

MBA Residential Loan Production Conference

Mortgage Banking 2010
February 2006

Agenda

- The industry today
- What does the future look like?
- How you will get there?
- Questions

The industry today

The industry today

- Volume driven, volatile
- More companies are chasing less loans
- Demographics are changing
- Core elements of business profitability are not being tracked
- Continuous pursuit of cost-reduction opportunities
- Customer satisfaction remains a challenge
- Emerging presence of new entrants to the market

We believe that the model is changing and there is significant opportunity.

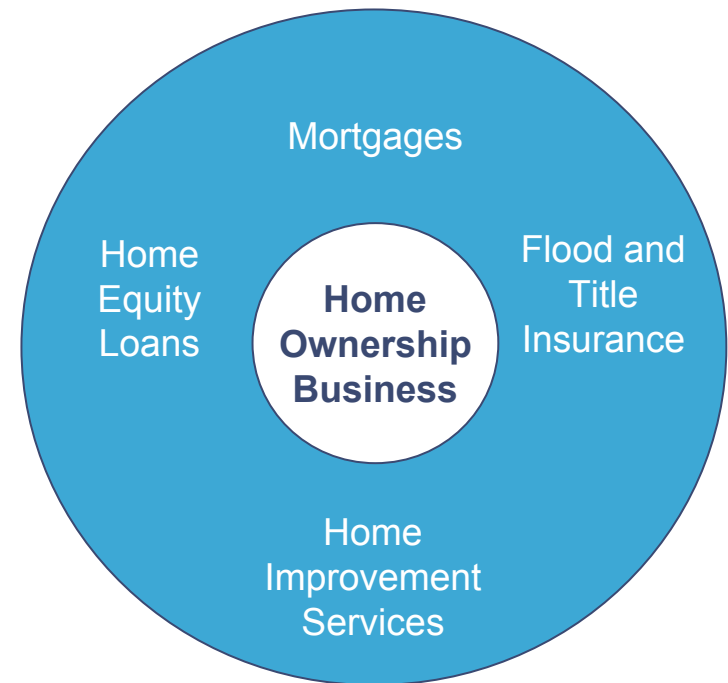
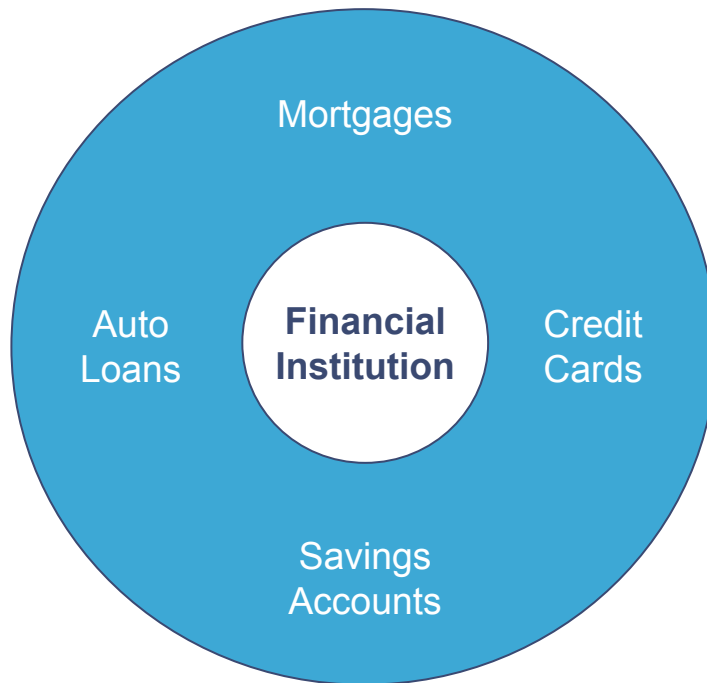
To maintain a competitive advantage in 2010 you must begin to prepare today!

What does the future look like?

What does the future look like?

Which business is your company in?

- It is critical to identify where do you want to take your business in the future
- By 2010, will you be a financial institution or a company in the “Home Ownership” business?



We expect that by 2010:

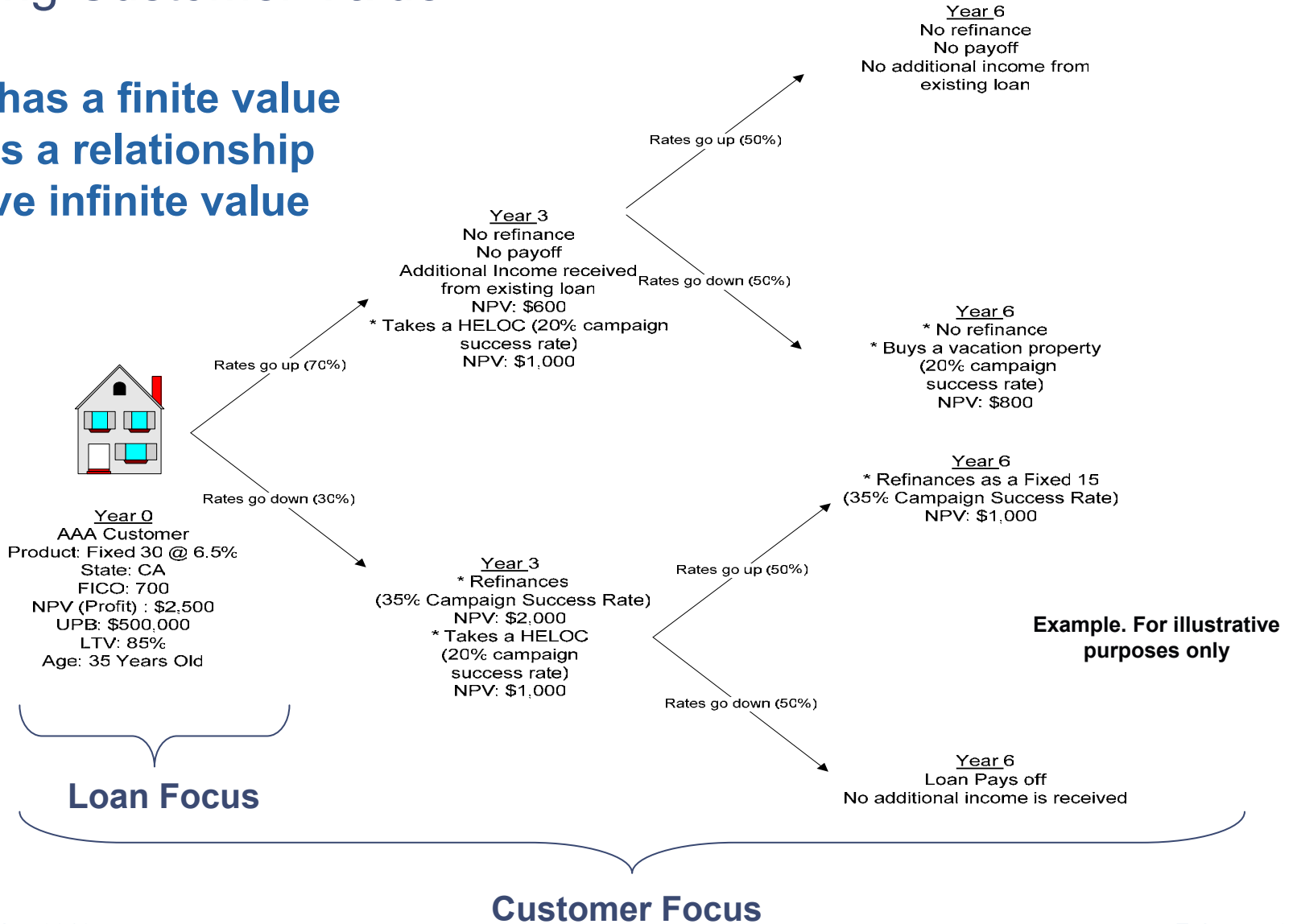
1. Profitability will be better understood and monitored to drive pricing strategies and accountability.
2. Customer relationships will be analyzed and managed at an individual client level.
3. Strategies will focus on profitable volume and individual market segments – not market share!
4. Companies will be more effective at identifying and leveraging additional efficiency and cost reduction opportunities.

