



**An Intelligent Insight White Paper**

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# **Enhancing the Mortgage Shopping Experience Through Independent Actionable Insight**

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# Enhancing the Mortgage Shopping Experience Through Independent Actionable Insight

*A recent report indicated that almost half of consumers seeking a mortgage fail to shop prior to applying for a mortgage. Consumers that do shop for a mortgage do not take advantage of information on lending websites or other “outside sources”.*

*These findings present mortgage lenders, brokers, and real estate agents with significant issues and demonstrates an urgent need for new solutions that empower consumers and – mortgage professionals – with clear and actionable insight.*

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The Consumer Financial Protection Bureau (“CFPB”) issued a report<sup>1</sup> in January 2015 that provided the public with a “first look” at results from the National Survey of Mortgage Borrowers jointly conducted with the Federal Housing Finance Agency (the “CFPB Report”).

The CFPB Report confirms something consumers have known for some time – choosing a mortgage lender or broker is a challenge. In particular, the CFPB Report highlights four key findings about the mortgage shopping experience (see sidebar) that can be reduced to two essential points:

- Consumers that do seek to make an informed decision about a lender or broker – especially those unfamiliar with the mortgage process – rely primarily on advice from their local lender, broker or real estate agent rather than information from outside sources.
- A sizeable percentage of consumers select a lender or broker based on factors other than cost.

These two essential points raise the following questions:

- 1. What information is available to consumers to help them select a lender or broker?**
- 2. Why are borrowers not using – or misusing – the information currently available?**
- 3. Do lenders, brokers, and real estate agents create a conflict of interest in providing advice to their customers?**
- 4. What additional information can simultaneously educate consumers and prevent conflicts of interest?**

This White Paper considers each of these questions in turn, presents a constructively innovative solution to address the issues associated with the current information available to mortgage borrowers, and then provides the precedent for the proposal.

## CFPB REPORT KEY FINDINGS

1. Almost half of consumers who take out a mortgage for home purchase fail to shop prior to application; that is, they seriously consider only a single lender or mortgage broker before choosing where to apply. The tendency to shop is somewhat higher among first-time homebuyers.
2. The primary source of information relied on by mortgage borrowers is their lender or broker, followed by a real estate agent. Fewer consumers obtain information from outside sources, such as websites, financial and housing counselors, or personal acquaintances (such as friends, relatives, or coworkers).
3. Most consumers report being “very familiar” with the types of mortgages, available interest rates, and the process of taking out a mortgage. Those who are unfamiliar with the mortgage process are less likely to shop and more likely to rely on real estate agents or personal acquaintances.
4. A sizeable share of borrowers report that factors not directly related to mortgage cost, including the lender or broker’s reputation and geographic proximity, are very important in their decision making. Borrowers who express such preferences are much less likely to shop.

<sup>1</sup> Consumer Financial Protection Bureau. (2015). *Consumers’ mortgage shopping experience; A first look at results from the National Survey of Mortgage Borrowers*. Washington, DC: Author

## Question 1: What information is available to consumers?

Consumers can still choose a lender or broker based on traditional methods such as newspaper advertisements, television commercials, billboards, or sponsorship of community activities. These traditional means have, to a large extent, been replaced by internet searches. A simple internet search for a lender or broker returns results that primarily fall into one of two groups – quantitative results (e.g., interest rates, closing costs, fees, and loan terms) and qualitative results (e.g., attentiveness, responsiveness, quality of service).



### **Quantitative Information**

Consumers can visit any number of websites<sup>2</sup> to view the quantitative dimensions of thousands of lenders and brokers. The number of websites providing quantitative information is interesting in light of the CFPB Report indicating that mortgage costs are not a primary factor for a sizable share of borrowers who prefer, instead, to consider the reputation and geographic proximity of a lender or broker.

