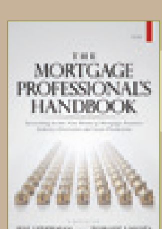
Sales Recruiting 2020

Hiring Right in the New World of Mortgage Origination

By Patricia M. Sherlock



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When looking at the future of mortgage origination recruitment 1,850 days out, it may seem like a long way off, but we are on the cusp of significant economic and demographic shifts that will forever change how the industry selects originators. ■ The fundamental question in 2020 regarding hiring is: Will recruitment continue as it always has—locally driven and unstructured, or will it look completely different as we move deeper into the 21st century?

I believe the latter will happen, and in this chapter I will discuss:

- The economic game-changers that will impact mortgage lending.
- How sales talent technology will increase prediction success and reduce failure rate.
- How Gen Y differs from the current generation of originators.
- The rise in importance of having a culture fit match.
- How realistic job previews will help in recruiting non-experienced mortgage candidates.

FROM LOCALLY BASED TO BIG BUSINESS

In the past 100 years, mortgage banking has transformed from a small business to an industry that is a major driver of the U.S. Gross Domestic Product (GDP). According to a recent report from the U.S. Bureau of Economic Analysis, the housing finance market is 15.24% of the country's total GDP.

Major innovations have changed the face of mortgage banking, including the growing influence of federal agencies and their mission of liquidity; rise of MBS securitization and the structure finance; and automation of securities trading.

All of these factors have helped skyrocket investor demand for mortgage finance assets. As a result, job candidates' interest in mortgage sales has been strong over the years; even though, the housing finance industry has a track record of boom and bust.

The projected economic dynamics and demographics shifts facing the mortgage industry have been hot topics at industry conferences and in trade papers. An increasingly savvy customer base with access to incredible amounts of information 24/7; an aging mortgage sales force (with the average age of the originator estimated to be 54 years old); and growing ethnic diversity in the nation are all factors that will impact our industry's future workforce and determine what the origination position will look like.

The United States Census Bureau has projected that more than half of the nation's children are expected to be part of a minority race or ethnic group (50.2 percent of the under-18 population) five years from now.

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WHAT TODAY'S RECRUITMENT LOOKS LIKE

With record growth in the industry, managers have moved from hiring people they might have known—including select friends and relatives—to recruiting as many candidates as possible. Today, a manager who fails to meet a company's hiring goals will be terminated; whereas, not developing one's originators is not a typical cause for termination.

Hiring quantity over quality has long been the norm in the industry—the only hiring requirement being prior experience in mortgage banking and a book of business. In reality, many sales organizations have chosen to "rent" their originators instead of developing their own. The price of renting originators is high turnover or failure rate in sales organizations. In many ways, mortgage banking has been an Uber-based sales organization way before the company's mobile app was released in 2009.

High turnover and poor customer experience have become a cost of doing business for mortgage banking firms who forgo a structured hiring process. This quantity approach has added substantial expenses, including visible and invisible items to income statements, such as direct costs of replacing the loss of an originator, the lost sales opportunity, and more importantly, the reputational damage due to a poor originator ruining a lender's ability to do business in a marketplace. When the industry was in an expanding environment, the cost of a high failure rate could be mitigated, allowing executives to ignore this issue.

Moving forward, the growth gravy train in mortgage lending will be replaced by extreme competition for market share. As Nielsen reported in *The United States in 2020: A Very Different Place* "… the Baby Boom ages, and birth rates remain low, household sizes will decrease. The number of children per family will get smaller. Between now and 2020 the U.S. will experience very minor growth per household spending."

This new norm for mortgage lenders will necessitate a change in how they staff, plan, lead and invest in an information age environment.

WHAT REDUCED GROWTH MEANS FOR HIRING

There are three key areas to understand for hiring smart in 2020 and beyond:

1. DEMAND FOR SKILLED ORIGINATORS

The inability to hire skilled originators will hamper companies and prevent them from building scalable operations in the future. The problem is rearing its head already as companies are in a mad dash to find good talent. As a result, many companies are overpaying for talent in an attempt to fix this issue.

