# Mortgage Lender Sentiment Survey®
# Special Topics Report

## Lenders' 2021 Business Priorities

Second Quarter 2021

Fannie Mae®

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# Executive Summary

Streamlining business processes remained the top priority for lenders for the second consecutive year. This year, talent management surpassed consumer-facing technology as the second most important priority. A majority of lenders considered online direct-to-consumer lenders as their biggest competitor and want to focus on improving the mortgage origination process and the customer experience to prepare for a heavier purchase-mortgage market.

## Top Business Priorities

*(Combined % most important + second most important)*

**41%** say **business process streamlining**

**33%** say **talent management and leadership**

**31%** say **consumer-facing technology**

### BUSINESS PRIORITY TRENDS:

In 2021, **consumer-facing technology** fell to **#3** as **talent management and leadership** rose to **#2**

## Competitors & Strategies

**63%** say **online direct-to-consumer lenders** will be their **top competitors** over the next five years

*Among firms that interact directly with consumers (Combined % biggest + second biggest competitor)*

### TOP STRATEGY

**to prepare for a heavier purchase market**

*(Combined % most important + second most important strategy)*

**52%** say **improve mortgage origination process and customer experience**

**28%** say **expand footprint (e.g. retail branches or loan officers)**

**23%** say **partner with builders or real estate agents**

## Mortgage Servicing

*Among firms that service mortgage loans*

### STRATEGIES TO GROW PORTFOLIO

*Among firms that want to grow their servicing portfolio (%, select all that apply)*

**54%** say they are **looking to retain more MSRs on originations**

**46%** say they are **looking to grow selectively based on product execution**

### REASONS TO GROW OR MAINTAIN PORTFOLIO

*Among firms that want to grow or maintain their servicing portfolio*

**65%** say **additional revenue from mortgage servicing**

# Business Context

# Business Context and Research Questions

## Business Context

The COVID-19 pandemic brought significant disruptions to many industries since its outbreak in March 2020, and the mortgage industry was no exception. Mortgage industry participants throughout the value chain acted swiftly to sustain the industry's profitability. The mortgage industry in 2020 had a record-breaking $4.3 trillion in mortgage originations, the large annual volume since 2005.[1] For 2021, despite expectations that the economy will continue to grow, the housing industry faces some downside risks, including lack of inventories for sale, strong  home price appreciation, limited construction labor and materials, and rising inflationary pressures. In early May, we surveyed over 200 senior mortgage executives, via the Mortgage Lender Sentiment Survey®, to better understand their 2021 business priorities.

## Research Questions

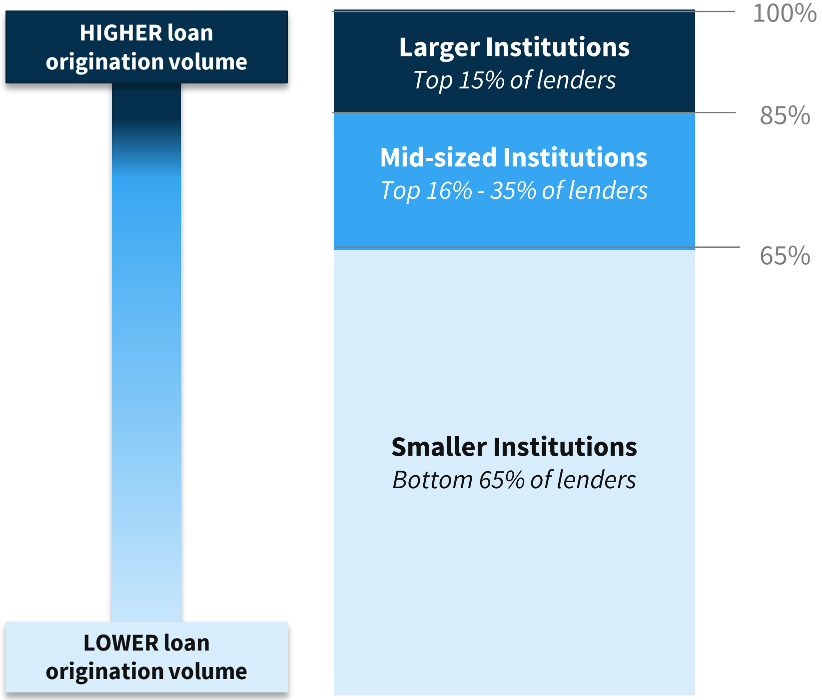
1. What are lenders' most important business priorities for 2021 to maintain or improve their competitiveness in the marketplace? And how are their top business priorities for 2021 different from those in the prior four years?  What has changed?
2. Whom do lenders consider to be their biggest competitor over the next five years and why?
3. What changes, if any, are lenders making to prepare for the market shift towards a heavier purchase-mortgage market?
4. What strategies do lenders plan to use in 2021 for their mortgage servicing portfolio? And, what factors drive them to want to grow or to downsize?

1. BlackKnight's January 2021 Mortgage Monitor, https://www.blackknightinc.com/black-knights-january-2021-mortgage-monitor/

# Q2 2021 Respondent Sample and Groups

The current analysis is based on second quarter 2021 data collection. For Q2 2021, a total of 250 senior executives completed the survey between May 4-17, representing 225 lending institutions.*

**Lender Size Groups****




| Sample Q2 2021 | | Sample Size |
|---|---|---|
| **Total Lending Institutions**<br>The "Total" data throughout this report is an average of the means of the three lender-size groups listed below. | | 225 |
| **Lender Size Groups** | **Larger Institutions**<br>Lenders in the Fannie Mae database who were in the top 15% of lending institutions based on their total 2020 loan origination volume (above $2.25 billion) | 66 |
| | **Mid-sized Institutions**<br>Lenders in the Fannie Mae database who were in the next 20% (16%-35%) of lending institutions based on their total 2020 loan origination volume (between $598 million and $2.25 billion) | 63 |
| | **Smaller Institutions**<br>Lenders in the Fannie Mae database who were in the bottom 65% of lending institutions based on their total 2020 loan origination volume (less than $598 million) | 96 |
| **Institution Type***** | **Mortgage Banks** (non-depository) | 103 |
| | **Depository Institutions** | 72 |
| | **Credit Unions** | 43 |

* The results of the Mortgage Lender Sentiment Survey are reported at the lending institutional parent-company level. If more than one individual from the same institution completes the survey, their responses are weighted to represent their parent institution.
** The 2020 total loan volume per lender used here includes the best available annual origination information from Fannie Mae, Freddie Mac, and Marketrac. Lenders in the Fannie Mae database are sorted by their firm's total 2020 loan origination volume and then assigned into the size groups, with the top 15% of lenders being the "larger" group, the next 20% of lenders being the "mid-sized" group and the rest being the "small" group.
*** Lenders that are not classified into mortgage banks or depository institutions or credit unions are mostly housing finance agencies or investment banks.