### **Qualitative Information**

Websites providing qualitative results, inclusive of websites providing quantitative information and other websites such as [consumeraffairs.com](http://consumeraffairs.com), generally offer reviews (and, in many cases, rankings based on those reviews) from consumers that did business with a particular lender or broker. Among other things, these reviews provide insight into the market reputation of lenders and brokers.

The wide-spread availability and relative ease-of-use of customer reviews makes them a compelling source of information; however, recently published research<sup>3</sup> suggests that there are significant economic incentives for a business to create and/or solicit fake reviews.

Regardless of whether or not a broker or lender succumbs to the economic incentives that drive fake customer reviews, it is clear that customer reviews do not provide comprehensive insight for two reasons. First, not all the customers of a lender or broker are providing a review. Second, a consumer cannot read all available customer reviews for all lenders and brokers.

### **Other Information**

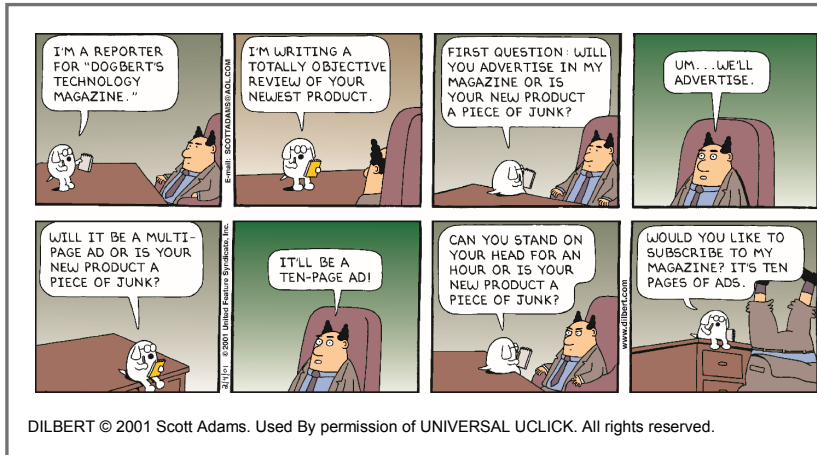
An internet search is likely to return other results that might capture the attention of consumers including (i) mortgage industry data provided by specialty sites such as [mortgagestats.com](http://mortgagestats.com) and government agencies such as [fhfa.gov](http://fhfa.gov), and (ii) lender and/or broker rankings provided by mortgage industry publications such as Scotsman Guide and marketing information firms such as J.D. Powers.

This category of information may not be well-suited for consumers. Mortgage industry data is generally aggregated and, therefore, does not provide information about specific lenders or brokers. The information provided in industry publications or by marketing information firms may be helpful to the extent that the information provides results for specific lenders or brokers; however, it is important for consumers to understand that rankings are often subjective and may be influenced by an advertising

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<sup>2</sup>Including [bankrate.com](http://bankrate.com), [lendingtree.com](http://lendingtree.com), [realtor.com](http://realtor.com), [credio.com](http://credio.com), and [zillow.com](http://zillow.com) to name just a few.

<sup>3</sup>"Fake it Till You Make It: Reputation, Competition, and Yelp Review Fraud", [Harvard Business Review](http://www.harvardbusinessreview.com) (July 20, 2015). Michael Luca, Harvard Business School, Georgios Zervas, Boston University Questrom School of Business. Available at <http://people.hbs.edu/mluca/fakeitillyoumakeit.pdf>.



relationship with the lender or broker (as humorously suggested in the accompanying Dilbert cartoon).

An internet search might also return links to Home Mortgage Disclosure Act data. Despite a CFPB portal that provides consumers with access to this data, HMDA data is primarily used by regulators, academics, and

fair lending groups due to the relatively significant level of technology required to convert the voluminous raw data into usable, actionable insight. Consumers can access any lender's HMDA data directly but such access can be problematic as a lender is only required to make the information available for inspection in their offices during normal business hours. This is not a practical undertaking for individual consumers.

