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THE ROAD TRIP TO Profitability

— by MARK WATSON AND BERNARD NOSSULI —

Sales productivity and loan officer turnover are key challenges facing lenders as they seek to engineer sustained profitability.

There is familiar scenery along the mortgage industry's road to recovery. There are concerns about the general economy and how rates and unemployment will change and impact the market. ¶ There are shareholder demands for increased profits, forcing lenders to become not just engines of growth but also machines of efficiency. There is the constant need to balance long-term sustainability with near-term success. ¶ Lenders confront new challenges, too, that complicate their travels on this road to recovery. The changing face of the American homebuyer necessitates different products and new sales strategies. Tougher and tighter regulations require lenders to do more than just refine their current policies and strategies; they must spend significant human and financial resources to create structures and processes that meet the

requirements of a more transparent and consumer-focused lending environment.

This road to recovery is one that lending organizations of varying sizes, types and lending models must travel—it is the only way we've made it through the muddy, messy landscape of the past eight years. Demands for increasing profitability despite stutters and sputters in market growth may give the impression that this a road to be traveled as quickly as possible.

But it's not just a race to profitability; it's an endurance test as well. It's one that requires lenders to plan ahead for the inevitable bumps, curves and obstacles that will always occur with uncertainty and change. It takes thoughtful navigation to avoid the pitfalls that lurk all along the road.

> **"Loan officer productivity and retention have always been major drivers of profitability," says Hedlund.**

Dennis Hedlund, founder of forecasting and advisory firm iEmergent, often discusses with lenders how to improve profitability and sustainability.

"Loan officer productivity and retention have always been major drivers of profitability," says Hedlund. "They are challenges that are shared across the spectrum of lenders and markets, meaning even the most successful lenders and the markets with the most opportunity struggle with issues of productivity."

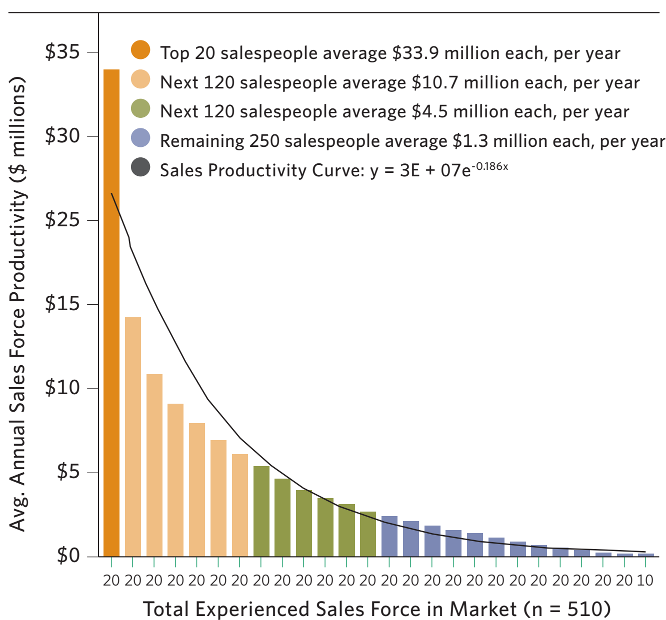
The sales productivity curve has been a common feature on the road most lenders have followed. The curve represents the productivity distribution across the sales force—within individual lending organizations and across markets. Because productivity drives profitability, it is important to investigate how and why the shape and design of the curve has remained relatively consistent, despite the volatility of the past 15 years.

What does the sales productivity curve look like today compared with how it looked a decade ago? How will it impact this road to recovery? Will it and should it change?

To answer these questions, the iEmergent team spoke with industry leaders to gain their perspectives. The conversations began as discussions of productivity, but they led to a broader dialogue about sales force turnover; recruiting and developing talent; and how planning ahead for a road trip—rather than a race—will help lenders achieve sustainable and more profitable futures.

FIGURE 1

SALES FORCE PRODUCTIVITY DISTRIBUTION—EXAMPLE MARKET



SOURCE: iEmergent

The sales productivity curve

In 2005, iEmergent performed an analysis of loan officer (LO) productivity data from multiple lenders between the years of 2001–2005. The analysis revealed a very consistent 80/20 pattern: 80 percent of total loan originations were generated by the top 20 percent of loan officers.

Interestingly, the sales productivity curve did not vary greatly among lenders or markets, even though the five-year time period studied demonstrated considerable growth in total mortgage opportunity across nearly all markets.

