FINDING OPPORTUNITY ZONES

BY DENNIS HEDLUND

Market forecasting and ranking tools that allow lenders to dial down into housing market metrics could really help identify hot markets in today's chilly production environment.

During the turbulent times and economic hardship of the post–World War I and Great Depression eras, the American humorist Will Rogers remarked, "I never yet met a man I didn't like." People were struggling to find anything positive about the conditions they faced, so the optimism of that quote made it instantly resonate with many Americans. ❄ Eventually, Rogers felt the same way about places and activities. He seemed to find something likeable about wherever he lived and whatever he was doing. Despite witnessing spectacular successes and failures—including the blunders, duplicity and indifference of the world's most powerful leaders—Rogers believed each person possessed traits and behaviors worthy of appreciation and respect. ❄ What would Will Rogers say today about our mortgage lending troubles? What would he think if he were observing our industry? How would he regard the behavior of industry leaders and the impact that the latest housing downturn has had on American communities? What would that plain-spoken truth-teller have to tell us? ❄ The upheaval and disruptions that have plagued the housing and mortgage industries over the past 18 months have turned the American dream of homeownership, in some cases, into an American nightmare. The mortgage meltdown continues to affect the pocketbooks of many Americans, as it crushes confidence in tomorrow, dramatically deflates home values across the country and infects the global economy with a deadly credit virus. The latest earnings reports and warnings indicate that economic uncertainty and market upheaval are not going away any time soon.

As we consider the situation, we should think about Will Rogers and his optimism. What would he find to like about today's situation? While it's true that leadership weakness, unchecked opportunism and conspicuous consumption have contributed to the current crisis, we must frame our perspective with an eye toward treating communities and people with great respect.

If he were alive today, what would Rogers say about the current situation? He might just say that he never met a mortgage market he didn't like, because opportunity is always out there in some form or another. But he might temper that optimism with a caution that temptations also come when big money is too easy to make. It seems mortgage lenders could learn a lot from Will Rogers.

Lending opportunities are always shifting–in good times and bad.

National or niche?

Conventional wisdom may foresee greater industry consolidation and commoditization as being inevitable. It assumes that big banks will get bigger, control funding and inexorably drive out smaller competitors. On the surface, this thinking may seem correct, as some big lenders report significant gains in market share this year. But how much of that gain is organic, and how much is due to the pullback and failure of competitors?

Many big, multi-market lenders are reorganizing, closing channels, centralizing authority and grabbing what appear to be the good loan officers and account executives while shedding the bad ones. While bigness creates scale economies—especially on the secondary markets and loan servicing side—it also creates scale liabilities. Those include: greater complexity, unruly structures and the incessant pursuit of operational efficiency to offset the costs of complexity.

The resulting need for more loans causes day-to-day transaction volumes to take precedence over other important performance drivers. Sales and sourcing efficiencies in local homebuyer markets are overlooked as short-term volume goals define lending priorities and behaviors.

Local idiosyncrasies and the shifting opportunities inside individual markets and communities are ignored in favor of new incentive plans to attract more loan originators, pump out more volume and capture national market-share bragging rights.

These challenges are the weaknesses that smaller regional and niche lenders should be able to exploit. Yet, rather than leverage their local relationship advantages, some medium-sized and smaller lenders and community banks are pulling back, reducing services, shrinking their footprints, minimizing sources and slashing operating costs to survive or be acquired by another lender that will let them remain independent.

Inexplicably, they follow some of the same obsessions as their larger rivals, and ignore the shifts in local markets. They do this not because they are too far removed from their markets, but because they presume: "We've been lending in our markets for many years and know all we need to know to be successful."

But there are some highly focused firms that are taking advantage of the weaknesses of larger lenders. Targeted, fact-based and information-rich competitors find niche opportunities (segments, communities and neighborhoods) that big competitors ignore, don't notice or can't anticipate.

Competition is inherently local, even for Internet lenders, so both big lenders and local mortgage bankers must be able to "out-local" each other. A senior executive at one of the nation's largest lending institutions says, "All markets behave the same way, because homeownership and home-financing needs are the same everywhere. Market differences are insignificant to executing our strategies."

Local niche lenders (who know otherwise) salivate when they hear such talk.

Market volatility creates challenges that organizations will struggle to handle as a result of narrowed vision if they ignore new market metrics, the details of long-term lending dynamics and future home-buying trends in their markets. Success requires lenders of all sizes to become students of their homebuyer markets and to re-establish resilient conduits into local markets—and stronger referral relationships with sources that provide consistent access to the types of homebuyers they seek.

Lending opportunities are always shifting—in good times and bad. Opportunity still exists today, despite national economic turmoil.

National or niche, I've never met a market I didn't like. I've also never met a lender without an excellent chance of succeeding—if it were and is willing to expend more energy seeking new pockets of opportunity and innovate new sourcing strategies to reach homebuyers more efficiently.

The big picture—back to normal?

iEmergent's 2008 U.S. mortgage loan forecast projects $856.2 billion (4.8 million loans) of owner-occupied purchase volume and $101.7 billion (0.65 million loans) of non-owner-occupied purchase volume. Our forecast calls for total purchase volume of $957.9 billion plus refinance volume in the $1 trillion range (51 percent of total volume). That adds up to a total U.S. lending opportunity of $1.97 trillion this year.

iEmergent's forecasts are built from the ground up, incorporating both long-term lending histories of individual communities and counties combined with the impact of current circumstances. These 2008 projections show a 25 percent drop in purchase origination dollar volume from 2007. The forecast also anticipates an 18 percent to 20 percent reduction in refinance volume for 2008. The outlook anticipates national volume will most likely deteriorate further before it starts to stabilize.

