THE MORTGAGE CONTINUUM

BY DENNIS HEDLUND

The "mortgage continuum" is a complex business space to manage and maneuver in. At one end, the primary markets of consumers, housing and communities are in constant flux; at the other end, the secondary markets of investors, pools and global credit funds change financing positions daily (especially amid recent market turmoil). In between the two is the tangle of products, channels, operations, underwriting, risks, rules and regulations that tie both ends together. ■ To add to this complexity, there is a diverse cast of characters—from loan officers to credit gurus to finance experts—each running in a thousand separate directions. Although the motivations of these players are different, they share a serious management challenge: They all face constantly shifting demands and volatile conditions at both ends of the continuum. ■ To understand the critical issues facing the mortgage industry today, one need only reflect on the constant barrage of sound bites, expert opinions, spin, alarming developments and breaking headlines with which

Lenders for too long have managed their production operations without detailed factual analytics pinpointing markets with the highest demand. Now it's time for lenders to become real students of origination markets.

the industry, regulators and the public have been bombarded for the past 18 months. Regardless of whether you believe these issues are real or overblown, the unprecedented 2001–2006 cycle of explosive growth changed the roles and behaviors of the characters—perhaps permanently. As a result, the strategic emphasis of many lenders, large and small, is seriously out of balance within the total mortgage continuum.

What lies beneath

As evidenced by alarmist headlines, much of society's current discussion of the housing and mortgage industries only touches the surface, with little mention of the complex triggers that lie beneath. Although most of the discussion focuses on the collapse of the subprime segment, performance on the prime side has also suffered.

Over the past 18 months, prime lenders have reported negative earnings, sales slumps, extreme cost-cutting measures and comprehensive restructuring efforts. These actions resulted in a loss of jobs for thousands of managers and workers in the industry.

"Spin" notwithstanding, some of the very largest, multi-line, multi-channel lenders (prime and non-prime) barely broke even in 2006. Another well-known lending giant continues to lose market share this year. With so many experts and such vast levels of experienced leadership steering both the subprime and prime lending ships, it's understandable why so many are now scratching their heads about what's been happening.

Much of society's current discussion of the housing and mortgage industries only touches the surface, with little mention of the complex triggers that lie beneath.

Furthermore, the current trend toward consolidation may turn out to be no more efficient for managing the continuum than past industry fragmentation.

As with past cycles of economic booms, 2001–2006 was marked by gold-rush behaviors. "Get-rich-quick" schemes and "easy-money" attitudes proliferated on the streets of primary markets as well as in some of the boardrooms of mortgage merchants and Wall Street investment firms. While loan originators were striking their next deals with primary-market borrowers, financing executives were working deals to take advantage of investor cravings in the secondary market. When the actions of 300,000 independent loan originators converged with the aggressive investment strategies of funding sources, they triggered unpredictable consequences.

Symbiotic relationships developed and continue to evolve among the forces and players on either end of the mortgage continuum. As Wall Street's appetite for loans to securitize increased, its demand for more volume accelerated—especially for higher-rate, wider-margin transactions. This ready access to home financing generated even more consumer demand. As lenders delivered more volume to investors, the allure of higher upfront fees and yield premiums in "exotic" products was too strong to resist.

Aggressive incentives, reduced processing, relaxed underwriting and the acceptance of greater risk fueled more loans and altered the behaviors of many originators and referral sources. Eventually, some investors and lenders turned a blind eye to where loans were sourced, how they were captured, the added risks being taken and the promises that were made to borrowers. As markets shifted and loan volumes softened, earnings and production pressures to maintain volume drove lenders into even more aggressive lending behaviors—especially in markets and products where they were poorly positioned.

Everyone in the industry bears some measure of responsibility for its current state. Many solutions to what is deemed "the subprime problem" have already been introduced, acted upon and debated.

Mortgage lenders tend to favor governance changes such as government-sponsored enterprise (GSE) reform, simplified and standardized disclosures, Federal Housing Administration (FHA) modernization, Real Estate Settlement Procedures Act (RESPA) changes, a system for registering brokers and passage of a national legislative standard to ban "bad" lending behaviors. These things are the favored responses, while leaving lending standards, credit quality, product structures and documentation levels in the hands of responsible lenders.

In contrast, lawmakers and regulators talk of mandating tighter lending standards, predatory lending penalties, requiring loan suitability standards and imposing rules that guarantee greater transparency and protections for consumers.

Many mortgage executives remain confident that self-governance and a reliance on market forces are the preferred paths to a lasting fix of current market problems. Yet lawmakers remain skeptical that lenders can effectively police themselves or that the logic of the free-market system will correct the excesses created by free-market mortgage behaviors in the first place.