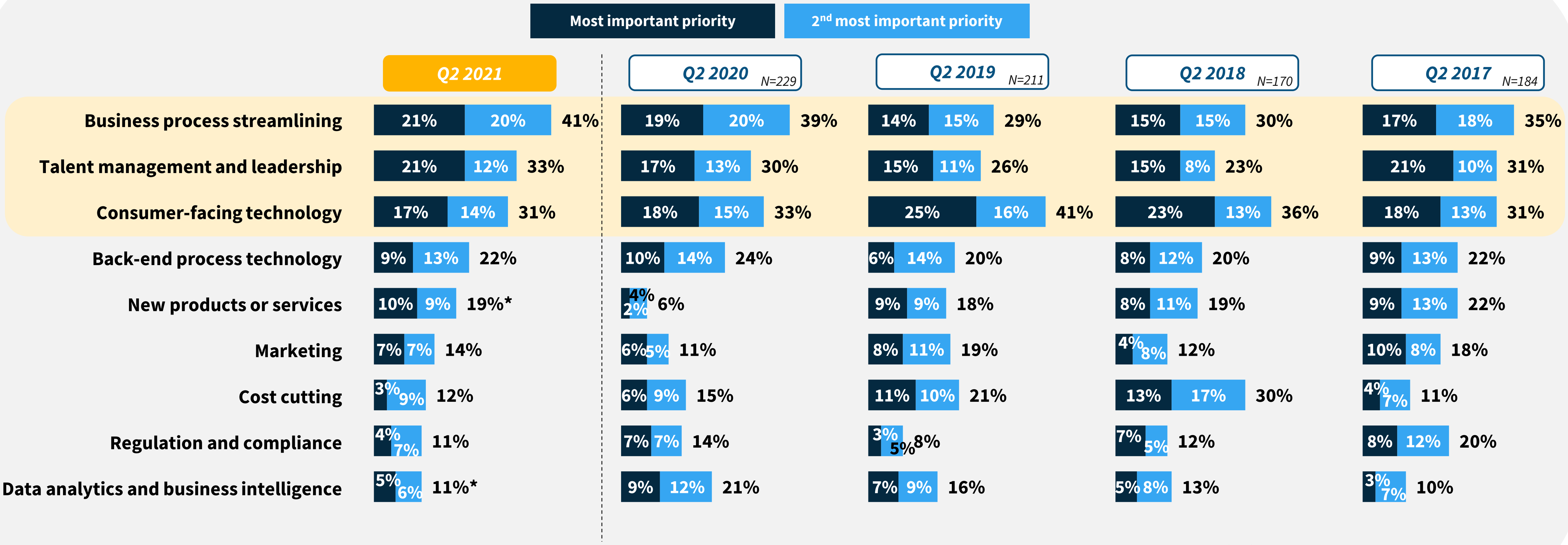
# Lenders’ Business Priorities

# Top Business Priorities in 2021

Business process streamlining, talent management, and consumer-facing technology remain as the top business priorities for three consecutive years. Talent management this year surpassed consumer-facing technology; both business process streamlining and talent management are now at the highest shares in five years.

**Most Important Business Priorities for 2021**

*Select up to two, N=225*




* *Indicates a significant difference in total between 2021 and 2020 at the 95% Confidence Interval*

**In 2021**, 2% (N=6) chose no answer for the second most important

4% of respondents said “Other”. Responses include: “Hybrid working model”, “capacity”, “end-to-end technology”, ”sales recruiting”, “get bulk seasoned reopened”, lending growth”, “speed of transaction”, “GSE Pricing” , and “Successful integration with acquisition target”.

**Q:** *To maintain or improve your competitiveness in the marketplace, what are your firm's two most important business priorities for 2021? Please select up to two most important priorities and rank them in order of importance.*

# Reasons for “Process Streamlining” and “Talent Management” as Business Priorities in 2021

Business process streamlining remained the top priority due to a desire to create a faster, more efficient experience. Talent management and leadership rose to be the second top priority due to increased competition and high turnover.

**What Are They Hoping To Achieve?**
*Asked of Those Who Listed Top Priority, Showing Top 2 Priorities*

## BUSINESS PROCESS STREAMLINING

*“Automating tasks we find coming up consistently, we can **speed up** turn times while **decreasing user error**.” – Larger Institution*

*“Automate milestone communications with customers to help reduce overall calls and **improve customer experience**.” – Larger Institution*

*“2020 was a difficult year to innovate and improve (too much volume). We need to continue to **implement technology and process improvements to drive efficiency** throughout the organization.” – Larger Institution*

*“**Reduce touch points** in the process and utilize RPA to obtain data and make the **experience faster and less intrusive**.” – Mid-sized Institution*

*“Need to work on onboarding, quick training, segregation of duties, so that we can **reduce our days to close from application to closing**.” – Smaller Institution*

*“**Shorten time** from app to close for **better customer experience**.” – Smaller Institution*

## TALENT MANAGEMENT AND LEADERSHIP

*“Need to hold on to originators and support staff. **Market competition is fierce**.” – Larger Institution*

*“We have a very experienced and talented management team. **The leadership will be critical in leading us through a changing mortgage environment**.” – Larger Institution*

*“**Attracting and retaining employees is a challenge** in this over-heated market. We'd like to attract employees on the basis of something other than just paying the most money.” – Mid-sized Institution*

*“Must **develop young leaders** to expand.” – Mid-sized Institution*

*“It is **hard to find, train and retain good people** right now because of a tight labor market in our area.” – Smaller Institution*

*“We are having trouble keeping the mortgage area staffed. **Turnover is an issue**. Finding experienced people is very difficult.” – Smaller Institution*

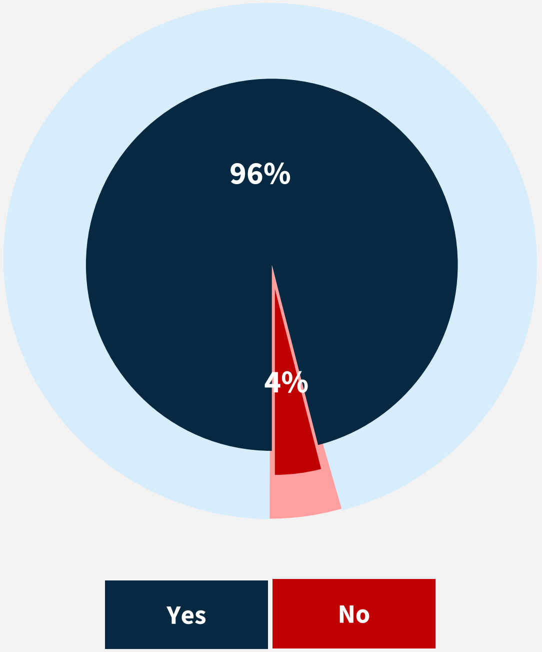
**Q:** *You mentioned **[PRIORITY]** is a top priority for your firm. Could you please share some details about why it is a top priority? What do you want to achieve? (Optional)*

# Competitors and Strategies

# Biggest Competitors Over the Next Five Years

According to lenders who directly interact with borrowers, many considered online direct-to-consumer lenders as the biggest competitor, similar to in Q2 2019. Lenders were significantly more likely to see mortgage brokers as their biggest competition compared to two years ago.

**Does your firm directly interact with borrowers/consumers on mortgage inquiry, loan application, or underwriting?** *(N=225)*

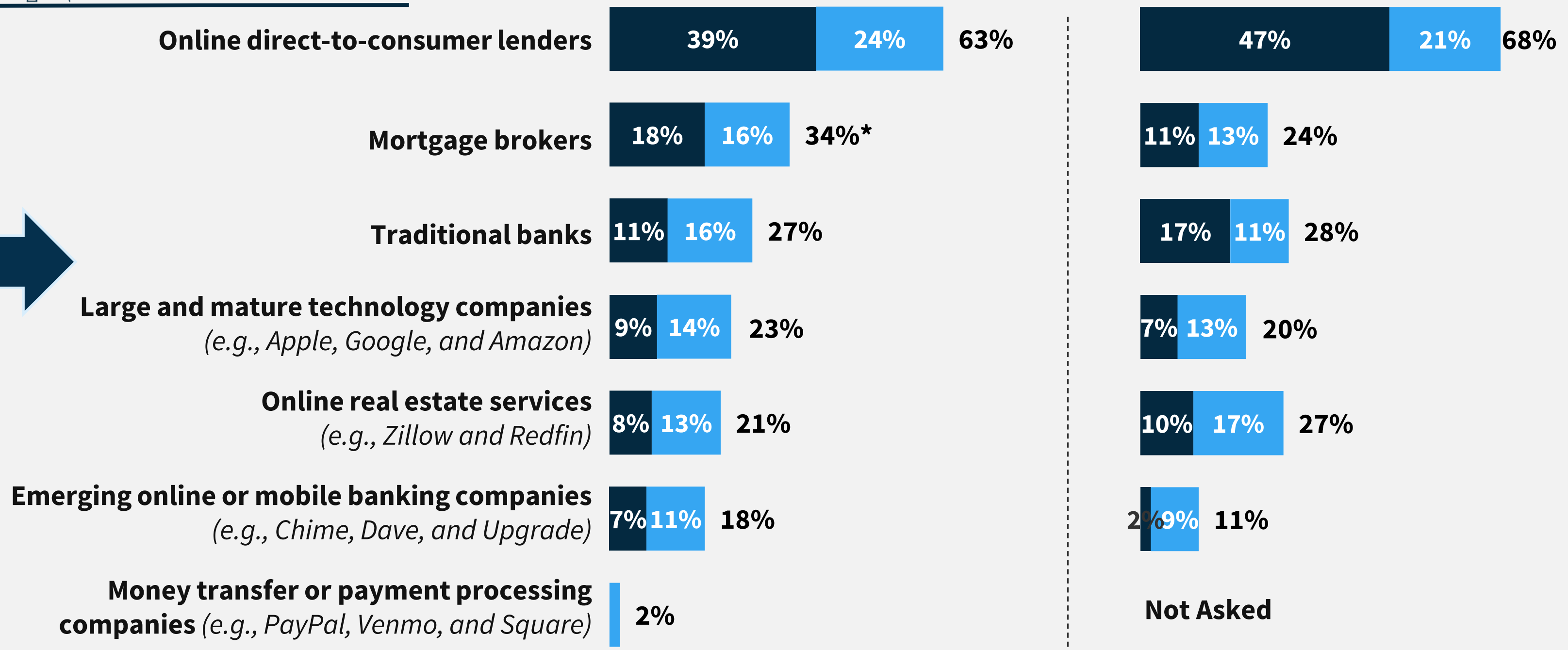



**Larger (73%) institutions** are significantly more likely to say **online direct-to-customer** are competitors **than smaller (54%) institutions.**

