Capturing Market Opportunity

— by MEGAN HORN —

Big data can help pinpoint origination market opportunities for lenders out into the future. And it's not pie in the sky—it's here right now.

When Dennis Hedlund founded iEmergent 15 years ago, he did so because he was frustrated with the lack of data-driven decision-making in mortgage banking. As an executive at a large national lender, he was tasked with building future strategies in an industry that was expanding quickly. Although historical data on mortgage lending behavior was available at the time, critical information about the future opportunity in mortgage markets was missing. ¶ Upon reviewing decades of information and hundreds of datasets, he found patterns in how individual markets changed over time. Over the next few years, he built, tested and refined statistical forecasting models that project mortgage opportunity five years out, down to the census tract level. ¶ "We've been working to educate the industry on the importance of looking forward at the market level," says iEmergent Chief Executive Officer Laird Hedlund Nossuli, who is Hedlund's daughter. "If you can't identify what's next in your markets, it's difficult to make decisions that position you for success."

Now more than ever, this level of insight is vital. Before the beginning of the recession in late 2007, loan officers' phones were ringing with prospective homebuyers on the other end. Things are clearly different now, and attracting buyers requires a much more targeted effort. Add new hurdles, such as compliance and a much smaller homebuyer pool, and optimizing resources appropriately is critical.

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Intuition is important in making strategic decisions, but it can only be relied upon to a certain degree, and it certainly shouldn't be the sole determinant.

Equally problematic is using historical data to make decisions about how to move forward to capture new business. Data shows that market behavior is dynamic.

"The markets that were growing three to four years ago may not continue to grow over the next three to four years," observes Nossuli.

"Likewise, many of the markets that really struggled may again be among the most lucrative for lenders in 2015 and beyond," she says.

Data-driven lender strategies

The executive team at Atlanta-based Primary Capital Mortgage (PCM) has learned how to leverage forward-looking data from iEmergent to make strategic growth and resource allocation decisions.

As strategic project leader at PCM, Fenn Meents uses iEmergent's data portal, Mortgage MarketSmart™, to inform corporate-level decision-making.

"From determining where we should open up new markets, to where we don't want to open up new markets—iEmergent's market intelligence is a key resource in our decision-making process," says Meents.

Historically, lenders have relied on Home Mortgage Disclosure Act (HMDA) data and similar past-performance indicators, along with intuition, to make strategic decisions. However, using iEmergent's forecast data—five-year projections at the census-tract, county, metropolitan statistical area (MSA), state and national levels—Meents and the team at Primary Capital Mortgage remain focused on the future.

"With this data, we're not chasing old fads," he says. "We're finding new opportunities."

Finding the right markets

The size of opportunity is one of many attributes that tell the real story of an individual market over time. Metrics that quantify and describe market behavior—such as mortgage density, speed of growth and average loan size—provide insight that is crucial to making decisions about where and how to grow.

"It's an oversimplification to identify a market as 'good' or 'bad,'" says Nossuli.

She explains,"Opportunity exists in every market. The question lenders need to ask is: 'Is this a good market for our strategies and our future?'"

Primary Capital Mortgage has identified the characteristics that make a market ideal for its strategies. The company looks for a unique mix of attributes, affectionately known internally as its "secret sauce," to discover the right market match.

iEmergent developed a simple but effective tool to help lenders compare and rank markets using a variety of scenarios. Meents and Primary Capital utilized this Market Comparison Tool to identify the markets and strategies that matched their long-term performance goals (www.iemergent.com/mct).

"The Market Comparison Tool allows us to put in our own rankings of what's important—market size, lender concentration, etc.—and the algorithm ranks markets based on those factors," Meents says.

"It helps start the conversation for us as to how we prioritize people's time. First, we prioritize markets that match what we're looking for, followed by discussions on hiring and goal-setting in those markets," he says. "Really, it helps us synthesize the conversation around where to deploy both human and financial capital."

The comparison tool assigns a score and a rank to each of the markets, and generates a detailed report and a map that provide insight into how the markets compare. The map displays how the markets are ranked, showing market managers where to place their resources and loan officers where to cultivate relationships. Lenders are using maps more frequently because they are an effective way to talk about complex issues.

"In an industry where 'place' matters so much, it is natural to use maps to communicate future strategies, as well as the rationale behind them," explains Nossuli. The quality and quantity of information that is available continues to grow, so the new challenge is knowing how to pull that information together in a meaningful, actionable way.

Historical performance vs. future opportunity

Meents recalls a specific instance when historical performance in a market was completely different than what the future was expected to bring.

