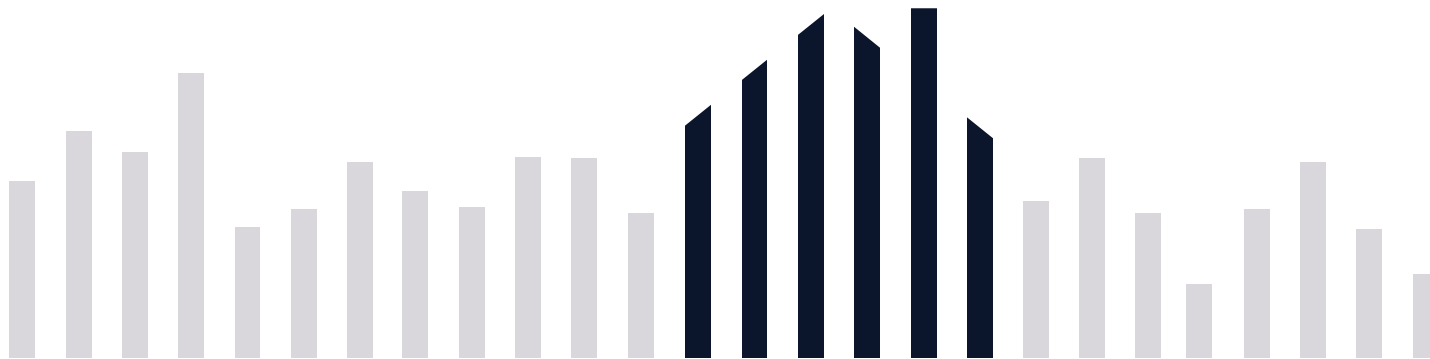




# Cost Cutting Has Emerged as a Focus of Lender Competitiveness

*Economic and Strategic Research (ESR)*

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# Executive Summary

## Cost Cutting Has Emerged as a Focus of Lender Competitiveness.

### Business Priorities to Improve or Maintain Competitiveness

“**Cost cutting**” jumped from the second least important business priority last year to the third most important priority this year.

“**Consumer-facing technology**,” “**business process streamlining**,” and “**cost cutting**” are lenders’ top business priorities in that order for 2018 to improve or maintain competitiveness.



Lenders view “**collecting borrower information**” and “**ensuring property value**” as the top opportunity areas for efficiency gains.



### Market Environment

- Year-to-date existing home sales through April were 0.7 percent below the level during the same period last year.
- Pending home sales declined 2.1 percent on an annual basis in April, marking the fourth consecutive year-over-year drop.
- Purchase mortgage applications fell every week in May, sending the average monthly volume 2.9 percent below April’s average reading.
- Mortgage rates have risen about 80 basis points since September 2017, pushing refinance activity down sharply.
- The for-sale inventory of existing homes has remained below the year-ago level for nearly three years.
- The industry average profit margin is negative for Q1 2018, with pre-tax production losses of 8 basis points (a loss of \$118 on each loan originated).\*



### Housing Employment

Mortgage industry payrolls are trending sideways, although they were elevated in April, and may be approaching the cyclical peak.