Recent data from 2014–2015 demonstrates that the distribution of the curve has since shifted. While the shape of the curve remains similar, its overall balance has changed.

Within individual lending organizations, the average distribution of sales across the sales productivity curve has shifted to a 70/30 distribution: 70 percent of total originations are closed by the top 30 percent of the sales force.

This trend makes sense. In today's smaller-volume market, some less productive loan officers on the curve's right side don't make enough to survive, so they leave the industry (see Figure 1). Those remaining at the right side have enough sales skill to fight for a larger share of the bottom of the curve, which raises the right side.

At the same time, some of the elite LOs on the left side of the curve have left the market. They either assumed new roles in management or opted to retire early in today's more challenging market. This shift lowers the left side of the curve. Although the curve has flattened, it still retains the same essential characteristic: The majority of loans are originated by the minority of loan officers, and productivity continues to diminish the lower you go.

Many executive and sales managers intuitively confirm the existence of the curve, whether it be 80/20 or 70/30. Other sales-centered industries struggle with a similar issue; perhaps the curve and its challenges and benefits are simply inherent to sales.

"Doing commissioned sales is not easy," says Tom Gamache,

retail sales executive at Providence, Rhode Island–based Citizens Bank. "Successful [loan officers] have to be self-motivated. This has not changed."

What ultimately causes the greatest impact from the sales productivity curve on a lender's profitability is not the split itself, but how successfully a lender can move its sales force up the curve. This move means increasing the productivity of its team, on an individual and a collective basis.

"It's difficult to compare whether it's harder for loan officers today versus five years ago," says Bristol.

New challenges and new opportunities

"It's difficult to compare whether it's harder for loan officers today versus five years ago," says Scott Bristol, president of Dallas-based PrimeLending. "On one hand, technology can make it easier for loan officers to connect with the customer in a timely, direct manner. On the other hand, with the increased volume of emails and text messages, there is a lot more clutter and noise you have to cut through to define yourself and what you offer."

Gamache adds that although the distribution pattern of the productivity curve itself has changed only slightly in the past 15 years, "the loan officer of today has evolved. With technology, a loan officer can take one referral and turn it into four or five."

Gamache's insight stems from his years of experience leading national retail departments at Guaranteed Rate, MetLife Home Loans, Bank of America and, now, at Citizens.

However, today's loan officers do face a tighter market—more regulations, tougher underwriting and a smaller pool of homebuyers. With limited refinance opportunity and a purchase market that is slowly recovering, loan officers have to build better sourcing and sales strategies to improve productivity.

Balancing building with buying

Increasing productivity is critical to a mortgage lender's success. When bringing on new resources, a sales manager has a choice: to build or to buy? And if he or she chooses both, what balance helps increase the productivity of the current sales force—for today and for the future?

If lenders bring in new recruits, there is a high probability that the new recruits will be lower on the productivity curve than the experienced originators. Overall productivity will drop, fixed costs per salesperson will rise and total efficiency will fall.

In contrast, if lenders focus on hiring salespeople with productivity levels higher than the current sales force, they should expect to pay a significant premium in compensation plans and bonus packages to attract them. Total sales force productivity would likely move up in the short term, but overall profitability may drop due to increased recruiting and compensation expenses. And while one lender is out recruiting top people from its rivals, those rivals will be recruiting top people from the lender. It's an expensive battle to fight.

Still, many lenders choose to hire experienced LOs, and do so successfully.

For Julie Piepho, CMB, president of national operations at Houston-based Cornerstone Home Lending Inc., the strategy of hiring experienced loan officers works. The productivity of Cornerstone's loan officers is above the country's average, which Piepho attributes to the company's culture and the importance that leadership places on ensuring that their loan officers have the tools and support they need.

"We have a mission, vision and core convictions that each of our employees know by heart," says Piepho.

"We focus on providing resources to our LOs: reliable underwriting, multiple help desks, access to a large marketing department and access to leadership 24/7. If they need something changed, we look at it and change it if needed."

Although Gamache still considers recruiting top talent to be a part of his growth strategy, he says, "We need to bring in younger people to the business and be diversified in our hiring efforts. The trick going forward is how to do both."

Casey Cunningham, founder and chief executive officer of Alpharetta, Georgia–based XINNIX, The Mortgage Academy, a provider of sales and leadership development, says, "It's critical to pursue both experienced and new loan officer talent, especially with the aging sales force and the rise of the millennials into the pool of potential homebuyers."

