Empowering the MLO with Smart Data and Sales Intelligent Software

A Completely Systematic Data Driven Marketing Approach

Four-Year Case Study

Uncovering Public Mortgage Records Note Rate - The Holy Grail of Data-Driven Marketing
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Trickle Down Mortganomics™

A Vertical View of the Mortgage Industry Business Model

The MLO-customer relationship is a linear transaction (left to right, point A to point B). However, within a vertically oriented business model it is viewed as a street-elevation micro-level within the macro-Origination Platform. The vertical mortgage business model is defined by the macro levels. The levels are listed below in order of top-to-bottom influence; they are characterized by a trickle-down effect.

1. Origination Platform is the point-of-sale transaction-based revenue model.
2. Servicing Platform is an income producing asset model.
3. Secondary Market is where loans are packaged and sold to provide liquidity.
4. Capital Markets provide the operational funding.
5. Regulatory Apparatus provides boundaries within which business is conducted.
6. Economic & Demographic Trends create a market and demand for mortgages.

dbQ: QED derivative data product

Precision MarketingQ: Precision marketing defined by dbQ rate criteria.

HTM: Hyper Target Marketing methodology using dbQ

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1 Transactional Field of Economics - Zillow Talk, S.Rascoff
Executive Statement

Rising Rate Challenges

Today's rising interest rates are exposing fundamental business cracks in the mortgage industry, forcing companies to sell assets and cut costs. Marketing strategies need to adapt and proactively address the current challenges of rising interest rates.

The clear solution is on the "street" level of the vertical mortgage business model²: the MLO and customer relationship. This paper details how empowering the MLO with highly focused marketing software that adapts to the individual customer is the technology solution. It is not what technology can do but what we can do with the technology.

Rising Rates Create Opportunities

We all have our mixed realities defined by what we know. I get it. So be prepared to change your reality about rising interest rates and refinance opportunities. In 2014, we launched a case study for the purpose of documenting B2C mortgage acquisitions exclusively using data-driven marketing strategies. Our proof of concept findings are statistically significant and confirm that our smart data enables the MLO to dramatically increase refi response rates in a rising rate environment. It is time to change your reality.

Using Smart Data to Capture these Opportunities

Right here, right now, a Completely Systematic Data Driven Marketing Approach is available to you. This is an automated, turnkey way to change your narrative of rising rates by using smart data.

This paper marks the end of my 30-year MLO career. The data-driven marketing approach is a culmination of my sales experience, fine-tuned over the case study's 5100 respondents. It principally benefits Low to Moderate income borrowers and is a tribute to my Korean immigrant parents.

At the time of this writing, there are 200,000 FHA homeowners with rates above 5.8% APR. They need the MLO's help to lower their payments right now. Data.PoweredbyQED.com knows who they are; you do the rest!

The artist formerly known as Jim the MLO

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² Trickle Down Mortganomics™ as displayed on page 3
Introduction

This paper showcases the debut of an innovative “street smart”, business intelligent™ solution to the mortgage industry’s rising interest rate challenges—a system that empowers the MLO with data insight and highly focused sales software. A Completely Systematic Data Driven Marketing Approach is a turnkey system designed by and for the Mortgage Loan Originator (MLO). It integrates big data within a customized target marketing (TM) methodology, managed by our proprietary SalesQ software™. The marketing approach systematically generates leads with high conversion rates (applications).

The case study section of this paper (page 7) details the storyline and discovery process of our study and documents the data-driven marketing results. This is a real-world, proof of concept example of monetizing big data. The findings confirm our data-driven marketing approach is a modern-day solution to rising interest rate challenges: Low Margins and Low Loan Production.

The first three years of this study focused on a customized target marketing (TM) methodology. This provided the “street smart” basis for our sales intelligence software. The most exciting aspect of the study was the discovery of the Holy Grail of data-driven marketing: mortgage records interest rate identity, dbQ. The mortgage record’s interest rate, or dbQ, was confirmed to be exact on 97% of the 2700 respondents.³

Today we live in a mortgage industry challenged by rising interest rates but continuing to use old, stodgy marketing approaches. Big data, used intelligently, holds the key to changing the narrative so that rate volatility works in your favor.