1. Profitability will be better understood and monitored to drive pricing strategies and accountability.

2. Customer relationships will be analyzed and managed at an individual client level.

Analyzing Customer Value

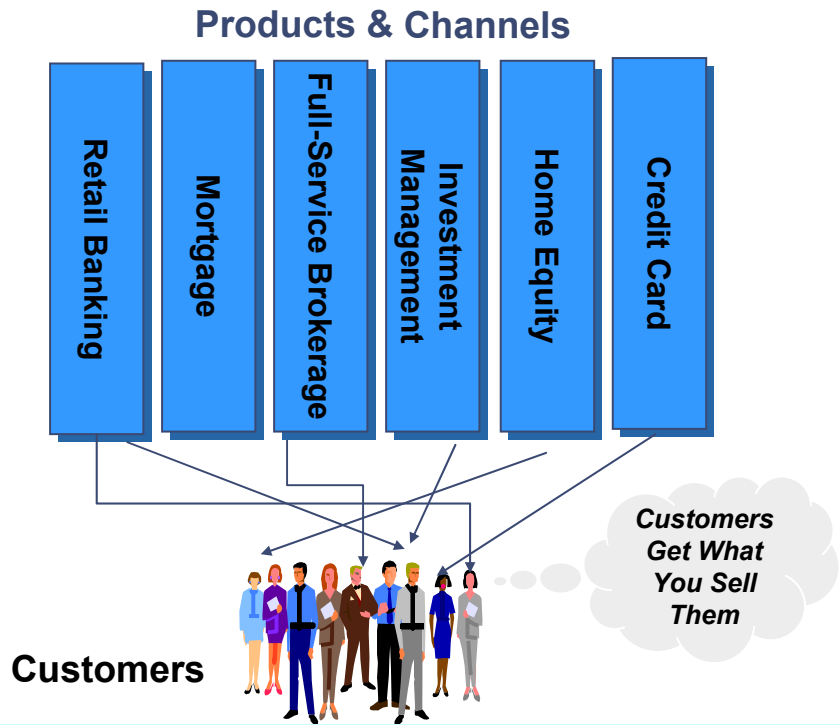
**A loan has a finite value
whereas a relationship
can have infinite value**



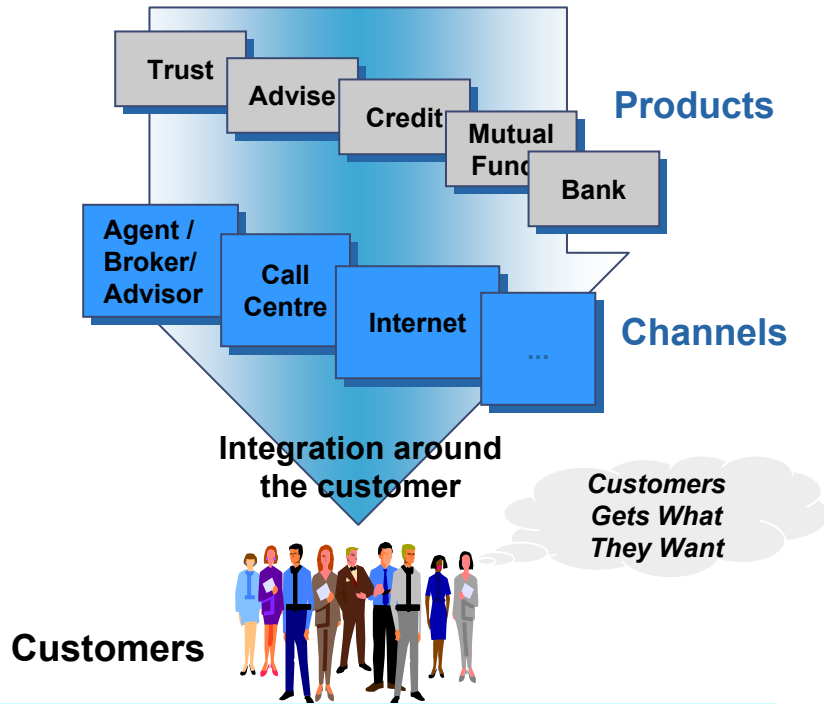
Customer view not organizational view

Traditional models will be transformed to create a customer centric approach to distribution.