Broad controls that are focused on only the most visible problems may improve public perceptions, but probably won't affect the turbulence of events and decisions occurring deep within the continuum. The danger is that silo-driven solutions might create new forms of imbalance across the industry continuum.

Does balance matter?

What does it mean that many lenders are out of balance when it comes to the mortgage continuum? My view is too many lenders direct a disproportionate share of their interest, energy and resources toward the secondary market, leaving the inherent messiness of primary markets to the decisions and actions of individual loan originators and brokers on the street.

Experienced mortgage professionals at all levels—executives, managers and loan originators—converse in great detail about secondary-market conditions, discussing issues such as pricing, products, tranches, derivatives, collateralized debt obligations (CDOs), risks and ratings. These conversations are possible because quantified information, forecasts, definitions and tracking standards within the secondary market promote transparency.

By contrast, engrossing conversations about primary markets do not occur as frequently, because many mortgage bankers show only limited interest in the details and dynamics of individual markets and have neither the data nor the analytics for further discussion.

By not staying focused simultaneously on primary and secondary markets, organizations can quickly succumb to the stresses and risks brought on by changing conditions in both.

Performance in secondary-market execution has continuously improved because innovations, new perspectives and competition are accelerated by the broad and rapid distribution of detailed information and knowledge. By contrast, intelligence about primary markets has suffered from a fundamental lack of sophistication in information and its distribution.

In her July 2007 Deal Talk column in *Mortgage Banking,* Brenda B. White, then managing director of Deloitte & Touche Corporate Finance, New York, wrote that "the tremendous dislocation witnessed over the past 18 months is testament to the cyclical nature of the mortgage banking industry." Actually, the cyclical nature is a given. The dislocation White cites is really a testament to the imbalances caused when the market is overdriven by secondary-market machinations, while loan-acquisition behaviors and homebuyer dynamics in primary markets are largely ignored.

Being out of balance

Ample evidence supports the existence of this imbalance. Many industry executives, business managers, sales managers, loan originators and account executives possess an expert grasp of secondary-market analytics, trends and dynamics. However, when it comes to primary-market analytics, behaviors and lending opportunities, their lack of detailed information suggests that their organizations may be more out of balance than they realize.

Even though they monitor the Mortgage Bankers Association (MBA) and GSE national mortgage volume forecasts for this year and next, these overall market numbers have limited impact on the specifics of the primary markets in which they operate.

Lenders need to ask themselves three basic questions about primary markets to indicate where their balance is headed:

■ Can you quantify the lending opportunity in loans and dollars that will be generated by the specific markets and market segments in which you directly compete?

■ Which of your markets are growing, and which markets are slowing in mortgage volume generated over the next five years—and by how much?

■ What facts do you use to compare, rank and prioritize the importance of different markets and market segments?

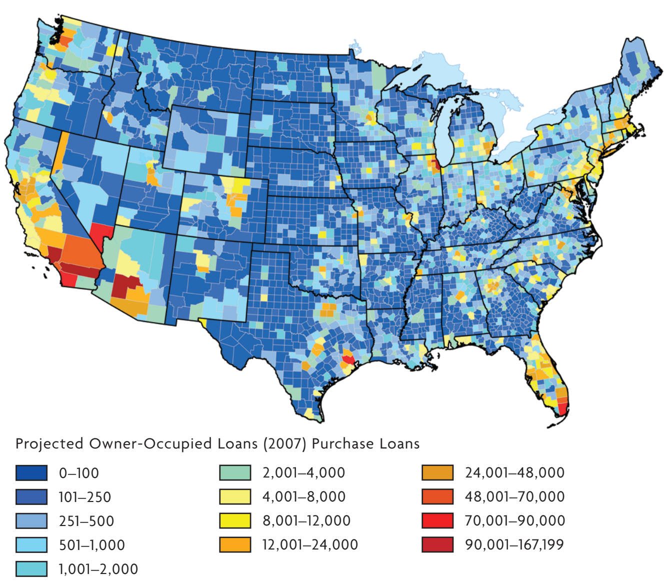
So why are these questions important? The answer is simple: Precise and quantifiable intelligence on primary markets and expertise in the secondary markets matter equally to performance.

Loan-acquisition strategies, tactics and results in primary markets directly affect product and execution strategies in secondary markets—and vice-versa. For example, the ability to anticipate and react quickly to rate, product and price competition in the secondary market should provide leading-edge lenders with a distinct competitive advantage over slower rivals, but only if their lending models (including products, channels and risk) are well-matched to their primary markets.

If lenders are poorly positioned in their markets and are not aware of how those markets are changing, they could lose the competitive edge gained through secondary-market expertise.