Question 2: Why are borrowers not using – or misusing – the information currently available?

The CFPB Report indicates that almost half of consumers who take out a mortgage fail to shop prior making an application. The cause for this troubling result is not completely clear and begs two questions. The first question, "how, then, do these consumers decide where to make an application?", seems to be partially answered in the CFPB Report<sup>4</sup>. The second question, "is the available information usable or, worse, subject to misuse?" is now explored on the basis of information type.

**Quantitative Information**

The CFPB Report confirms that cost information is not widely used by consumers in selecting a lender or broker. A combination of research and experience suggests why this is the case. Specifically:

- *The Use of Cost Information Requires Mathematical Proficiency.* The U.S. Department of Education's National Assessment of Adult Literacy showed that consumers are terrible at solving real-world math problems, such as calculating tips or comparing prices in grocery stores. The report indicated that only 42 percent of U.S. adults could pick out two items on a restaurant menu, add them and calculate a tip. Also, just one in five of U.S. adults could calculate a mortgage rate and four of five adults flunked when told to figure their gross weekly earnings after being given an hourly rate. The survey concluded that overall, only 13 percent of adults were deemed "proficient," with only 1 in 10 women, 1 in 25 Hispanics and 1 in 50 African Americans found to be proficient.
- *Cost Information Ranges from Indistinguishable to Overwhelming.* Mortgage cost information seems to "revert to the mean" as lenders with higher-than-average costs are not likely to attract the attention of home buyers. Thus, lenders and brokers who cannot meet the costs of other lenders or brokers may be motivated to present competitive – yet unrealistic – costs that are



<sup>4</sup>See CFPB Report Figure 13.

accompanied by supplemental “terms and conditions” disclosure that overwhelms consumers.

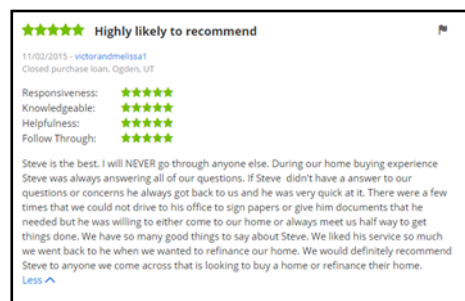
- *Cost Information Cannot Offer Reassurance.* The decision to buy a home and take on a mortgage obligation is fraught with fear, uncertainty, and doubt. Unlike humans, cost information offers little in the form of warm reassurance that the consumer is doing the right thing.

These findings make it clear that consumers are uncomfortable “working the numbers.” Given that securing a mortgage involves working a lot of numbers, it is evident that an “irresistible force has met an unmovable object.”<sup>5</sup> This stand-off may be another reason for the CFPB Report finding that consumers turn to lenders, brokers, and real estate agents for advice – and reassurance – in selecting a mortgage lender or broker.

### Qualitative Information

For those consumers choosing not to rely, whether in whole or in part, on the advice of lenders, brokers, or real estate agents, the use of qualitative information comes as no surprise based on a 2015 Consumer Review Survey<sup>6</sup> that found:

- 92% of consumers now read online reviews (vs. 88% in 2014)
- 40% of consumers form an opinion by reading just 1 to 3 reviews (vs. 29% in 2014)
- Star ratings are the number one factor used by consumers to judge a business
- 44% of consumers say a review must be written within 1 month to be relevant
- Only 13% of consumers consider using a business that has a 1 or 2 star rating
- 68% of consumers say positive reviews make them trust a local business more (vs. 72% in 2014)



The Consumer Review Survey also found, consistent with the Harvard Study referenced herein, that consumers are becoming more concerned about fake reviews. It appears that consumers are coming to the realization that you cannot believe everything you read on the internet. Whatever the reason for the realization, placing less reliance on customer reviews is a good thing given that the number of consumers forming an opinion on the basis of reading just 1 to 3 reviews increased by more than 35% – from 29% to 40% – in just one year.