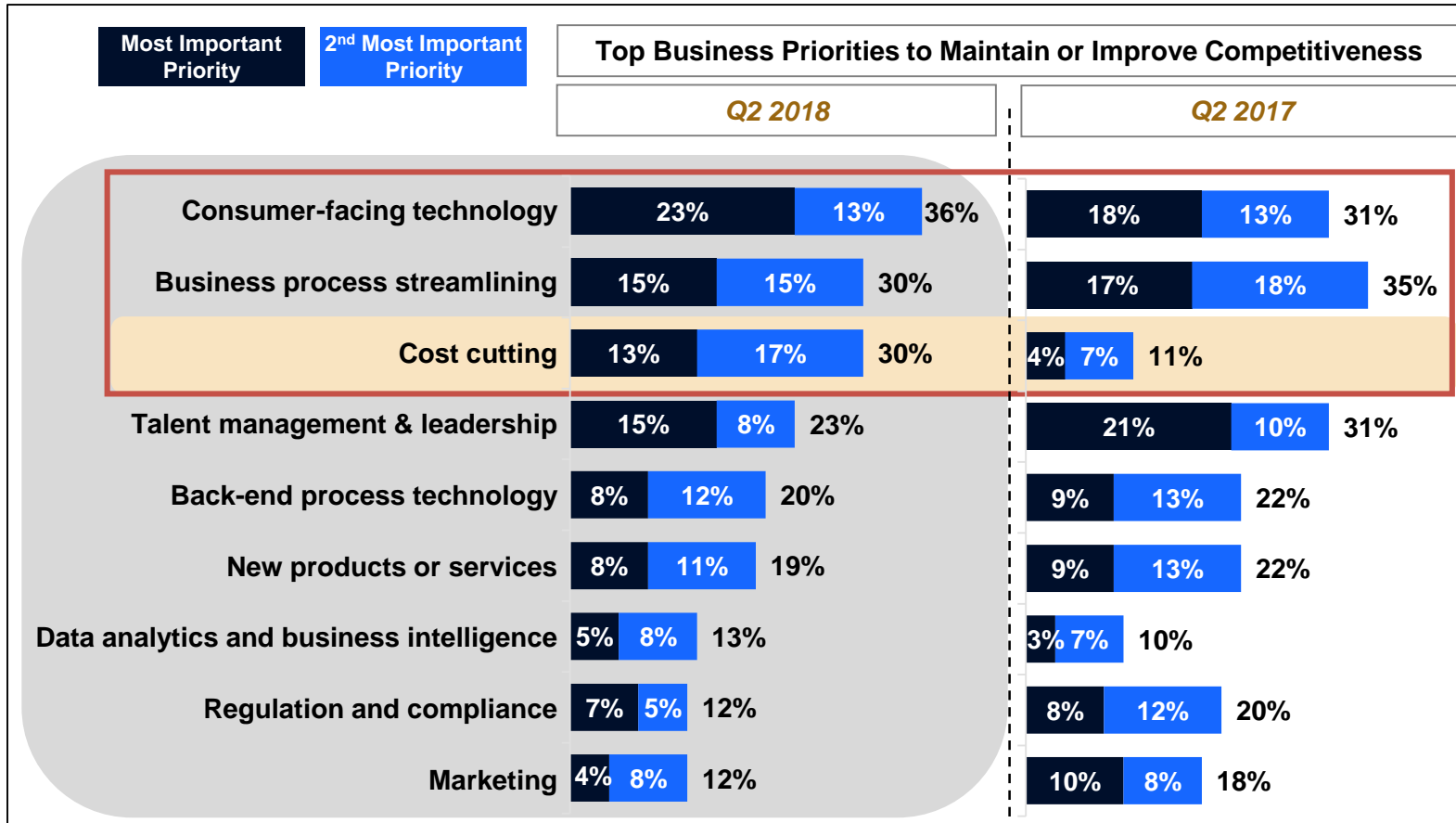


\* Source: MBA Quarterly Mortgage Bankers Performance Report [https://www.mba.org/publications/insights/articles/current-issue/mba-chart-of-the-week-imb-production-profit-and-volume?\\_zs=84rwB1&\\_zl=iJV4](https://www.mba.org/publications/insights/articles/current-issue/mba-chart-of-the-week-imb-production-profit-and-volume?_zs=84rwB1&_zl=iJV4)



# Lender's Business Priorities for 2018 to Improve or Maintain Competitiveness

Consumer-facing technology, business process streamlining, and cost cutting are lenders' top business priorities for 2018 to improve or maintain competitiveness. Last year, only a tenth of lenders saw cost cutting as important, but this year, almost a third value cost cutting as a priority. Those who cite cost cutting as their top priority mention reduced margins as a factor.