By not staying focused simultaneously on primary and secondary markets, organizations can quickly succumb to the stresses and risks brought on by changing conditions in both. On the other hand, when lenders do focus equally on the two ends of the continuum, they limit the impact that market volatility has on their overall lending efficiency. And as consistency and efficiency improve for a greater number of individual organizations, the industry gains more overall stability and increases the level of confidence for investors and consumers alike.

Figure **1** **2007 Projected Purchase Loans by County**
(All Owner-Occupied Segments)



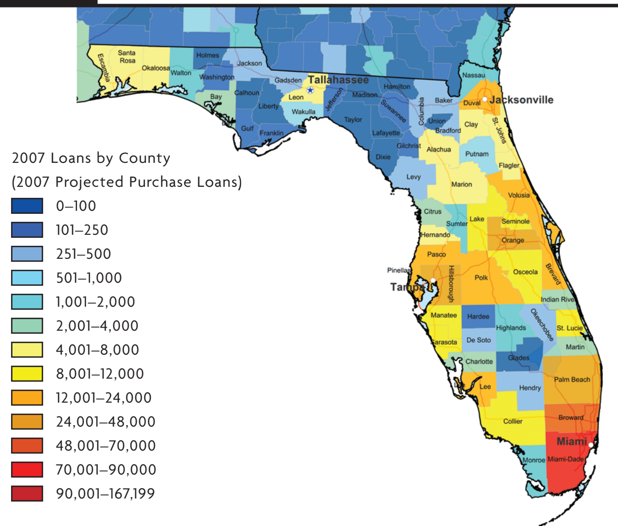
SOURCE: THE IEMERGENT GROUP

Improving the primary-secondary balance—examples of market intelligence

The formula for balance is simple. It begins by not only building expertise in secondary-market conditions, as many lenders have already done, but also by increasing intelligence on individual primary markets in the same way. When entire lending organizations utilize fact-based intelligence about both markets to provide a clearer picture of their competitive positions and how their lending strategies connect, they are more likely to achieve improved earnings performance despite volatile business cycles.

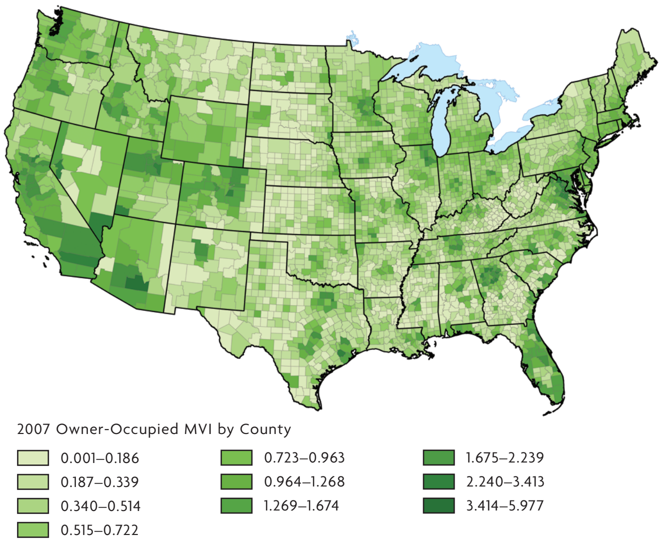
To demonstrate the impact of quantifiable market intelligence across different mortgage markets, the best place to start is at the national level. Suppose the 2007 national owner-occupied purchase mortgage market is forecast to be $1 trillion. By adding another $300 billion in non-owner-occupied purchase loans and $1.1 trillion in refinance loans, the total volume for the 2007 mortgage market could settle at approximately $2.4 trillion–plus. As the range of colors in Figure 1 shows, the purchase-loan volume is not distributed evenly across the country—and it changes constantly. Figure 2 zooms to Florida for a closer look at the differences in the size of lending opportunity.

Figure **2** **Owner-Occupied Purchase Loans by County, Florida**



SOURCE: THE iEMERGENT GROUP

Figure **3** **2007 National Mortgage Velocity Index (MVI) by County** **(All Owner-Occupied Segments)**



SOURCE: THE iEMERGENT GROUP

All primary markets—states, metropolitan areas, counties, cities and communities—have unique Mortgage Conversion Rates (MCRs) that are used to determine the number of mortgage loans that the market will generate during the year. The same is true of individual borrower segments within geographic markets (e.g., ethnicity, race, income, purpose, loan types, loan sizes, etc.). These indicators are the foundation for gaining more expertise about the dynamics of various markets.

The Purchase Mortgage Conversion Rate (PMCR), which is the most stable of all the mortgage conversion rates over the long term, is always changing in each market, but in predictable patterns. The same is true of household growth rates, average loan sizes and, to a lesser extent, Refinance Mortgage Conversion Rates (RMCRs).