But with 5.5 million purchase loans and at least 5.3 million

Figure 1 **2008–2012 Mortgage Opportunity and Market Velocity Comparison—PART A**
Owner-Occupied Purchase Loans by County (Selected Counties Only)

County	State	CBSA Name	2007 Households (#)	2007–2012 Projected Household Growth	2008 Projected PMCR	2008 Projected Purchase Units (#)	2008 Projected Purchase Dollars	2008 Purchase Mortgage Density Units (#)	2008 Purchase Mortgage Density Dollars
Hillsborough	FL	Tampa–St. Petersburg–Clearwater, FL	473,925	13.86%	5.66%	27,528	$4,388,802,903	84	$13,451,422
Paulding	GA	Atlanta–Sandy Springs–Marietta, GA	46,496	37.39%	11.05%	5,473	$670,117,600	127	$15,568,363
Sedgwick	KS	Wichita, KS	185,734	3.56%	4.42%	8,263	$850,084,227	65	$6,688,369
Essex	MA	Boston-Cambridge-Quincy, MA-NH	286,347	2.95%	4.26%	12,264	$2,938,137,443	65	$15,590,358
Kalamazoo	MI	Kalamazoo-Portage, MI	99,798	3.63%	3.98%	4,003	$511,670,241	60	$7,649,212
Dakota	MN	Minneapolis–St. Paul–Bloomington, MN-WI	154,272	11.30%	6.37%	10,043	$1,826,646,318	80	$14,592,258
Durham	NC	Durham, NC	103,282	8.36%	4.59%	4,816	$675,591,293	82	$11,561,552
Essex	NJ	New York–Northern New Jersey–Long Island, NY-NJ-PA	289,570	1.29%	3.00%	8,699	$2,300,828,634	61	$16,155,096
Franklin	OH	Columbus, OH	469,558	4.49%	4.54%	21,496	$3,029,163,047	75	$10,616,305
Clackamas	OR	Portland-Vancouver-Beaverton, OR-WA	140,217	7.48%	4.89%	6,960	$1,366,211,673	67	$13,118,786
Travis	TX	Austin–Round Rock, TX	379,567	10.71%	5.22%	20,236	$3,009,120,366	97	$14,495,886
Fairfax	VA	Washington-Arlington-Alexandria, DC-VA-MD-WV	379,804	4.55%	7.61%	29,148	$8,427,831,875	107	$30,907,371

SOURCE: iEMERGENT

refinance loans to be originated in 2008, it's still a market to like. This is especially true for lenders that know how much lending opportunity will occur in their markets and how much of it they want to attract.

Purchase Mortgage Conversion Rates (PMCRs) represent the annual rate at which individual markets generate purchase mortgages. They are the primary drivers of iEmergent's mortgage volume forecasts and market metrics (see Figure 1—Part A).

The PMCR combines demographic trends, migration in/out patterns, new construction data and loan origination histories, as well as household growth, homeownership and housing turnover rates into a simple usable metric. PMCRs, expressed as percentages, reflect historical home-buying behaviors in individual markets, communities and homebuyer segments.

There is a strong correlation between PMCRs and mortgage lending opportunities in the United States. Prior to its 2002–2005 acceleration to approximately 5.3 percent, the national PMCR had been relatively stable. It had slowly risen throughout the 1980s and 1990s from 3.5 percent to 4.1 percent by 2000, with a few minor hiccups along the way.

Mirroring a classic boom-bust-recovery cycle (such as those that occurred in the telecom, energy and dot-com industries), we witnessed a PMCR slide that began in 2006, accelerated throughout 2007, and may continue to drop even lower though 2008 (below 4.2 percent), possibly reaching 4 percent in 2009 and 2010.

Like the recoil of a rubber band, the national PMCR's reaction to the run-up of 2002–2005 will overshoot its long-term trend line on the way down before it stabilizes and turns upward once again.

For most mortgage industry professionals, the behavior of the national PMCR and the amount of national mortgage volume forecast for 2008 is not the most crucial piece of information. Because national numbers mask underlying market opportunity, far more important are the volume, details and dynamics within local homebuyer communities.

Experienced sales managers should be able to answer the following questions about their markets:

- What are the expected mortgage loan volumes in different markets this year?
- Where will loan volumes bottom out?
- When will mortgage volumes recover to normal levels in different markets?
- How do we quantify (in loan units and dollar volumes) the impact of the current volatility over the next two years?
- In what direction are markets likely to head in 2009 and beyond?
- In what communities, and among which homebuyer segments, are opportunities rising?

Managers who find these answers through detailed, quantified analyses of local markets make a surprising discovery: They'll never meet a market they won't like.

