According to the American Heritage Dictionary, a benchmark is “a standard of achievement by which something can be measured or judged.” The term originates from the marks that surveyors once chiseled onto stationary objects of predetermined position and elevation, such as large boulders on a rocky seashore. The surveyor used these benchmarks to bracket (or “bench”) his leveling rod, thus ensuring precise positioning. Those benchmarks would then serve as steady and reliable reference points for conducting land surveys or making accurate tidal observations. What relevance does this have for mortgage lenders trying to compete in the online lending space? Actually, quite a bit. Today’s mortgage lenders face unique challenges in online mortgage lending. Most serious lenders currently have some kind of Web presence—after all, a June 2006 study released by Forrester Research Inc., Cambridge, Massachusetts, entitled Online Mortgage Shoppers’ Paths to Purchase, indicates 75 percent of all mortgage loans now begin with an Internet search. But with the changing tides that accompany a volatile marketplace, how can you get an accurate sense of whether your online lending efforts are as effective as they could be? Or whether those efforts are keeping pace with your competitors? Are there any reliable benchmarks you can compare yourself against?

If you’re like many forward-thinking mortgage lenders, you’ve already created some kind of Web site. Your online mortgage business may be profitable, but how can you better gauge your online lending success? Benchmarking your performance to others can help you respond to industry trends—and optimize your business practices.

Jumping on the Online Bandwagon

BY SCOTT HAPP
Benchmark study objective
My company, Mortgagebot LLC, Mequon, Wisconsin, is in a unique position to identify benchmarks for online mortgage lenders. We have been a center-stage player in the online loan origination market since 1997, and we maintain nearly 4,000 real-time, consumer-direct mortgage Web sites for more than 750 lenders nationwide. Our clients (or as we call them, "partners") range from small, neighborhood banks, thrifts and credit unions all the way up to some of America’s largest financial services providers.

As you might guess, those thousands of mortgage Web sites generate massive amounts of data. So we decided to periodically analyze our aggregated partner data, interpret it as best we can and publish our findings as a value-added service to our partners—the latest result of which is the Benchmarks 2007 study we released last summer.

We created Benchmarks 2007 to help our partners better understand and respond to the online mortgage marketplace. As the 19th-century French bacteriologist Louis Pasteur once said, “Chance favors the prepared mind,” and one of our primary corporate objectives is to help our partners improve their online lending success. So it only makes sense for us to chart out the river of data we oversee.

Information illuminates industry trends
In the December 2006 issue of Mortgage Banking, I wrote an article entitled “Twelve Myths About Online Lending.” In that article, I presented some of the online lending insights that our Mortgagebot team had gathered from previous partner research—and how those insights run counter to some of the old wives’ tales that continue to float around the industry.

I concluded in that article that the online mortgage marketplace “is real, growing in importance, and accessible to any lender with the patience to seek the facts and the gumption to embrace the future.”

That is still true today.

Our Benchmarks 2007 study, with a whole new set of data, has been well-received by our partners. They’ve told us the study is helping them gain a better understanding of their marketplace, their customers and the trends shaping the industry. What’s more, they’re using those insights to sharpen the focus and direction of their online lending businesses.

This article highlights a few examples of the benchmarks we’ve identified. It is hoped they will prove useful in shaping the success of your online lending business.

Online borrowers mean business
Some contend that online mortgage shoppers are low-income tire-kickers. They hop in, glance at rates and move on, never to be seen again. But that stereotype simply doesn’t fit the facts.

Our nationwide study found the financial profile of the average online borrower is pretty impressive: household income of more than $85,000 and an average credit score of about 709.

In addition, borrowers are spending a notable amount of time exploring our partners’ Web sites. Two-thirds (66 percent) of all visitors spend between one and 10 minutes exploring our partners’ sites, and the remaining one-third of visits last more than 11 minutes. A full 25 percent of visits last more than 16 minutes, which may reflect borrowers who are completing mortgage applications.

We have determined it pays for lenders to take online borrowers seriously. Our study found that online loan applications that have been submitted to an automated underwriting engine have a more than 70 percent approval rate. And the median loan amount nationwide is $145,000 against a median purchase price of $210,000, which works out to a loan-to-value (LTV) ratio of 69 percent.

Younger borrowers—and older ones—are turning to the Web
It should come as no surprise that fully half of the online mortgage applications being taken by our partners are completed by Generation X and younger borrowers (aged 19 to 39 years; see Figure 1). After all, Generation X and Generation Y have grown up in the midst of the computer age. Many adults under the age of 30 cannot remember a time when there was not a personal computer in their homes. So it’s no wonder that younger borrowers are applying for mortgages via the Internet.

In fact, when we compared our data from 2005 with 2006, the biggest age-specific increase in mortgage applications was in the 19-to-29 age category (17 percent of borrowers in 2005 vs. 20 percent in 2006). This suggests that younger consumers are moving their financial transactions onto the Internet more rapidly than older consumers.