When different drivers are combined, metrics such as the speed of growth of mortgages in a market over the next five years can be readily forecast. Another metric, the Mortgage Velocity Index (MVI), compares a market's speed of future mortgage growth with the national average. Figure 3 depicts a map of the United States displaying the MVI for each county.

The higher the index number (symbolized by dark green), the faster the growth in purchase mortgages for that county over future years. Interestingly, the total size of the current lending volume in a market and the speed at which its mortgage volume is projected to grow are related in some markets, but at odds in others—an observation that reinforces the unique behavior of individual markets.

Lenders need to be clear about the size of their lending opportunities—including the MCR and the MVI for their current and future markets. Unfortunately for business professionals who find facts, forecasts and market intelligence to be nonessential, the specifics of this market information—such as how much or how fast—are absolutely key to making sound business decisions.

Tom Gamache, managing director in the New Bedford, Massachusetts, office of Calabasas, California–based Countrywide Home Loans, has been a consistently successful executive and leader at every level of loan origination and production since starting his career as a loan officer 20 years ago. Gamache believes that detailed lending analytics, such as those illustrated in the figures that follow, are crucial to being balanced and successful.

"If you want to grow and optimize performance in today's difficult environment, getting and using detailed knowledge about the size and location of your best lending opportunities is critical. I don't see how anyone can consistently make good business decisions or sustain any kind of market success without it. I'm a big hockey fan. My favorite story is about Wayne Gretzky—the 'Great One.' When he was asked in a post-game interview why he was so much better than other players,

Figure 4 Mortgage Markets With Similar Household Counts

Market Opportunity Zone (County)	State	2006 Households (#)	2006–2011 Projected Growth	2007 Projected PMCR	2007 Projected Purchase Loans (#)	2007 Projected Purchase Mortgage Opportunity	Mortgage Velocity Index (MVI)
San Bernardino	CA	599,750	9.34%	10.76%	65,711	$14,645,329,907	1.99
Philadelphia	PA	572,210	-2.69%	3.27%	18,615	$2,831,964,469	0.58
Middlesex	MA	566,226	0.20%	4.83%	27,347	$7,586,372,554	0.86
Santa Clara	CA	564,948	0.98%	7.11%	40,236	$17,826,860,524	1.27
Cuyahoga	OH	554,177	-2.98%	3.79%	20,851	$2,781,974,295	0.67
Bexar	TX	540,387	7.86%	5.87%	32,194	$3,689,671,586	1.08
Palm Beach	FL	534,563	9.85%	6.92%	37,710	$9,155,825,626	1.28
Allegheny	PA	527,558	-1.97%	3.17%	16,639	$2,029,109,123	0.56
Alameda	CA	523,574	1.64%	6.42%	33,732	$12,998,771,730	1.15
Sacramento	CA	509,448	8.80%	8.92%	46,226	$11,553,904,587	1.64
Market Totals		**5,492,841**	**3.08%**	**6.12%**	**339,261**	**$85,099,784,401**	**1.10**

SOURCE: THE IEMERGENT GROUP

Figure 5 Mortgage Markets With Similar 2007 Projected Purchase Mortgage Opportunity

Market Opportunity Zone (County)	State	2006 Households (#)	2006–2011 Projected Growth	2007 Projected PMCR	2007 Projected Purchase Loans (#)	2007 Projected Purchase Mortgage Opportunity
Kings	NY	880,912	-0.14%	2.12%	18,662	$5,924,149,983
San Francisco	CA	318,072	-0.58%	3.32%	10,559	$5,707,308,061
Dallas	TX	831,058	3.23%	5.22%	43,660	$5,703,022,389
Prince George's	MD	307,422	5.48%	9.13%	28,381	$5,696,724,765
Fulton	GA	319,565	-0.10%	9.00%	28,765	$5,692,684,185
Hennepin	MN	464,124	1.98%	5.73%	26,697	$5,490,984,425
Bergen	NJ	340,613	2.48%	4.56%	15,599	$5,293,554,009
Westchester	NY	344,371	1.63%	3.99%	13,795	$5,212,009,007
Oakland	MI	489,763	2.75%	5.46%	26,901	$5,189,679,456
Tarrant	TX	602,260	10.06%	7.12%	43,741	$5,132,922,792
Market Totals		**4,898,160**	**2.81%**	**5.21%**	**256,759**	**$55,043,039,071**