The marketing application using dbQ or smart data is best described as an evolved TM-Hyper Target Marketing, HTM. HTM and dbQ are the ingredients for a true one-to-moment customer sales experience.

400%
Higher Response Rate

20%+
Higher Conversion Rate

This Holy Grail data discovery marks the beginning of our case study’s second generation of data-driven marketing. This type of personalized direct mail marketing, outside of a “house list” or client list, may have been the first of its kind. The HTM results were impressive when compared to TM: 400%+ higher response rate and 20%+ higher conversion rate (44,000 sample size).

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³ Within the vertical market of the mortgage business, the “street” level is the MLO and customer relationship.

⁴ “Business intelligence” refers to our ability to use this technology for the purpose of knowing what the customer has to determine what the customer wants.

⁵ SalesQ = sales intelligence, referring to the software’s adaptability for ongoing experimentation and iteration.

⁶ The dbQ rate identity was confirmed by the other 90 of the 2700 respondents (97%). 80 of the 2700 respondents (3%) had numerous note rate possibilities.

⁷ “One-to-moment” marketing—a step beyond digital marketing—offering customer what a customer wants at the marketing moment.
The increased HTM conversion rates confirm specific and relevant content increases the lead quality. The wow moment comes from noting the HTM higher response and conversion rate were tested over arguably the worst refinance market in 30 years (Dec 2016 – May 2018). As an aside, I have witnessed rates drop from my first loan origination of 10.9% in late 1988 to 3.25% in late 2016. This simply means the majority of my MLO career was blessed by 28 years of lower rates and that I’m old. The 2016 interest rate lows appear to have marked the end of a 34-year declining interest rate trend. The one guarantee in business is change.

Lastly, this paper is intended to provide background and color to our proprietary Organic Growth Sales Intelligence software, OGSales\(^\text{Q}\). This software is a culmination of my 30 years MLO experience, fine-tuned over the course of this study’s 5100 respondents. The software provides the ability to make quick marketing changes (experimentation and iteration) guided by the marketing response rate. The Sales\(^\text{Q}\) functionality coordinates on-demand customer analytics to improve MLO conversion rates (applications).

The db\(^\text{Q}\) discovery (Holy Grail, page 10) and OGSales\(^\text{Q}\) software work in harmony and quantitatively define what works and what doesn’t work.
Case Study

In late 2013, we established The Premier Mortgage Company LLC (PMC) as a proof-of-concept B2C prototype. Our purpose was to document mortgage acquisitions exclusively using data-driven marketing strategies.

We licensed PMC in four states, representing the East and West coasts and Rocky Mountain region, as a residential wholesale mortgage brokerage. Premier Mortgage Company LLC mirrors an independent MLO or mortgage broker model.

Phase 1: Target Marketing (TM)

The primary purpose of PMC’s Target Marketing methodology was to provide the prospective customer (“prospect”) relevant and specific marketing content. We used a dual-channel approach—direct mail and private access webpage with customized data tied to the prospect’s reference number—to deliver a personalized marketing experience to each prospect, including relevant and specific customer content about their property and home mortgage.

The secondary purpose was to measure each marketing campaigns results by connecting the individual data record dots using proprietary software employing today’s database analytic tools. Our OGSalesQ software accurately measured each marketing campaigns effectiveness.

TM methodology proved to be a quick and scalable way to measure marketing campaign effectiveness. Scalability refers to our ability to deploy over 850,000 direct mailings to prospective applicants defined by our mortgage record criteria over the first three years. Measurable marketing results and the human-element feedback of 4200 respondents were fundamental for developing sales intelligence tools. The TM methodology provided the basis for our highly focused sales software with marketing adaptability and MLO sales intelligence capabilities.

