

Weathering the Storm: A Roadmap to Navigate the Mortgage Downturn

June 2023: Complimentary Abstract / Table of Contents



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Benchmarking

Contract assessment

Peer analysis

Market intelligence

Tracking: providers, locations, risk, technologies

Locations: costs, skills, sustainability, portfolios

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Background of the research

An introduction to the themes explored in this report

The mortgage industry is facing challenges due to rising interest rates, inflation, and declining origination volumes. This report provides insights into how mortgage enterprises can navigate through the downcycle and sustain their business by managing their portfolio and leveraging technology and partnerships.

To protect their bottom-line and prepare for the future, mortgage enterprises are adopting digital technologies, such as advanced analytics and cognitive aids, to improve operational efficiencies and customer experience. However, it is important to take a strategic approach and integrate these technologies into a cohesive and comprehensive solution that aligns with business goals.

In this report, we discuss how by taking a strategic approach to technology and partnerships, mortgage enterprises can position themselves for long-term success in a competitive and rapidly-changing market. We focus on:

- Challenges during the mortgage downturn
- Examining enterprise priorities in the mortgage downturn
- Operational and technical pain points of mortgage enterprises

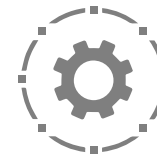
Scope of this report



Geography
Global



Industry
Banking and financial services,
focusing on mortgage operations



Services
Business process services



Use cases
Publicly available information and
Everest Group resources

Note: The trends captured in the report are global even if the macro factors taken are US representative

This study offers four distinct chapters providing a deep dive into key aspects of mortgage bps market; below are four charts to illustrate the depth of the report

Why is cost of mortgage servicing rising?

Composition of servicing costs (% of total servicing costs)



Expected changes in the costs

Low growth → High growth

REO costs	■ ■ ■ ■ ■	Property management expenses are expected to reach higher levels. Since, another foreclosure crisis is unlikely and unwanted, the number of loans moving to foreclosure would be relatively low.
Administrative costs	■ ■ ■ ■ ■	Broader inflationary trends, more regulatory pressure, and lack of skilled talent may drive these costs higher in the future.
Direct servicing costs	■ ■ ■ ■ ■	These are expected to rise further due to higher labor costs, rising complexity of compliance, higher reporting standard and regulations, and more customer engagement and solutions.

Taking a strategic approach

Strategic approach to mortgage downturn



Improve efficiency in servicing operations

Focus on reducing costs, improving efficiency, and managing risk in **servicing operations**. This can include strategies such as reducing headcount, streamlining processes, and tightening credit standards.



Investing in future capabilities

Develop **scale capabilities** during the downturn that can be readily deployed during the upcycle. This can include investing in technology and building strategic partnerships.

How some enterprises are countering these pain points

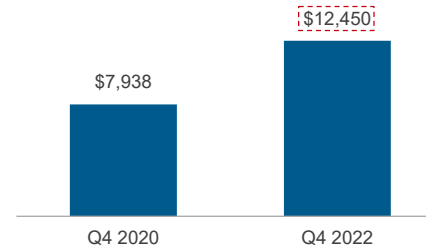
■ Poor customer experience ■ Compliance and regulations ■ Operations structuring challenges *NOT EXHAUSTIVE*

Enterprise	Partner	Objective	Solution	Result
nab	FICO	NAB aimed to optimize communication methods for debt collection while improving customer satisfaction and convenience .	FICO implemented automated, multi-channel customer contact for NAB's debt collection using templates and scripts adjusted for severity and preferences.	NAB's net promoter score has significantly increased as it currently automates 75% of its customer contacts
CBDC	LexisNexis	Requirements for the optimization included balancing security and customer adoption of online channels, minimizing rejection and decline rates, and accurately detecting and preventing fraud .	CBDC utilized ThreatMetrix to improve fraud detection with global digital identity intelligence and dynamic behavior analytics.	<ul style="list-style-type: none"> Significantly increased the number of trusted transactions Reduced step-ups by 40% Decreased the number of policies from 30 to 4, minimizing operational burden Implemented an end-to-end decision flow to utilize intelligence across customer journey
TRUIST	PEGA	Truist faced an unprecedented surge in customer requests for mortgage assistance due to the COVID-19 pandemic, leading to long wait times and the need for rapid and innovative response .	Truist collaborated with Pega to integrate their back-end workflow systems with front-end client portals and implement electronic communication channels	<ul style="list-style-type: none"> Loan modification process reduced from 90-120 minutes to 5 seconds Reduced team and system handoffs and manual updates

Source: Company websites

Why invest in capabilities?

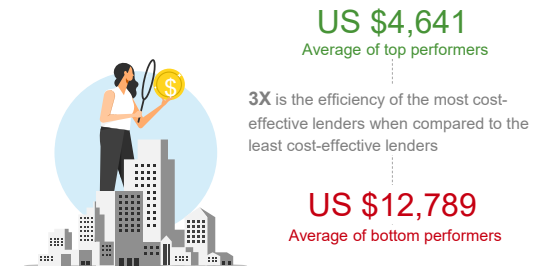
Average total cost of origination



Total loan origination expense per loan in Q4 2022, according to MBA, has grown to US \$12,450, which is about 50% more than two years prior.

Rising costs driven by inflation and higher wages, supplemented by inefficient tech, are draining enterprises' resources.

Average total cost of origination
In US\$ (Q4 2020 (Freddie Mac))



The top performers achieved lower costs and improved efficiency through increased digitization and effective strategies

Research calendar

Banking and Financial Services Business Process

Published Planned Current release

Reports title	Release date
Financial Crime and Compliance (FCC) Operations Provider Compendium 2022	October 2022
Navigating the Regulatory Tightrope via End-to-End Solutions – Financial Crime and Compliance (FCC) State of the Market 2022	January 2023
Emerging Geographies' Specialized Banking, Mortgage, and Risk and Compliance Needs	February 2023
Capital Markets Operations – Services PEAK Matrix® Assessment 2023	March 2023
Disrupt or Be Disrupted: a Payments Outlook for the Digital Age	April 2023
The FinTech Industry's Outsourcing Needs	May 2023
Generative AI: The New Age of Artificial Intelligence	May 2023
Capital Markets Operations – Provider Compendium 2023	June 2023
BPS Top 50 – 2023	June 2023
Steering through Uncertainty: The Impact of Recent Bank Failures on Banking Enterprises and Business Process Services (BPS) Providers	June 2023
Weathering the Storm: A Roadmap to Navigate the Mortgage Downturn	June 2023
Banking Operations – Services PEAK Matrix® Assessment 2023	Q3 2023
Banking Operations Services Provider Compendium 2023	Q3 2023
Banking Operations State of the Market 2023	Q3 2023
Focus on Rising Fraud on New Platforms: Through the Lens of Trust & Safety and Financial Services	Q3 2023

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