TRADITIONAL MODEL - Organizational Centric



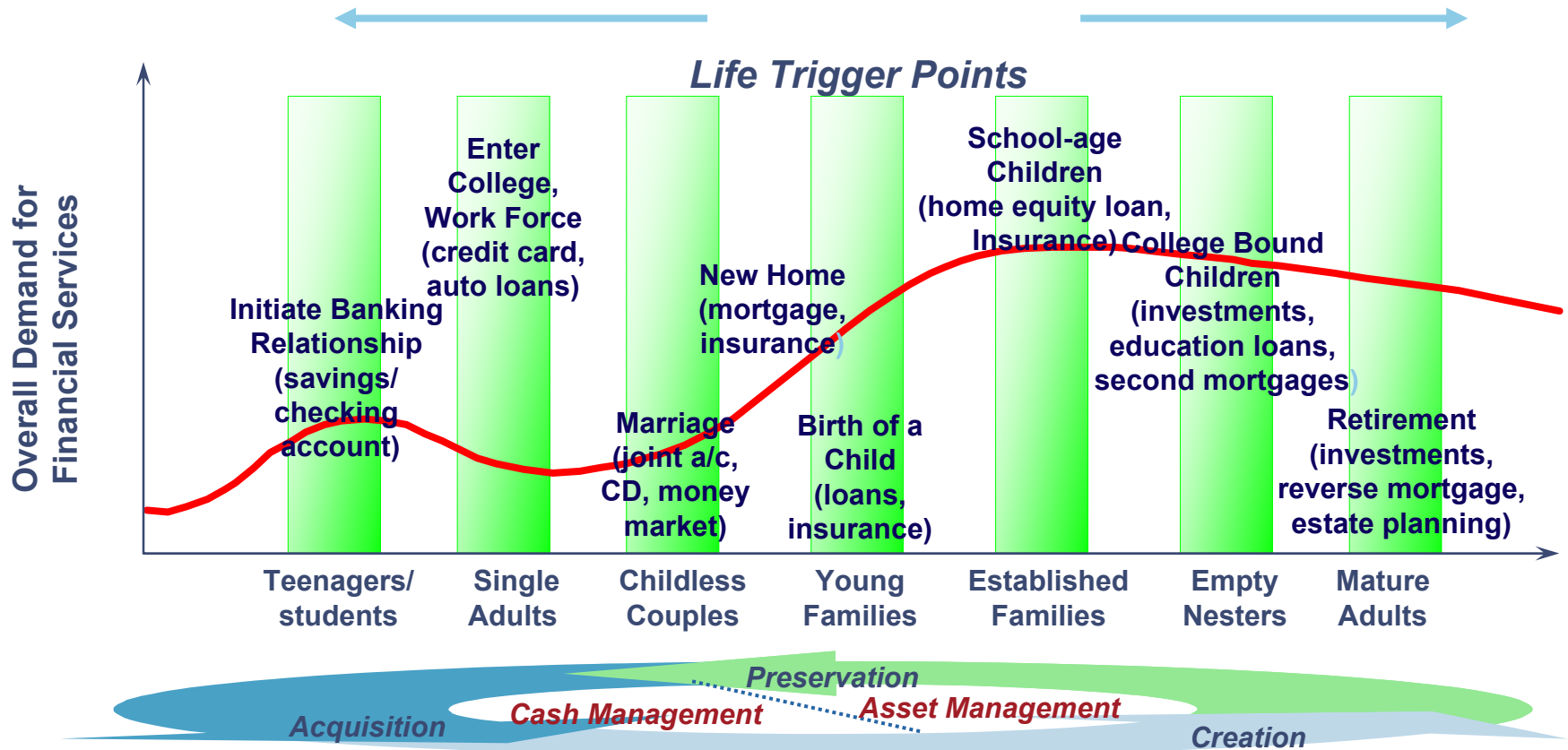
NEW MODEL - Customer Centric



Creating this integrated delivery capability requires a function within the organization responsible for co-ordinating the Product / Channel offering around the customer

Understanding your customer

- It is important to understand and anticipate the needs of your targeted customers