## Why (response) is a Top 2018 Business Priority (n=115)

### Consumer Facing Technology

"Need to enter the **digital era** and not **fall too far behind**" – Larger Institution

"**Competition** from FinTech demands that our technology is **user friendly**, and **action-oriented**." – Smaller Institution

"We are trying to create a **more efficient interface with the consumer** that will allow the request of documentation and uploading to be more efficient. This will lower LO comp costs and allow for **more competitive pricing**." – Mid-sized Institution

### Business Process Streamlining

"Business process streamlining allows us to be **more efficient** which results in **higher revenues** giving us the ability to **compete in pricing**. The consumer benefits." – Smaller Institution

"Always looking for **best practices to cut app to closing time**. Always looking for vendor partners to cut process time especially appraisals. We are currently closing loans in 29 days. Like to get to under 21 days." – Smaller Institution

### Cost Cutting

"**Very little margin** in this business as rates have stayed low - **have to find a way to make more** and right **now we need to cut costs** - until rates on the longer end of the curve rise." – Smaller Institution

"Need **cut cost to maintain profit levels** since origination will start to **decline**; cost have also increased over prior years." – Mid-sized Institution

"Margins are lower and volume is down, need **expenses** to match.." – Mid-sized Institution

"Efficiency review which led to **10% reduction in corporate support staff**." – Mid-sized Institution

Q2 2018: Q: To maintain or improve your competitiveness in the marketplace, what are your firm's two most important business priorities for 2018? Please select up to two most important priorities and rank them in order of importance. Q2 2017: Q: To maintain or improve your competitiveness in the marketplace, what are your firm's two most important business priorities for 2017? Please select up to two most important priorities and rank them in order of importance.

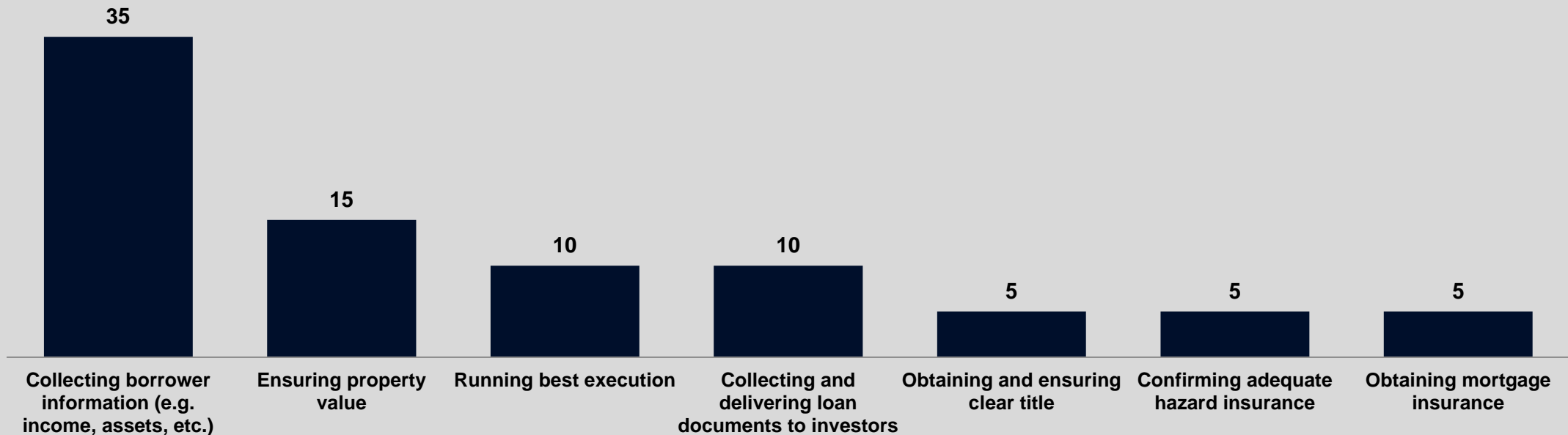
Q: You mentioned that (response) is a top priority for your firm. Could you share some details about why it is a top priority? What do you want to achieve?



## Efficiency Gains That Can be Made in the Mortgage Process

Lenders view “collecting borrower information” and “ensuring property value” as the top opportunity areas for efficiency gains. Insurance-related areas are viewed as less critical.