**Biggest Competitors Over the Next Five Years**
*Asked of Firms That Directly Interact with Consumers (N=216)*

Biggest Competitor | Second Biggest Competitor

*Q2 2021* | *Q2 2019* N=211




**In Q2 2021,** 3% (N=7) chose no answer for the second biggest competitor
8% of respondents said “Other”. Responses include: “Independent Mortgage Companies”, “Other lenders”, “Credit Unions”, “Special Mortgage Servicers”.
**In Q2 2019,** “Online direct-to-consumer lenders” was asked as “Online Business-to-Consumer (B2C) lenders and “Traditional banks” was asked as “Traditional financial services companies with branches/offices.” Additional answer choices were included that were not asked in **Q2 2021.**

** Indicates a significant difference in total between 2021 and 2020 at the 95% Confidence Interval*

***Q:*** *Does your firm directly interact with borrowers/consumers on mortgage inquiry, loan application, or underwriting?*
***Q: IF YES*** *Listed below are some key players in the technology or financial services industry. Among those listed below, who do you think will be your biggest competitors over the next five years? Please select up to two.*

# Reasons Why Online Direct-to-Consumer Lenders Are Seen as Top Competitor

Lenders cited direct-to-consumer lenders' advantages in user experience, more streamlined mortgage process, and advanced analytical and marketing capabilities that will allow them to expand their reach, especially with new, younger homebuyers.

**Competitive Advantages of Online Direct-to-Consumer Lenders**
*Showing Themes from Those who Chose them as the Biggest Competitor*

## STREAMLINED AND EASY TO USE

*"Their technology continues to **make the mortgage process easier and easier**." – Larger Institution*

*"As POS systems improve and consumers adopt greater ease of use skills **this is how customers want to do most forms of business**." – Mid-sized Institution*

*"The ability to use technology to **make the transaction effortless from consumer experience perspective**." – Larger Institution*

*"The **new, young home buyers** are in tune with doing everything online and in most cases **prefer to apply online** rather than in person. **Time and ease of applying**." – Smaller Institution*

*"These companies tend to **make it easier for the customers** to provide the documentation and/or use e-verifications to reduce conditions." – Larger Institution*

*"**They've made the application process ridiculously easy** and they are relentless in their follow up." – Smaller Institution*

## MARKETING AND ANALYTICS

*"They have **superior business analytics** and technology applications to reach borrowers directly." – Smaller Institution*

*"They have the tools and experience to compete in a razor thin margin market. they also **have the marketing know how to capture loans**." – Mid-sized Institution*

*"Ease of process combined with **advanced analytics to connect with customers** will enable on-line lenders to finally make large inroads into the purchase market." – Larger Institution*

*"Their **marketing resonates with millennials**. I'm not sure they have a competitive advantage; since I don't know how the massive marketing expense compares to staffing traditional retail branches." – Smaller Institution*

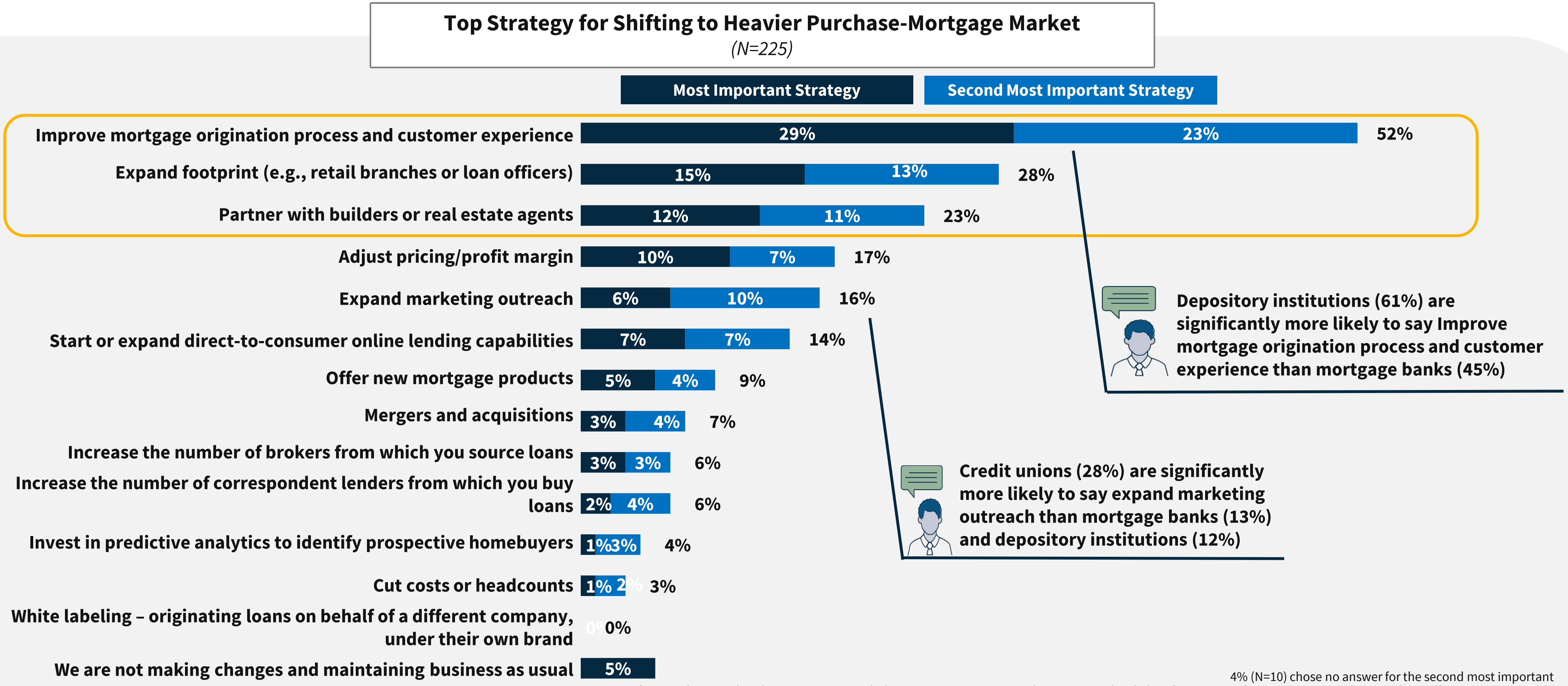
*"**More marketing** and better technology." – Mid-sized*

*"They've already captured large market share and will **continue to figure out how to get in front of homebuyers** which has been their biggest challenge." – Larger Institution*

***Q:** Why do you think that ## INSERT QR444A RESPONSES ## will be your biggest competitor over the next five years? In your view, what are its competitive advantages? Please share your thoughts. (Optional)*

# Top Strategy for Shifting to Heavier Purchase-Mortgage Market

A majority of lenders named improving the mortgage origination process and customer experience as their top strategy to prepare for the shift toward a heavier purchase-mortgage market. About a quarter of lenders also said they plan to expand their footprint and partner with builders and/or real estate agents.




4% (N=10) chose no answer for the second most important

3% of respondents said “Other”. Responses include: “improve turn times and continue to shrink days from app to closing”, “training of current loan officers”, “More nimble staffing and talent acquisition”, “Focus on being a home ownership company, real estate agency, title and HOI.”, “Add sales staff”, and “Hire mortgage sales manager.”