"I'm very familiar with the Atlanta market," says Meents, who was a loan officer there for seven years. "For the longest time, a well-known suburb just north of Atlanta was supposed to be a hot area. From a historical perspective, it was—but from a forward-looking perspective, it wasn't."

iEmergent's data showed that the particular suburb was on its way down from the boom. From 2013–2014, purchase-dollar originations in Marietta, Georgia, were estimated to grow by 0.85 percent, which is lower than the estimated growth of 4.6 percent for the entire Atlanta metropolitan area. In fact, iEmergent projects that year-over-year growth in purchase dollars for Marietta will continue to be less than the Atlanta MSA through 2017 (see Figure 1).

"As a former salesperson, I looked at iEmergent's data with skepticism. But once I dug in and saw the data, I was sold. Being able to accurately identify opportunity at that level is astonishing," says Meents.

Like this Atlanta suburb, there are other markets in which evidence points away from conventional wisdom—and history. For example, look at Las Vegas and Portland, Oregon—two markets of similar size in total number of households (see Figure 2).

"History tells us purchase originations in Las Vegas hit their bottom in 2010 and rose just 5.7 percent through 2014," remarks Nossuli. "Now the 2015–2019 forecast indicates a fivefold growth rate in loan units to nearly 30 percent."

Lenders that shied away from Las Vegas or did not plan for such rapid growth over the next few years may miss out on their share of the $7.2 billion in originations that market is slated to generate in 2019.

In Portland, the growth trajectory through 2019 will also differ from what occurred there from 2010 until now.

Unlike Las Vegas, Portland's growth in purchase-origination dollars from 2010 to 2014 rose steadily by 41 percent, although the growth rate over the next five years will slow to 27 percent.

"The bottom line is that both of these markets will be growing from 2015–2019," Nossuli asserts. "But the differences in how they got to 2015 and where they are going illustrate perfectly why it's dangerous for lenders to plan strategies based solely on yesterday's data."

Within each metro area, iEmergent has the capability to provide census tract-level data.

Market-level data matters

When Meents and the Primary Capital team are looking for their next market, they want to know more than simply which state or MSA to target for responsible growth.

"We used iEmergent's forecasts to confirm that North Carolina would be our next state for growth," he says. "Then we drilled down to determine which metro area best matched our product and sales strategies."

Within each metro area, iEmergent has the capability to provide census tract-level data.

"Census-tract forecasts help lenders determine where to focus within a market. For example, a lender might decide it wants to have a presence in Washington, D.C. But where in D.C.? Large metro areas are as diverse as states in the distribution and type of mortgage opportunity," says Nossuli.

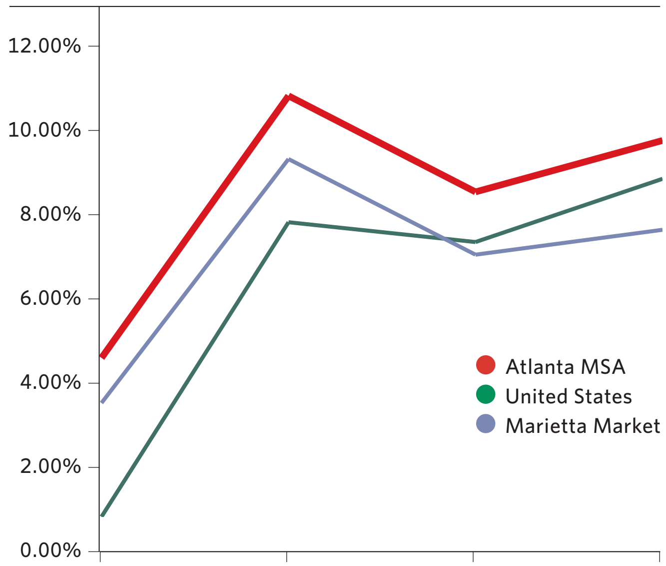
If a lender applied the projected 2015 national growth rate of 9.3 percent (in purchase dollars) to D.C.-area markets equally, resources could be allocated incorrectly and opportunity would be lost.

Both Loudon County, Virginia, and Prince George's County, Maryland, are projected to have similar counts of all-occupancy purchase originations in 2015—9,700 and 9,200, respectively (see Figure 3). Interestingly, Loudoun County has less than half as many households as Prince George's County. Yet, the density of mortgages and larger loan sizes in Loudoun will propel it to nearly $4 billion in purchase dollars, while Prince George's County will originate $2.5 billion.