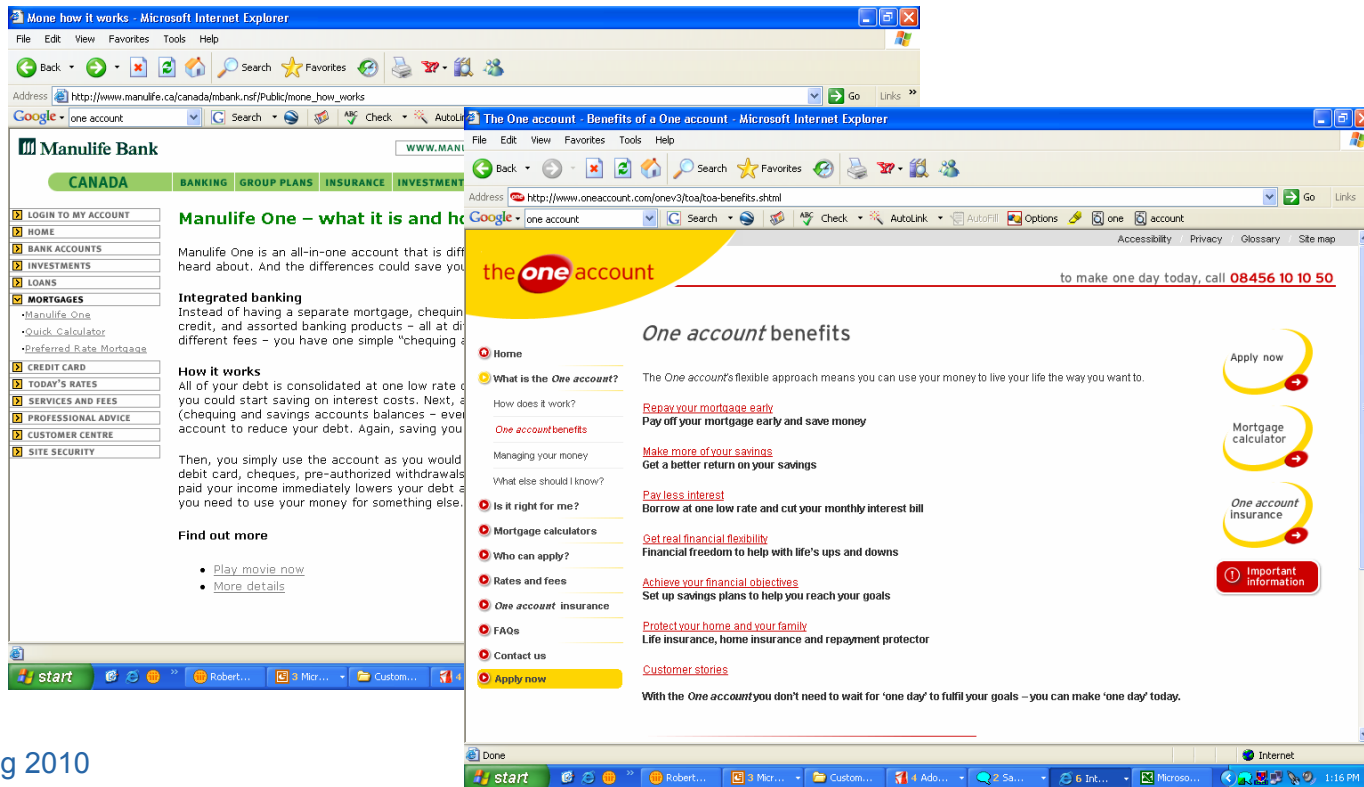
Customer Retention

- Moving from basic retention to fully integrated loyalty

	Level One: Basic Retention	Level Two: Multi-Channel	Level Three: Fully Integrated Loyalty
Knowledge Base	<ul style="list-style-type: none"> • Loan level economic value • Segments of at-risk refi loans • Loan level database • Analysis of service channel 	<ul style="list-style-type: none"> • Sophisticated refi modeling • Segments of at-risk purchase money loans • Customer database • Customer contact analysis • Impact of website on retention and costs 	<ul style="list-style-type: none"> • Household level profiling and targeting • Proforma allocation of resources to predicted
Customer Strategy	<ul style="list-style-type: none"> • Implementation plan • Change management issues addressed • Clear ownership • Aggressive pilots 	<ul style="list-style-type: none"> • Integrated online value proposition • Clear website content priorities • Targeted customer metrics 	<ul style="list-style-type: none"> • Segmentation capabilities • Clear customer migration
Tactics	<ul style="list-style-type: none"> • Credit reporting inquiries • Offering unique streamlined products • Modification programs • Outbound calls • Refi capture opportunities in servicing 	<ul style="list-style-type: none"> • Customer service as a means to build loyalty • Segmented service levels • Actions to increase website usage • Web enabled call center • Security and privacy promoted 	<ul style="list-style-type: none"> • Sophisticated cross selling initiatives • Real time offer optimization • Highly segmented retention

Product Innovation

- Companies will offer innovative solutions to target very specific market segments
- One example is the “One Account” already being offered in Canada and the UK



Retention Innovation

- Financial Institutions in other countries are trying innovative solutions to increase their customer retention levels
 - ✓ “Make 11 monthly payments on time and the 12th is free”
 - ✓ “Stay with us for three years and get a bonus you can use towards home improvements”
 - ✓ “Your interest rate decreases every year you stay with us”

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Tasa 8.90% ¡Nuevo!

Paga puntual y obtén la mejor tasa de todas 8.90%

Al contratar tu Crédito Hipotecario Banorte te damos una tasa fija del 11.90%.

Beneficio Especial

Tienes la posibilidad de obtener una tasa fija del **8.90%**, la más baja de México.

Si cumples con tus pagos puntualmente, te bajamos la tasa de interés durante los primeros 5 años como se muestra en la siguiente tabla.

Año	Pagos puntuales	Tasa aplicada
1	1 a 12	11.90%
2	13 a 24	11.40%
3	25 a 36	10.90%
4	37 a 48	10.40%
5	49 a 60	9.90%
6	61 a 72	9.40%
7 en adelante	73 a 180	8.90%

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La Especialidad de la Casa

Te prestamos más
Te damos más plazos
Te cobramos menos
Te ofrecemos más seguros

beneficios

Hipotecaria Nacional

adelante.

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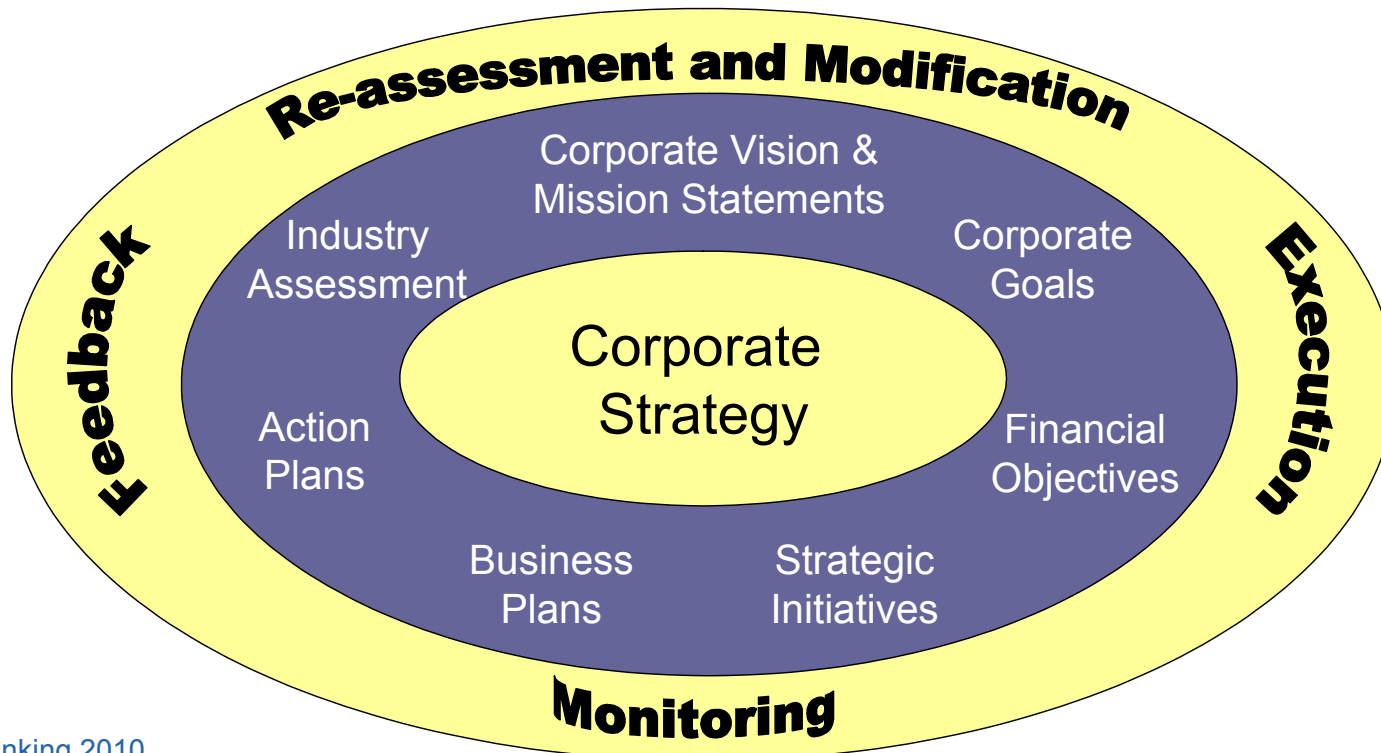
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3. Strategies will focus on profitable volume and individual market segments – not market share!