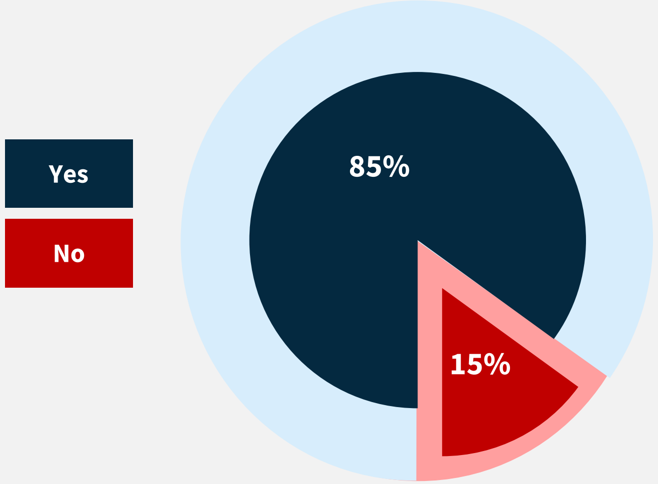
***Q:*** *What changes, if any, is your firm making to prepare for the shift towards a heavier purchase-mortgage market? Please select up to two and rank them in order of importance.*

# Mortgage Servicing Rights

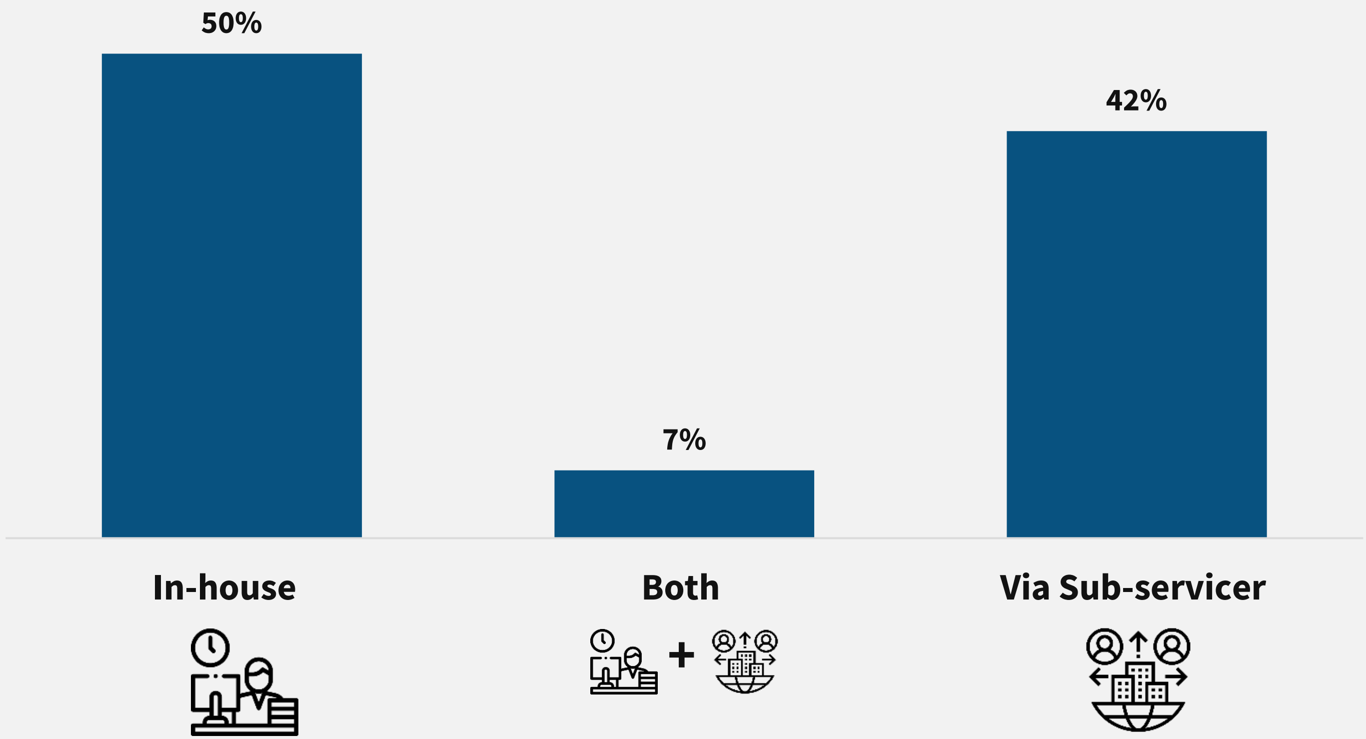
# Sample Base for Mortgage Servicing Strategies

Survey results regarding mortgage servicing strategies are based on organizations who say they retain mortgage servicing rights and service loans in house or via a sub-servicer or both.

**Does your firm retain MSRs (Mortgage Servicing Rights), servicing loans either in-house or via a sub-servicer?**
*(N=225)*



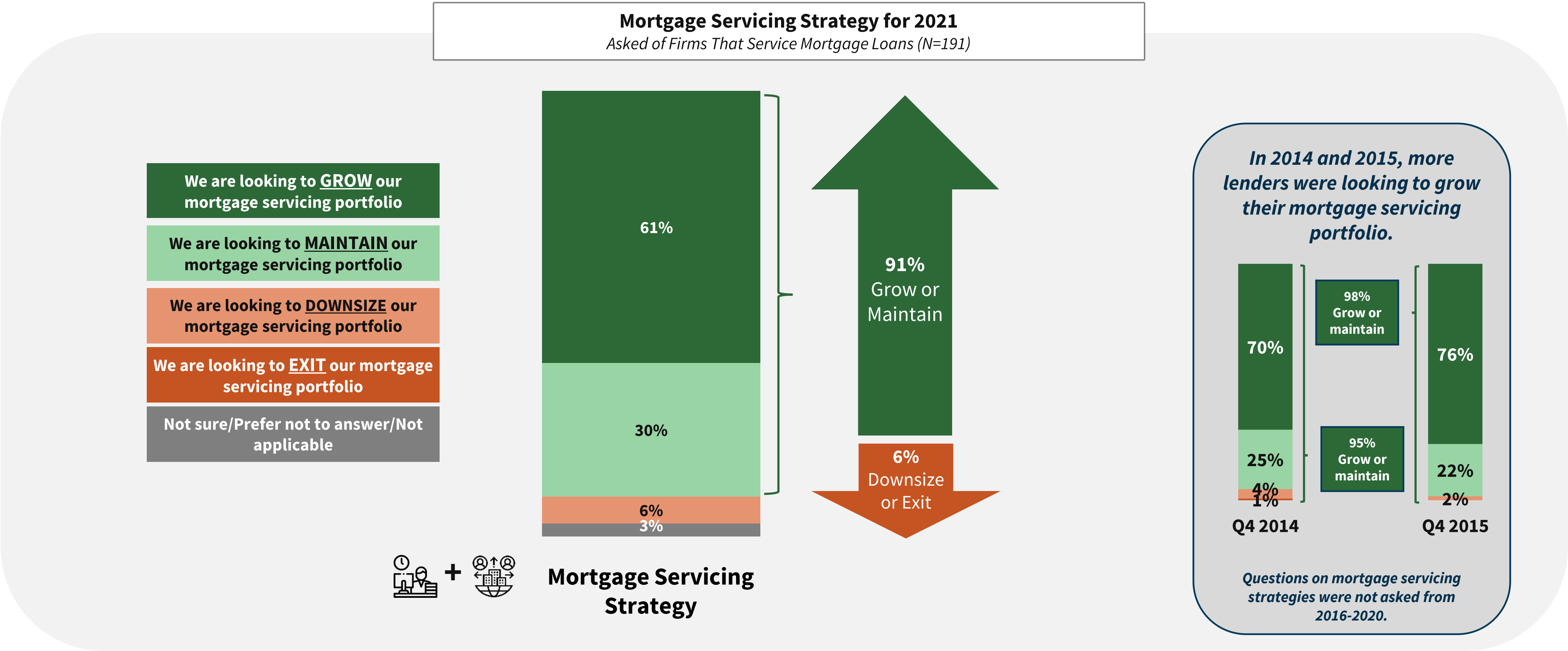

**Does your firm service mortgage loans in-house or via a sub-servicer?**
*Asked of Firms That Service Mortgage Loans (N=191)*




**Q:** *Does your firm retain MSRs (Mortgage Servicing Rights), servicing loans either in-house or via a sub-servicer?*
**Q: IF YES** *Does your firm service mortgage loans in-house or via a sub-servicer?*

# Mortgage Servicing Strategy for 2021

Most organizations that service mortgage loans said they would like to grow (61%) or maintain (30%) their current portfolio. Very few firms said they would like to downsize.