Market Opportunity Zone (County)	State	2007 Purchase Mortgage Density ($ per 1,000 households)	Mortgage Velocity Index (MVI)	Mortgage Opportunity Index (MOI)	2007 Projected Average Loan Size	2011 Projected Average Loan Size
Kings	NY	$6,726,904	0.38	0.58	$317,444	$346,687
San Francisco	CA	$17,964,334	0.59	1.56	$540,504	$592,305
Dallas	TX	$6,818,872	0.94	0.58	$130,625	$131,790
Prince George's	MD	$18,333,960	1.66	1.59	$200,725	$218,581
Fulton	GA	$17,817,419	1.60	1.51	$197,906	$197,108
Hennepin	MN	$11,784,555	1.03	1.01	$205,679	$217,323
Bergen	NJ	$15,465,298	0.82	1.34	$339,349	$370,602
Westchester	NY	$15,086,003	0.72	1.31	$377,821	$413,186
Oakland	MI	$10,538,971	0.98	0.90	$192,917	$196,859
Tarrant	TX	$8,360,934	1.32	0.71	$117,349	$118,273
Market Totals		**$11,160,637**	**0.94**	**0.96**	**$214,377**	**$226,142**

SOURCE: THE IEMERGENT GROUP

Figure **6** **Mortgage Lending Opportunities by Income in Well-Known Markets**

		2007 Projected Purchase Loans (#)					
Market Opportunity Zone (County)	**State**	**Low Income ($15,000–($34,999)**	**Moderate Income ($35,000–$49,999)**	**Middle Income ($50,000–$99,999)**	**Upper Income ($100,000–$149,999)**	**High Income ($150,000+)**	**Total**
Alameda	CA	66	470	10,097	13,867	9,854	34,355
Sacramento	CA	356	2,725	27,558	12,858	5,399	48,896
San Bernardino	CA	1,065	5,679	40,254	16,270	6,728	69,995
Santa Clara	CA	44	436	10,051	16,280	13,517	40,307
Palm Beach	FL	1,554	4,890	17,027	7,374	6,351	37,195
Middlesex	MA	409	1,960	12,727	7,443	4,901	27,441
Cuyahoga	OH	3,840	5,664	8,021	2,116	1,319	20,960
Allegheny	PA	2,670	3,784	2,479	2,198	1,321	12,452
Philadelphia	PA	3,331	4,787	2,495	2,137	1,104	13,854
Bexar	TX	4,027	7,371	4,494	4,250	2,254	22,396

		2007 Projected Purchase Mortgage Opportunity ($)					
Market Opportunity Zone (County)	**State**	**Low Income ($15,000–($34,999)**	**Moderate Income ($35,000–$49,999)**	**Middle Income ($50,000–$99,999)**	**Upper Income ($100,000–$149,999)**	**High Income ($150,000+)**	**Total**
Alameda	CA	$10,335,312	$84,556,555	$2,884,248,735	$5,242,818,352	$5,545,444,682	$13,767,403,637
Sacramento	CA	$55,225,097	$471,887,258	$6,077,645,818	$3,724,087,867	$2,047,724,888	$12,376,570,928
San Bernardino	CA	$117,237,334	$759,405,970	$7,627,872,438	$4,528,290,933	$2,574,684,661	$15,607,491,336
Santa Clara	CA	$11,801,049	$80,924,646	$2,970,271,391	$6,617,816,541	$8,539,664,172	$18,220,477,800
Palm Beach	FL	$166,698,148	$660,928,966	$3,270,341,075	$2,040,113,582	$3,222,828,753	$9,360,910,525
Middlesex	MA	$55,866,793	$318,312,945	$2,942,758,815	$2,293,116,924	$2,441,403,778	$8,051,459,255
Cuyahoga	OH	$318,530,481	$567,876,672	$1,047,177,892	$436,801,115	$464,971,059	$2,835,357,219
Allegheny	PA	$177,781,100	$322,889,409	$518,103,400	$404,744,202	$405,018,268	$1,828,536,379
Philadelphia	PA	$267,451,235	$518,989,204	$653,618,878	$450,338,569	$406,854,240	$2,297,252,126
Bexar	TX	$282,858,588	$637,022,820	$824,676,153	$656,898,555	$553,605,717	$2,995,061,833

SOURCE: THE IEMERGENT GROUP

he supposedly replied, 'Other players go to where the puck is. I go to where the puck is going to be. That's why I score more.' The same is true of competing in the mortgage business," Gamache says.

Many experienced mortgage professionals believe they already possess a good "feel" for the size of the lending opportunity in their markets, as well as a sense of which markets are growing or slowing—simply by analyzing last year's loan counts, or through intuition alone. Figure 4 illustrates some of the simple-but-surprising dynamics of well-known metro counties.