Building and retaining better loan officers

Attracting a top sales force is difficult, and so is building one. Both require a considerable upfront investment, without immediate or guaranteed returns. Building skills does not happen overnight, so lenders need to invest today to grow tomorrow's talent and increase tomorrow's productivity.

Gamache sees value in attracting younger and more diverse salespeople by placing them into teams with more mature, experienced and relationship-driven LOs. "Doing this not only makes the senior LO more productive, but also helps the new LO get hands-on training from someone who knows what he's doing," he says.

But if a lender can't retain its sales force, the investment has been in vain.

As Cunningham says, "The top two objectives for mortgage companies should be: 1) developing a strategy for sourcing and training new talent and 2) focusing on ways to retain the people we have." She continues, "There are two important reasons that loan officers fail. Either they lack will or they lack skill."

Or, based on iEmergent's experience, they lack opportunity. Whether top loan officers are recruited or built by a lender, their success depends on how well matched their markets are to their competencies and the lender's strategies.

Five top-notch, well-trained loan officers who cover a market that is not large enough for five top-notch, well-trained loan officers might result in attrition—to another lender with a better compensation plan, a stronger support

network and more compelling market strategies.

While lenders need to focus on building a successful sales force, they also need to concentrate on keeping that sales force. Cunningham provides insight on two of the main reasons successful loan officers stay with an organization: First, the quality of operations; and second, the feelings of support they get as professionals.

"So the key for lenders today is to make sure they are investing in people to help them grow," she says.

Without this investment, they leave themselves vulnerable to a productivity killer: the turnover treadmill.

The turnover treadmill

Sales force turnover is a fact of life in the industry. Loan officers, particularly experienced and productive ones, are highly valued commodities and a constant target for rival recruiters. If LOs are not happy with their current employer's compensation plan, how quickly a lender improves its systems or the level of support they receive, they become a flight risk.

While many lenders may feel a constant struggle to find and hire a talented sales force, PrimeLending's turnover rates are far below the industry average.

"At PrimeLending, we have never had a hard time attracting great people," says Bristol. "We have a team-oriented culture in which everyone pulls together to do our best for our customers, business partners and each other. As a result, our employees can reach their full potential and thrive." He adds, "We have embraced technology to help ensure our loan officers are compliant, which gives our branch managers more autonomy and empowers them to run their businesses."

Turnover also can happen when resources are misaligned with market opportunity. "When lenders are not prepared for how markets will change, they start to scramble when market opportunity increases and they need more from it," says Hedlund.

As a result, they have to hurry up to increase coverage. And instead of looking for ways to improve the productivity of their existing sales force, they often go to expensive extremes to hire whomever they consider to be the most experienced, successful producers.

"What results can sometimes become a vicious circle," Hedlund adds. "Most experienced LOs come with a high price tag and, despite being experienced, they still require time and money before they are at full levels of productivity."

He concludes, "Then, because markets are constantly changing, there could be a decrease in a market's opportunity and lenders are overindexed in a particular market, where there may not be enough opportunity to support these experienced and expensive LOs. The result: Those LOs don't feel like they are successful or supported, and they move on. And once again, the turnover treadmill starts to run."

Whether lenders are continuously losing new LOs in the bottom 20 percent or experienced top producers, turnover is expensive. Our analyses show that losing an experienced and

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FIGURE 2

COST OF LOSING AN EXPERIENCED LOAN OFFICER AFTER TWO YEARS

Activity	Year 1 Expense	Year 2 Expense	Year 3 Expense	Explanation
Recruiting	$12,000	$0	$0	Planning, scheduling and interviewing costs (Average of $1,000 per month)
Hiring	$36,000	$0	$0	Pipeline offsets, guarantees and draws (Average of $3,000 per month)
Training	$12,000	$12,000	$0	Sales events and scheduling (Average of $1,000 per month)
Reporting/Meetings	$12,000	$12,000	$0	Joint calls and weekly reports, performance tracking and monitoring (Average of $1,000 per month)
Lost income, assuming loan officer (LO) leaves prior to Year 3	$0	$0	$60,000	Lender's lost income, assuming an above-average LO who originates $12 million per year, and the lender earning 50 basis points of net operating income on the originations
Total	**$72,000**	**$24,000**	**$60,000**	**The activities over two years result in $156,000 of expenditures for the company if the LO leaves right after Year 2**

SOURCE: iEmergent

higher-producing loan officer after just two years of investment can cost in the range of $120,000–$180,000 each (see Figure 2). Without strong, growing market opportunity to counterbalance the cost, profitability plummets.