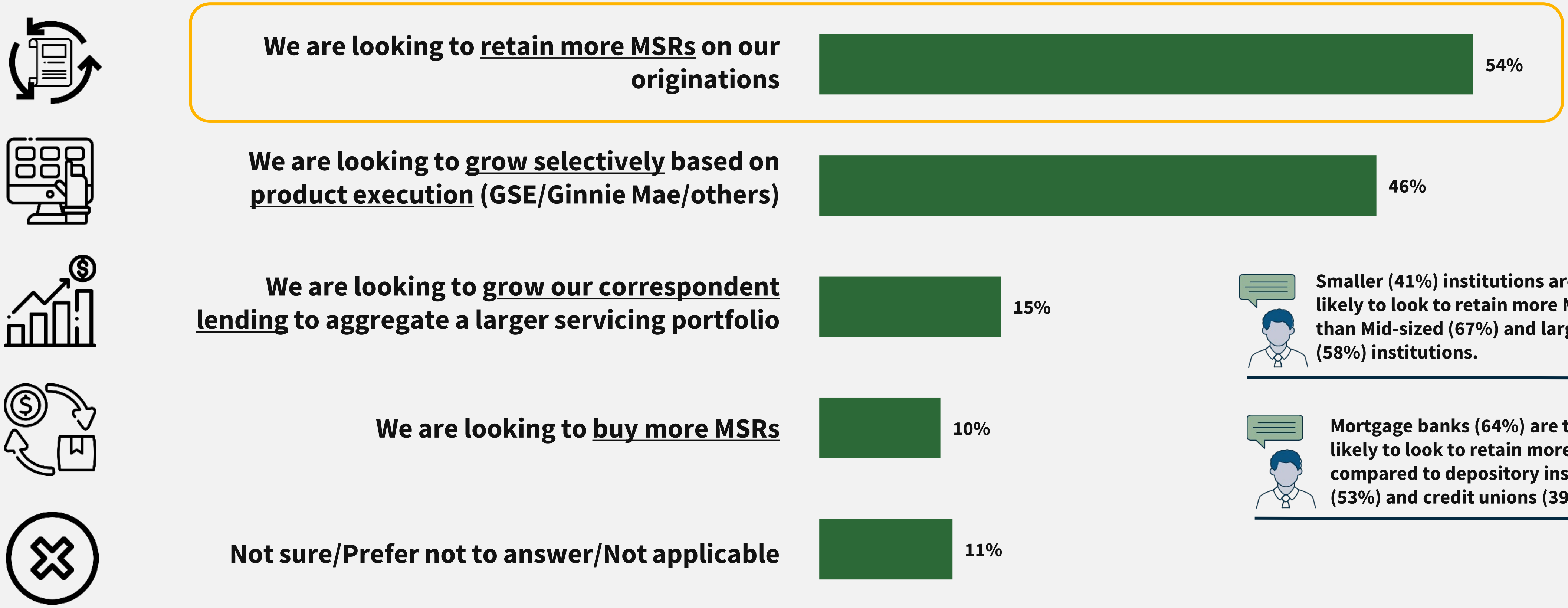

**Q: IF YES** *Which of the following statements best describes your firm's mortgage servicing strategy for 2021?*

# Strategies for Growing Mortgage Servicing Portfolio

Looking to retain more MSRs on originations and growing selectively based on product execution were the top two strategies cited by servicers to grow their mortgage servicing portfolio.

**Strategies for Growing Mortgage Servicing Portfolio**

*Select all that Apply, Asked of Firms That Service Mortgage Loans AND Want to Grow their Mortgage Servicing Portfolio (N=118)*




**Smaller (41%) institutions are less likely to look to retain more MSRs than Mid-sized (67%) and larger (58%) institutions.**

**Mortgage banks (64%) are the most likely to look to retain more MSRs, compared to depository institutions (53%) and credit unions (39%).**

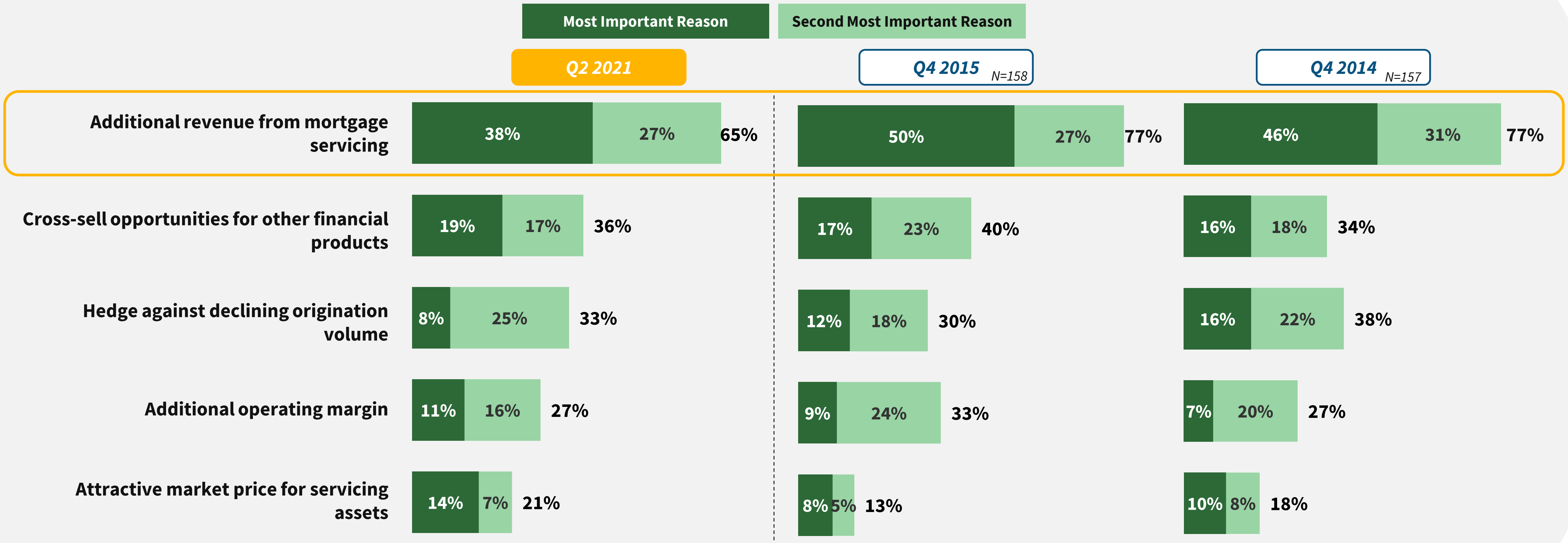
**Q: IF GROW** *Which of the following strategies do you think your firm will likely implement in growing your firm's mortgage servicing portfolio? Please select all that apply.*

# Reasons to Grow or Maintain Mortgage Servicing Portfolio

Additional revenue from mortgage servicing remained the top reason to grow or maintain servicing portfolio; however less so than in Q4 2015 and Q4 2014.

**Reasons to Grow or Maintain Portfolio**

*Asked of Firms That Service Mortgage Loans and Want to Grow or Maintain their Mortgage Servicing Portfolio (N=174)*




6% (N=11) chose no answer for the second most important

13% of respondents said "Other". Responses include: Customer experience/service/relationships, retention, protect member base.

