



The Road to High Performance Credit Union Mortgage Lending

Six Key Indicators Can Help Show You the Way

By Nizar Hashlamon and Dan Green

Studying credit union mortgage lending performance is more than a hobby for us; it's an avocation. We've been interested in it since we became mortgage lenders—way before online lending was a “thing.” ■ Maybe that's just because we're a couple of mortgage and math nerds. Or maybe it's because of the gross inefficiency we observed in the lending process early in our careers. ■ In either case, our goals were to identify a small number of easily derived, directly comparable metrics and track them over time, knowing that credit union mortgage lenders would benefit from the exercise.

The latest result of these efforts is our 2015 High Performance Lending Study, a look at credit union lending performance for the three years ending with 2014. It's an interesting period of time since it starts with the waning days of the 30-year refinance boom and ends, for now, with the dawn of a mortgage market none of us have ever seen: One dominated by purchase lending in an incredibly complex compliance environment.

WHAT WE MEASURE

For our study, we use six distinct Mortgage Performance Indicators (MPIs) for their simplicity of explanation, calculation and comparability. Four of them are well-known and well-used:

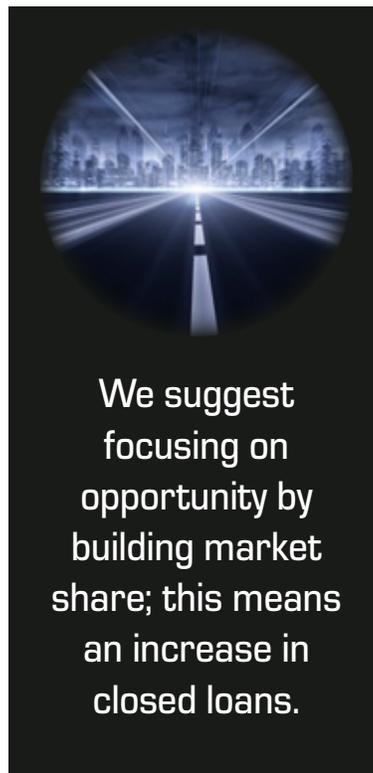
- **Velocity:** The number of days elapsed from application to closing.
- **Pull-through:** The ratio of closed loans to submitted applications.
- **Productivity:** Closed mortgage loans per mortgage employee per month.
- **Cost-to-close:** The sum of mortgage labor costs, direct mortgage costs, indirect mortgage costs and mortgage technology costs, divided by the number of closed loans, for a 12-month period. (This is Nizar's favorite metric.)

The other two MPIs aren't widely used in the industry, though they serve to provide some behavioral explanations for the other four as well as additional insight into market dynamics:

- **Member Mortgage Share**—The ratio of closed loans in a calendar year to the number of members reported on the December 31 NCUA 5300 Report.
- **Mortgage Employees Per Thousand Loans Closed**—Divide the total number of mortgage employees by total loans closed annually. Multiply by 1,000.

You might say these six MPIs are too simple or too high-level. They are intentionally designed to be directionally correct and diagnostically oriented, which means two things. First, they provide a strong indication of actual performance, and second, they should lead to further interrogation.

Every mortgage lending credit union can, and should, calculate these metrics in-house using a more detailed level of financial and statistical data than is available to us. And reviewing the study's results should lead to questions, lots of questions, which in turn should lead to action, and plenty of it.



HOW DID WE GET HERE?

Our study found that cost-to-close is rising, and productivity is dropping. Three factors seem to tell the story of why this is happening.

First, credit union mortgage volume, on a unit basis, dropped 25% in 2014 while mortgage employment, in absolute terms, remained relatively constant.

Second, purchase loans became 50% of the mix for the first time in many years. Purchase loans are harder to make than refinance loans, take longer and are not as abundant.

Third, the compliance environment appears to be a factor. The compliance role, on a percentage basis, grew at a faster rate than any other in 2014. Is this a trend? It's too early to tell, but it's certainly a data point to watch.

WHAT'S A CREDIT UNION TO DO?

Reading between the lines, it might appear the message here is "cut your head count," but that is not necessarily the case. High performance lending does, however, boil down to one simple equation: productivity. As discussed above, this is reflected in the ratio of closed loans per month to the number of employees that closed those mortgages. These are easy numbers to collect, and the math is elementary.

Is this ratio hard to adjust? It can be. Old school mortgage banking suggests dealing with head count first—the denominator in the productivity equation. While this can be an immediate short-term fix, remember that we are in uncharted territory.

Wide swings between purchase and refinance are a thing of the past, and the regulatory and compliance environment is more complex than ever before. No one has much experience in this strange, new world, and there is even less data, so it is impossible to determine optimal staffing levels. Old-school rules may not be the best answer.

BUILDING MARKET SHARE

We suggest focusing on opportunity by building market share; this means an increase in closed loans—the numerator in the productivity equation. We should remember that, while overall mortgage industry volume is down, credit union lending opportunity is up as illustrated by the member share MPI. It declined to 0.79% in 2014, down from 1.31% the previous year.

CUNA and Affiliates research explains the drop. Membership in 2014 grew at a pace faster than at any time since 1994. New members mean new households, which brings new mortgage opportunity and the chance to increase productivity.

With credit union membership up, there is even greater opportunity. Today's new households are being formed by

SIDEBAR

MORTGAGE PERFORMANCE INDICATORS

What Are They and How Do They Match Up with Your Operation?

The 2015 High Performance Lending Study by Accenture Mortgage Cadence examines credit union lending performance for 2012-2014. The study uses six Mortgage Performance Indicators (MPIs). Here are some key elements of the MPIs:

VELOCITY

The Calculation: The number of days elapsed from application to closing.