Figure 1 **2008–2012 Mortgage Opportunity and Market Velocity Comparison—PART B**
Owner-Occupied Purchase Loans by County (Selected Counties Only)

County	State	2012 Potential Purchase Units (#)	2012 Potential Purchase Dollars	2008 Mortgage Velocity Index (MVI)	2008 Mortgage Opportunity Index (MOI)	2008 Purchase Average Loan Size	2012 Purchase Average Loan Size
Hillsborough	FL	39,875	$7,133,339,066	1.46	1.25	$159,433	$178,892
Paulding	GA	9,310	$1,166,595,928	3.28	2.03	$122,435	$125,308
Sedgwick	KS	10,300	$1,118,316,539	1.00	0.53	$102,872	$108,580
Essex	MA	13,495	$3,348,724,019	0.87	1.06	$239,570	$248,147
Kalamazoo	MI	4,392	$575,829,975	0.82	0.53	$127,807	$131,110
Dakota	MN	11,325	$2,164,690,783	1.35	1.26	$181,884	$191,145
Durham	NC	6,657	$961,017,853	1.13	0.81	$140,281	$144,352
Essex	NJ	13,752	$3,869,252,536	0.81	1.11	$264,489	$281,357
Franklin	OH	23,592	$3,444,713,870	0.93	0.67	$140,915	$146,012
Clackamas	OR	8,845	$1,934,116,907	1.13	1.19	$196,283	$218,671
Travis	TX	28,411	$4,411,154,262	1.31	1.00	$148,699	$155,261
Fairfax	VA	31,279	$10,442,157,073	1.54	2.43	$289,143	$333,841

SOURCE: IEMERGENT

Figure 2 **2008 Mortgage Market Opportunity Comparison—U.S. Counties**
(Weighting and Ranking Table*)

		WEIGHTS:	2.0	6.0	3.0	2.0	10.0	5.0
Priority Score Rank	County	State	2008 PMCR**	2008 Purchase Units (#)	2008 Purchase Dollars**	2008 Purchase Mortgage Density**	2008 MVI	2008 MOI
56	Hillsborough	FL	178	22	35	210	157	157
28	Paulding	GA	7	216	258	148	6	6
339	Sedgwick	KS	383	145	222	621	414	414
384	Essex	MA	427	90	63	146	566	566
527	Kalamazoo	MI	505	282	312	527	649	649
101	Dakota	MN	126	115	117	169	203	203
221	Durham	NC	338	242	256	287	303	303
510	Essex	NJ	853	138	93	127	653	653
285	Franklin	OH	351	35	58	343	474	474
194	Clackamas	OR	279	173	152	221	305	305
90	Travis	TX	230	42	59	172	216	216
72	Fairfax	VA	51	18	16	17	134	134

*Note: This table shows only the ranking and scores of 12 selected counties.
** Ranking among 3,141 U.S. counties

SOURCE: IEMERGENT

What lies beneath—local market examples

While we called on the wisdom of Will Rogers earlier in this article, another wise 19th-century American shared some insights that are equally applicable today. “The trouble with the world is not that people know too little, but that they know so many things that ain’t so,” goes a quote attributed to Mark Twain.

One would have to agree this is still a vexing problem, and it certainly applies to what people think they know about local housing markets.

By selecting 12 very different counties and comparing their lending opportunities, we can illustrate how local markets possess unique histories, behaviors and trends (see Figure 1—Parts A and B). Each of these 12 chosen counties is contained within one of the 366 major metropolitan statistical area (MSA) markets in the United States. However, none is a market frequently mentioned in national news items or feature stories.

Metrics for these markets, such as the number of households, net household growth rates, PMCRs and Purchase Mortgage Densities (PMDs) vary widely. Together, these counties represent a combined opportunity of 159,000 loans and $30 billion in production.

So, if they fell within the footprint of a multi-state lender,

Figure 3 Mortgage Opportunity Projections by Income Ranges, by County (Selected Counties)

County	State	LOW INCOME ($15,000–$34,999) PURCHASE: 2008 Projected Purchase Units (#)	LOW INCOME ($15,000–$34,999) PURCHASE: 2008 Projected Purchase Dollars	MODERATE INCOME ($35,000–$49,999) PURCHASE: 2008 Projected Purchase Units (#)	MODERATE INCOME ($35,000–$49,999) PURCHASE: 2008 Projected Purchase Dollars
Hillsborough	FL	1,545	$141,353,408	5,049	$546,646,306
Paulding	GA	616	$57,629,577	1,152	$121,641,823
Sedgwick	KS	1,535	$99,911,702	1,771	$148,892,617
Essex	MA	205	$23,843,931	1,004	$147,147,065
Kalamazoo	MI	558	$42,406,446	813	$75,606,722
Dakota	MN	368	$44,183,031	1,450	$199,013,254
Durham	NC	465	$42,771,319	1,109	$125,657,900
Essex	NJ	64	$7,894,143	413	$59,466,161
Franklin	OH	2,751	$228,904,238	4,903	$516,951,003
Clackamas	OR	183	$19,301,177	904	$113,892,548
Travis	TX	972	$85,658,296	2,947	$284,425,377
Fairfax	VA	90	$12,955,606	574	$91,355,075
Market Totals		9,352	$806,812,874	22,088	$2,430,695,851

County	State	MIDDLE INCOME ($50,000–$99,999) PURCHASE: 2008 Projected Purchase Units (#)	MIDDLE INCOME: 2008 Projected Purchase Dollars	UPPER INCOME ($100,000–$149,999) PURCHASE: 2008 Projected Purchase Units (#)	UPPER INCOME: 2008 Projected Purchase Dollars	HIGH INCOME ($150,000+) PURCHASE: 2008 Projected Purchase Units (#)	HIGH INCOME: 2008 Projected Purchase Dollars
Hillsborough	FL	12,524	$1,825,408,316	4,532	$947,740,310	2,880	$967,160,579
Paulding	GA	2,244	$291,582,626	570	$99,749,524	152	$30,956,231
Sedgwick	KS	3,255	$357,809,985	848	$138,060,782	382	$94,688,976
Essex	MA	5,409	$1,094,781,219	2,899	$776,427,352	1,811	$801,235,276
Kalamazoo	MI	1,689	$211,905,829	528	$97,524,521	257	$74,855,994
Dakota	MN	4,717	$806,436,470	1,679	$392,203,766	888	$283,667,340
Durham	NC	2,206	$299,695,764	653	$120,654,767	311	$95,607,859
Essex	NJ	4,227	$847,620,936	2,290	$608,424,508	1,772	$818,905,407
Franklin	OH	8,757	$1,218,138,070	2,681	$551,399,841	1,643	534,606,369
Clackamas	OR	3,662	$597,572,398	1,406	$337,536,179	1,047	$417,741,139
Travis	TX	8,536	$1,013,049,486	4,047	$676,248,590	3,541	$1,054,233,298
Fairfax	VA	9,748	$2,160,150,709	8,628	$2,582,423,303	7,485	$3,496,289,438
Market Totals		66,974	$10,724,151,807	26,230	$7,328,393,442	22,169	$8,669,947,906