Although the number of households in each county shown is between about 500,000 and 600,000, some markets have a healthy projected net household growth rate over the next five years, while others will experience negative growth. Individual PMCRs differ widely across markets, and the MVI numbers show how one county (such as San Bernardino County, California) will grow in purchase mortgages at twice the speed of another (Bexar County, Texas).

The variance in these indicators explains why the projection of purchase mortgage loans across these similarly sized markets varies from a low of 16,639 to a high of 65,711. Thus, if lenders depend only on household counts, household growth rates and intuition to find the best lending opportunities over the next five years, they are likely to end up with inefficient and unbalanced growth as well as a poor position.

Figure 5 takes an alternative look at primary markets. Each of the counties listed will generate approximately $5 billion to $6 billion in purchase mortgages this year, yet have vastly different household growth rates, PMCRs, MVIs and projected average loan sizes. The Purchase Mortgage Density (PMD) metric represents the mortgage dollar amount generated per 1,000 households in that market.

PMD makes it easy to compare mortgage densities across markets of varying physical and/or population sizes. Because markets that generate a higher density of dollars are particularly attractive to loan originators, referral sources and distribution channels, detailed information such as the data shown in these figures is essential for allocating resources and determining growth plans.

The same market metrics are used to analyze and compare mortgage lending opportunities in different consumer segments within the same geographic markets. The variance in

Figure **7**	**Fast Growing Hispanic Mortgage Lending Markets**							
Market Opportunity Zone (County)	**State**	**2006 Households (#)**	**2006–2011 Projected Growth**	**2007 Projected PMCR**	**2007 Projected Purchase Loans (#)**	**2007 Projected Purchase Mortgage Opportunity**	**2007 Purchase Mortgage Density** ($ per 1,000 households)	**Mortgage Velocity Index (MVI)**
Prince William	VA	22,608	65.88%	34.75%	8,693	$2,043,889,309	$90,403,957	7.60
Loudoun	VA	8,866	70.67%	34.61%	3,414	$935,182,641	$105,481,870	7.66
Lee	FL	32,808	47.27%	19.26%	6,827	$1,029,526,491	$31,380,436	4.01
Prince George's	MD	32,249	32.90%	20.84%	7,114	$1,336,667,771	$41,448,903	4.16
St. Lucie	FL	11,485	46.19%	22.96%	2,844	$498,678,688	$43,420,755	4.76
Will	IL	27,658	49.30%	15.96%	4,784	$771,880,677	$27,908,450	3.34
Frederick	MD	3,506	51.30%	35.41%	1,349	$284,003,137	$81,002,785	7.45
Riverside	CA	256,280	25.72%	13.13%	35,236	$8,090,997,792	$31,570,928	2.56
Osceola	FL	32,039	48.59%	13.98%	4,847	$703,051,917	$21,943,513	2.92
Stafford	VA	2,428	60.73%	36.86%	984	$231,233,554	$95,239,394	7.95
Manassas City	VA	3,169	40.74%	36.88%	1,251	$259,605,355	$81,914,781	7.54
Spotsylvania	VA	2,102	64.11%	40.58%	942	$198,453,000	$94,396,383	8.83
Broward	FL	156,071	28.46%	11.94%	19,598	$3,780,862,057	$24,225,261	2.35

SOURCE: THE IEMERGENT GROUP

Figure **8**	**Dallas–Fort Worth Metro Market Comparisons**										
Rank by Speed of Growth	**Market Opportunity Zone (County)**	**State**	**2006 Households (#)**	**2006–2001 Projected Growth**	**2007 Projected PMCR**	**Projected Purchase Loans (#)**	**2007 Projected Purchase Mortgage Opportunity**	**Three-Year Purchase Potential**	**2007 Purchase Mortgage Density** ($ per 1,000 households)	**Mortgage Velocity Index (MVI)**	**Loan to Lender Ratio**
6	Tarrant	TX	602,260	10.06%	7.12%	42,741	$5,132,922,792	$15,935,401,357	$8,360,934	1.32	85.6
8	Dallas	TX	831,058	3.23%	5.22%	43,660	$5,703,022,389	$17,531,262,164	$6,818,872	0.94	86.7
2	Collin	TX	250,534	22.95%	10.95%	28,599	$4,113,077,807	$12,850,853,390	$15,752,683	2.12	61.5
3	Denton	TX	206,505	19.88%	10.71%	22,932	$3,178,533,667	$9,979,469,678	$11,843,862	2.05	52.3
1	Rockwall	TX	21,642	28.32%	15.97%	3,633	$502,829,091	$1,624,943,812	$22,103,657	3.14	13.0
5	Ellis	TX	44,708	14.65%	7.75%	3,560	$418,845,910	$1,336,902,415	$9,115,788	1.46	13.4
4	Kaufman	TX	30,838	17.53%	8.78%	2,797	$325,556,884	$1,055,361,935	$10,221,413	1.67	11.4
9	Johnson	TX	51,462	13.14%	4.66%	2,456	$255,999,720	$792,360,131	$4,853,216	0.87	11.0
7	Parker	TX	37,243	14.42%	5.87%	2,245	$316,762,324	$1,005,586,237	$8,279,202	1.10	10.0
11	Hunt	TX	31,061	6.31%	3.05%	960	$102,307,725	$316,909,990	$3,253,705	0.56	5.1
10	Wise	TX	20,039	11.41%	3.83%	785	$94,917,059	$298,595,465	$4,635,359	0.71	4.5
12	Delta	TX	2,208	4.57%	1.21%	27	$2,061,851	$6,085,274	$925,501	0.22	0.8
	Market Tools		**2,129,558**	**10.36%**	**7.13%**	**155,394**	**$20,146,837,218**	**$62,733,731,848**	**$9,241,911**	**1.32**	

