The CFPB appears to have found what may turn out to be the standard gauge of customer satisfaction: measuring its opposite, customer dissatisfaction.

By creating a very public repository for consumer complaint data, the CFPB is using dissatisfaction to determine how well the industry is meeting its new mandate for customer service. While it may seem like looking for darkness to determine how bright a light is, it has thus far delivered a great deal of data. As you would expect, much of it is not good for the industry.

CFPB makes it easy for consumers to be heard

In an effort to engage consumers in order to better understand their experiences in dealing with financial institutions of all kinds, the CFPB has set up numerous communication portals: public field hearings, listening events, roundtables, and town halls, as well as the CFPB website. Among the most controversial of these portals is the CFPB Consumer Complaint Database. Managed by the Office of Consumer Response, the database is used to take in, process, and facilitate responses to consumer complaints. The Bureau received over 160,000 complaints from consumers about financial products and services in 2013, and that number appears to be climbing above 20,000 complaints each month. Of these, 37% are related to the mortgage, a much higher percentage than is attributed to any other product line that banks offer.[1]

Of the complaints consumers lodge about the mortgage process, about 85% are currently related to the servicing operation, as you would expect given the recent foreclosure crisis. But that leaves about 10,000 complaints last year related to the origination side, and the number is increasing as more borrowers become aware of the option to contact the CFPB. This means that there were 10,000 mortgage loan closings last year after which a customer was so dissatisfied that they actually went to a government website and lodged a complaint. That's enough negative feedback to both destroy reputations and incite regulators to audit.

While some may question the efficacy of the CFPB's method to measure something that has never been measured in the industry before, it cannot be denied that the Bureau has positioned itself as the champion of the American home loan borrower. Customer satisfaction is now a standard that the industry must pay close attention to. The truth is, there is an excellent business reason for doing so beyond the obvious monetary, and in some cases criminal, penalties that accompany noncompliance. Lenders should also care about customer satisfaction because it will bring them more business.

Building Referral Business and Repeat Customers

Even as unhappy borrowers have been empowered to speak out about poor service from lenders, satisfied customers can be turned into business referral engines as well as excellent tools for social proof, which is so important to the new generation of American consumers.

Consumers recommend products and services to each other every day, through word-of-mouth, social networks, and by posting reviews on company websites. They typically don't exhibit this behavior as regards mortgage lenders because our industry has never empowered them to do so in the past. Part of the reason for that, of course, is that we had little reason to care about their level of satisfaction as long as the closing documents were completed correctly.

We have evidence that shows that consumers who are satisfied with their lender will take actions that will benefit that lender's business if they are asked to do so. In addition, we can show that reaching out to a dissatisfied borrower within a week of the loan closing can change that borrower's opinion of the lender, level of satisfaction with the experience and

Last year, 10,000 customers were so dissatisfied with the loan closing that they actually filed a complaint with the CFPB.

[1] Report of the Consumer Financial Protection Bureau Pursuant to Section 1017(e)(4) of the Dodd-Frank Act, (12-30-13). See pgs. 6 and 31.

even result in the same type of business building activity that a fully satisfied borrower exhibits. This happens even if the borrower doesn't ultimately get everything they wanted in the beginning.

The key, of course, lies in knowing which borrowers are satisfied, so they can be approached as a source of additional business, and which are dissatisfied, so the relationship can be repaired before more damage is done, such as reporting the lender to the CFPB. Most lenders are not able to identify these borrowers with traditional methods, but there is a way that it can be done and some forward thinking lenders are doing it today.

How this has been done in the past

Most mortgage executives who read the opening to this white paper intuitively know that customer satisfaction leads to positive impacts and dissatisfaction doesn't. Further, they are well aware of the noncompliance risk in today's lending environment. What many will not be able to immediately admit is that they do not have consistent and reliable methods to gauge customer satisfaction.

First, most lenders don't have a real solution to measure borrower satisfaction because they've never had to create one before, at least not a sustainable one. As discussed, satisfaction hasn't been a critical metric in the past. This was particularly true of larger lenders who made high profits by structuring their companies under a manufacturing paradigm. These firms operated as if they were in the business of building mortgage loans like some other firm might build widgets. The end product was created not for the borrower, but for the secondary mortgage market, which, after all, was the only entity providing liquidity to keep the lender's operation in business.

In the manufacturing model, the borrower is just one work input that must be included in order to create the mortgage product. This approach made it easier to insert a straw borrower and commit fraud, and also caused low lender retention rates during refinance cycles. Today, of course, the danger comes from treating consumers like a commodity instead of someone who must be satisfied not just because they may be inclined to look elsewhere with their next loan, but also because it may cost the lender today in the form of CFPB type punishments and lower referrals during a tough lending climate.