Developing a Strategy

- Knowing who your target markets are, who they are not and why will be critical to success.
- Monitoring and maintaining accountability for achieving strategic objectives will be similarly important.



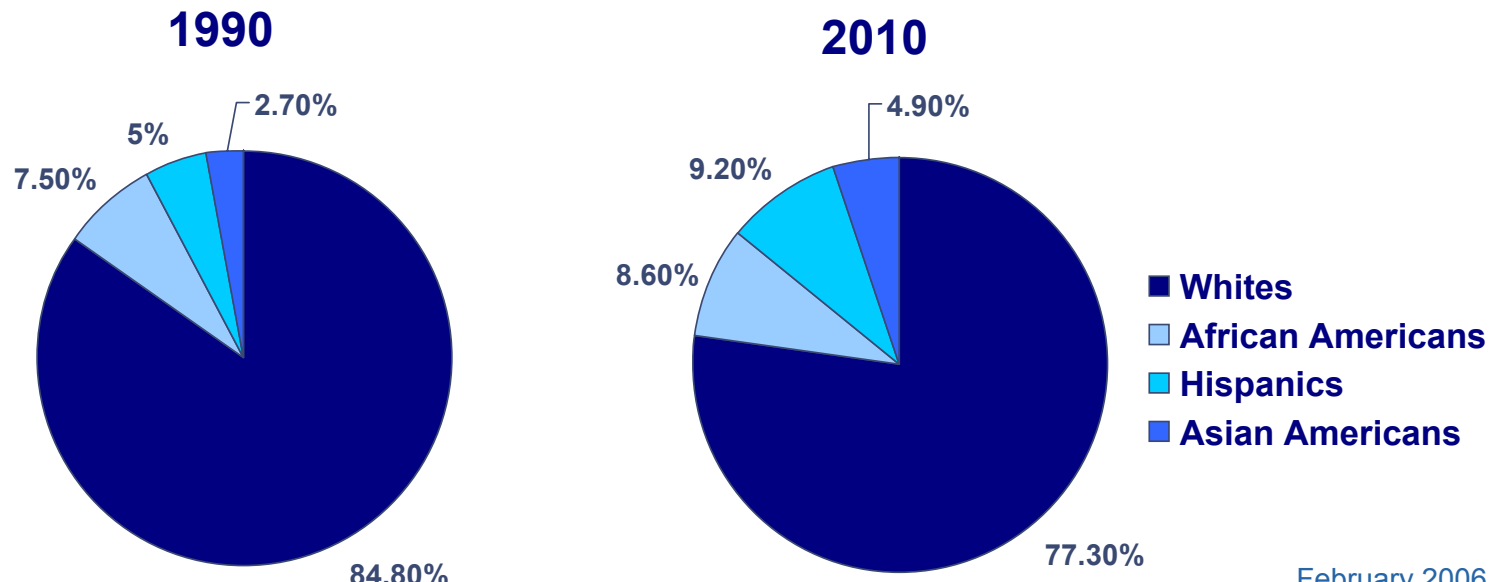
Changing Demographics

- American Households are becoming more diverse
- By 2010, the organic growth in the mortgage banking industry will come from “non-traditional” segments:
 - ✓ Minorities (a.k.a. Emerging Markets)
 - ✓ Single-person and single-parent households
 - ✓ Female-headed households
- Although these customers have been present in the market for a number of years, they have started demanding products and services specifically tailored to their needs

Emerging Markets

- The emerging markets population is growing at a much higher pace (both immigration and organic growth) that the Anglo-American population
- Emerging markets homeownership rates are well below the U.S. average. However, it is expected that by year 2020 more than 50% of new homeowners will come from emerging markets segments

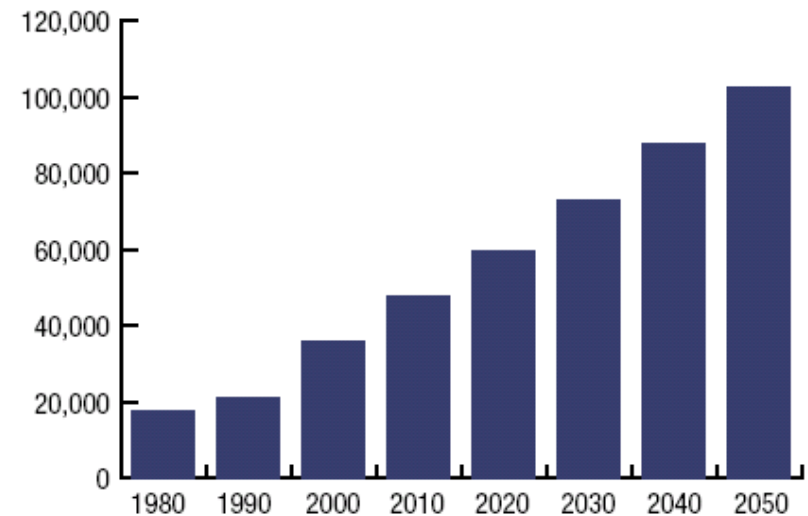
U.S. Buying Power



Emerging Markets

- Hispanics Americans have become the biggest minority in the nation. According to the latest U.S. Census Information, there are 37.4 million Hispanics living in the U.S. (13.3% of the population).
- As the population grows, it is also spreading out into areas with previously little Hispanic presence.
- By 2050, one in four Americans will be of Hispanic descent.