Where do Lenders think Efficiency Gains can be made in the Mortgage Origination and Delivery Process?  
Showing Median amount of points allocated per category from distributing 100 points across the categories below

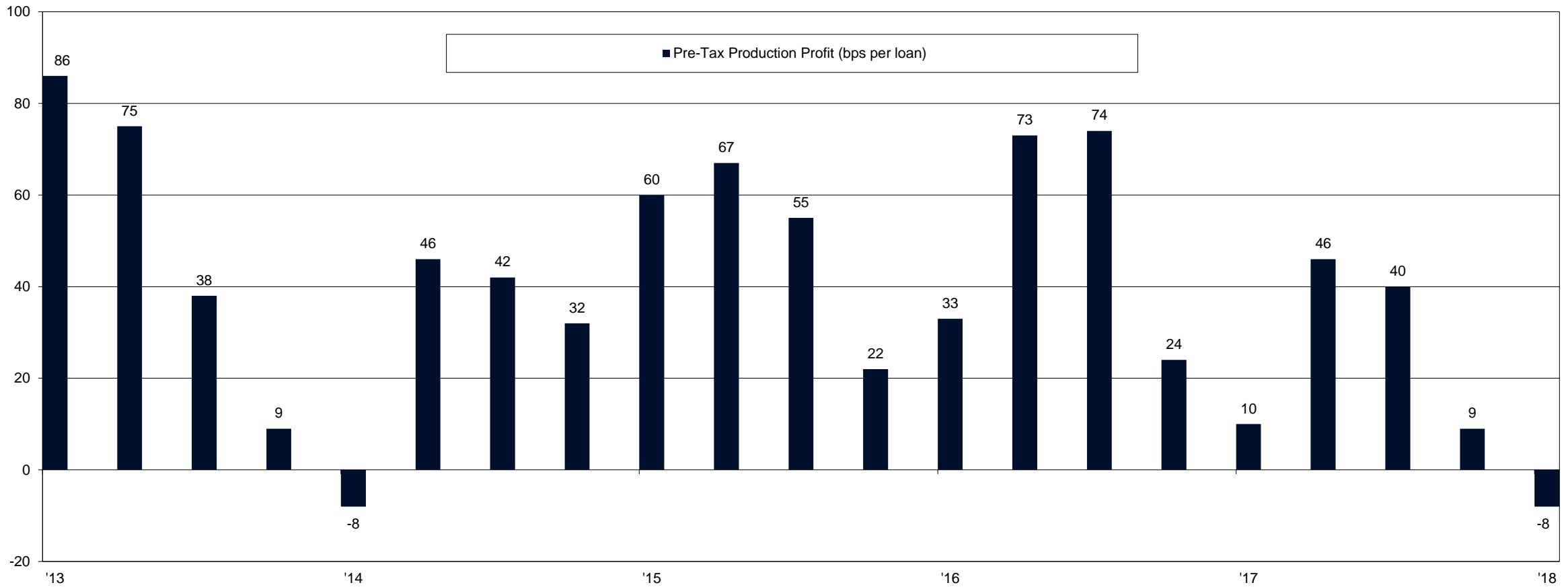


Q: Operational efficiency has been a top priority for many lenders. Listed below are some steps of the mortgage origination and delivery process. Which steps are your firm’s biggest pain points and represent the biggest opportunities for efficiency gains? Please allocate a total of 100 points across the steps below to indicate the importance in making them more efficient. Allocate more points to the steps with the greatest potential for efficiency gains. It is okay to allocate zero (0) points to a step if there’s no need to make it more efficient.