SOURCE: iEMERGENT

which markets should be its highest priority, and why?

By combining the metrics, focused lenders are able to determine the number of loan origination resources that make sense for the market, set clear volume objectives and quantify their sales efficiency expectations. So contrary to Twain's observation, what they would know, would actually be so.

New metrics: PMCR, PMD, MVI and MOI

Before prioritizing these markets, it is important to examine the various metrics that quantify the size of a lending opportunity, density and growth speed (see Figure 1—Parts A and B). The 2008 PMCR in these counties is considerably lower than it was in 2007 and 2006, with some dropping more than others below the long-term trend lines.

Paulding County, Georgia (a suburban county located west of Atlanta), has the highest PMCR of the group of 12 counties listed in Figure 1—Part A. This county has a projected 2008 PMCR of 11.05 percent (possibly as a result of its relatively small household numbers and its rapid five-year household growth projections).

The PMD (Purchase Mortgage Density) metric compares the number of loan units and dollars to be generated within each market per every 1,000 homeowners. This metric facilitates an accurate comparison of densities between markets of different sizes. The national average for PMD is 62 units/$11.3 million. Once again, Paulding County has the highest PMD in the group.

The market with the second-highest 2008 PMCR of the 12 in the figure is Fairfax County, Virginia, which is a fully developed county with a net household growth rate close to the national average. Despite the differences in growth rates, household

Figure **4** **Mortgage Opportunity Projections by Loan Amount Ranges, by County (Selected Counties)**

		MIDDLE LOAN AMOUNT ($150,000–$274,999) PURCHASE		UPPER LOAN AMOUNT ($275,000–$416,999) PURCHASE		HIGH LOAN AMOUNT ($417,000+) PURCHASE	
County	State	2008 Projected Purchase Units (#)	2008 Projected Purchase Dollars	2008 Projected Purchase Units (#)	2008 Projected Purchase Dollars	2008 Projected Purchase Units (#)	2008 Projected Purchase Dollars
Hillsborough	FL	8,521	$1,642,169,542	2,047	$659,106,580	802	$493,270,963
Paulding	GA	1,260	$232,272,604	134	$42,543,966	8	$4,328,888
Sedgwick	KS	863	$160,771,891	148	$46,657,855	33	$17,842,607
Essex	MA	4,173	$889,799,436	2,937	$948,037,367	861	$517,223,426
Kalamazoo	MI	806	$150,798,028	163	$52,294,155	46	$26,371,090
Dakota	MN	4,869	$951,022,745	995	$319,502,741	175	$93,723,449
Durham	NC	1,542	$287,513,718	173	$54,820,148	55	$35,168,294
Essex	NJ	3,369	$712,180,913	2,429	$798,840,497	934	$577,238,327
Franklin	OH	5,767	$1,082,670,299	953	$307,326,825	327	$212,969,046
Clackamas	OR	3,010	$600,028,969	885	$288,136,813	417	$256,340,507
Travis	TX	4,940	$951,467,194	1,222	$396,842,917	645	$426,772,829
Fairfax	VA	5,337	$1,167,770,483	8,303	$2,764,898,932	3,979	$2,351,523,337
Market Totals	12	44,457	$8,828,465,823	20,387	$6,679,008,795	8,283	$5,012,772,764

SOURCE: IEMERGENT

counts, PMCRs and total volumes, these two counties are generating close to the same number of purchase loans per 1,000 homeowners. It's also interesting to note that the 12 selected counties featured on Figure 1—Part A all possess attractive PMDs.

Figure 1—Part B illustrates two additional but crucial metrics: the Mortgage Velocity Index (MVI) and the Mortgage Opportunity Index (MOI). These indexes are used to compare the projected rates of growth for purchase mortgage units (MVI) and purchase mortgage dollars (MOI) over five years (2008–2012).

The base of each index is 1.0, and represents the national U.S. rate of mortgage growth calculated for a previous five-year period. The MOI ($) is dependent on the behavior of projected loan sizes in each market during the five-year span.

Based on their MVIs, all 12 counties in Figure 1—Part B are slightly below to above the national growth rate in purchase mortgages. Their MOIs show a wider dispersion, due to their loan sizes and histories.

Long-term trends in average loan size are also unique to each market and are used to project the dollar volume, although the average loan sizes and median housing prices do not track in tandem. Paulding County, Georgia, again proves to be a good example of this, with a much higher MVI (units) than MOI ($), as the MOI is dampened by the modest loan-size growth rate that is projected.