The problem is that the number of top performers has shrunk due to many factors and what used to be the 80/20 rule (20% outperforming the remaining 80%) is more like 90/10 today. With a lower number of high performers available, greater demand has increased costs.

Similar to sports teams who depend on superstars for revenues, mortgage banking has been faced with the increasing costs of acquiring superior talent. The other side of the coin is when desperate companies overpay for average performers who do not meet expectations, financial disaster can result.

> "With a majority of the Cost to Originate (CTO) driven by personnel costs, sales organizations will be forced to redesign their hiring approach."

While some think the answer to this challenge is to automate the selling process and eliminate the sales person, most experts agree that is not likely within the next five years, if ever. Even if it is developed, automation to improve the loan process can only go so far. Selling to a skeptical buyer is by definition a human process that requires non-routine skills, such as relating, convincing and influencing.

Even the U.S. government's data supports this fact by projecting that selling positions will be one of top three occupations in 2020.

2. COST TO ORIGINATE (CTO)

In 2015, the total loan production expenses for a company—commissions, compensation, occupancy, equipment and other production expenses and corporate allocation—was approximately $7,000 per loan, according to the Mortgage Bankers Association (MBA). Five years ago, the cost was $5,600—$1,400 less per loan.

There is no doubt that it is increasingly expensive to originate a mortgage loan in a world of new regulations and fickle consumers.

As hiring sales talent becomes more expensive, the CTO is not likely to decrease, and if it does, the drop will be minimal. With a majority of the CTO driven by personnel costs, sales organizations will be forced to redesign their hiring approach.

3. SALES PRODUCTIVITY

A key measurement of sales productivity is the number of loans generated per originator. In 2015, the MBA reported that an average mortgage originator generated 2.8 units in production. Surprisingly, with all the innovations our industry has undergone, this number has not really changed that much in 10 years.

Of course, there are firms with better results in their production per originator. But the fact is that the millions of dollars invested in technology including CRM and LOS systems have not greatly improved productivity performance.

What are the superior mortgage companies doing to generate better efficiency numbers? Is it unique technology, a lower pricing policy or something else? Practically speaking, top mortgage banking firms follow a competitive sales strategy and do not lead in technology investment.

The difference is that superior firms have implemented structured hiring and development processes for talent management. These companies understand that nothing happens unless their front-line sales people deliver an outstanding customer experience. No machine can make another person feel listened to, understood and cared for.

The bottom line is that companies with better sales productivity have the right talent in the right positions and have structure in their sales process. These companies recognize that selling requires professional skills that not everyone has. All this translates into hiring smart and developing originators to outsell their competitors.

Hiring smart is all about recruiting sales professionals who can find, educate, and influence borrowers and referral sources. The order-taker era is over in mortgage banking because these individuals are simply not productive enough to warrant continued company investment. Order-takers' low productivity and how they impact the operation side of the business by clogging the back office with poorly qualified loans won't be tolerated anymore.

The shrinking pie marketplace—where products are relatively the same and investors' requirements more demanding—necessitates that companies hire sales talent who can generate new business and adopt more sophisticated recruiting practices.

IMPACT OF TECHNOLOGY ON RECRUITING

Finding quality sales professionals will cause a shift in how a mortgage company looks for talent; how they determine who they will hire; and ultimately what the sales organization will look like.

To find Individuals with the talent and ability to prospect and engage new customers, companies will need to conduct a wider search across non-mortgage industries and educational institutions. The mortgage industry's emphasis on mortgage experience will be replaced simply because the current sales force is retiring and there will not be enough experienced originators to fill the need of a growing sales organization.

A broader search or casting a wider net will require a change in the recruiting, screening and interviewing process. Many companies are already beginning to engage specialist recruiters to fill positions—a trend that will continue. Relying on field managers to be the primary source of originators might have worked when the industry did not need quality originators, but it will not work now.

Successful recruiting is not a part-time function delivered by field managers who are involved with so many other activities, including generating their own production. There is not enough time in the day to expect that such a critical function as hiring can be done effectively by producing managers. Using staffing agencies as a supplement to recruiting efforts works on a selective basis, but not as primary driver of a company's talent strategy.