## Profit Per Loan Turns to a Loss for the First Time in Four Years

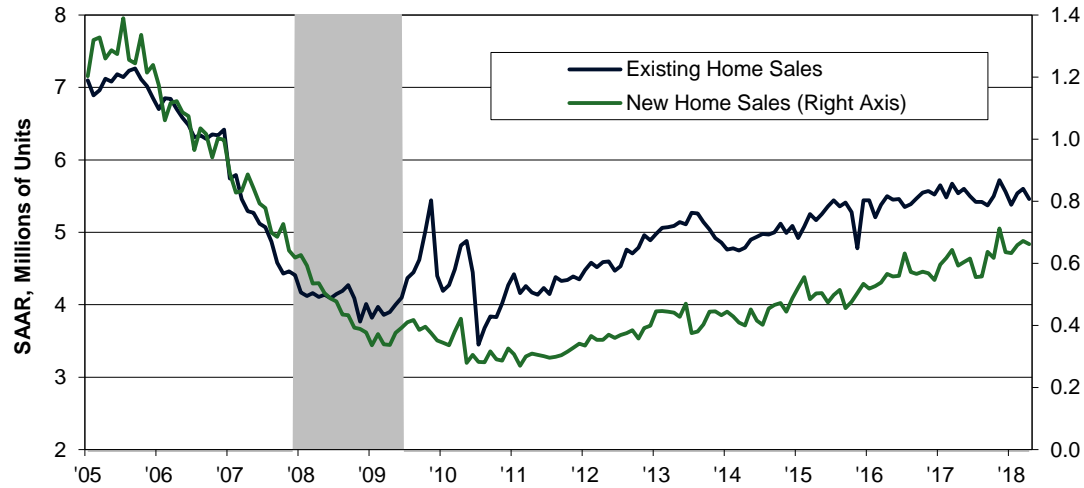
Despite lenders making significant investments to improve operational efficiency over the past few years, margins have still declined. In the first quarter of 2016, pre-tax production profit per loan was 33 basis points. Profits declined to 10 basis points in the first quarter of 2017 until finally this past quarter banks took a loss of 8 basis points per loan, the first loss in four years. Now, they appear to be turning to cost cutting as a means of managing their bottom lines.





# Home Sales Fall Amid Low Inventory and Rising Mortgage Rates

### New and Existing Home Sales Both Fall

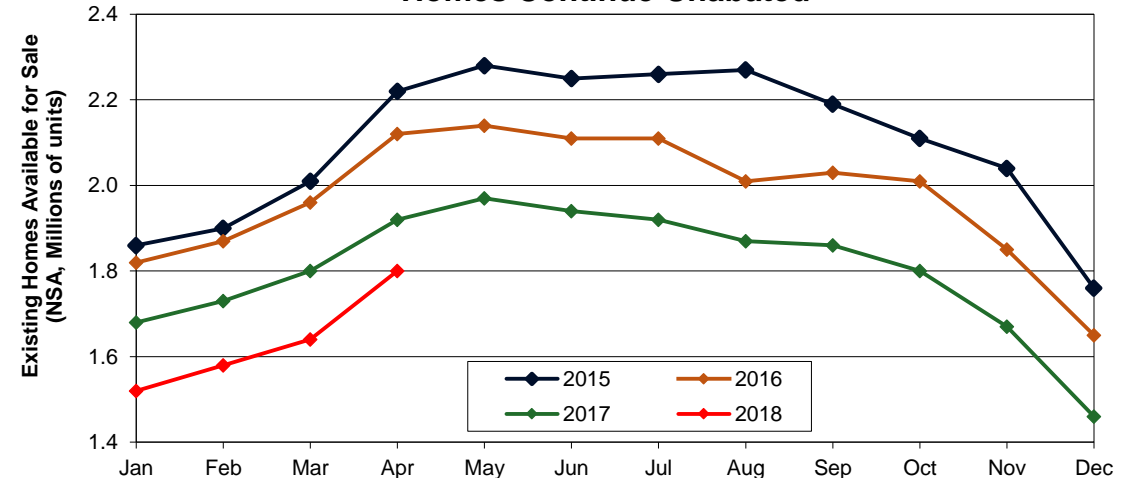


- Existing and new home sales both declined in April, to 5.46 million and 662,000 seasonally adjusted annualized rate (SAAR), respectively. Year-to-date existing home sales through April were 0.7 percent below the level during the same period last year.
- Mortgage rates have risen about 80 basis points since September 2017, pushing refinance activity down sharply.
- The for-sale inventory of existing homes has remained below the year-ago level for nearly three years.