However, Prince George's County is projected to produce more than four times more Federal Housing Administration

FIGURE 1

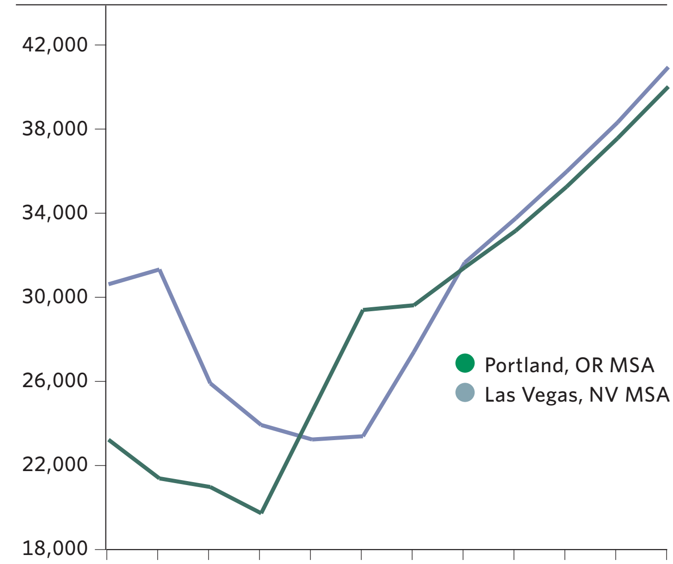
PURCHASE DOLLAR ORIGINATION GROWTH RATE, ATLANTA MSA V. MARIETTA MARKET (2014–2019)



SOURCE: iEmergent

FIGURE 2

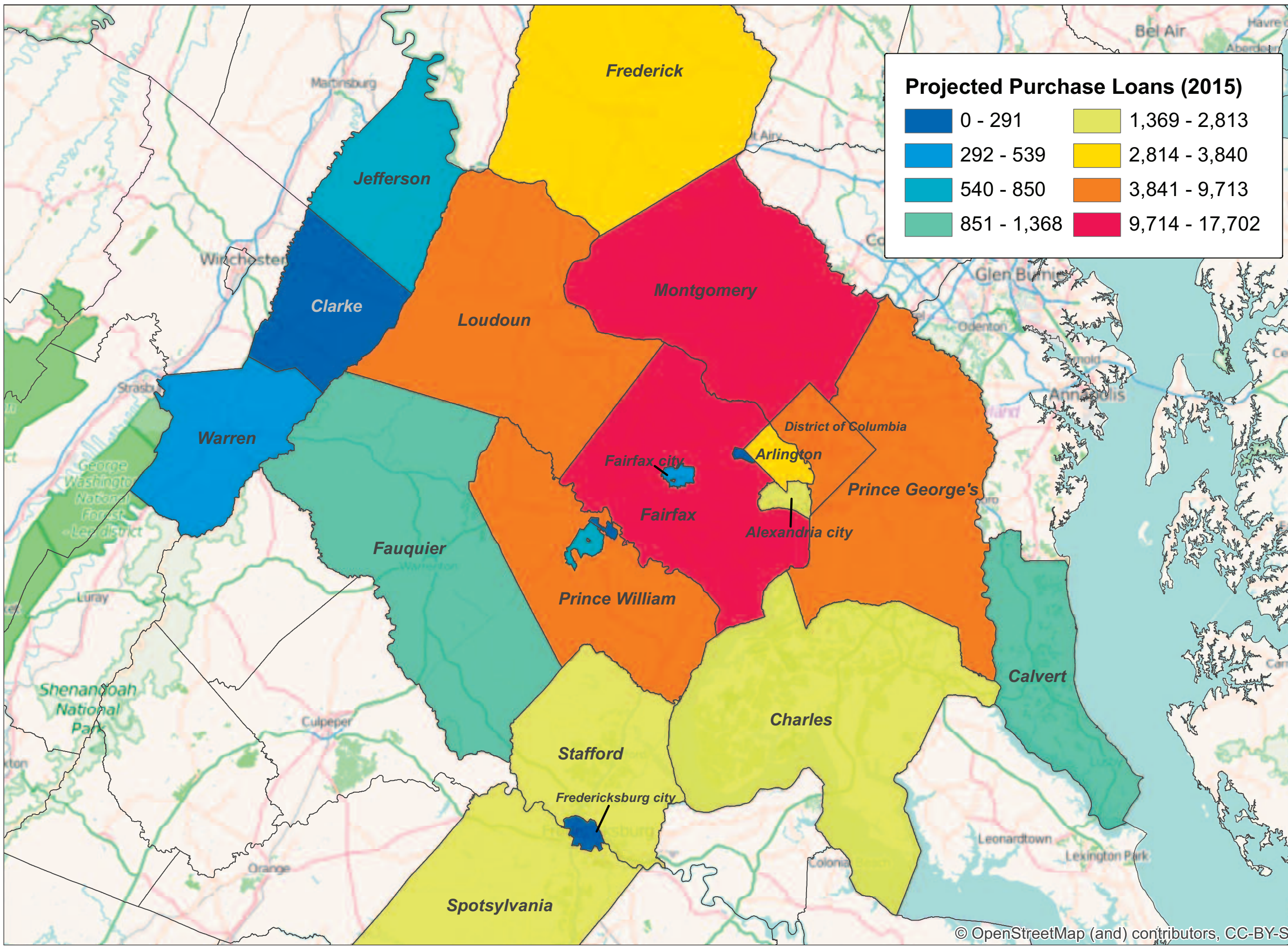
NUMBER OF PURCHASE LOANS BY COUNTY (2008–2019)