SO WHAT SHOULD RECRUITING LOOK LIKE?

The solution lies in a company's staffing internal hiring specialists who are supported by digital technology with field managers involved in the interviewing and decision process when selecting a candidate. With a more dedicated process, a digital hiring model is needed to find and screen because the candidate pool will need to expand to include individuals with no prior mortgage industry experience.

> **"The mortgage industry's emphasis on mortgage experience will be replaced simply because the current sales force is retiring and there will not be enough experienced originators to fill the need of a growing sales organization."**

Local field managers might know who they compete with today in their respective markets, but they will not know the non-experienced individuals that may be a match for mortgage origination. Likewise, the search for non-experienced individuals is simply beyond the scope of the local manager's expertise. The new universe of potential candidates will be large and require an automated method to filter out those who are not a match for selling.

I would argue that the entire hiring process—from resume to the interview—will become more digital:

- The paper resume has already been replaced with LinkedIn profiles that reflect individual experiences and abilities.
- A recruiting specialist will tap into a collection of data regarding a candidate before making an initial contact.
- Facebook and Twitter provide social profiles that give insight as to whether the candidate is a good fit.
- A lack of candidate profile information will also be a glaring sign that the candidate is deficient in social media skills and not appropriate for a Selling 2.0 world.
- Finally, big data will touch all parts of the interviewing process and data analytics will be used by recruiters to discover which passive candidates are better to approach than others.

The next change in the screening process is in how the interview sequence is conducted. The first-round phone interview will be replaced with the more high-tech video interview. Skype-like products with web-cam capabilities have improved dramatically and will be used on the recruiting side of the hiring equation to conduct interviews and to evaluate selling talent. Video interview systems can be programmed as one-way videos where the candidates answer a specific set of questions that the recruiter can then screen on an on-demand basis. This will be especially helpful screening large pools of candidates.

Another part of the recruiting process that will change is a wider usage of algorithms or assessments to predict candidate success. Assessments, while not new, will become a critical hiring component for all mortgage companies hiring that want to be successful in their candidate selections.

THE VALUE OF ALGORITHMS IN HIRING PROCESS

In the old hiring models, a field manager knew what was needed for an origination position because he or she was probably also a top producer. The manager may even have had a track record of personal successful sales performance while experiencing high turnover at the branch. But going forward, to be profitable, the combination of poor hiring and high employee churn will not work.

In a recent *Harvard Business Review* article, authors Kuncel, Ones and Klieger, conducted extensive research on decision-making in the hiring progress. They concluded that when professional managers assess candidates, "85% to 97% will say that they rely on some degree of intuition or a mental synthesis of information. Many managers clearly believe they can make the best decision of the information from the candidate by looking into the candidate's eyes with a veteran's accumulated knowledge. As scientists will tell us, human judgment alone cannot be solely counted on because humans can easily be distracted by their emotional connection with a candidate. "

Moreover, the authors also found that a simple equation (algorithms) outperforms human decisions by at least 25%. "This effect holds *in any situation* with a large number of candidates on whether the job is on the front line, in middle management and even at corporate positions. This doesn't mean that managers should not be involved in the hiring process, but it does indicate that when it comes to evaluating talent they can be easily fooled and the need for objective evaluation of the individual is needed."

WHICH PERSONALITY CHARACTERISTICS PREDICT SUCCESS

As a former sales executive in mortgage banking, my interest in improving sales selection is rooted in my own experience in hiring candidates who had great resumes, worked at brand name companies and interviewed well, but performed poorly in the position. I always believed that there must be a better way and there is: validated pre-hire assessments.

In 1999, my consulting firm completed the first nationwide analysis of personal behaviors of top producers with the support of the MBA. From that initial research, I partnered with industrial psychologists and performed studies on the personality characteristics of originators to determine what predicted mortgage origination success in retail, third-party and inside sales.

We analyzed top, middle and low performers. These studies included production unit analysis; production performance numbers and manager reviews of individual sales people. We have reviewed this data in good and bad markets and we have found over 15 years that there are a set of personality traits that are predictive of mortgage sales success.