### Question 3: Are conflicts of interest unavoidable?

The only thing easier than an internet search – especially in the face of a phobia of math or growing concerns about fake reviews – is to ask for advice from a trusted source. The CFPB Report identifies two sources trusted by mortgage borrowers – real estate professionals and personal acquaintances – and suggests that mortgage borrowers turn to these sources because they “may be better able to convey information in a way that is more accessible to these borrowers.”

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<sup>5</sup>This is not just a problem for mortgage lenders and brokers. Reports indicate that more than 20 million taxpayers hire someone to file their 1040EZ tax return which requires 10 blanks to be completed.

<sup>6</sup>2015 Local Consumer Review Survey. Retrieved from <https://www.brightlocal.com/learn/local-consumer-review-survey/> on December 5, 2015.

Information obtained from personal acquaintances – friends, relatives and coworkers – qualifies as “Scottish advice”<sup>7</sup> and, therefore, the adverse consequences of such advice is likely limited to awkward moments at the grocery store, family gatherings, or in hallways.



The fact that the primary source of information relied on by mortgage borrowers is their lender or broker, followed by a real estate agent, begs a rhetorical question – isn't giving advice to a client when you'll derive a financial benefit<sup>8</sup> from that advice a conflict of interest?

Even though steps can be – and are – taken to mitigate and possibly eliminate the financial exposure associated with conflicts of interest, the professional implications to the reputation of a lender, broker, or real estate agent are potentially catastrophic, especially if the allegedly bad advice finds its way into an on-line customer review.

To paraphrase a comment offered by a respected educator, the bottom line is that “it has to be a pretty good conflict of interest to be better than no conflict of interest at all.” So, then, what is the best way to avoid a conflict of interest? The answer lies in providing lenders, brokers, real estate agents, and consumers with a source of independent actionable insight and that brings us to our final question.

#### Question 4: Is there any additional information could be made available?

The fact that a significant number of consumers are seeking – and receiving – information from lenders, brokers and real estate agents despite possible conflicts of interest clearly shows that the content and usability of information currently available to consumers is inadequate.



Why is mortgage information currently available to consumers inadequate? Because it fails to provide consumers with a clear course of action. Instead, borrowers are led to believe that all they need to do is select the lender or broker offering the best financial terms *and* the best user reviews. This conclusion is faulty because, as indicated earlier, consumers generally find it challenging to make sense of cost information and they are starting to realize that they cannot believe everything they read on the internet.

The usefulness of the current information is likewise problematic for lenders and brokers for two reasons. First, cost is rarely a basis for competitive differentiation. Second, as suggested in the research noted above, customer reviews can be faked.

The current information is essentially a misdirection of consumers, lenders, brokers and real estate agents from relevant and actionable information by providing them with the information that is the easiest to acquire and disseminate at the lowest price.

Specifically:

- Cost information is gathered, or aggregated, using Automated Program Interfaces, or APIs<sup>9</sup>. APIs focus on gathering data and are generally limited in their ability to convert that information into actionable insight.

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<sup>7</sup> An off expressed sentiment within the local chapter of the Clan Moffat is that Scottish advice is worth what you pay for it - not much.

<sup>8</sup> CFPB Report Figure 12 shows that 70% of mortgage borrowers picked a lender/broker before selecting a loan type.

<sup>9</sup> An API is an automated process of data extraction from one source (i.e., a lender website) and integration of that data into another website.



- Customer feedback software generally “plugs in” to an existing website and can be set up in a matter of minutes. Such software, often available without charge<sup>10</sup>, may lack functionality to ensure the validity and quality of user comments.

### Relevant Information

While the range of additional information sought by consumers varies, the substance generally relates to a lender’s decisiveness (“will they make a decision or leave me hanging”) and the likelihood of a loan application being approved. In some instances, lenders may seek insight to a lender’s fair lending profile.