Desired Result: Fast and furious. This MPI ranges from rapid closes in the 40-day range to slower closes exceeding 70 days. Does closing faster help with pull-through, productivity, and cost-to-close, resulting in better price if sold in the secondary market? Logically, it should, though finding direct correlation has been elusive.

PULL-THROUGH

The Calculation: The ratio of closed loans to submitted applications, including To Be Determineds (TBDs)—applications that, at the time of origination, lack a property address. They are included here because they represent real opportunity, even if that opportunity might not present itself for another 12 or 18 months. Yes, they have a deleterious effect on this MPI. The point is, however, that borrowers behind TBD applications must be nurtured because many of them will turn into homeowners, and, therefore, borrowers. Remember: A mortgage does not serve a purpose (service to the member or revenue to the credit union) unless it closes.

Desired Result: The higher the percentage, the better. Calculated this way, credit union pull-through takes place in a wide range—from slightly less than 20% to more than 80%—with most hovering around 40%, which has changed little over the past six or seven years. There is opportunity in this metric; pull-through ought to exceed 60%, and we ought to make getting there a goal. It is one sure way of improving productivity and expanding market share.

PRODUCTIVITY

The Calculation: Closed mortgage loans per mortgage employee per month. This is the single most important metric in the entire industry as far as high performance is con-

cerned. It is also an indicator as to how well a credit union is serving its members.

Desired Result: Here, too, the larger the number, the better. Results over the past several years range from a low of about 1.5 to a high of just over 9, with the current average in the mid-3s.

COST-TO-CLOSE

The Calculation: The sum of mortgage labor costs, direct mortgage costs, indirect mortgage costs and mortgage technology costs, divided by the number of closed loans. All figures are for a 12-month period.

Desired Result: Low, lower, lowest. The lower the cost-to-close, the more profitable and competitive the mortgage operation. Cost-to-close increased in 2014 to the \$4,000 range, to no one's great surprise, but to everyone's chagrin.

MEMBER SHARE

The Calculation: The ratio of closed loans in a calendar year to the number of members reported on the December 31 NCUA 5300 Report.

Desired Result: Bigger is better. That said, this is a "small-result" calculation. The industry average is approximately 0.79%. Very few credit unions achieve a score better than 2.25%, so not only is it small-result, but narrow-

range as well. Like pull-through, this MPI is an opportunity indicator, and, judging by 2014 results, credit unions have plenty of opportunity.

EMPLOYEES PER THOUSAND CLOSED LOANS

The Calculation: Divide the total number of mortgage employees by total loans closed annually. Multiply by 1,000.

The Desired Result: This metric was introduced this year, so it is hard to know in what range this MPI ought to fall. Like cost-to-close, it shares an inverse relationship with productivity, so, when productivity is high, employees per thousand loans closed ought to be low. Last year this measure dropped into the low 20s. The previous two years it landed in the mid-teens, a much better result since smaller is better. With another year of data under our belts in 2016, we ought to be able to draw some conclusions on the range for this metric.

These six indicators provide a strong indication of actual performance and should lead to further interrogation.

the Millennials, the single largest generation since the Baby Boomers.

Here's where old-school rules may still apply: the mortgage is the gateway transaction to many other financial service needs. Grant the mortgage, open the checking account, issue the credit and debit cards, open the next car loan. Homeowners have a cornucopia of financial needs. That's why seizing this opportunity is so important. (For more information on this topic, visit the Accenture Mortgage Cadence website.)

FOCUS ON PRODUCTIVITY

We stress productivity because of its close relationship to cost-to-close. Increasing productivity decreases cost-to-close. This is so because labor is more than 50% of the cost side of the equation. If you use labor more efficiently, you save money.

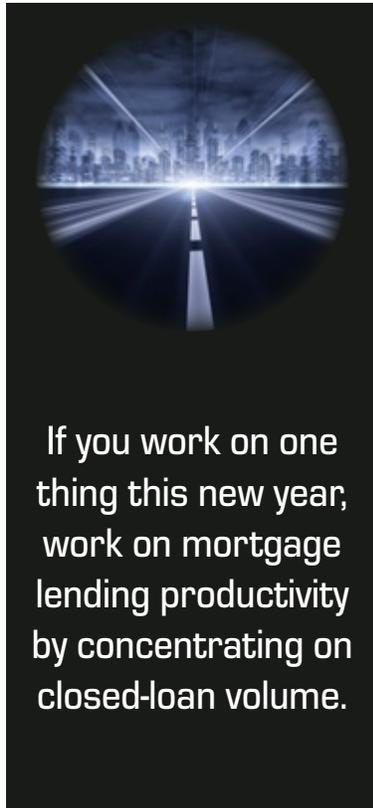
One of the great gifts of our long-running research is our productivity/cost curve. We calculate productivity (which is easy), plot it on the curve, and estimate cost-to-close.

We can then use the curve to visualize what's possible with an increase in productivity. Simple yet powerful, this is one of the most important outcomes of this research, and one of the key reasons why we will continue with it.

Look for the results of our 2016 Study, which will be based on 2015 data. What do we expect to learn? Hard to know for sure. The MBA Study of mid-year 2015 showed a decrease in cost to close and a corresponding increase in productivity. Good news indeed.

Not to be a wet blanket, but those results pre-date TRID, which has the potential to impact costs given that everyone—borrowers, Realtors, lenders, and settlement service providers—have to relearn the mortgage business. We can't wait to learn the results, and we're just as eager to share them.

The lesson is clear: if you work on one thing this new year, work on mortgage lending productivity by concentrating on closed-loan volume. Do that, and everything else falls into place.



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