The nine personality traits and their definitions are as follows:

- *Social*—Enjoys clients/customer contact
- *Optimistic*—Weathers adversity well
- *Assertive*—Possesses a confident sales presence
- *Self-reliant*—Takes charge and gets things done
- *Low expressiveness*—Reserved
- *Positive about people*—Balanced outlook regarding people and their intentions

- *Energetic*—High enthusiasm, hard work, visible effort
- *Follows through*—Completes tasks and follows through on commitments
- *Resilient*—Able to handle criticism and rejection well

The nine personality traits are a combination of relationship-building skills and personal drive attributes. Each personality trait is weighted, which determines its ranking. A candidate answers a specially designed web-based behavioral survey and the interviewer receives a report containing a determination on whether the candidate should move further in the interview process.

Six of the personality traits (social, optimistic, assertive, energetic, follows through and resilient) are found in most professional sales positions in many industries. The three remaining traits (self-reliant, low expressiveness and positive about people) are distinctive to mortgage sales positions.

Using a validated assessment helps companies eliminate the least-suitable applicants and leaves a smaller, better-qualified pool of candidates to undergo the more costly personalized aspects of the hiring process.

The impact of removing what would be a company's lowest performers upfront can be seen by the increased use of pre-hire assessments by best-in-class companies. Aberdeen Group, a well-known human capital management firm, estimates that pre-hire assessments are used by 45% of best-in-class organizations.

GEN Y AND THE CHANGING WORKFORCE

While the set of personality traits for mortgage originators has remained fairly consistent over the years, the anticipated retirement of Baby Boomers and the hiring of a younger generation will impact the selection process. The generational differences could change the profile of a successful originator. It might even change how the sales work will be defined and compensated.

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In an extensive review by Assess Systems, our company's industrial psychologists partners, more than 500,000 assessments over a decade from a broad range of industries, not just mortgage lending, the research is showing critical differences in some areas and similarities in others in the aggregate for successful sales personnel.

In their white paper, "Personality Differences Among Generations," Assess Systems concluded that "... certain preconceived notions about Gen Y have been disproved by assessment data. As an example, the most significant declines between generations are: cultural conformity (adhering to organizational values); positive about people (trusting toward people); realistic thinking (practical vs. being imaginative); serious minded (reasonable and pragmatic) and self-reliance (self-starter). The upward trends for Gen Y are structured thinking; detail orientation; work organization and sociability (comfortable in social situations).

These work-related personality trait differences between generations are statistically significant and meaningful. This in turn will translate into potential difficulty in mortgage lending of attracting Gen Y to the origination positions unless the present job responsibilities are redesigned. In the future, a "lone ranger" type may not be right match for the new world of origination.

NEXT BIG TREND: DETERMINING CULTURAL FIT

After an objective evaluation of sales talent ability, the determination of whether an individual is a cultural fit for a company will become a more critical part of the interview process. Today an originator's production numbers are given the most weight in a hiring decision. Culture fit is not typically screened for or evaluated. That will change as sales talent is increasingly examined from a risk perspective and reputation standpoint.

With more companies recognizing how critical trust and integrity matter with customers, having employees that match to a firm's core values and collective behaviors that make up an organization will be a more important factor in the selection process. A cultural fit analysis will be part of a company's evaluation of sales candidates.

A good cultural fit translates into engaged employees. The value of engaged employees has been well-documented and referenced in a variety of studies and books including Marcus Buckingham's *First, Break All the Rules: What the World's Greatest Managers Do Differently*.

In a recent *Harvard Business Review* article, Kate Bouton, said that "employees who fit well with their organization, coworkers and superior had greater job satisfaction, were more likely to remain with their organization and showed superior job performance." This is no surprise to managers who have had a sales candidate who interviewed well but didn't fit in with the company's culture.

It has been estimated than 84% of terminations are due to a lack of culture fit and not a lack of skills. It is clear that cultural fit matters in evaluating candidates. An argument can be made that it is even more important than sales talent.

To evaluate cultural fit, specific behavioral questions have been asked regarding compatibility in the interview process. In 2020, new technology and big data will be used to help assess cultural fit.