So how are these various metrics combined to make decisions about the attractiveness and opportunity that any individual housing market holds for a particular lender? iEmergent has developed a Priority Score Rank metric to help isolate the attractiveness of various housing markets. The first column in Figure 2 displays how our selected 12 counties compare in terms of their Priority Score Rank, based on weighted calculations of the market metrics shown.

Figure 2 exhibits how each variable is assigned a value weight based on its importance in defining and prioritizing the attractiveness of each market. In this example, the high relative weight assigned to MVI places the greatest importance on the speed of growth in a market and the second highest importance on total purchase unit volume.

Sales managers shouldn't stop comparing markets once they've prioritized them by the size of the lending opportunity, density and growth speed.

Paulding County, Georgia, emerges as No. 1 in this group of 12 counties (ranked No. 28 against all U.S. counties), while Kalamazoo County, Michigan, was ranked last in our group of 12 (527th nationally). These priorities should trigger specific marketing, sales, location, management and support investments by individual lenders and tie directly to their lending models and market strategies.

What lies within—homebuyer segments

Sales managers shouldn't stop comparing markets once they've prioritized them by the size of the lending opportunity, density and growth speed. Comparisons of homebuyer, property, purpose and loan-type segments help to quantify the diversity of markets and help managers match and modify their lending models to the various needs of the homebuyer community.

Figure 3 illustrates each of the 12 counties partitioned into five separate income ranges. The table portrays 2008 purchase loan volumes (units/dollars) forecast for each income range in those selected markets. In all 12 counties, the middle-income range dominates mortgage lending.

Figure **5** **2008 Mortgage Opportunity by Loan Type and Property Type, by County (Selected Counties)**

		OWNER-OCCUPIED PURCHASE (ALL SEGMENTS)		NON-OWNER-OCCUPIED PURCHASE		NEW-CONSTRUCTION PURCHASE		FHA PURCHASE	
County	State	2008 Projected Purchase Units (#)	2008 Projected Purchase Dollars	2008 Projected Purchase Units (#)	2008 Projected Purchase Dollars	2008 Projected Purchase Units (#)	2008 Projected Purchase Dollars	2008 Projected Purchase Units (#)	2008 Projected Purchase Dollars
Hillsborough	FL	27,528	$4,388,802,903	5,897	$783,211,552	5,812	$899,392,344	4,139	$559,798,330
Paulding	GA	5,473	$670,117,600	425	$41,816,728	2,206	$266,231,426	1,557	$216,538,519
Sedgwick	KS	8,263	$850,084,227	785	$51,045,651	1,420	$141,385,207	1,799	$163,878,342
Essex	MA	12,264	$2,938,137,443	979	$237,251,385	704	$168,858,827	1,012	$292,087,218
Kalamazoo	MI	4,003	$511,670,241	380	$38,029,901	551	$69,135,284	610	$67,814,624
Dakota	MN	10,043	$1,826,646,318	712	$110,961,987	944	$170,025,332	1,115	$204,495,037
Durham	NC	4,816	$675,591,293	616	$59,676,099	1,332	$180,241,573	629	$86,143,138
Essex	NJ	8,699	$2,300,828,634	996	$198,777,480	250	$64,579,228	2,141	$564,953,462
Franklin	OH	21,496	$3,029,163,047	2,602	$250,424,801	2,294	$312,174,159	4,571	$615,023,644
Clackamas	OR	6,960	$1,366,211,673	706	$122,992,769	1,283	$249,246,153	573	$101,605,154
Travis	TX	20,236	$3,009,120,366	3,311	$401,922,067	3,691	$534,727,714	3,167	$422,190,231
Fairfax	VA	29,148	$8,427,831,875	2,250	$563,995,108	1,308	$374,608,636	1,752	$437,432,305
Market Totals		158,931	$29,994,205,619	19,659	$2,860,105,529	21,795	$3,430,605,881	23,066	$3,731,960,005

SOURCE: IEMERGENT

Figure **6** **2008 Mortgage Opportunity by Borrower Segment, by County (Selected Counties)**
Shown By Priority Score Rank

		OWNER-OCCUPIED PURCHASE (ALL SEGMENTS)		ASIAN PURCHASE		AFRICAN AMERICAN PURCHASE		HISPANIC PURCHASE	
Priority Score Rank	County	2008 Projected Purchase Units (#)	2008 Projected Purchase Dollars	2008 Projected Purchase Units (#)	2008 Projected Purchase Dollars	2008 Projected Purchase Units (#)	2008 Projected Purchase Dollars	2008 Projected Purchase Units (#)	2008 Projected Purchase Dollars
1	Hillsborough,FL	27,528	$4,388,802,903	909	$160,941,317	1,862	$247,951,138	4,928	$607,002,242
2	Fairfax,VA	29,148	$8,427,831,875	5,278	$1,579,628,257	1,386	$357,306,298	4,646	$1,098,823,540
3	Franklin, OH	21,496	$3,029,163,047	824	$132,072,750	2,327	$262,984,648	442	$53,058,579
4	Travis, TX	20,236	$3,009,120,366	880	$129,534,870	758	$92,309,588	3,091	$342,394,217
5	Essex, NJ	8,699	$2,300,828,634	541	$159,092,504	1,986	$395,460,171	1,657	$381,773,347
6	Essex, MA	12,264	$2,938,137,443	346	$91,401,930	325	$65,277,853	1,758	$348,474,597
7	Dakota, MN	10,043	$1,826,646,318	481	$95,572,542	301	$50,325,585	318	$51,304,829
8	Sedgwick, KS	8,263	$850,084,227	312	$32,667,945	299	$27,838,972	723	$55,502,764
9	Clackamas, OR	6,960	$1,366,211,673	279	$61,877,995	36	$7,648,028	254	$40,231,878
10	Durham, NC	4,816	$675,591,293	220	$34,478,671	1,002	$121,653,194	272	$32,480,597
11	Paulding, GA	5,473	$670,117,600	58	$7,027,565	928	$107,169,258	231	$28,082,650
12	Kalamazoo, MI	4,003	$511,670,241	70	$11,397,786	187	$19,940,933	59	$6,842,025
	Market Totals	158,931	$29,994,205,619	10,197	$2,495,694,132	11,397	$1,755,865,666	18,378	$3,045,971,265