Consequently, good tools for measuring customers' satisfaction have not previously been in high demand. Even so, some lenders realized the value of satisfied clients as a source of future referral business. Perhaps not as good a source as real estate agents, financial planners or accountants, but good enough to positively impact the lender's business. These forward thinking lenders set out to create tools to measure the satisfaction of their borrowers and get referrals.

The tool of choice was a one-page document inserted in the stack of documents completed during the closing process. It asked a single question: are you satisfied enough with your new loan to refer us to your friends and family? It may have also provided a number of blanks to accept the contact information for said friends and family members. In most cases, the document was checked and signed, like all of the other required documents in the closing package, and reinserted into the folder. Rarely did the borrower provide meaningful information on other contacts, who were almost never in the market for a new loan anyway. Worse, the document almost never served to warn the lender of dissatisfaction on the part of the consumer, so the lender never got a chance to improve its service and salvage the relationship.

In the rare cases when the survey indicates performance is lacking, the lack of specificity would generally lead the lender down the wrong path, leading to high investments in low performance areas. This is neither the most effective way to improve overall satisfaction scores, nor ensure optimal use of corporate assets. Finally, sitting in the file until someone on the bank's staff had time to find, read and parse the information on these forms practically guaranteed that the lender would have no access to timely information. The older the information was, the less likely it was to ever be used.

The results of this sort of measurement process are evident. The numbers speak for themselves. When borrowers go back to the market for a new mortgage loan or a refinance, they go to the same lender less than 5% of the time.

And yet, virtually every other industry engaged in business with American consumers has a system that provides a good gauge of customer satisfaction. If they can do it, mortgage lenders can, too.

A new approach to measuring Customer Satisfaction

When STRATMOR set out to establish a usable gauge for customer satisfaction in the mortgage industry, we started with the best standard we could find in use at the time by other industries. It turns out that there is not only a current measure in use, but an organization chartered to research customer satisfaction and to develop tools for U.S. businesses intent on improving this metric.

The American Customer Satisfaction Index (ACSI), founded at the University of Michigan's Ross School of Business, is a national economic indicator of customer evaluations of the quality of products and services available to household consumers in the United States. The ACSI uses

data from interviews with roughly 70,000 customers annually as inputs to an econometric model for measuring satisfaction with more than 230 companies in 47 industries and 10 economic sectors, as well as over 100 services, programs, and websites of federal government agencies. The ACSI is the only measure of customer satisfaction whose predictive link to financial results are confirmed by third party independent peer review and the market.

Even so, the ACSI's metrics did not fit well with the needs of the mortgage industry. We needed to take the bulk of the research that went into the index and make it match up with the specific needs of mortgage bankers. Instead of setting off in pursuit of that mission alone, we enlisted the support of CFI Group, co-founder of the ACSI, to create a working satisfaction gauge for the banking community.

CFI Group is a global leader in providing customer feedback insights through analytics. CFI Group provides a technology platform that leverages the science of the American Customer Satisfaction Index (ACSI). This platform continuously measures the customer experience across multiple channels, benchmarks performance, and prioritizes improvements for maximum impact. We partnered with CFI in 2013 to create a similar index for the mortgage industry.

A new index to measure Customer Satisfaction in the Mortgage Industry

The Mortgage Customer Satisfaction Index (MCSI) is an adaptation of the ACSI designed to fit the mortgage industry and measure the borrower's

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experience. MCSI was developed by STRATMOR Group and CFI Group. Our product, MortgageSAT, uses the MCSI as a uniform measure of borrower experience across the mortgage industry. It gives us both the ability to compare to a mortgage banker's customer ratings with those of its peers and, perhaps more importantly, it gives lenders the ability to understand the impacts of their performance across a wide range of data from the lenders own LOS.

To do this right, we need to ask the right questions at the right time and find the right technology that will both make it easy for the consumer to give us the information we seek and give us the analytical power to make sense of the data we receive.

MortgageSAT invites your borrowers via email to take a standardized online satisfaction survey shortly after closing. An initial invitation is sent, plus three reminders. Invitations are sent automatically by MortgageSAT, however the invitations are seen by the consumer as coming "from" the lender's email address. In this way, the act of actually sending the survey, of asking for feedback on every closed loan, can demonstrate a lender's commitment to satisfaction.