SOURCE: iEmergent

FIGURE 3

COUNTY-LEVEL LOOK AT PURCHASE OPPORTUNITY IN THE WASHINGTON, D.C., METRO AREA, 2014–2019



SOURCE: iEMERGENT

(FHA) purchase loans than Loudoun County.

"If a lender with a strong focus on FHA lending was expanding to D.C. or developing a more aggressive FHA strategy, it would make sense to make Prince George's County a top priority," says Nossuli. "Likewise, if a lender was building strategies for larger conforming loans, Loudoun might be a good fit."

The geographic distribution of opportunity across a county is also an important consideration. Consider two other Maryland counties: Calvert and Montgomery. Calvert County is projected to grow nearly twice as quickly as the United States, to nearly 19 percent in purchase dollars in 2015. However, almost 35 percent—or $161.4 million—of the $464.9 million total projected purchase dollars will come from the northeast corner of the county, near the Chesapeake Beach communities.

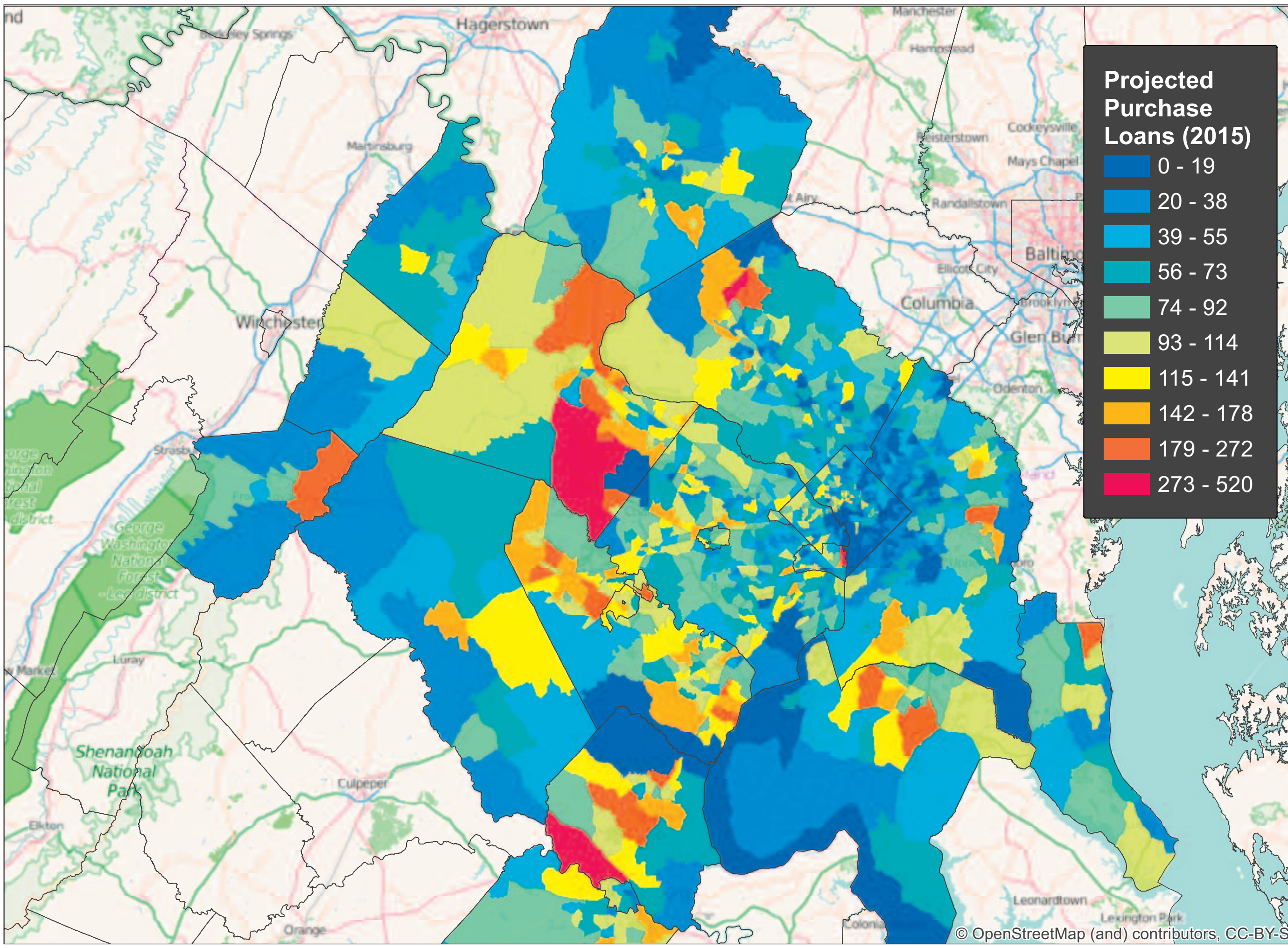
The geographic distribution of opportunity across a county is also an important consideration.