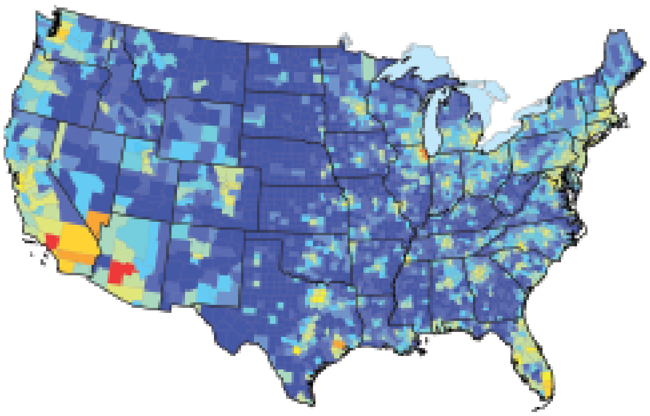
SOURCE: IEMERGENT

Closer examination shows that the bulk of lending in Fairfax County, Virginia, is distributed across the middle, upper and high-income ranges. By contrast, in Sedgwick County, Kansas, lending is concentrated at the middle, moderate and low ranges.

When matched to local Community Reinvestment Act (CRA) designations, the information contained within the low and moderate income range forecasts helps banks meet their CRA obligations and expand their community outreach commitments.

Figures 4, 5 and 6 quantify the distribution of purchase loan unit and dollars among even more specific borrower groups. Figure 4 shows lending by loan-size ranges for the 12 selected counties. With the exception of Fairfax County, Virginia, the

Figure 7 **2008 Projected Owner-Occupied Purchase Loans by County**



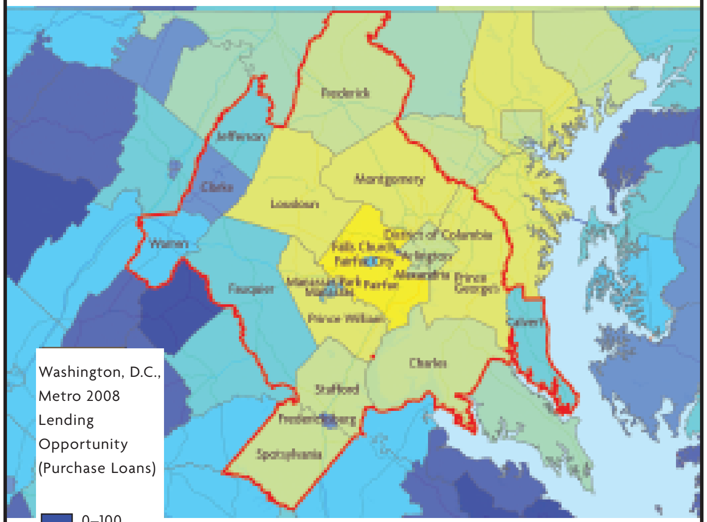
Washington, D.C., Metro—2008 Lending Opportunity Purchase Loans

0–100
101–250
251–500
501–1,000
1,001–2,000
2,001–4,000
4,001–12,000
12,001–24,000
24,001–40,000
40,001–60,000
60,001–80,000
80,001–100,000
100,001–150,000
Lakes

Projected 2008 owner-occupied purchase units: 4.8 million loans
Projected 2008 owner-occupied purchase volume: $856.2 billion
Projected 2008 non-owner-occupied purchase units: 650,000 loans
Projected 2008 non-owner-occupied purchase volume: $101.7 billion

SOURCE: IEMERGENT

Figure 8 **2008 Owner-Occupied Purchase Loans by County for Washington, D.C., MSA Counties**



0–100
101–250
251–500
501–1,000
1,001–2,000
2,001–4,000
4,001–12,000
12,001–24,000
24,001–40,000
40,001–60,000
60,001–80,000
80,001–100,000
100,001–150,000

SOURCE: IEMERGENT

data show that lending in the high to jumbo range is a relatively low portion of the purchase lending across all counties in the sample group.

Figure 5 compares owner-occupied, non-owner-occupied, new-construction and Federal Housing Administration (FHA) lending opportunities. Although reduced from 2006–2007 levels for these counties, new-construction lending in 2008 is expected to represent only 4.2 percent of Fairfax County, Virginia, purchases. Compare that with a projected 24.5 percent for Durham County, North Carolina. Sedgwick County, Kansas, could see 17.7 percent, while new-construction mortgages in Essex County, New Jersey, are likely to be a paltry 2.6 percent of the total lending opportunity.

It is helpful to further break down the lending opportunity in various micro-markets by the ethnic and racial groups of households in each specific market. The distribution of Asian, Hispanic and African-American lending opportunities in the 12 counties this article examines is shown in Figure 6.