SOURCE: THE IEMERGENT GROUP

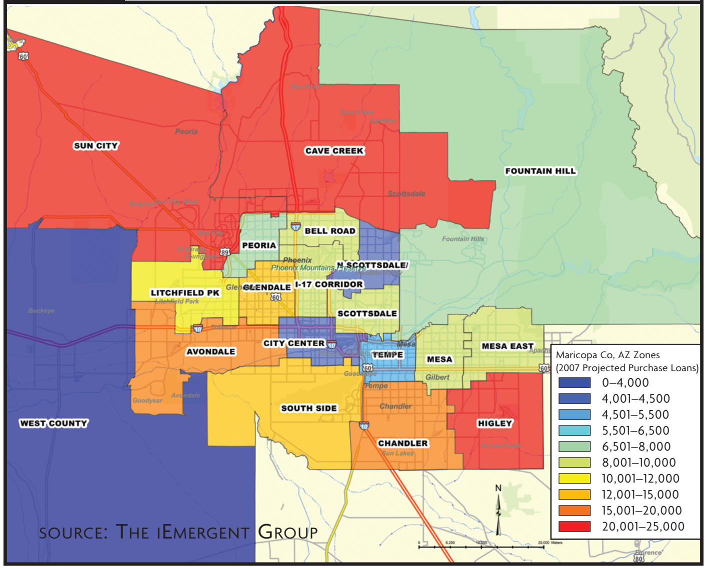
concentration for different segments and markets can be startling. For example, Figure 6 displays the projected distribution of purchase mortgage loans and dollars for five income ranges within and across 10 counties. Figure 7 quantifies the size and speed of some of the fastest-growing Hispanic mortgage markets in the United States.

Knowing the details of market segments helps lenders apply the appropriate lending models, sales force and volume objectives to their markets, making it easier to maintain volume at an acceptable level of risk.

Comparing metro markets throughout the United States is vital to informed growth decisions, such as configuration changes and branch placement. But even more enlightening are comparisons between counties within a single large metro market.

In Figure 8, the Dallas–Fort Worth metro market consists of

Figure **9** **2007 Projected Purchase Loans by Zone—Maricopa County, Arizona**



SOURCE: THE iEMERGENT GROUP

12 counties, sorted from largest to smallest by projected loan volumes. The disparity in mortgage density levels within the same metro markets often surprises local managers, as do the wide variations in PMCR and MVI.

Competition metrics, such as loan-to-lender and loan-to-broker ratios, help managers prioritize markets, concentrate their efforts, allocate resources, assign sales objectives and target their sources. These quantifiable indicators expose market dynamics that intuition alone could not uncover.

Finally, useful market intelligence must probe more deeply into diverse and high-density communities in big markets, such as Phoenix (see Figure 9). By constructing individual mortgage zones (such as Avondale, Scottsdale, City Center, etc.) within Maricopa County, local managers are able to pinpoint and compare high-density and fast-growing pockets of lending opportunities. Figure 10 illustrates the diversity of communities within the Phoenix metro area.

The Avondale and Higley zones have maintained some of the highest PMCR, PMD and MVI levels in the nation over past years and will continue to do the same in the future, while other zones (such as Scottsdale, Mesa and Glendale) have stabilized at modest levels similar to other U.S. metro markets. Business leaders making critical growth decisions need this type of precise information to guide their plans and strategies.

The bottom line: How knowledge improves balance

Improved intelligence about primary markets by itself will not make the decisions for lenders. However, it directly informs, improves and guides the business decisions lenders must make to stay balanced, move ahead and achieve their performance goals.