A new paradigm for productivity

Improving profitability through increased productivity starts with a forward-looking approach to market opportunity, and the development of plans to capture it. With a clear understanding of the size and composition of future mortgage opportunity within different markets, lenders will be prepared for how their markets change.

"It's also important to match your company's value proposition to your markets, and also to the competencies and brand of the LOs you need," says Gamache. "The bottom line is that you have to understand where to grow and why. If you don't, you experience retention and selection issues."

"The bottom line is that you have to understand where to grow and why," says Gamache.

Once reasonable, opportunity-derived market share goals are set, lenders are able to set equally reasonable productivity goals for their loan officers—individually and collectively.

When they consider each market's revenue-to-cost ratio, individually and collectively, they are able to make informed, strategic decisions about how much they want and need to invest in maintaining a balanced sales force across their footprint—for today and for the future.

For example

Let's consider a hypothetical example to make this point a bit easier to comprehend. So, say a regional manager for the Carolinas is developing a resource plan for 2016 for her territory. She starts by comparing the 2016 purchase opportunity in each county.

She identifies her 2016 target share goals for each metro area, and based on the opportunity forecast, calculates a purchase dollar target for each. For each market, she also estimates a reasonable target for annual purchase productivity (AAPP) per loan officer.

After mapping her originations from 2015, she calculates her 2015 market share to establish a baseline for each of the 12 largest metropolitan statistical area (MSA) markets in the region.

The data reveals that the market showing the largest gap (of 1.5 percent) between the baseline share of 2015 and the 2016 target share is Charleston, South Carolina (see Figure 3). She sets the AAPP target for the lender's loan officers in

FIGURE 3

TARGET SHARE GOALS, NORTH CAROLINA/SOUTH CAROLINA METROPOLITAN STATISTICAL AREAS (MSAs)

	Market Forecast								
Market	2016 Purchase Loans	2016 Purchase Dollars	Baseline Share (2015)	% $ Share Target for 2016	Target Purchase $ for 2016	Average Prod/Year	Target LO Count	Current LO Count	Net Change LOs
Charlotte-Gastonia-Concord, NC-SC MSA	25,466	$5,622,331,701	2.50%	3.0%	$168,669,951	$12,000,000	14	10	4
Raleigh-Cary, NC MSA	18,695	$4,370,074,284	2.12%	2.0%	$87,401,486	$8,000,000	11	14	(3)
Charleston-North Charleston, SC MSA	10,552	$2,836,212,274	0.50%	2.0%	$56,724,245	$9,000,000	6	2	4
Columbia, SC MSA	8,401	$1,532,589,271	2.10%	2.0%	$30,651,785	$8,000,000	4	4	0
Greenville, SC MSA	7,152	$1,369,693,139	1.10%	1.0%	$13,696,931	$8,000,000	2	3	(1)
Durham, NC MSA	5,868	$1,323,536,952	5.00%	1.0%	$13,235,370	$8,000,000	2	3	(1)
Wilmington, NC MSA	5,334	$1,288,649,166	2.50%	1.0%	$12,886,492	$6,500,000	2	4	(2)
Myrtle Beach-Conway-North Myrtle Beach, SC MSA	5,743	$1,063,741,736	0.20%	1.0%	$10,637,417	$8,000,000	1	2	(1)
Greensboro-High Point, NC MSA	6,284	$1,054,701,676	1.50%	2.0%	$21,094,034	$6,500,000	3	2	1
Asheville, NC MSA	4,560	$1,006,332,231	1.14%	2.0%	$20,126,645	$6,500,000	3	4	(1)
Hilton Head Island-Beaufort, SC	3,311	$941,015,908	0.98%	2.0%	$18,820,318	$9,000,000	2	2	0
Winston-Salem, NC MSA	4,328	$740,236,258	0.94%	1.0%	$7,402,363	$8,000,000	1	4	(3)

SOURCE: iEmergent

Charleston to $7 million.

To obtain 2 percent market share in the $2.8 billion dollar Charleston market, the lender needs to originate approximately $56 million in purchase loans in 2016.

With only two loan officers in Charleston currently, it is clear she has choices for sufficiently covering the market to obtain 2 percent share:

- ***Option 1***—If she assumes that her loan officer's AAPP will remain at the $7 million from 2015, she will need to hire six additional loan officers to provide adequate coverage for her share goal.
- ***Option 2***—If she sets a higher AAPP threshold for her loan officers, to $9 million, then she will only need to hire four additional loan officers for adequate coverage.
- ***Option 3***—If she wants to maintain a loan officer count of two, the loan officers will need an AAPP of $24 million for adequate coverage.

