A FREE GUIDE TO THE FUTURE

Here's a look at how the Web, call centers, good service and integrated rich content will help lenders beat their customer attrition woes.

THE INTERNET PHENOMENON IS A TESTIMONY TO IMPATIENCE AND HIGH LABOR COSTS. Impatience, because as consumers we want to model different travel routes and airfares and carriers without suffering the ire of a testy travel agent. We want to look at mortgage rates and the price for books, movies and homes without disappointing a live person when we say, "Thanks for your help, but no, I'm going to buy from your faceless competitor." High labor costs also drive Internet growth because U.S. wage rates and competitive pressures on profit margins do not permit the level of "live" customer service that we want. So we self-serve with cheap computers at home and scalable software at Amazon.com or Orbitz, where the development cost can be divided over millions of users—if your Internet venture is successful. The mortgage business is both different and the same. Borrowers are impatient, and good live customer service is unaffordable. But you cannot do a complete transaction online. First, let us sketch out the online mortgage dream—and it remains a dream here in the first quarter of 2004. In this dream, lenders will offer rich self-service content on their Web sites, including "for-sale" listings. The National Association of Realtors® (NAR), Washington, D.C, will navigate between the rocky shoals of restraint of trade and NAR member desire to limit public access to multiple listing service (MLS) information. Consumer access will win. In 2005, all lenders will have

BY STEVEN KROPPER AND ROBERT DEUTSCH

"for-sale" listings on their sites. All lenders will have home price data (comps from our company, of course) as well as robust automated valuation models (AVM) to guide borrowers in making offers on homes. After this rich content weds the borrower to a lender, the application process begins.

The prospective borrower enters his or her Social Security number (SSN) and the target property address. That should be enough to ferret out all the property, collateral and personal credit data required. With an SSN and a property address, the lender should be able to display loan options that are tailored to the applicant's demographics and economics. Pick one, and the back office goes to work, calculating collateral value from three AVMs, pulling the bank records and integrating the credit score. With the applicant's credit profile and the collateral picture done, the lender can then make a decision.

What a fascinating fantasy. Now back to reality.

The Internet remains in its infancy today, and astoundingly, even a newly minted loan officer is more likely to carry applicants across the funding finish line than the Web. But where is the loan officer? Is the loan officer in a branch down the street? In a windowless call center in Des Moines, Iowa? Or in a modern office building 12 time zones away, in Bangalore, India?

Does the future belong to the Web, the branch or the call center? We think it belongs to integrated offerings that mix the Web together with call centers.

While call centers have flourished with the refi boom, they are at risk in today's market since 90 percent of their business was refi. So, are call centers going away? Not when the call center's cost is half of the branch cost for two key elements—commissions and loan processing. Further, according to *Mortgage Channel Demographics,* a 1999 market research survey sponsored by the Mortgage Bankers Association (MBA) and conducted by R.S. Carmichael and Co. Inc., White Plains, New York, more than half of all borrowers whose loans were originated in a branch never visited a branch. Yet lenders pay full commission to the branch on these loans, which are really phone-originated loans.

Much of the mortgage process will migrate to the Web, but our demand for live customer support will continue to make direct lending the fastest-growing channel. And most of the call-center operations just might be offshore.

At a January 2004 conference, we tested this thesis: That good call-center services are like men's shirts—they're too expensive to manufacture in the United States. The universal response was that customer service cannot go offshore because quality would be so poor. But is call-center quality good today?

For each financial service that originates in a call center, can you identify one where you are truly satisfied? Do lenders handle lead-to-application conversion well when it requires outbound calls? And is that economical when the conversion rate is in the single digits? Can you keep servicing costs below $100 per loan without minimizing borrower contact, never mind outreach? Most U.S. lenders generate files of customer prospects every month for which they cannot afford the U.S. follow-up costs. That is waste, and it is bad customer service.

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Mortgage lenders have two proficiencies: They are good at "manufacturing" loans, and they are fairly skilled at navigating the thicket of government regulations and staying out of trouble. Those two capabilities define the mortgage lending industry: manufacturing and regulatory compliance. Note there is no marketing prowess in the skill mix here.

So, the Web's promise of seamless commerce, self-service and elimination of labor costs has tripped on the software's inability to emulate real mortgage professionals. What's next?

First, here are some stock tips. Go *long* on wrist guards, 8½ x 11 paper, file cabinets and offshore software development and call centers. Go *short* on thermal fax paper. Plan for a world where the Web, e-mail and call centers are integrated. Plan for a world in which you don't price loans by channel, but by where each channel has a role—whether it is to inform, to capture a lead, to convert a lead to an application or to carry an application over the finish line.

Let's close by assuming that all borrowers are customers for life. Assume retention.

Today lenders have 65 percent of all borrowers in their servicing databases. More than anyone else on the real estate scene, lenders "own" the future homebuyers and borrowers. The remaining 35 percent are first-time homebuyers, who are not borrowers yet (but they are probably retail bank customers). And we believe that 97.5 percent of those borrowers use a competitor for their next purchase loan. Their loans run off as soon as they get a chance. Only the funeral business has fewer repeat customers.

Imagine if call-center resources were affordable and that a mix of e-mail and phone calls enabled lenders to stay in touch with borrowers throughout their home-owning cycle. Imagine if call-center costs allowed lenders to deliver a high standard of customer service. Imagine if lenders could afford to proactively "poke" their customers regularly and deliver the promised "high touch" that revealed when borrowers moved into the buy zone.

The answer is a mix of call-center outreach and automated targeted dialogue e-mail. And don't forget a lender strategy of channel indifference. Allow customers to select *their* preferred venue for closing a loan.

As you look at the Internet roadkill and capital that disappeared on Web mortgage lending ventures in years past, beware. Technology adoption always happens slower than the hype leads us to believe it will, but the impact and magnitude of the eventual change may be greater than we expect. **MB**

Steven Kropper is the founder of Domania Inc., Watertown, Massachusetts (www.domaniainc.com), a financial and marketing services software company that provides innovative customer acquisition and retention products to banks, mortgage lenders and Realtors. He can be reached at steve@kropper.com. Robert Deutsch is director of marketing and client relations at Domania. He can be reached at rdeutsch@domania.com.