### The Monthly Average 30-Year Fixed Mortgage Rate Hits a Seven-Year High in May



### Year-over-Year Declines in For-Sale Inventories of Existing Homes Continue Unabated

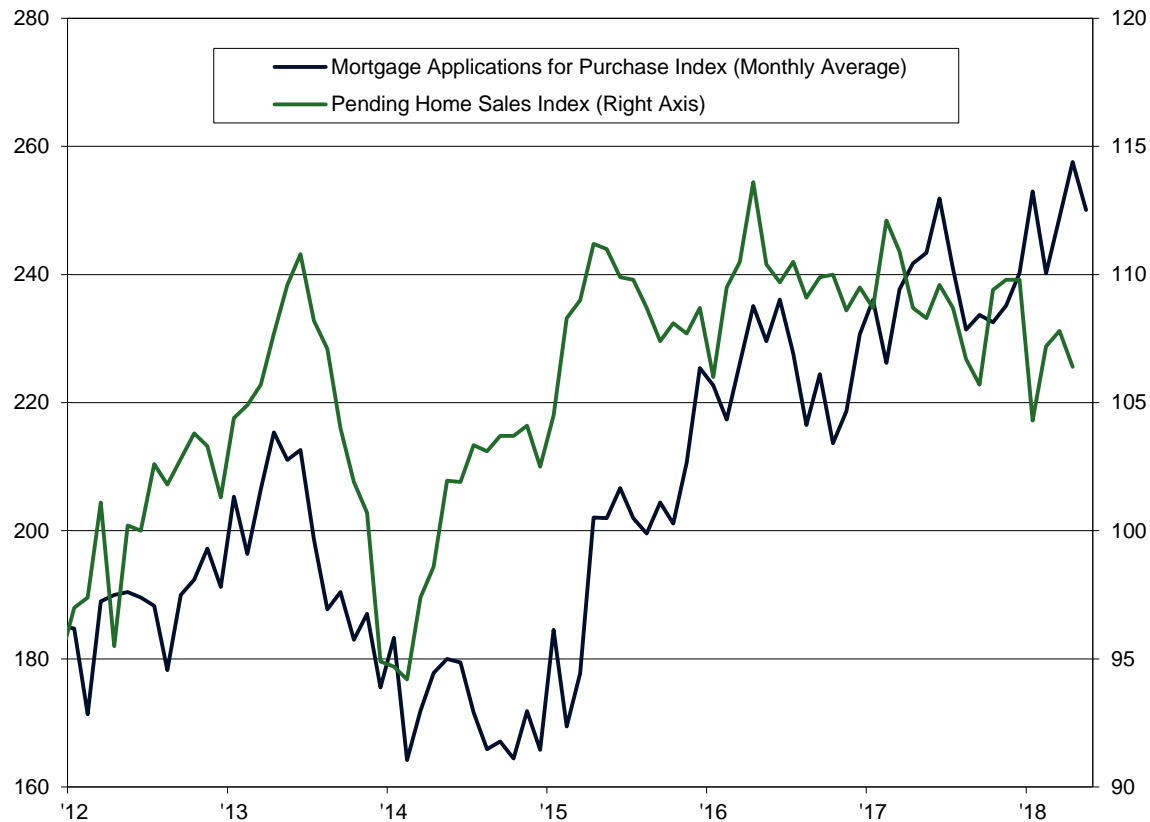




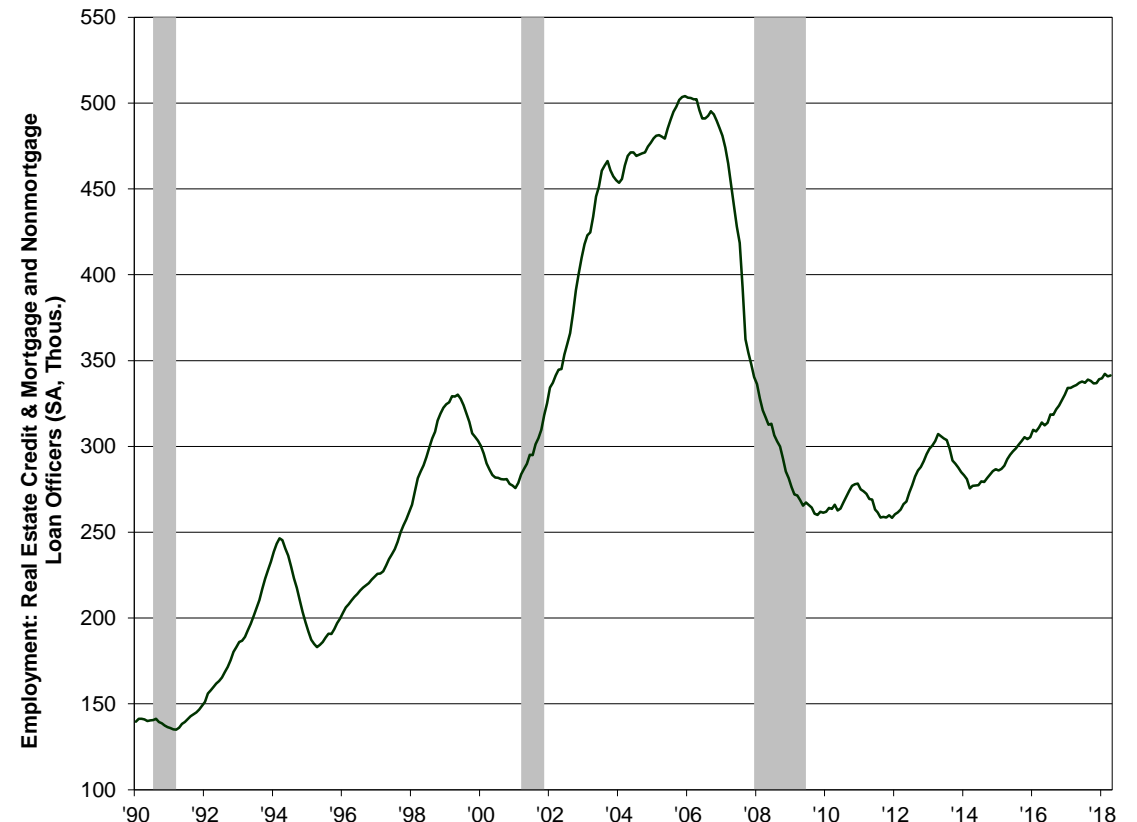
## Mortgage Industry Payrolls Trend Sideways Amid Worsening Home Sales Outlook

Pending home sales fell 1.3 percent in April from March, and on an annual basis, they declined 2.1 percent, marking the fourth consecutive year-over-year drop. Purchase mortgage applications fell every week in May, sending the average monthly volume 2.9 percent below April's average reading. While hiring among nonbanks and mortgage brokers remained elevated in April, hovering near expansion highs, mortgage industry employment may be approaching the cyclical peak.

### Near-Term Outlook for Home Sales Worsens



### Level of Mortgage Industry Payrolls Moves Horizontally







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# Appendix