Would the current situation have turned out differently for certain mortgage lenders if they had focused equally on primary and secondary markets? Yes. Perhaps the gold-rush mentality of the 2001–2005 boom years would have been tempered by more balanced plans for sustainable growth and improved performance.

There are countless ways to acquire, distribute and apply more precise market intelligence to improve overall lending performance—directly and indirectly. Detailed knowledge of primary markets is fundamental to setting volume goals, allocating resources, reducing sales-force turnover, creating expansion strategies, assessing market position and evaluating long-term performance.

There are multitudes of sources and varieties of detailed market intelligence, so business leaders today can be fully

Figure **10** **Phoenix Metro Market Details by Zone**

Maricopa County, Arizona, Mortgage Opportunity Zones (MOZ)

Rank by Speed of Growth	Market Opportunity Zone (MOZ)	2006 Households (#)	2006–2011 Projected Growth	2007 Projected PMCR	2007 Projected Purchase Loans (#)	2007 Projected Purchase Mortgage Opportunity	2007 Purchase Mortgage Density (# per 1,000 households)	2007 Purchase Mortgage Density ($ per 1,000 households)	Mortgage Velocity Index (MVI)
7	Sun City	111,202	19.18%	21.34%	24,573	$3,756,419,223	221	$33,780,141	4.07
4	Cave Creek	70,481	26.39%	28.76%	21,245	$6,164,249,048	301	$87,459,727	5.63
2	Higley	51,934	38.78%	36.86%	20,439	$3,720,272,933	394	$71,634,631	7.49
8	Chandler	116,708	17.78%	15.18%	18,302	$3,342,138,078	157	$28,636,752	2.88
1	Avondale	37,731	39.06%	41.05%	16,545	$2,393,498,036	438	$63,435,849	8.35
6	South Side	59,534	15.19%	22.82%	13,974	$2,283,017,204	235	$38,348,124	4.30
12	Glendale	107,271	3.22%	11.55%	12,472	$1,250,783,701	116	$11,660,036	2.08
5	Litchfield Park	40,614	26.50%	25.85%	11,004	$1,688,798,389	271	$41,581,681	5.06
14	Bell Road	90,255	7.52%	10.27%	9,401	$1,364,225,935	104	$15,115,239	1.88
15	Scottsdale	96,398	5.31%	9.65%	9,396	$1,728,123,099	97	$17,926,960	1.75
10	Mesa East	67,993	10.72%	12.94%	8,977	$1,395,440,571	132	$20,523,298	2.40
16	Mesa	90,865	7.13%	9.54%	8,789	$1,216,851,060	97	$13,391,857	1.75

SOURCE: THE iEMERGENT GROUP

informed about each of their primary markets. The lenders that were focused on both ends of the continuum throughout the past six years have suffered fewer of the major internal upheavals experienced by many of their competitors.

Some lenders are now taking advantage of changing conditions to grow aggressively. If those "buy-the-market" lenders aren't careful, they will eventually have to face the consequences of being out of balance.

Astute lenders combine strong secondary-market relationships and expertise with a detailed understanding of primary markets. This approach positions them to sustain their growth, accelerate performance and gain power in both markets.

Sterling Edmonds, chief executive officer of SunTrust Mortgage, Richmond, Virginia, understands the importance of achieving balance in the mortgage continuum. "The latest market disruptions are not so subtle a reminder of how delicate the balance is, whatever your lending model and regardless of your distribution channel," he says. "Balancing conforming, jumbo, nonconforming, CRA [Community Reinvestment Act], FHA and diversity lending objectives isn't easy, but is fundamental. With a swing to agency/government lending, competition for high-quality, conforming loans will intensify. If you're out of position and your lending strategies are not matched to your source markets or to secondary-market conduits, the potential for future disruption rises."

The expansion, distribution and application of detailed mortgage lending forecasts, market behaviors and competitive-position scores can help keep loan officers and managers connected to their organizations' goals. However, when mortgage bankers become myopic "mortgage merchants" as opposed to balanced mortgage bankers, their out-of-balance approach worsens the effects of the market's conditions on performance.

Solutions to the current housing and mortgage "crises" will continue to be debated, supported, opposed and modified. Credibility will continue to be an issue, and resistance to external controls and new solutions will ring hollow if the industry regards primary market intelligence as largely irrelevant to its business practices.

Detailed market intelligence is not a silver bullet that will guarantee success. But for lenders that want to sustain performance and grow their franchises despite business-cycle volatility, market intelligence is fundamental to improving their balance along the mortgage continuum.

Whatever direction the industry takes in the months and years ahead, lenders of all sizes, strategies and positions need to be focused on both ends of the continuum—for their own good, for their markets' good and for the good of the industry. **MB**

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