***Questions on mortgage servicing strategies were not asked from 2016-2020.***

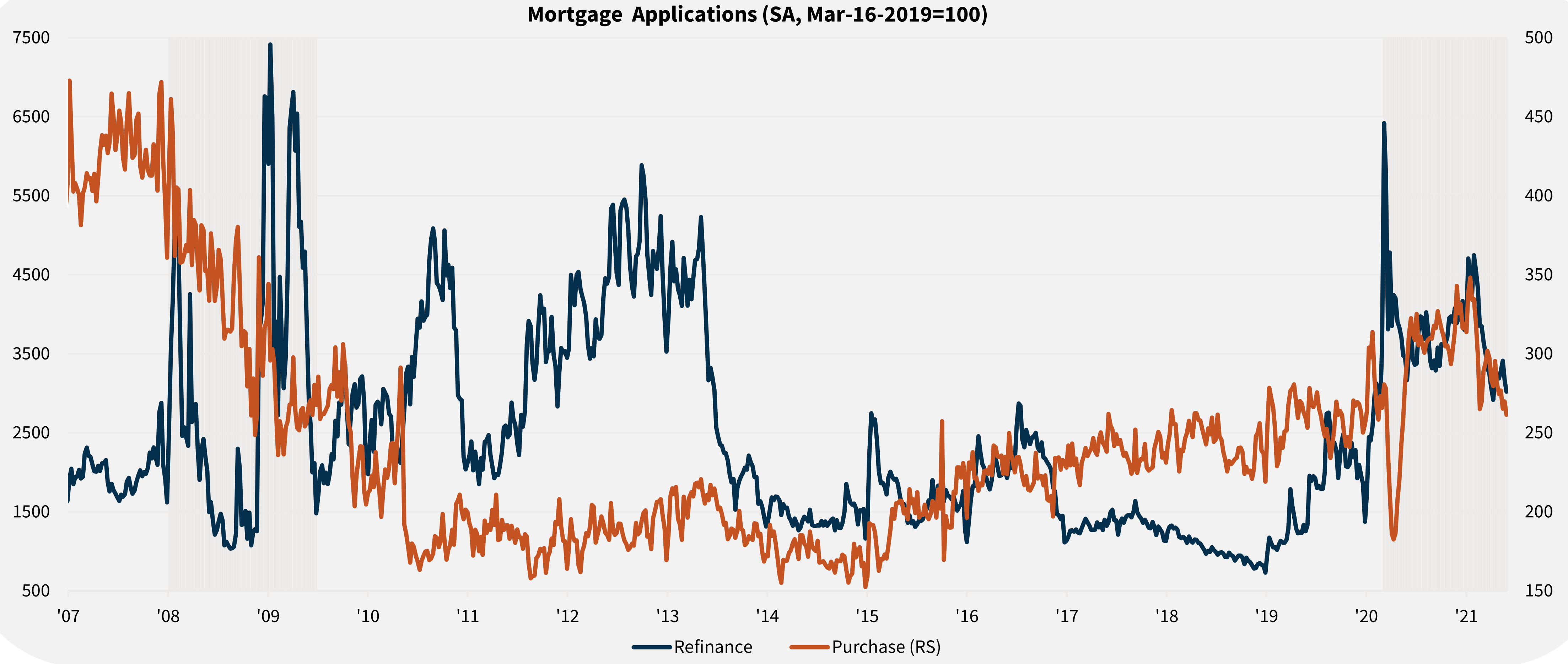
**Q: IF GROW OR MAINTAIN** *Listed below are some possible reasons for firms to [INSERT] their mortgage servicing portfolio. Please select up to two of the most important reasons that best describe your firm's decision to [INSERT] its mortgage servicing portfolio and rank them in order of importance.*

# Appendix

# Appendix

# Mortgage Applications as of May 28, 2021

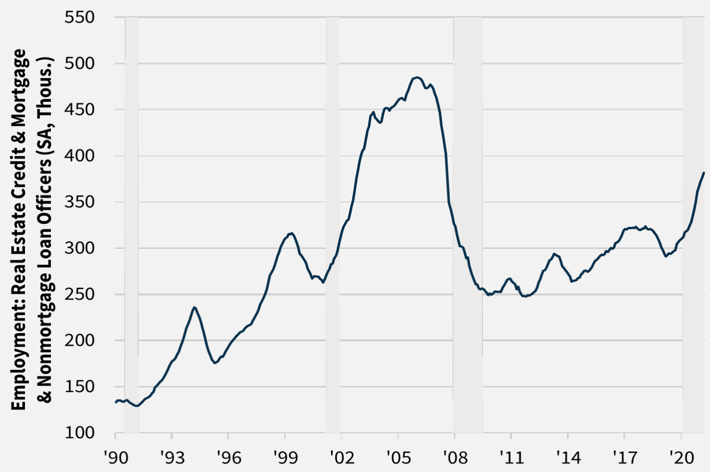
Increasing mortgage rates in early 2021, a lack of available homes for sale, and affordability issues have limited mortgage application demand compared to the highs in late 2020 and at the start of 2021. Despite the recent declines, both refinance and purchase volumes remain elevated compared to much of the prior expansion.

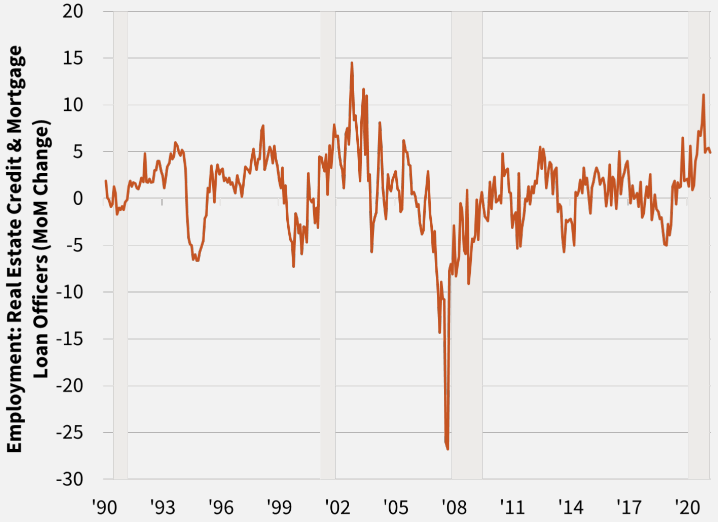


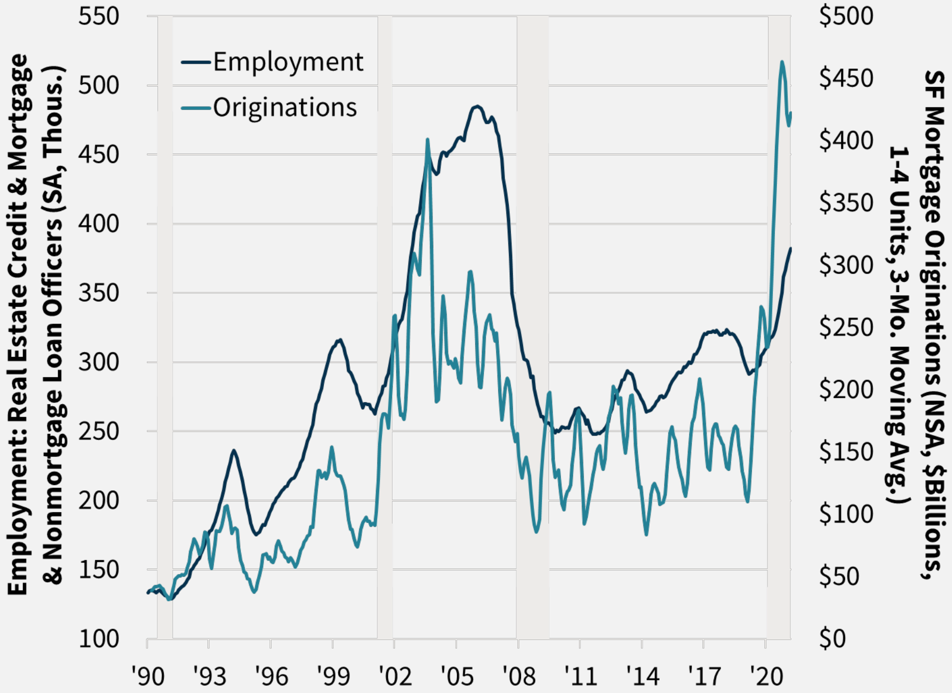

Source: Mortgage Bankers Association

# Mortgage Industry Employment Overview

The mortgage industry's most recent trough in employment occurred in March 2019, but employment rates have risen strongly since, despite the COVID-19 pandemic. Origination volumes tend to highly correlate with employment and lead employment by a few months; 2020 recorded the highest origination volumes on record.