A recent *New York Times* article reported that "a group of researchers have been able to predict outcomes solely on outline behaviors." What was interesting about the study was their model was 92% accurate, even better than an individual's colleague or even the person's own self-assessment, and it was based on each subject's Facebook's "Likes."

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The reality today is that everybody leaves a digital footprint from their preferred social media preferred platforms, web searches, purchases and emails. These footprints will be interpreted and analyzed in the not-too-distant future, and they will identify those who fit an organization and those who do not. Job interviews will be a thing of the past as the only and primary screening method of the candidate.

NEXT GREAT LEAP: REALISTIC JOB PREVIEW SIMULATIONS

As the mortgage banking's aging sales force begins to exit the business, a veteran originator's book of business will no longer be a valid industry measuring stick. Substantial openings will require recruiting departments to articulate the pros and cons of the originator position to candidates with no mortgage experience. In order to do this, companies will be using what is known as a realistic job preview (RJP).

RJPs have been around for years. Industrial companies first used them to hire employees for manufacturing jobs. More recently, Home Depot and PetSmart have also used RJPs for their available positions. In mortgage banking, some call centers have added them to their hiring and screening process, but distributed sales channels have not.

In 2020, rookie hiring will gain speed, and the need to hire a large number of inexperienced candidates and train them will push hiring managers to use RJP simulations.

In his article on "Job Simulations for Selecting Employees," Dr. Charles Handler commented that "technology has provided a serious upgrade to simulations. It is now possible to re-create a great deal of work environments; performance on simulations can be evaluated in an automated manner; and simulations can be given remotely from anywhere." Handler also believes that the future lies in gaming technology.

Hiring inexperienced candidates and developing them will be a risky and large investment for a mortgage sales organization, requiring them to reduce the chances of a wrong hire. Showing a candidate what an originator's typical eight-hour day looks like is a smart way to eliminate those that are not really interested in the position. RJP simulation gives the candidate an opportunity to decide for themselves if the job is right for them and if they like the job's responsibilities. On the other hand, the employer can use the information to evaluate whether the candidate is a fit for the sales position.

FINAL THOUGHTS

The year 2020 will be quickly upon us. Dramatic changes will occur, not just in mortgage banking but all industries, stemming from the simple fact that the United States is in the midst of a tectonic demographic shift in the workforce from the aging population of Baby Boomers to a new and different generation.

Add to this an ever-evolving consumer buying journey, and sellers will be faced with monumental choices in how to effectively conduct their business. The leading issue will be talent selection and development as a new generation of employees and buyers come to fruition.

It is clear from our research data that the Gen Y workplace personality is significantly different from previous generations, raising major questions about what the mortgage sales work and profession will look like. Will the traditional originator who is expected to self-source customers and referral sources even exist in the new world? Companies will have to answer this question first before designing a recruitment strategy.

Some companies believe the originator position can be eliminated by technology. In my view, these firms are over-valuing what technology can accomplish.

The history of business has shown the fallacy of this thinking. At different points in time, computers were forecast to replace the need for salespeople and that has just not happened. In fact, sales positions are still a top U.S. occupation and will be so in 2020.

While mortgage sales staffs will be lean in the future to match a shrinking-pie environment, it is still a business that will be relationship-driven. Human interaction is needed in a loan process to assist in reducing an increasingly painful experience in financing a home purchase. The quality of a salesperson, however, will need to be better in this new marketplace, because the customer is demanding knowledgeable experts with relationship skills.

As a result, a quality hiring strategy will replace mortgage banking's long track record of quantity hiring. In this new period of origination, a revolution will occur in talent acquisition. The interview will not be the central focal point of whether the candidate can originate and gut decisions will no longer be tolerated by companies.

Instead, mortgage recruitment will move into the 21st century with a more technology savvy approach where science and algorithms will be used to identify the best talent that fits culturally and delivers an exceptional customer experience.

Companies that fail to take advantage of more advanced techniques from assessments to simulations will be left behind in the race to gain market share. The war for market share will be won by those companies that hire the right people and develop them in 2020.

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