These specific forecasts reveal that Fairfax County, Virginia, is the most diverse county for mortgage lending within this group. It generates a high volume of loans for Asian homebuyers, as well as the Hispanic and African-American segments. The data for the 12 selected counties show that within the five counties with the greatest number of households, Hispanic homebuyers generate significant portions of the purchase loans. In the other seven counties of our 12-county sample, Hispanics generate a very small percentage of all mortgages.

Once again, we used our comparison and weighting tool to compute, rank and prioritize the 12 counties based on a composite priority score. In the example shown in Figure 6, the Priority Score Rank was calculated by assigning a weight to each of the market segments in the table, with the highest value corresponding to the segment most important to a lender's strategy.

To arrive at the priority market scores for Figure 6, the highest weights were assigned to FHA, Hispanic and African-American segments, with lesser weights given to other segments. Hillsborough County, Florida, ranked the highest, and Kalamazoo County, Michigan, ranked lowest of the 12 markets.

Lenders should assign weights to different market segments in ways that match their diversity strategies, community obligations, lending strategies and loan volume objectives. As these data clearly depict, these 12 markets are appealing due to the diverse lending opportunities they offer.

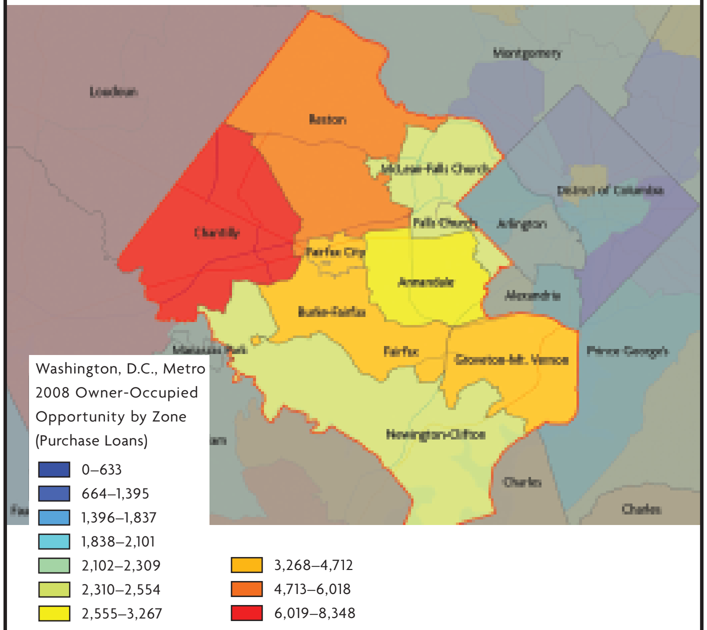
What lies deeper—from nation to neighborhood

Figure 7 depicts the distribution of owner-occupied purchase loans by county across the United States, and reveals how differently the individual markets behave within the same national forecast.

Yet it is by drilling still deeper into local communities and neighborhoods within a county that we can uncover even more positive attributes about mortgage markets. For example, markets with the complex size, dynamics, diversity and density of Fairfax County, Virginia, are the equivalent of mini-states. They require lenders to more closely examine lending details at the community level if they expect to reach homebuyers efficiently, increase their volume and profitability, and connect to the market of the future.

The map shown in Figure 8 depicts a 2008 forecast of how owner-occupied purchase mortgages are distributed within the Washington, D.C., metropolitan market. Rather than examining the MSA by its 14 counties, we've segmented it into

Figure **9** **2008 Owner-Occupied Purchase Loans by Zone for Fairfax County, Virginia, Mortgage Zones**



SOURCE: IEMERGENT

53 community zones. The density of mortgage volume in Northern Virginia communities and two counties in Maryland—Montgomery and Prince George's—remains high relative to other metro communities.

To study this market even more closely, it helps to zoom in further to examine the market dynamics at work in an even smaller subset of this market. Figure 9 shows the 2008 concentration of purchase volume that is expected in seven separate communities (mortgage zones) within Fairfax County, Virginia. Figure 10 contains the corresponding forecasts, metrics and comparisons for these seven communities (zones). The 2008 purchase volume is expected to be near or more than $1 billion in each zone.

Using the same weighting and ranking system employed for the 12 county markets previously examined, the tier rank and priority scores were calculated for each of these zones. Then they were compared with the other 46 zones in the D.C. metro market.

The 2008 volumes, PMCRs, mortgage densities and five-year mortgage growth speeds for the seven Fairfax County zones are all high relative to the surrounding metro area, and very high when compared with levels of opportunity in other parts of the United States. Given the extent of these opportunities, the only lenders that might not see the Fairfax County, Virginia, market as a market they like are lenders that are not already there.

Figure **10** **2008–2012 Mortgage Opportunity and Market Velocity Comparison for Fairfax, Virginia, Mortgage Zones***

 # OF TIERS

Tier	Priority Score Rank	Mortgage Opportunity Zone	2007 Households (#)	2007–2012 Projected Household Growth	2008 Projected PMCR	2008 Projected Purchase Units (#)	2008 Projected Purchase Dollars
Tier 1	7	Chantilly, VA	67,851	7.35%	9.44%	6,497	$1,773,442,000
Tier 1	8	Reston, VA	74,326	4.75%	8.02%	6,018	$1,929,265,882
Tier 2	14	Groveton–Mt. Vernon, VA	62,297	3.55%	7.51%	4,712	$1,217,530,464
Tier 2	16	Newington-Clifton, VA	27,623	7.51%	9.11%	2,554	$833,770,629
Tier 2	17	Burke-Fairfax, VA	54,307	3.01%	7.15%	3,905	$1,052,305,824
Tier 3	22	Annandale, VA	48,614	2.34%	6.07%	2,963	$825,836,400
Tier 3	24	McLean–Falls Church, VA	44,425	4.22%	5.67%	2,538	$934,371,825