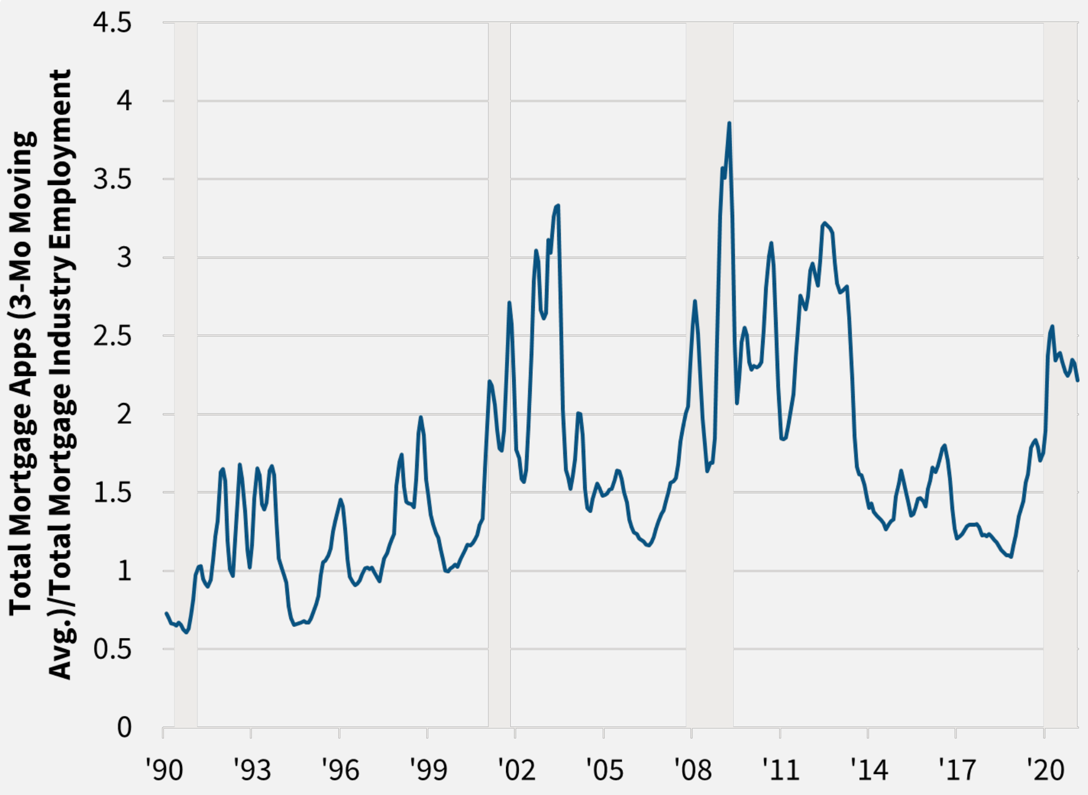



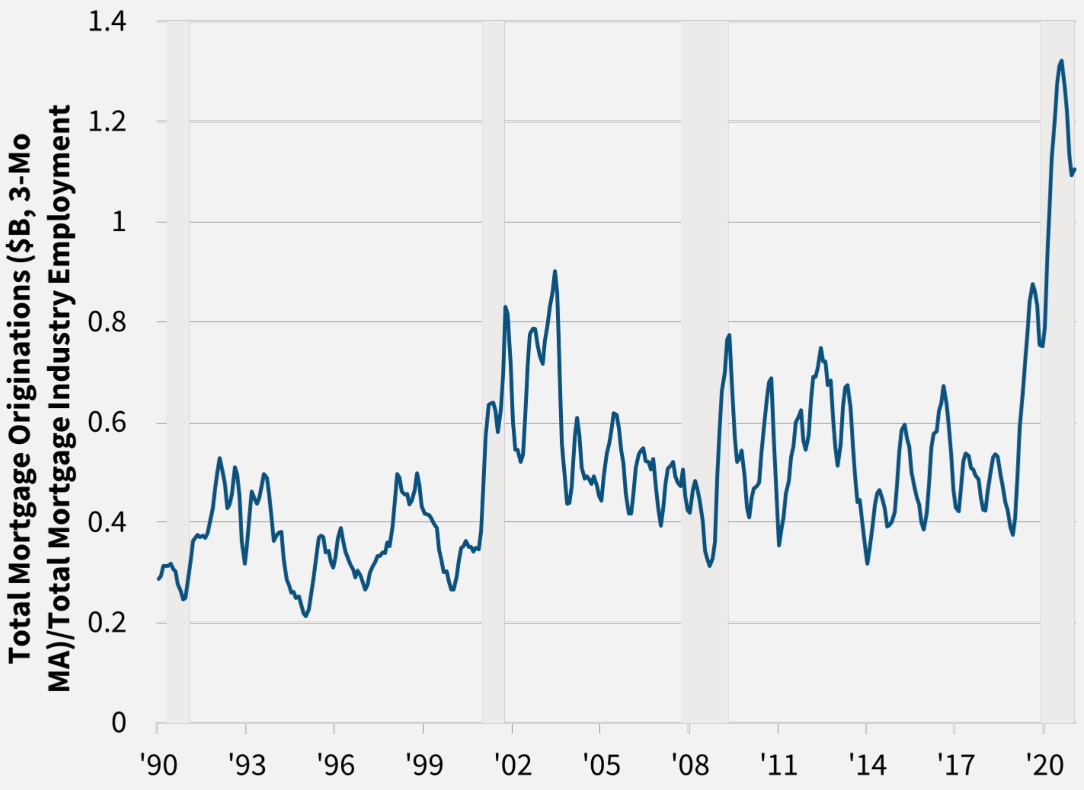




Source: Bureau of Labor Statistics, Fannie Mae analysis

# Productivity

Despite the increase in mortgage industry employment, the average amount of origination volume per employee* spiked at the end of 2020 before retreating slightly in early 2021 as mortgage rates increased and volumes declined. Loan applications per employee* also rose in 2020, though not to the levels seen during the prior housing bubble.

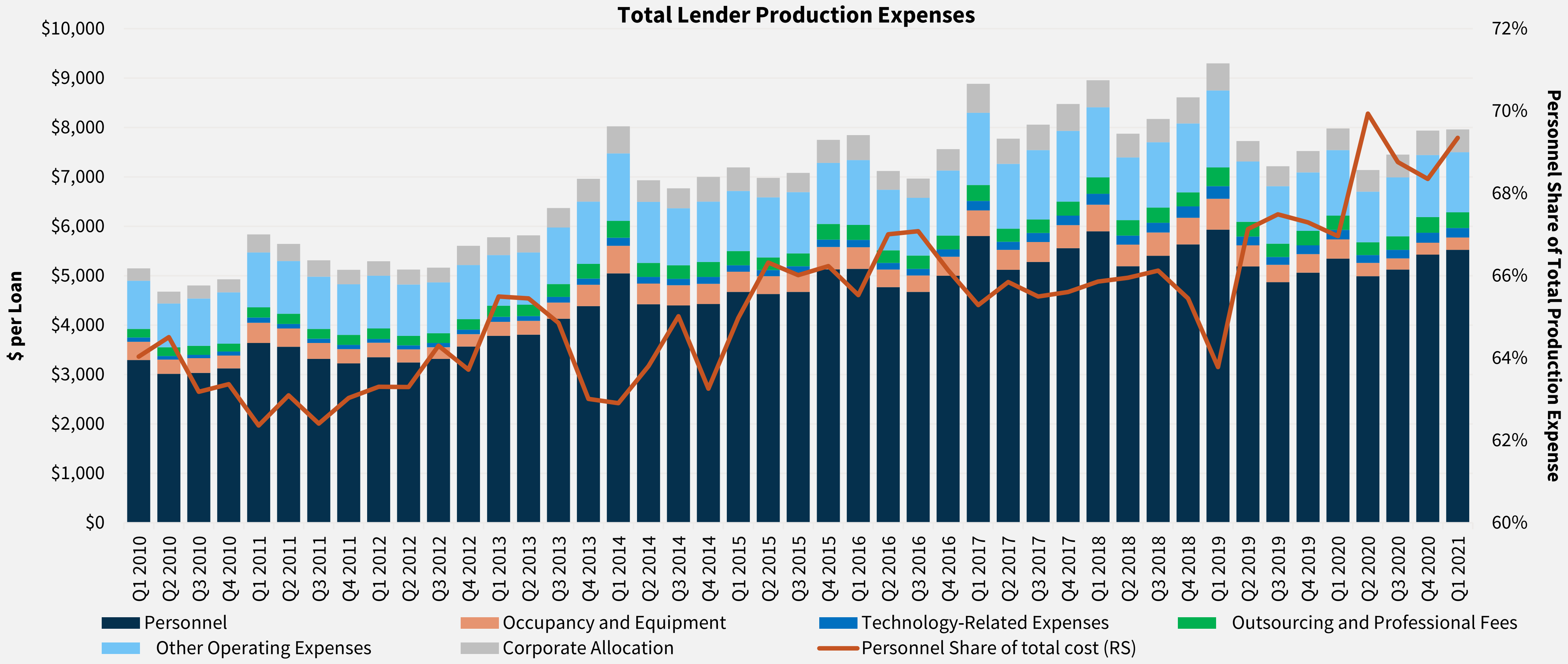



* Based on total mortgage industry employment, not specific to specific roles
Source: Mortgage Bankers Association, Bureau of Labor Statistics, Fannie Mae analysis

# Loan Origination Cost

The average origination cost per loan has moved largely sideways since Q2 2019 after steadily increasing over the prior decade. The majority of lender expense is for personnel, and the share of personnel cost to total expenses has also increased over time, from about 64% in Q1 2010 to a peak of 70% in Q2 2020.