# Business Priorities for 2018

To maintain or improve your competitiveness in the marketplace, what are your firm's two most important business priorities for 2018? Please select up to two most important priorities and rank them in order of importance. *Showing Most + Second Most Important Priority*

	Total	Larger Institutions (L)	Mid-sized Institutions (M)	Smaller Institutions (S)	Mortgage Banks (M)	Depository Institutions (D)	Credit Unions (C)
N=	170	40	36	94	56	67	34
Consumer-facing technology	36%	47%	31%	31%	28%	39%	35%
Business process streamlining	30%	29%	32%	28%	35%	28%	24%
Cost cutting	30%	36% <sup>S</sup>	30%	20%	40% <sup>D,C</sup>	23%	9%
Talent management & leadership	23%	20%	24%	26%	25%	28%	18%
Back-end process technology	20%	21%	24%	15%	17%	8%	33% <sup>M</sup>
New products or services	19%	20%	15%	22%	23%	19%	21%
Data analytics and business intelligence	13%	9%	13%	17%	6%	13%	30% <sup>M,D</sup>
Regulation and compliance	12%	6%	14%	16%	6%	19%	18%
Marketing	12%	4%	12%	21% <sup>L</sup>	13%	17%	10%
Other	3%	3%	6%	0%	6%	0%	1%