That’s significant, because there are demographics associated with the younger generation that a savvy mortgage lender will find hard to ignore. According to a February 2005 study compiled by Kleber and Associates, Atlanta, entitled Lingerings Myths About Generation X, there are several reasons why GenXers are an attractive market segment:

■ They are more highly educated than baby boomers (age 40 to 59). Fifty-six percent of GenXers have attended college versus only 45 percent of baby boomers.

■ They make more money than baby boomers did when they were young. In 2004, GenXers averaged $45,080 in household income, while baby boomers’ average income at that same age (adjusted for inflation) was only $41,025.

■ They buy homes more frequently than baby boomers.

Figure 1 Percentage of Mortgage Applications Submitted Online in 2006, by Applicant Age

<table>
<thead>
<tr>
<th>Applicant Age</th>
<th>Percentage of Submitted Applications</th>
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<tbody>
<tr>
<td>19–29</td>
<td>20%</td>
</tr>
<tr>
<td>20–39</td>
<td>30%</td>
</tr>
<tr>
<td>30–49</td>
<td>27%</td>
</tr>
<tr>
<td>40–59</td>
<td>17%</td>
</tr>
<tr>
<td>50–69</td>
<td>5%</td>
</tr>
<tr>
<td>70+</td>
<td>1%</td>
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Source: Mortgagebot LLC
Boomers have often sought to “put down roots” with a home purchase, but most GenXers see a home purchase primarily as a way to increase equity and build wealth. In addition, a majority of GenXers see themselves in a different home in less than five years—which could mean repeat business for the lender that connects with younger borrowers.

Is your mortgage business configured to meet the needs of this new generation of online mortgage shoppers? It should be—but not at the expense of older borrowers.

That’s because despite the compelling business case that can be made for reaching younger borrowers, it’s worth noting that baby boomers completed almost as many mortgage applications (44 percent of our partners’ total) as the GenX/GenY market segment, according to our most recent study.

**Borrowers want responsive service, ease of use**

Today’s borrowers—regardless of age—are looking for ease of use, convenience and responsive service from a mortgage lending Web site.

For example, our *Benchmarks 2007* study found that a good first impression helps increase application volume. About 50 percent of the loan applications taken by our partners were submitted within a single application session. And once an application was submitted, more than 90 percent of our partners followed up with the applicant within one business day.

A truly customer-centric mortgage application Web site enables borrowers to save an application in process and then later return to where they left off. This is a key capability that I am pleased to say our system offers—and something that borrowers are making use of.

Our *Benchmarks 2007* data show that returning applicants took an average of five days to complete an application. Nearly 80 percent of submitted online applications were submitted within one week of the initial site visit, and more than 90 percent were submitted within two weeks.

Part of our partners’ success with online mortgage applications is that they have not lost sight of their need to provide personalized service. For example, nearly 80 percent of our partners follow up on incomplete applications within one business day.

Web site ease of use is another essential key to online lending success. After all, if your customers have difficulty accessing your mortgage Web site, they may simply go elsewhere to shop for a loan.

We specifically analyzed the Web sites of 50 of our highest-volume partners to determine how many mouse-clicks it takes to move from their corporate home pages to the online mortgage application. We found that 84 percent of their Web sites required two clicks or fewer (see Figure 2).

Such easy access to online mortgage functionality may be a key factor in the high volume generated by these partners’ Web sites.

‘Shall I compare thee . . .?’

It’s human nature to compare—especially when a comparison is of personal benefit. Ladies Professional Golf Association (LPGA) golf pro Natalie Gulbis once said, “I learn a lot from comparing my game to other players.”

Remember the Forrester Research study I previously cited? It found that 77 percent of the mortgage research that consumers do online is a quest for rate and fee comparisons. This lines up closely with what we discovered in our *Benchmarks 2007* study: that 62 percent of the consumers who visit our partners’ mortgage lending Web sites are accessing rate information and calculator tools.

Does your mortgage Web site give consumers easy access to rate and fee information? That’s a big part of what they’re looking for when they visit you on the Internet.

The Forrester Research study also discovered that online mortgage shoppers don’t just want to compare rates—they want to compare lenders. According to the study, “while 29 percent of online researchers said they’d like to compare lenders, less than half of [them] were able to find [such] a tool.”

To meet that need, our company recently introduced a new mortgage-shopping Web site that is integrated in real time with the loan-product data we maintain for our hundreds of partners.

The purpose of this new solution is twofold: First, we want to enable consumers to easily and quickly compare rates and fees from a wide selection of lenders. Secondly, we want to give our partners an opportunity to expose their loan products to prospects outside their existing client bases—and enable them to compete directly with popular online loan portals and aggregators (such as Bankrate.com and LendingTree).

Our partners’ initial response to this new opportunity has been outstanding, with nearly one-third of them agreeing to participate in the “beta” phase of the new solution.