Throughout the study, marketing campaigns were meticulously consistent: no change to design of marketing optics or website, no material change to direct mail wording (except one line of type in Phase 2, explained below) and no change to delivery channels.

The case study results exclude any legacy or pre-2014-customer-generated business. Our findings identified a Completely Systematic Data Driven Marketing Approach that adapts well to any interest rate environment.

It’s not about what big data can do for you; it’s about what you can do with big data.
Phase 2: Hyper Target Marketing (HTM)

Late in 2016, we made the Holy Grail mortgage records rate discovery described on page 10 (ending my 25-year quest to find): we learned how to definitively identify the mortgage note rate on roughly 96.7% of all the FHA loans in service (over 7 million records), the interest rate a potential customer is paying for his or her current mortgage. Our developers applied a proprietary cocktail of algorithms (filtering, quantitative and qualitative) onto 1.2 quintillion \((10^{18})\) combinations of publically available data fields - NOT through obtaining any protected information from individual customer records.

This discovery of mortgage records rate identity provided derived data content that allowed us to deliver the HTM one-to-moment customer experience. All aspects of our approach remained the same. Knowing the prospect’s current mortgage rate allowed us to identify 100% refinance eligible candidates with precision, Precision Marketing®.

We proceeded to verify the accuracy of our data insight over the following 6 months. Of the 2700 respondents, 2610 confirmed that the rate we noted on their individual marketing piece was exact, their assumed payment exact to the penny, and their scheduled amortized payoff amount shown was accurate to within the dollar. (It should be noted that 90 of 2700 respondents had “unavailable matches” due to multiple rate matches determined by our proprietary algorithms; in each case, one of those matches was indeed their rate.) This derived data content fuels our HTM methodology and improved our response

According to the 2017 DMA Response Rate Report, direct mail achieves a 5.1% response rate when using a “house list” or clientele list.
Results

Reader beware, this section is data noisy. Individual MLOs with a challenged attention span please go to www.Data.PoweredbyQED.com for alternative formats: video, infographic, db (TM), dbQ (HTM) samples. Our study can be delineated by the discovery of mortgage records rate identity (Holy Grail, page 10): First-generation marketing (1/2014-11/2016) TM methodology using mortgage data records. Interest rate conditions were favorable for refinancing. Second-generation marketing (1/2017-5/2018) HTM methodology using Holy Grail rate identity. Interest rate conditions were unfavorable for refinancing.

Marketing results were measured by Response rates (leads) and Conversion rates (loan applications). This is an upfront marketing approach without reference to our processing or closing ratios.

Results are in terms of ROI%. The ROI measures the campaign’s funding revenue relative to the marketing campaign costs. The percentage is annualized and takes into account the average timeline from marketing to closing. Long and short, the higher the ROI% the better.

Servicing acquisition costs are measured in terms of assets net yearly revenue. This measures the marketing campaign servicing acquisition costs. The length of time (in years) the loan must be in service to break even is noted as " x MSR".

First Generation Marketing Results (2014-2016): 1680% ROI\(^A\), 0.55 x MSR\(^B\) servicing acquisition costs. Second Generation Marketing Results (2017): 2060% ROI\(^A\), 0.37 x MSR\(^B\) servicing acquisition costs.

\(\text{A: } 75 \text{ days, gross origination income only, excludes MSR FMV asset value.}\)

\(\text{B: } 0.44\% \text{ net service MSR income.}\)
Mortgage Records Interest Rate -
The Holy Grail of Data Driven Marketing

This white paper is about the Holy Grail data insight discovery, dBQ, and what we did with it. The derived data stemming from this discovery provides the MLO with the most important element for target marketing done well: Specificity and Relevant Content. On the surface, this discovery means the MLO now knows the prospective customer’s mortgage terms and can predetermine their savings. This provides a clear marketing message and eliminates non-relevant marketing noise. Digging deeper, the data discovery enables Precision Marketing for the MLO, defined by the customer’s interest rate being 100% refinance eligible. This eliminates marketing waste in terms of time and costs and ultimately increases the marketing campaign ROI%. As explained in the Case Study section (page 7), this is the evolution of Target Marketing to Hyper Target Marketing, HTM: personalized content with Marketing Precision.