It's easy for customers to use. The consumers click through and rank their experience at various steps of the process, and have the chance to provide free form comments as well. As the results come in, lenders have access to an online portal which provides real-time borrower satisfaction information scores and insights, as well as the ability to view borrowers' responses and comments. This lets the lender learn how the experience was based on current market and operating conditions, not just at some distant time in the past. And the lenders can see how they are doing compared to others in the national benchmark as well.

Using the Scores that your borrowers give to each Satisfaction Driver and their ultimate Satisfaction Score, MortgageSAT can statistically calculate ("regress") the relative contribution ("impact") that each Driver has on Overall Satisfaction. In other words, this tells you what Drivers you should focus on to increase satisfaction Then, using similar statistical methods, MortgageSAT can tell you how much an increase in Satisfaction will also increase the likelihood that you will retain a borrower or that they will refer you to a new borrower. In other words, we can assess the economic value of repeat business and referrals.

Finally, by linking these two statistical analyses, the lender can analyze the economic value gained by improving any single Satisfaction Driver or combination of drivers. According to *The Harvard Business Review*[2] "A one-point change in ACSI is associated with a 4.6% change in market value." This will translate directly to gains in the mortgage industry, where even a 1% change in market value leads to significantly higher profitability.

Results the lender can build on

Depending on the lender, up to 40% of consumers respond to the survey invitation and complete the online survey. To put this into perspective, mid-tier lenders can see as many as 75 completed surveys per day, depending upon their production level. Currently, lenders using MortgageSAT are surveying more than 4,000 consumers per month, which is more

[2] Christopher W. Hart, "Beating the Market with Customer Satisfaction", Harvard Business Review, March 2007: 30-31

than another leading survey company surveys in a year.

Results are aggregated for each lender participant in real time, allowing lenders to instantly determine how satisfied borrowers are using a wide range of data including data directly from the lenders LOS. This data allows lender to compare borrowers' satisfaction by loan purpose, geography, loan amount, borrower credit profile, and many other transactional elements. So, not only do lenders know how they are doing on satisfaction for recent transactions, they can also learn how they are doing on purchase loans separately, or how critical it is to close loans within 45 days, or whether income or credit appear to be drivers of satisfaction. And when lenders find the pain points -- those areas where borrower satisfaction appears to be trailing, they can see the details for that survey, they can review the borrower comments to perhaps gain even more insights, and finally they have the loan details which allow the lender to dig more deeply into each transaction if necessary. It's important to note that the MortgageSAT process is not merely telling you that some customers have satisfaction issues, it's tell you which ones and helping you figure out why.

Lenders can also use the portal to see satisfaction results for each of the four critical employees that touch closed loan files -- the Loan Originators, Processor, Underwriter and Closer. This allows organizations to see not just how they are going, but how each employee is impacting satisfaction. It's important to remember that there are a lot of happy customers in the mortgage process, and when the system tells you who they are, and who worked on their loan file, then these employees can be congratulated or recognized for that good work. Companies are even able to use customer satisfaction as a driver for compensation as they work to create a customer centric culture.

Perhaps the most powerful feature of MortgageSAT is that lenders using the portal receive immediate notification of borrowers returning poor scores. They can then see the actual results and on-screen comments their borrower has returned, regarding the loan officer, the application process and the overall borrowing experience. This gives the lender the power to initiate communication with the borrower and take corrective actions immediately. Finding out much later that you have unhappy customers is a frustration for many lenders, because the damage may already have been done to those companies that rely on word of mouth of referrals to drive volume.

Finally, MortgageSAT is easy to deploy and administer; the system can be up and running in a matter of weeks, collecting feedback and providing keen insights into borrowers' experiences.

MortgageSAT data collected thus far indicates that most mortgage customers are relatively satisfied, overall. Even so, our surveys reveal that between 5% and 10% of every mortgage firm's customers not happy. Furthermore, these dissatisfied customers are willing to talk about it if they are asked. Lenders that proactively reach out to these borrowers are often able to solve problems, provide better information and repair relationships, increasing borrower satisfaction -- and company profitability.

About STRATMOR Group (www.stratmorgroup.com)

The STRATMOR Group provides the mortgage industry with objective industry-leading data, information and insights that also drive its consulting practice. As consultants, we specialize in performance benchmarking and operational analysis, strategy development, mergers and acquisitions, high-level technology advice, financial modeling and proprietary surveys. Within the mortgage industry, we are known as a trusted adviser and problem-solving firm that generates significant value for its clients. For more information, visit the company website at http://www.stratmorgroup.com.

Garth Graham
Managing Director
954-325-7816
garth.graham@stratmorgroup.com

Dr. Matt Lind
Managing Director
781-749-6457
matt.lind@stratmorgroup.com