Montgomery County is projected to generate nearly $5.5 billion in purchase originations in 2015. Unlike Calvert, the distribution of that opportunity is relatively even throughout the county, although the northern part of Montgomery County will increase in its speed of growth when compared with the southwest or southeast corners of the county (see Figure 4).

"Drilling deeper into those counties shows some really important differences. It becomes apparent where and how loans are distributed," commented Nossuli. "Pinpointing and comparing specific communities of opportunity helps lenders decide about branch locations, marketing campaigns and

FIGURE 4

ALL-PURCHASE FORECAST BY CENSUS TRACT IN THE WASHINGTON, D.C., METRO AREA, 2014–2019



SOURCE: iEMERGENT

where to cultivate referral sources. Ultimately, this results in more originations at a higher level of profitability."

Attracting and retaining talent

"We've seen it time and time again," says Nossuli, "Lenders can cultivate better salespeople with evidence."

So having quantitative tools to help originators see exactly where the growth markets are located can attract top production talent.

St. Louis–based Lenders One® Mortgage Cooperative's August 2014 national survey on loan officer retention, conducted by Majestic Consulting and Marketing Inc., Vernon Hills, Illinois, cited that one of the top-three reasons a loan officer changes jobs is "a lack of confidence that the leadership team understands, anticipates and is prepared for market and industry change."

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Loan officer turnover is costly. Innovative lenders are using data to guide salespeople into markets where they can be successful with matching strategies.

Salespeople who don't feel supported, or who feel like they've been given goals that don't align with the realities of their market, don't stay in one place for very long. iEmergent has seen people combat that issue by applying analytics.

"If two loan officers are seeing 5 percent year-over-year growth, but one is in a market growing at 20 percent and the other is in a shrinking market, the first one is underperforming and the second is overperforming," says Nossuli. "Using market-level data, lenders can now set goals and compensate accordingly."

To help their salespeople reach their sales goals, PCM uses market-level forecasts to direct them toward neighborhoods where they can be successful.

"What talented loan officer or account executive wouldn't want to work for a strategic lender like PCM?," asks Nossuli. "Data helps good salespeople become great salespeople."

Using data to make decisions

Like Primary Capital, lenders of any size can use forward-looking data to make strategic decisions at any level. Nossuli sees clients continually finding new ways to apply forecasts to move toward sustainable success.

PCM uses a combination of top-down and bottom-up approaches to plan the company's forward-looking production forecasts.

Meents says, "From a quantitative perspective, we put together a 12-month production forecast that is part of the company's strategic roadmap. We use iEmergent's data to estimate originations and market share at the market level to more accurately project our activity and prepare our company for growth."

Once production is forecasted, the Primary Capital executive team can speak to the approach of utilizing an analytical data-driven forecast. This analytical approach helps to avoid states with marginal opportunity as well as reduces licensing, compliance and management burdens.

"We see strategic lenders like Primary Capital Mortgage using the forecasts in the boardroom for corporate-level decisions such as budgeting, strategic direction, competitive strategies and merger-and-acquisition discussions," Nossuli says.

"They also apply it at the street level for decisions as diverse as Realtor® and third-party relationship development to branch location," she adds.

"Without market-level forecasts, I would have trouble beginning meaningful conversations about growth," says Meents. "Big data will play a substantial role in the future of mortgage banking, and it's here now." MB

Megan Horn is director of communications for iEmergent in Urbandale, Iowa. She can be reached at megan@iemergent.com.