> It is clear that technology has increased the speed and efficiency of the lending industry.

The manager chooses option 2, and begins the recruiting and hiring process.

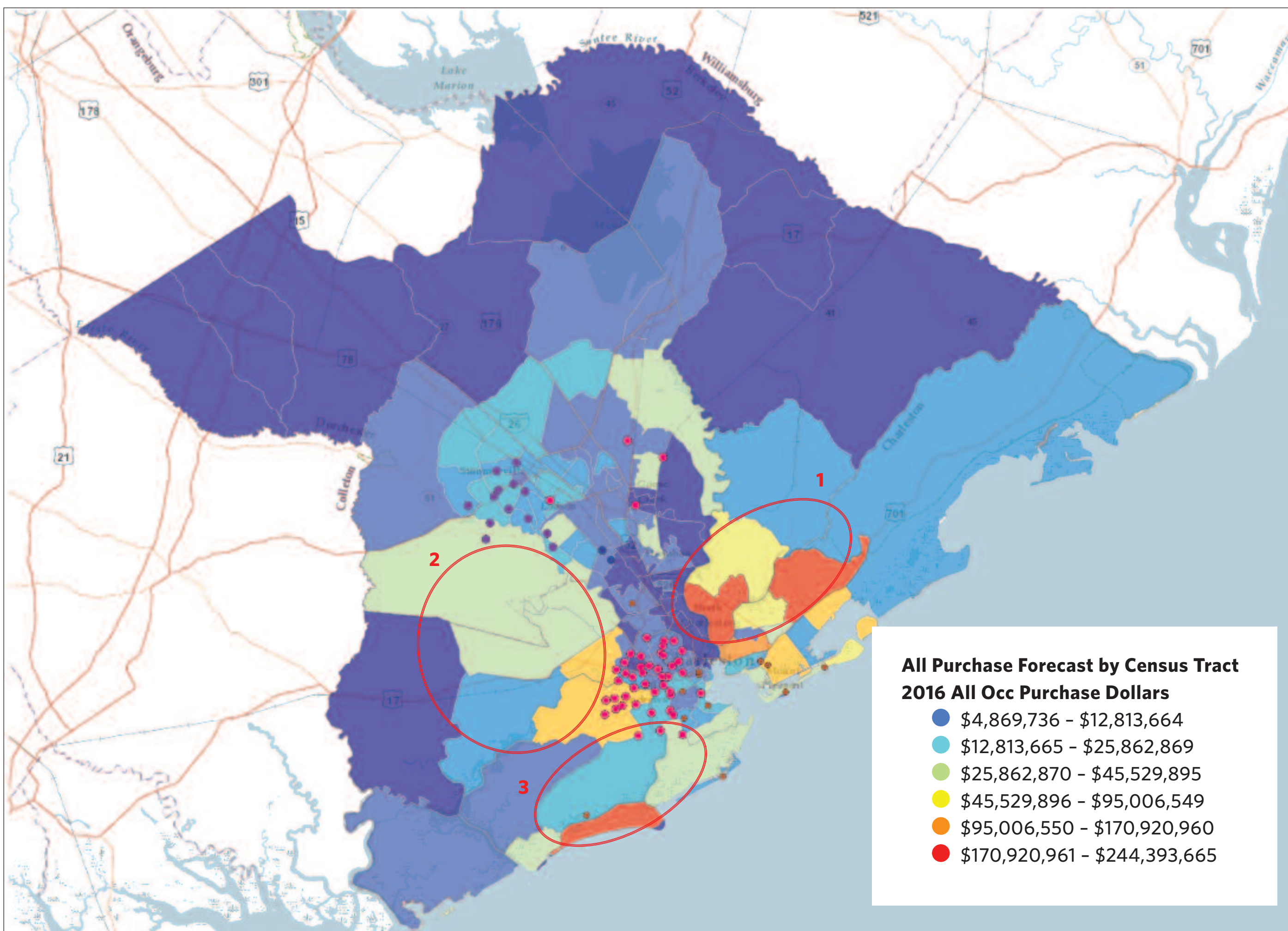
Tools for improving profitability: One market at a time

It is clear that technology has increased the speed and efficiency of the lending industry. Lenders and loan officers now have access to top-notch loan origination systems, robust customer relationship management software programs and powerful marketing and media platforms.