U.S. Hispanic Population Growth

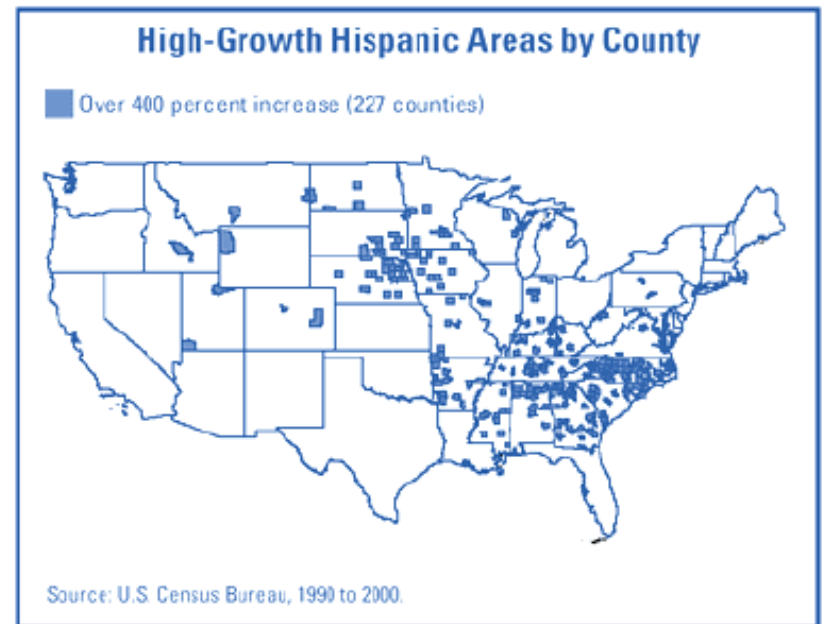
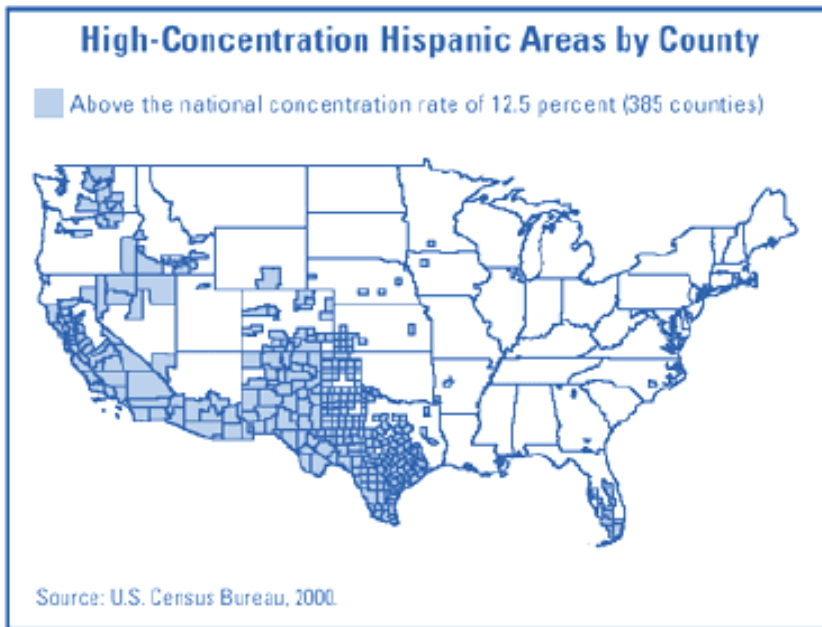


Source: *The Hispanic Population in the United States: March 2002*, U.S. Census Bureau, June 2003

What does the model look like?

Emerging Markets

- The 'traditional' emerging markets cities/regions have started to change. California, Texas, Florida and New York are no longer the only states with an important number of emerging market customers.

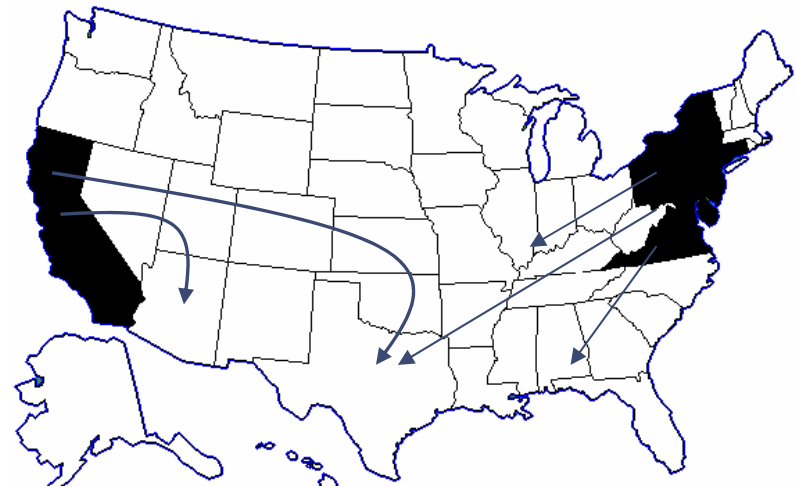


Baby Boomers

- 2006 marks the 60th birthday of the first of the “baby boom” generation – the 77 million Americans born between 1946 and 1964.
- Equity-rich baby boomers will continue to drive housing demand in the years to come.
- Things to take into consideration:
 - ✓ Interest in retirement communities
 - ✓ Market-specific demand (FL, AZ, SC, CA)
 - ✓ Interest in acquiring property in other countries
- Reverse mortgages will become more popular as baby boomers are increasingly interested in improving their lifestyles during longer retirements

Economic Migration

- An increasing number of Americans are moving from the coast states to other regions due to economic reasons:
 - ✓ Desire to cash on the home equity that has been accumulated during the housing boom
 - ✓ Interest in more affordable property
 - ✓ Several service companies moving their operations to low cost states (TX, FL, etc.)