Source: Mortgage Bankers Association, Mortgage Bankers Performance Reports - Quarterly and Annual

# Appendix

# Objectives of Mortgage Lender Sentiment Survey®

The Mortgage Lender Sentiment Survey® (MLSS), which debuted in March 2014, is a quarterly online survey among senior executives in the mortgage industry. The survey is unique because it is used not only to track lenders' current impressions of the mortgage industry, but also their insights into the future.

**Tracks insights and provides benchmarks into current and future mortgage lending activities and practices.**

**Quarterly Regular Questions**

- **Consumer Mortgage Demand**
- **Credit Standards**
- **Profit Margin Outlook**

**Featured Specific Topic Analyses**

- **COVID-19 & Remote Working**
- **Mortgage Servicing Challenges**
- **CONDO Mortgage Lending Opportunities**
- **COVID-19 Challenges and Lender Business Priorities**
- **Impact of Technology on Lender Workforce Management**
- **Business Priorities and Industry Competition**

The MLSS is a quarterly 10-15 minute online survey of senior executives, such as CEOs and CFOs, of Fannie Mae's lending institution customers. The results are reported at the lending institution parent-company level. If more than one individual from the same institution completes the survey, their responses are averaged to represent their parent company.

# Methodology of Mortgage Lender Sentiment Survey®

**Survey Methodology**

- A quarterly, 10- to 15-minute online survey among senior executives, such as CEOs and CFOs, of Fannie Mae's lending institution partners.
- To ensure that the survey results represent the behavior and output of organizations rather than individuals, the Fannie Mae Mortgage Lender Sentiment Survey is structured and conducted as an establishment survey.
- Each respondent is asked 40-75 questions.

**Sample Design**

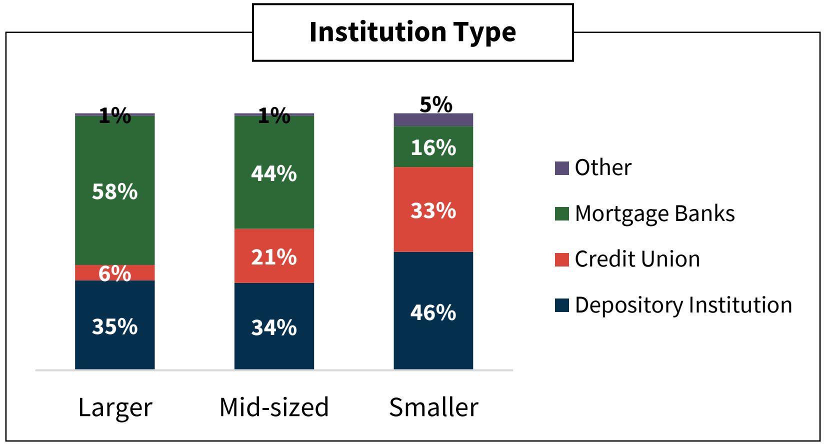
- Each quarter, a random selection of approximately 3,000 senior executives among Fannie Mae's approved lenders are invited to participate in the study.

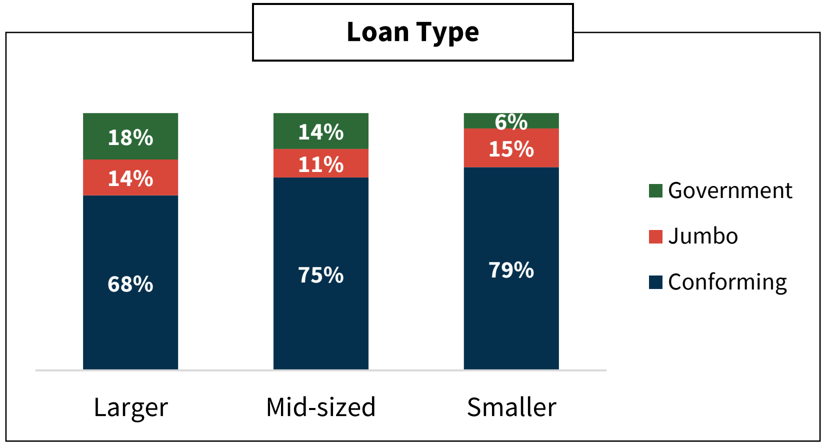
**Data Weighting**

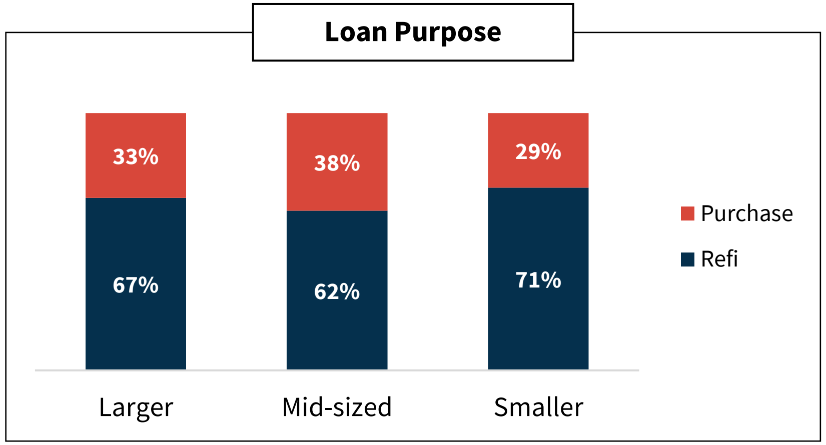
- The results of the Mortgage Lender Sentiment Survey are reported at the institutional parent-company level. If more than one individual from the same parent institution completes the survey, their responses are averaged to represent their parent institution.

# Lending Institution Characteristics

Fannie Mae's customers invited to participate in the Mortgage Lender Sentiment Survey represent a broad base of different lending institutions that conducted business with Fannie Mae in 2020. Institutions were divided into three groups based on their 2020 total industry loan volume – Larger (top 15%), Mid-sized (top 16%-35%), and Smaller (bottom 65%). The data below further describe the composition and loan characteristics of the three groups of institutions.




Note: Government loans include FHA loans, VA loans and other non-conventional loans from Marketrac.

# Appendix

# Question Text

**QR440:** To maintain or improve your competitiveness in the marketplace, what are your firm's two most important business priorities for 2021? Please select up to two most important priorities and rank them in order of importance.

**QR441:** You mentioned [PRIORITY] is a top priority for your firm. Could you please share some details about why it is a top priority? What do you want to achieve? (Optional)

**QR442:** You mentioned that cost cutting would be a top priority for your organization to maintain or improve competitiveness. In which areas do you expect to cut costs? Please select up to two areas.

**QR443:** Does your firm directly interact with borrowers/consumers on mortgage inquiry, loan application, or underwriting?

**QR444:** Listed below are some key players in the technology or financial services industry. Among those listed below, who do you think will be your biggest competitors over the next five years? Please select up to two.

**QR445:** Why do you think that /* [INSERT FROM QR444A] */ will be your biggest competitor over the next five years? In your view, what are its competitive advantages? Please share your thoughts . (Optional)

**QR446:** What changes, if any, is your firm making to prepare for the shift towards a heavier purchase-mortgage market? Please select up to two and rank them in order of importance.

**QR447:** Does your firm retain MSRs (Mortgage Servicing Rights), servicing loans either in-house or via a sub-servicer?

**QR448:** Does your firm service mortgage loans in-house or via a sub-servicer?

**QR449:** Which of the following statements best describes your firm’s mortgage servicing strategy for 2021?

**QR450:** Which of the following strategies do you think your firm will likely implement in growing your firm’s mortgage servicing portfolio? Please select all that apply.

**QR451:** Listed below are some possible reasons for firms to [GROW/MAINTAIN] their mortgage servicing portfolio. Please select up to two of the most important reasons that best describe your firm’s decision to [GROW/MAINTAIN] its mortgage servicing portfolio and rank them in order of importance.

**QR452:** Listed below are some possible reasons for firms to [DOWNSIZE THEIR MORTGAGE SERVICING PORTFOLIO/EXIT THE MORTGAGE SERVICING INDUSTRY]. Please select up to two of the most important reasons that best describe your firm’s decision to [DOWNSIZE THEIR MORTGAGE SERVICING PORTFOLIO/EXIT THE MORTGAGE SERVICING INDUSTRY] and rank them in order of importance.