HMDA data contains the raw data required to answer questions about a lender’s decisiveness, affirmatives, and fair lending practices along with many other important questions. However, the raw HMDA data is vast and advanced data management tools and analytical algorithms are required to convert the raw data into insight that is, among other things:

- **Indicative.** Results that provide insight into the fundamental indicators of a mortgage lender’s performance including action taken (e.g., approval, denial, incomplete, and withdrawal rates) and fair lending profile.
- **Comprehensive.** Results that provide insight into a lender’s entire book of business rather than a limited number of transactions covered by customer reviews.
- **Objective.** Results that are empirical and free from subjectivity.
- **Comparable.** Results that allow consumers to efficiently and effectively compare mortgage lenders on the basis of relevant criteria (i.e., loan purchase, loan type, borrower income, etc.).

### Actionable Information

Relevant information becomes actionable information when it enables the user – in this case the consumer – to identify an appropriate course of action that increases the likelihood of achieving their objectives (i.e., getting a mortgage). The principal means for making relevant information actionable is by comparing, or benchmarking, the relevant information for multiple lenders across multiple dimensions.

## LENDERScores™ : The Source for Relevant and Actionable Mortgage Information

Mortgage TrueView developed LenderScores™ to provide mortgage industry stakeholders with independent and relevant actionable insight through a unique combination of our business intelligence capabilities and, initially, HMDA data.

Based on proprietary algorithms, LenderScores™ calculates key lending indicators, or scores, and benchmarks those scores for all lenders in designated markets (comprised primarily of metropolitan statistical delineations). Users can “drill down” on scores and benchmarks based on loan purpose, annual income, and loan type.

The initial 5 scores available at LenderScores.com – the D, A, C, E and B Scores – and related benchmarking are more fully described in Appendix A. These scores and benchmarks were specifically designed and developed to meet two critical needs:

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<sup>10</sup> See, for example, <http://blinklist.com/reviews/disqus>

- Provide advanced analytical insight to consumers to help them make an informed decision in selecting a mortgage lender or broker based on their
- Provide a referential independent source of information to which mortgage lenders, brokers, and real estate agents can direct their customers and thereby eliminate conflicts of interest.

The following example, using the D Score, demonstrates how LenderScores addresses these critical needs:

**D Score Overview.** The LenderScores D Score expresses the non-linear relationship between decided (i.e., approved or denied) and non-decided (i.e., incomplete or withdrawn) applications. For example, a lender with an approval rate of 80%, a denial rate of 12.5%, an incomplete rate of 2.5%, and withdrawn rate of 0.5% achieves a D Score of 10.

**D Score Ranking.** To the extent that a lender makes a decision on 90% or more of reported applications, the lender's D Score earns a Gold Ranking. The D Score for a lender that makes a decision on at least 70% of reported applications but less than 90% of reported applications earns a Silver Ranking. The D Score for a Lender making a decision on less than 70% of reported applications earns a Bronze Ranking.

**Benchmarking.** As indicated In Figure 1, a mortgage borrower can benchmark D Scores for ranked lenders and determine if the D Score is due to high levels of incomplete or withdrawn applications.

Figure 1. LenderScores™ Lender Summary

Lender	Applications	Market Share	Approved Rate	Denied Rate	Incomplete Rate	Withdrawn Rate	D Score	A Score	E Score	C Score	B Score
FIRST COLONY MORTGAGE <a href="#">Request Contact</a>	119	0.8%	89.9%	0.0%	0.0%	10.1%	38.6				
EVERETT FINANCIAL INC <a href="#">Request Contact</a>	73	0.5%	63.0%	0.0%	0.0%	37.0%	41.4				
WJBRADLEY MORTGAGE CAPITAL COR <a href="#">Request Contact</a>	56	0.4%	100.0%	0.0%	0.0%	0.0%	34.1				
CASTLE & COOKE MORTGAGE LLC <a href="#">Request Contact</a>	123	0.8%	79.7%	1.6%	1.6%	17.1%	38.5				
STEARNS LENDING, INC. <a href="#">Request Contact</a>	788	5.3%	93.4%	0.6%	1.8%	4.2%	38.9				

High levels of incomplete and/or withdrawn applications may suggest, among other things, that the underlying consumers found a better product and/or rate from another lender or broker. This insight provides important context to other consumers in evaluating the lender's costs and/or underwriting process.