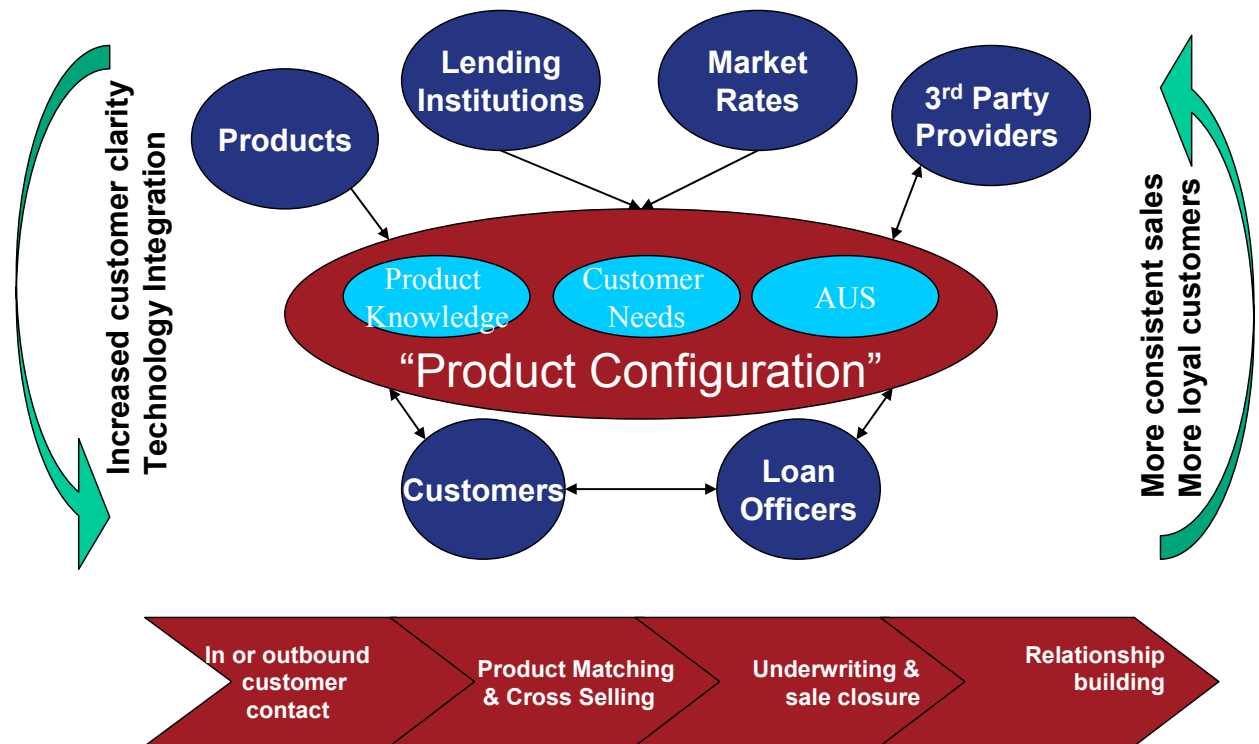
International Lending

- We expect, and have seen, increased focus on international residential lending activity.
- We expect this trend to continue.
 - ✓ Interest in baby boomers to acquire vacation property in Mexico and other Latin American countries
 - ✓ Immigrants interested in acquiring property for themselves or their families in their home countries
- If you are already serving these customers domestically, why not getting a bigger piece of the pie by serving their international needs?

4. Companies will be smarter when looking for additional efficiency and cost reduction opportunities.

Use of technology – Loan Origination

- The need to constantly attain operational efficiencies will not be reduced.
- Leverage of AUS and workflow technology will receive additional focus. However, this shift will require significant risk management and cultural changes as AUS tools become more common place - not to supplement, but replace traditional manual underwrites.
- Product configuration will continue to be leveraged to supplement LO / AE knowledge, improve direct channel lending capabilities and maximize customer value.

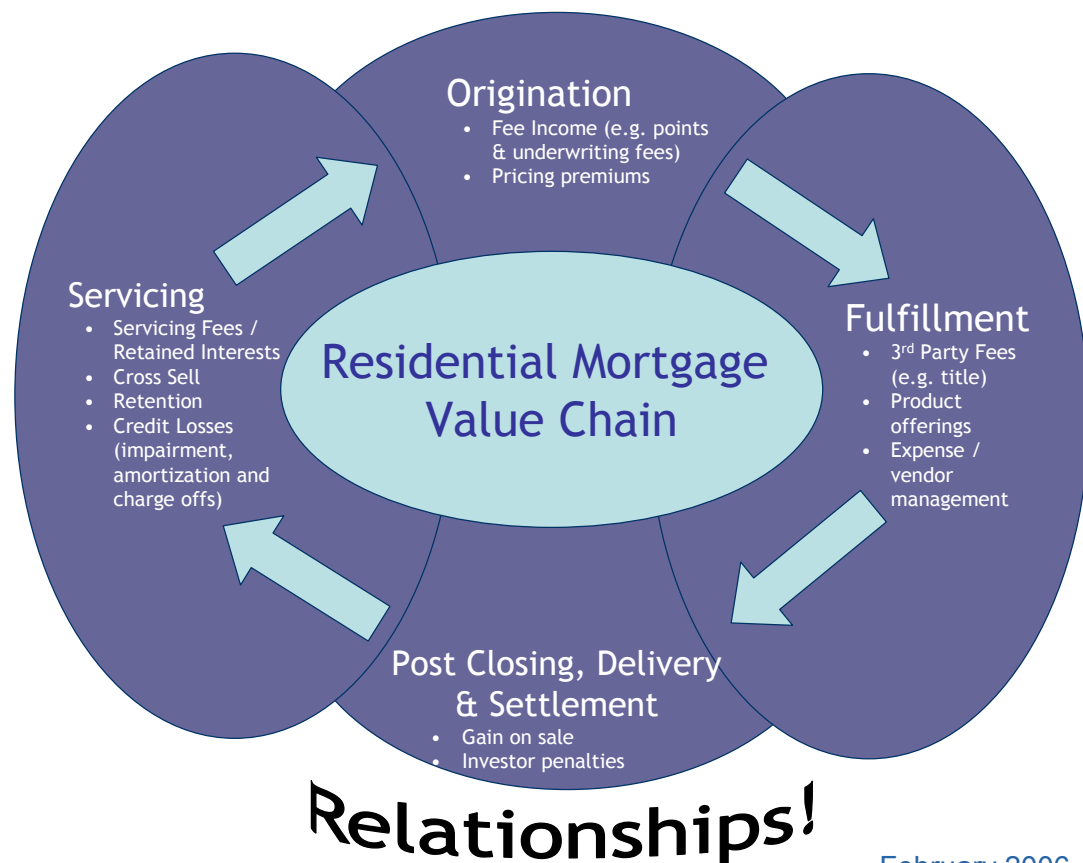


Use of technology – Post Production

- Similar to fulfillment, post production activities will continue to leverage prior investments in technology and continue driving cost out of the process.
- Imaging and operational workflow will remain a source of improved efficiency. However, in continuing to increase efficiency, e-mortgages will continue to be researched.
- We expect continued utilization of off shoring / outsourcing for many non-customer facing activities.

Value Chain Integration

- The mortgage value chain is rich with opportunity. However, consolidation of lenders and vendors will create similar economies of scale for non-customer facing services providers.
- This consolidation will also lend itself to additional barriers of entry for ancillary services (e.g. title, insurance, operational outsourcing, etc.) – similar to that experienced by mortgage servicers today.



Strategic alliances

- In developing your strategy, you will need to better understand, maintain and grow your origination sources.
- Should volume remain contracted, development of strategic alliances – inside and outside of residential mortgage lending – will yield positive results.
- For correspondent, wholesale and direct lenders, utilization of B2B tools will expand the definition of strategic alliances and place additional focus on non-contractual value drivers.

Outsourcing

- The objectives of outsourcing will be expanded from just reducing costs to strategic flexibility and improved quality
- In a recent PwC survey, worldwide senior executives at financial institutions described the necessary elements to succeed in an outsourcing / off shoring strategy:

Plan ahead
exhaustively

Be realistic when
drawing targets

Assess risks
properly

Continue
working on your
plan

Stay close to the
regulators

Reward
outstanding staff

How will you get there?