However, these tools don't provide

FIGURE 4

PROJECTED DISTRIBUTION OF PURCHASE DOLLARS IN 2016 FOR CHARLESTON, SOUTH CAROLINA



SOURCE: iEmergent

insight into how changes in individual markets can impact profitability. Mortgage opportunity intelligence serves as a tool that can support the overall sales strategy within a market, as well as the sourcing and sales strategies of specific loan officers. The following examples show how.

To troubleshoot low productivity and profitability within a market, lenders can drill down to find gaps in coverage and discover pockets of future purchase opportunity. The heat map in Figure 4 shows the projected distribution of purchase origination dollars in 2016 for the Charleston, South Carolina, metro area.

A regional lender we'll call ABC Mortgage uses market opportunity intelligence like this to determine how to grow market share; in this particular example, the lender needs to increase share by 1.5 percent to reach its 2 percent goal in Charleston. The purple and red dots on the map in Figure 4 show the year-to-date originations of two loan officers from the same lender—one who has an annual purchase productivity of approximately $7 million (purple points); and the other, who has an annual purchase productivity of approximately $17 million (red points).

Using the information in Figure 4's map, a lender finds four cases of missed opportunity, and identifies multiple solutions that will help increase the productivity of its sales force.

From recruiting to compensating, loan officers are essential—but expensive—investments.

Geographic gap in coverage: Recruit to find new sales talent and quantify opportunity to synchronize the objectives of the lender and prospective loan officer.

As shown by the market labeled 1 in Figure 4, the lack of originations in the East Charleston–Mt. Pleasant market of Charleston indicates it may be necessary to recruit one loan officer to cover the significant opportunity in this market. When the manager meets with prospects, he or she quantifies and illustrates the future opportunity for the East Charleston–Mt. Pleasant market, which then makes it easier for the manager to clearly communicate his market goals, strategies and expectations to the sales prospect. The 2016 purchase loans from this market are forecast to number 3,293. The 2016 purchase dollar amount totals $1,148,638,838, with an average loan size of $348,812.

Low productivity of existing loan officers: Improve sales and sourcing for underperforming loan officers.

Loan Officer 1 has been working for this lender for 18 months—originating one to two loans per month (as shown by the purple dots in Figure 4). As one of the middle 60 percent on the sales productivity curve, this loan officer needs support to help improve productivity. The market manager can work with this LO to develop specific strategies for covering the gap (market 2 in Figure 4), including finding and developing new sources, talking to large employers or creating a marketing campaign specific to those local markets.

Mismatch of product, program and salesperson: Improve collective productivity in Charleston by matching the appropriate product, program and salesperson to this market niche.

The Folly Beach market (market 3 in Figure 4) is geographically small and comprised primarily of high-end homes and vacation properties. To capture market opportunity from this apparent gap, a lender might decide to recruit one loan officer with experience and existing relationships with success in the jumbo market.

Lost opportunity from target market segments in the Charleston metro market: Improve strategies for first-time homebuyer and Federal Housing Administration (FHA) market segments.

The lender is interested in the growing first-time homebuyer market across Charleston. However, the market opportunity for first-time homebuyers overlaps with the FHA opportunity, indicating that many of these households are choosing to use FHA loans to finance their first homes. Historically, the lender has been heavily indexed in conventional loans, but it might need to shift toward more FHA to better serve the first-time homebuyer segment.

Whether a lender's market is Charleston, Chicago or every city in the nation, the road to recovery will have many opportunities for and obstacles to profitability. Ultimately, the productivity of its sales force will be a major driver for how well a lender can navigate the various twists and turns that the road will take.

From recruiting to compensating, loan officers are essential—but expensive—investments. That is why turnover can be detrimental to the profitability of an organization. It causes overall productivity to slide down the sales productivity curve when these important investments decide (or are forced) to leave.

Instead of allowing the curve to determine the distribution of success across its sales force, lenders need to help loan officers move up the curve. Whether they recruit experienced loan officers from the competition or choose to develop new ones, it is essential for lenders to support their people with strategies, training and tools that increase their productivity.

Many training and technology tools focus on sales techniques, operational efficiency and the nuts and bolts of the industry, but tools that help lenders and their loan officers anticipate market changes are often overlooked.

If they look ahead while traveling on the road to recovery, lenders will be able to avoid many of the obstacles that pop up and remain a drag on efficiency and profitability. There will always be market opportunity waiting at the top of the next curve. **MB**

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