This example shows how scoring and benchmarking help consumers make informed decisions and demonstrates the relative value of this information over information that a consumer might receive from a lender, broker, or real estate agent. Scoring and benchmarking models are well-established and widely used in other consumer financial transactions. The final section of this White Paper provides the precedent for this model.



## The Precedent for Independent Actionable Insight

The form and content of quantitative and qualitative information currently available to mortgage borrowers are well established. Those with an interest in the current mortgage consumer information protocols have suggested that providing mortgage borrowers with advanced analytical insight is a well-intended but impractical model for any number of reasons. The reasons generally range from the quality of the underlying HMDA Data, to the ability of consumers to understand advanced analytical insights, to the belief that such a model is not feasible.

Objections due to the quality of the HMDA data are particularly interesting in view of the statutory obligations and consequences associated with inaccurate and/or incomplete HMDA filings. While we have noted issues with the HMDA data, the issues are generally isolated and support our view that the only way issues of any magnitude will be resolved is by using HMDA data to inform and educate consumers. In doing this, lenders and regulators will undoubtedly work together to address material issues.

To those that believe (i) consumers will not be able to understand a scoring and ranking model, and/or (ii) an independent advanced analytical mode is unproven, we respectfully draw your attention to Lipper, Inc. and Morningstar, Inc. and their work in providing independent actionable insight to more than 8,000 investment companies, or mutual funds, and millions of mutual fund investors.

Our next White Paper will detail how the Lipper, Inc. and Morningstar, Inc. scoring and ranking precedent can be fully replicated in the mortgage industry to more efficiently and effectively mitigate a broad range of risks, strengthen governance activities, enhance compliance protocols and protect consumers.

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The author welcomes comment on the contents of this White Paper. Comments may be provided via email ([david@mortgagetrueview.com](mailto:david@mortgagetrueview.com)) or via telephone (610.787.2455).

# Appendix A

**LENDERSCORES™**

## Score Guide

# LENDERSCORES™ | Score Guide

Shows a lender's experience in making a decision on mortgage applications	<b>D</b> Score	Decision 90% or more of applications Decision between 70% to 90% of applications Decision less than 70% of applications
Shows a lender's approved-to-denied ratio compared to other lenders	<b>A</b> Score	Approved-to-denied ratio is above average Approved-to-denied ratio is average Approved-to-denied ratio is below average
Shows the lender's level of engagement with minority applications based on the ratio of total minority applications to denied minority applications	<b>E</b> Score	Engagement with minority applicants is above average Engagement with minority applicants is average Engagement with minority applicants is below average
Shows the comparison between a lender's denial rate for minority applicants and their denial rate for non-minority applicants	<b>C</b> Score	Minority denial rate is lower than non-minority denial rate Minority Denial rate approximately equals non-minority denial rate Minority denial rate is higher than non-minority denial rate
Shows the ratio of borrower income to loan amount <i>Note: a B Score of 50.00 indicates that, on average, a lender's approved borrowers had \$50,000 in income for every \$100,000 borrowed</i>	<b>B</b> Score	Provides insight into the type of borrowers that may be well suited for a specific lender. <ul style="list-style-type: none"><li>A lower score generally indicates that a lender likely has more lending options available for moderate-income and first time borrowers</li><li>A higher score may indicate that the lender uses more traditional underwriting guidelines and programs</li></ul>