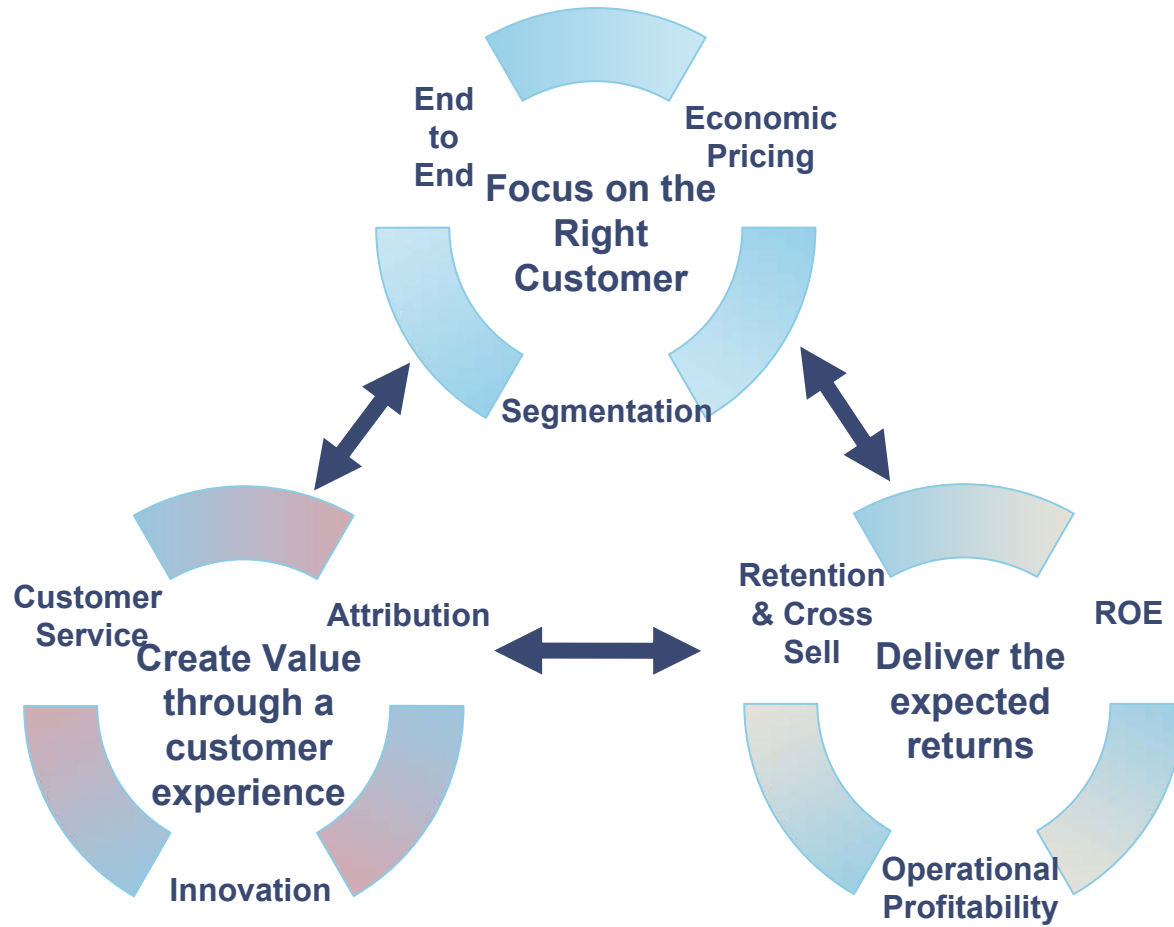
How will you get there?

Three simple rules:

1. Focus on the right customer and deliver on the value proposition
2. Create value through a customer relationship experience, then measure and protect that value creation through the life of the loan
3. Through service, quality and performance, deliver the expected returns on investment

How will you get there?

PwC Mortgage Banking Success Framework:



How will you get there?

PwC Mortgage Banking Success Framework

What is it?

Focus on the right customer		Create value through a customer experience		Deliver the expected returns
<p>Pricing theory is aligned to both corporate ROE objectives and actual economic performance.</p> <p>Customers are segmented to help profile profitable customers and to aid product innovation.</p> <p>Daily pricing determined as better of market or economic, as supported by elasticity and economic analysis</p>		<p>Customer needs are anticipated and profitable opportunities are leveraged.</p> <p>Gain margins and servicing yields are tracked from lock through repayment. Changes are allocated to their respective internal and external drivers.</p> <p>Customer service is seen as an opportunity and not just as a cost of doing business</p> <p>Innovation beyond just offering another IO or Option-ARM</p>		<p>Assets are priced and subsequently measured to deliver yields consistent with ROE requirements.</p> <p>Loan servicing operations are measured for cash flow optimization</p> <p>The real value of retention is exploited</p> <p>Customer segmentation analysis drives corporate wide customer targeting initiatives. Per product customer penetration enhanced.</p>

How will you get there?

PwC Mortgage Banking Success Framework

What is required?

Focus on the right customer		Create value through a customer experience		Deliver the expected returns
<p>A new theory for pricing mortgage loans that incorporates economics, market forces and customer demand</p> <p>End to end tracking of customer / loan performance for segmentation and profitability</p> <p>Investing in emerging markets and other specific segments that offer future growth</p>		<p>Daily product level gain margins are tracked from lock to close</p> <p>A process to understand and anticipate customer needs</p> <p>Calculate the true value of each customer</p> <p>Implementation of a product development process that fosters innovation</p> <p>Integration of production and servicing economics</p>		<p>Assets acquired to achieve desired yield consistent with price theory</p> <p>Servicing economics are tracked monthly for economic performance</p> <p>ROE, ROI, IRR/CFROI measures developed to monitor yield performance</p> <p>Observed deviations from expected performance are corrected through operational, asset management or pricing adjustments</p>

How will you get there?

PwC Mortgage Banking Success Framework

What needs to be done?

Focus on the right customer		Create value through a customer experience		Deliver the expected results
<p>Design and execute new pricing theory</p> <p>Identify variable cost drivers and develop variable and fixed cost measurements and management tools</p> <p>Develop and leverage static pool analysis capability for segmentation purposes</p> <p>Creation of an emerging markets strategy</p>		<p>Build attribution measurements and reporting capabilities</p> <p>Enhance cash flow tracking and reporting tools</p> <p>Develop channel and product profitability measurement tools</p> <p>Change the way business is measured and rewarded</p> <p>Implementation of customer lifetime value analysis</p>		<p>Enhance net economic value measurement and management tools</p> <p>Create sell vs. hold rules engines</p> <p>Refine cross-sell and retention targeting tools</p> <p>Measure operational performance and align with profitability objectives</p>

Questions?