*L/M/S - Denote a % is significantly higher than the annual loan origination volume group that the letter represents at the 95% confidence level  
M/D/C - Denote a % is significantly higher than the institution type group that the letter represents at the 95% confidence level*



# Areas for Operational Efficiency

Please allocate a total of 100 points across the steps below to indicate the importance in making them more efficient. Allocate more points to the steps with the greatest potential for efficiency gains. It is okay to allocate zero (0) points to a step if there's no need to make it more efficient. Ranked by Mean

	Total	Larger Institutions (L)	Mid-sized Institutions (M)	Smaller Institutions (S)	Mortgage Banks (M)	Depository Institutions (D)	Credit Unions (C)
N=	170	40	36	94	56	67	34
<b>Collecting borrower information (e.g. income, assets, etc.)</b>							
Mean	37.51	34.28	43.53	34.73	36.66	37.40	35.96
Median	35	35	40	30	30	35	40
Min	0	1	15	0	1	0	0
Max	95	80	95	90	95	90	70
<b>Ensuring property value</b>							
Mean	16.07	15.70	15.30	17.22	13.85	18.40	16.13
Median	15	15	10	15	10	20	10
Min	0	0	0	0	0	0	0
Max	70	35	60	70	60	70	50
<b>Running best execution</b>							
Mean	15.19	13.18	16.23	16.16	16.23	14.06	18.89
Median	10	10	10	10	10	10	11
Min	0	0	0	0	0	0	0
Max	100	50	65	100	65	65	100

L/M/S - Denote a % is significantly higher than the annual loan origination volume group that the letter represents at the 95% confidence level  
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## Areas for Operational Efficiency (Continued)

Please allocate a total of 100 points across the steps below to indicate the importance in making them more efficient. Allocate more points to the steps with the greatest potential for efficiency gains. It is okay to allocate zero (0) points to a step if there's no need to make it more efficient.

	Total	Larger Institutions (L)	Mid-sized Institutions (M)	Smaller Institutions (S)	Mortgage Banks (M)	Depository Institutions (D)	Credit Unions (C)
N=	170	40	36	94	56	67	34
<b>Collecting and delivering loan documents to investors</b>							
Mean	13.35	16.71	11.30	12.06	15.63	10.31	12.05
Median	10	10	10	10	10	10	10
Min	0	0	0	0	0	0	0
Max	94	94	50	50	94	40	40
<b>Obtaining and ensuring clear title</b>							
Mean	7.20	8.12	5.49	8.00	7.30	7.60	7.13
Median	5	10	5	5	5	5	5
Min	0	0	0	0	0	0	0
Max	40	30	20	40	40	30	35
<b>Confirming adequate hazard insurance</b>							
Mean	5.59	5.79	4.76	6.22	5.48	6.59	4.67
Median	5	5	5	5	5	5	5
Min	0	0	0	0	0	0	0
Max	50	20	20	50	30	50	20

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## Areas for Operational Efficiency (Continued)

Please allocate a total of 100 points across the steps below to indicate the importance in making them more efficient. Allocate more points to the steps with the greatest potential for efficiency gains. It is okay to allocate zero (0) points to a step if there's no need to make it more efficient.

	Total	Larger Institutions (L)	Mid-sized Institutions (M)	Smaller Institutions (S)	Mortgage Banks (M)	Depository Institutions (D)	Credit Unions (C)
N=	170	40	36	94	56	67	34
<b>Obtaining mortgage insurance</b>							
Mean	5.08	6.22	3.41	5.60	4.84	5.64	5.18
Median	5	5	5	5	5	5	5
Min	0	0	0	0	0	0	0
Max	33	30	10	33	30	33	15

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