J.D. POWER

Mortgage Industry Outlook
Q2 2018

Will 2018 Be the Year the Mortgage Industry Finally Bridges the Digital Divide?

Technology & Innovation Are Industry's #1 Focus, but Challenges Persist

It should come as little surprise to those familiar with the mortgage industry that attendees at the recent Mortgage Bankers Association Annual Servicing Conference overwhelmingly selected **Technology & Innovation** when asked what their priorities were for 2018.

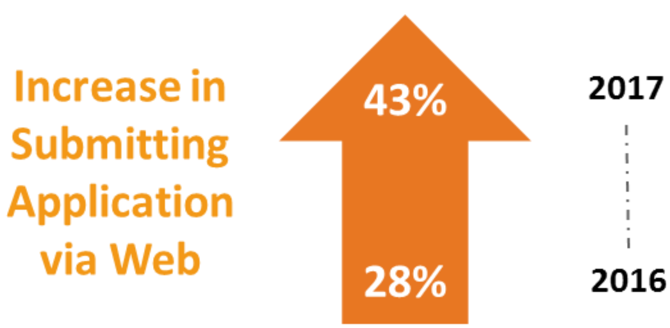
The mortgage industry has been notoriously late to the game on technology. Chalk it up to a combination of strict regulation, a decade of easy money, and entrenched business models, but, when compared to the rest of the financial services landscape, the mortgage business has not been winning the innovation race. Rising consumer demand for self-service technology and a more competitive overall marketplace are conspiring to buck that trend. Will 2018 finally be the year mortgage companies get the tech formula right?

"Drawing on recent J.D. Power studies from both the mortgage industry and broader financial services sector, along with our conversations with industry leaders, we are seeing a clear trend toward heavy tech development in the mortgage space," said Craig Martin, J.D. Power Senior Director, Financial Services and Mortgage Practice Lead. "Though the jury's still out on whether lenders will get the formula right, our data does show that many leaders are focusing on the key issues."

Following is a snapshot of key mortgage tech trends J.D. Power is watching most closely:

Digital Interaction Improves Mortgage Customer Satisfaction

For the first time, the 2017 J.D. Power U.S. Primary Mortgage Origination Study[SM] found both refinance and purchase customers cite online/website as the most frequent method of submitting a mortgage application. A total of 43% of mortgage customers report applying digitally in 2017, up from just 28% in 2016. Customers applying digitally also report substantially higher overall satisfaction with the mortgage origination process.



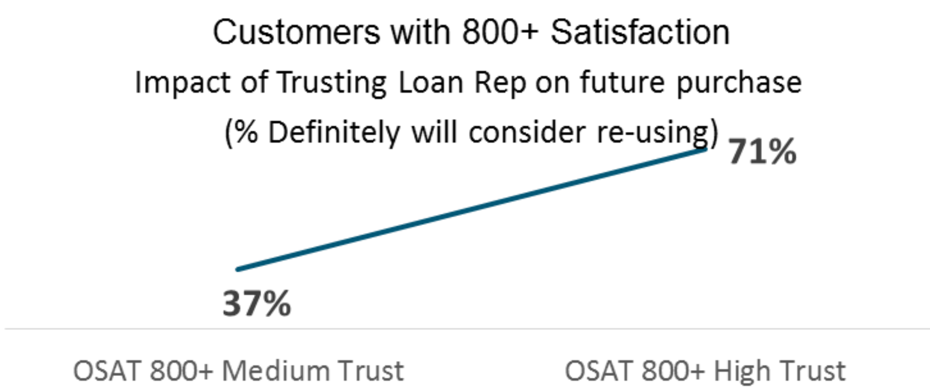
Method of Submitting Detailed Application

Still Need a Human Touch – Balancing Self-Service with Live Support Presents Challenges

Across virtually all service industries tracked by J.D. Power, business are struggling to get the balance right when it comes to full delivering fully automated, digital self-service customer support and live, human support. The J.D. Power 2017 U.S. Retail Banking Satisfaction Study℠ was the first to introduce the idea of the "***rise of the retail banking omnivore***," a financial services consumer that flips seamlessly through multiple interaction channels. Specifically, the study found that more customers than ever are using mobile banking (49% of Millennials, 31% of Gen X and 16% of Boomers). Despite this widespread adoption of the digital channel, 71% of all bank customers visited the branch an average of 14 times over the past year. Among Millennials, 71% used the branch, averaging 11 visits in the past year.

We've also seen this phenomenon echoed in the insurance industry, where multichannel interactions that include direct and live channels throughout the year produce the highest levels of customer satisfaction among home insurance customers, and even in telecom, where we've seen that satisfaction among wireless customers tends to be much higher when they use a channel that provides personalized feedback.

Similarly, respondents to our 2017 J.D. Power U.S. Primary Mortgage Origination Study℠ who reported high levels of trust in their loan representatives had overall satisfaction scores that were 358 points higher (on a 1,000-point scale) than those who report low levels of trust. The top three factors driving that perception of trust are representatives always calling back when promised, continuity in working with a single representative throughout the process, and representatives proactively providing status updates.



Implementing Technology that Speaks to Customer Psychology

In mortgage origination, the traditional view is customers choose their lender primarily based on price/rate. The reality is that the choice is more nuanced and in many cases the lowest price choice isn't what customers select but rather it is a combination of trust in the brand and reasonable price. It's also not necessarily the offering with the most options or the bright shiny new technology.

The great equalizer in the mortgage business is achieving a balance between convenience, recognition, advice, trust, and value. Building this formula into new technology will be a critical area of focus for the mortgage industry in 2018.

2018 J.D. Power Mortgage Practice Syndicated Studies

- 2018 U.S. Home Equity Line of Credit Study – March 29, 2018
- 2018 U.S. Primary Mortgage Servicer Satisfaction Study – July 26, 2018
- 2018 U.S. Primary Mortgage Origination Satisfaction Study – November 8, 2018

Contacts:

For more information, please contact:

Geno Effler; Costa Mesa, Calif.; 714-621-6224; media.relations@jdpa.com
Brian Jaklitsch; St. James, N.Y.; 631-584-2200; brian@jroderick.com