The bottom line is: Make sure that visitors to your mortgage Web site can quickly and easily compare rates. After all, that’s what most of them are looking for. It might even be a good idea to post your rates on your home page, which ensures they are visible at the first point of customer contact. And of course, if your rates are competitive, it may increase the likelihood of converting site visitors into mortgage applicants.

**Personalized service—over the Internet, across the enterprise**

A popular definition for the word “quality” in American business is “meeting customer expectations.” A stellar example of
this concept is the Ritz-Carlton Hotel Company, which is the only two-time recipient of the Malcolm Baldrige National Quality Award in the service category. If you’ve ever stayed at a Ritz-Carlton hotel, you’ve seen firsthand how the organization’s 17,000 employees—known as “The Ladies and Gentlemen of The Ritz-Carlton”—are obsessed with satisfying every expectation of their guests.

In the mortgage industry, customer expectations of quality hinge on two primary factors: competitive rates and responsive service. So, assuming that your rates are competitive (and if you’re in business today, they probably are), how can you serve your online customers in the outstanding way that will earn you their business?

Simply put: Deliver convenience. In today’s fast-paced world, you need to be able to do business with your customers when and where it fits their expectations.

It’s that need for convenience that we see driving so many of our partners to implement online loan-origination solutions across the lending enterprise—over the Internet, through loan officers, in the branch or in the call center.

Our Benchmarks 2007 study indicates that about 90 percent of our partners are using our Internet-based, direct-to-consumer loan application solution—no surprise there, as that’s our primary product. But many of our partners are also deploying Internet-based loan origination solutions for loan officers, in branch locations and in call centers (see Figure 3):

■ Nearly half of them (49 percent) have their loan officers using an intelligent, Web-based system to take mortgage applications wherever there is Internet access. In addition, nearly one-fourth (23 percent) of our partners have created personalized, interactive, fully transactional loan officer Web sites, which enable loan officers to do business “24/7/365.”

■ More than one-third (35 percent) of our partners have implemented the same kind of system for their regular branch personnel.

■ And about one in eight (12 percent) of our partners now have a call center whose staff uses the same Internet-based system to take mortgage applications.

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<thead>
<tr>
<th>Figure 3</th>
<th>Types of Solution Deployments in 2006</th>
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<tbody>
<tr>
<td>Percent of Respondents</td>
<td>Deployment Type</td>
</tr>
<tr>
<td>100%</td>
<td>Direct to Consumer</td>
</tr>
<tr>
<td>89%</td>
<td>Loan Officers</td>
</tr>
<tr>
<td>49%</td>
<td>Branch</td>
</tr>
<tr>
<td>35%</td>
<td>Call Center</td>
</tr>
<tr>
<td>12%</td>
<td>Other</td>
</tr>
</tbody>
</table>

‘We had to find ways to improve...’
Our partners are telling us it’s the need to better serve their customers that’s driving them to enhance their online presence.

A good example of this enterprise-wide deployment is First National Bank of Pennsylvania, Hermitage, Pennsylvania, with nearly $6 billion in assets and more than 150 branch locations in Pennsylvania and Ohio. Ed Brant, First National Bank of Pennsylvania’s vice president, has overseen the implementation of online point-of-sale (POS) lending tools for the bank’s customers as well as its branch personnel and loan officers.

According to Brant, the enterprise-wide implementation was driven by the bank’s desire to serve its customers more effectively. He said the bank needed to “improve customer service levels [and] increase market penetration... [We had to] find ways to improve the professionalism of our branch lenders, [who were] brought together in recent years by various acquisitions, [but] who possessed varying levels of mortgage experience.”

Brant said the benefits of the bank’s technology implementation have been outstanding. Because the online tools are delivered in software-as-a-service (SaaS) mode, there is no software to maintain on the bank’s hundreds of mortgage-related personal computers. The organization has reduced technology costs, improved staff productivity, virtually eliminated mortgage application errors, and improved the speed and efficiency of its customers’ loan application experience. For example, the First National Bank of Pennsylvania has reduced a borrower’s average time from application to loan approval by 85 percent, to just one and a half days.

Tracking the tides, charting the course
From the secure vantage point of his or her benchmarks, a surveyor can measure the tides to identify not only the rocky shoals for ships to avoid, but also the unobstructed waterways they can safely navigate. Although modern surveyors now use electronic surveying instruments, they still depend on accurate position and elevation benchmarks to ensure the reliability of their measurements.

Does your mortgage business have an online presence? If not, you may want to rethink your situation. That’s because, like it or not, the Internet has become a driving force in the mortgage industry. Our Benchmarks 2007 study shows that fully one-fourth (25 percent) of our more than 750 partners are generating more than half of their loan volume with online lending tools.

How much of your loan volume is being generated online? If you’re looking to set up—or improve—an online mortgage business, there are many resources available. Like a surveyor, you can use industry benchmarks (such as those in our Benchmarks 2007 study) to identify industry trends, quantify borrower behavior and respond intelligently to market demands. The wisdom you gain can improve the overall success of your online mortgage business by helping you reach new levels of service, efficiency and success.

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