 # OF TIERS

Tier	Priority Score Rank	Mortgage Opportunity Zone	2008 Purchase Mortgage Density Units (#)	2008 Purchase Mortgage Density Dollars	2008 MVI	2008 MOI	2008 Purchase Average Loan Size
Tier 1	7	Chantilly, VA	130	$35,559,857	1.94	2.88	$272,973
Tier 1	8	Reston. VA	108	$34,695,962	1.64	2.78	$320,579
Tier 2	14	Groveton–Mt. Vernon, VA	114	$29,406,877	1.52	2.16	$258,400
Tier 2	16	Newington-Clifton, VA	123	$40,181,159	1.91	3.44	$326,450
Tier 2	17	Burke-Fairfax, VA	88	$23,731,263	1.45	2.13	$269,457
Tier 3	22	Annandale, VA	87	$24,215,716	1.22	1.86	$278,752
Tier 3	24	McLean–Falls Church, VA	85	$31,307,894	1.15	2.30	$368,104

*Sorted by ascending Priority Score Rank
SOURCE: IEMERGENT

Back to work: Finding the right markets and a performance edge

Every market might be good for one lender and not so appealing to another. Lenders that take the time to assess the details and dynamics of their lending opportunities must ask themselves this crucial question: Which markets are right for us? As the general theory of relativity in physics explains, it's all relative. It depends on a lender's competitive footprint, market positions, priorities, product sets, channels, competitors, primary sources, past lending strategies and future direction.

The 12 counties and seven local communities we compare in this article represent only a few drops in the big bucket (10 million loans) of 2008 lending opportunities. As total lending opportunities shrink and competition intensifies, deciding which markets are the best match for a particular lender will pay off in volume, revenue, sales efficiency and market power. People are attracted to leaders, plans and decisions that combine faith with facts, so it is important to match quantifiable data with intuition.

Competition in the mortgage industry will only intensify as lenders fight for a larger share of shrinking opportunities. The kinds of facts and forecasts so vital to success in nearly all consumer-centered industries—hotels, automobiles, computers, communications, restaurants, banking, outdoor apparel, fashion, etc.—must become an essential part of everyday mortgage banking.

> Every market might be good for one lender and not so appealing to another.

For large, medium or small lenders, bringing market facts and forecasts into the mix clarifies for everyone the local markets they like and why they're critical to the success of their lending strategies and their future.

To shrivel up, worry and wait for a return to better conditions that may be years away, or to expand aggressively and indiscriminately in an effort to become big and ubiquitous as quickly as possible, may ultimately prove fatal strategies if they're based on old assumptions, flawed intuition and weak information. In either case, investors won't be happy.

Even when there are many markets to like, lenders that are matched to the wrong mix aren't able to improve their position, struggle to improve their sales efficiency, and ultimately fail to build and grow a sustainable origination revenue stream.

Lenders can deal with the competitive shifts in their markets using one of three basic approaches: 1) make no changes to their lending strategies, sales models or market priorities; 2) modify their lending model to match different opportunities in the markets they serve; or 3) pursue other markets, homebuyer segments and locations that provide a better match with their current lending model.

The decisions that emerge from any of these three approaches will be enhanced by detailed market intelligence. For lenders that are myopic to market details, the risks are high and the prognosis will likely be negative.

Finally, what specific actions can lenders take to gain greater sales efficiency in the markets and communities they do like? Put aside the assumptions and traditional activities of the last 10 years and pursue a market-opportunity approach.

Local market maps, lending forecasts, metrics and market comparisons pinpoint concentrations of opportunity and help lenders and loan originators set quantified goals that make sense. These tools also allow them to pursue focused sales actions, shift referral sources, correctly allocate their sales and market efforts, and align their time and energy with their high-priority markets.

The following are 15 proactive steps (out of many others) that are possible when the right market intelligence data are available:

- Assign responsibility for local community market areas to specific sales managers and provide them detailed market intelligence.
- Allocate sales resources to match long-term lending opportunities and priorities.
- Set clear loan volume targets for sales managers, account executives and loan originators based on local zone opportunities and dynamics.
- Quantify long-term growth objectives for local markets.
- Prioritize marketing efforts to focus promotion and advertising expenses.
- Assign current loan officers to high-priority markets and give them direction.
- Adjust sales compensation plans for key local markets.
- Target and recruit new loan officers who have experience and expertise in specific high-priority communities and homebuyer segments.
- Identify and focus relationship efforts on referral sources with strong connections to crucial zones.
- Hire new loan officers with demonstrated referral sources who cover high-opportunity mortgage zones.
- Quantify and anticipate the size and types of lending opportunities contained within a bank's geographic footprint and consumer base.
- Calculate sales-force coverage ratios that are appropriate to each local market or combinations of communities.
- Quantify productivity goals for groups of loan originators and markets.
- Evaluate how networks of brokers are matched to local markets.
- Assess the market position, growth potential and distribution of correspondent banks and credit unions.

Pursuing these types of actions requires proactive discipline, better data, constant effort, and robust market-comparison techniques and tools. Improving front-end sales efficiency and growing a stronger revenue stream in tough and highly competitive housing and home-financing environments won't be easy. If it were, it wouldn't be competition. But with as many markets as there are to like, every lender that makes the effort has the opportunity to succeed way beyond mere survival. **MB**

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