Products of Hyper Target Marketing is high lead quality manifested by higher application conversion rates. The end result is a personalized marketing approach that creates a one-to-moment customer experience producing quality leads and high efficacy.

Identify what the borrower “HAS” to determine what the borrower “WANTS.”

Ultimately, it’s the proposed refinance savings (APR reduction) that motivates the customer’s response and not the rising or dropping interest rate noise.

Rising rates do not have a negative effect on our HTM response rate or conversion rates.

The limitations to this data-smart approach are within the total number of eligible refinance candidates if rates continue to increase without relief (straight line up). This worst-case scenario clearly suggests the total number of eligible refinance eligible candidates reduces but the response rate and conversion rate will remain unaffected. This clearly rewards the MLOs who are early adopters and take advantage of the untapped market of refinance candidates. Having access to smart data is the linch-pin to the MLO’s success in a rising interest rate environment.

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8 The study funded 1373 loans during the 4 years (1/2014-12/2017). The purpose of the funded transactions (response rational): 91% rate reduction refinances, 12% were cash out, 5% were purchases and 2% were reduced terms.
Precision marketing databases are by definition 100% eligibility, meaning all the prospects within the marketing campaign were predetermined refinance eligible based on the MLO’s interest rate and loan criteria at the time of the data purchase.

Collateral benefit: It should be noted that our response rates continued to improve as the rising interest rate environment aged and coincides with the highest market interest rate level in years. The improved response may be due to the reduction of advertising overall (less marketing or fewer MLOs).

The mortgage industry mailed a record 1.1 billion direct mailings during the first 11 months of 2017.¹⁰

A Completely Systematic Data Driven Marketing Approach

Derived data content, db, that is integrated into an HTM application using coordinated MLO Sales software, drives A Completely Systematic Data Driven Marketing Approach. This approach’s ability to work well without regard to the volatility of interest rates empowers the MLO with a truly turnkey, data-smart marketing approach that is effective today and is a true solution to the mortgage industry challenges. Precision Marketing defines the market determined timing for using db vs. dbi and the approach, TM vs. HTM, based on statistical costs analysis and NOT marketing based hyperbole.¹¹

Data Content

Data content—considered first and foremost in this exciting automated marketing approach—is provided by public recorded mortgage records, db. These are the same records used for the initial (2014–2016) Target Marketing TM data content in our case study. The results of our TM campaigns were statistically significant relative to sample sizes, number of responses (leads) and conversion rates (applications). The second generation of marketing (HTM) in our study used derived data content, dbi, a product of the discovery of mortgage records rate identity. This dbi content enables Precision Marketing and the HTM delivers a personalized one-to-moment customer experience.

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9 Precision marketing is best illustrated by the percentage of eligible refinance candidates within a pool of serviced loans, e.g., 10% refinance eligible means 1 of every 10 data records has rates high enough or is refi eligible. The marketing costs equal database costs and direct mailing costs. Another way to see this: 10% eligible means: TM -10 direct mailings and 10 mortgage records, 10 db or 1 eligible dbi record and 1 direct mailing.

10 According to the Data and Marketing Assc (DMA) and market research company Mintel Comperemedia, the mortgage sector mailed close to 1.1 billion direct mail pieces in the first 11 months of 2017 and accounted for 42.8% of all financial service direct mail volume.

11 TM with db is cost-effective methodology when refi eligible exceeds 23%. HTM with dbi is cost effective when refi eligible is below 23%.
National Data Providers - Data Access

As of the date of this paper, the two largest US mortgage and property data providers confirmed they do NOT have the majority (in fact, they have less than 3%) the mortgage records rate identity, db\textsuperscript{Q}, described in this paper. For those who are unfamiliar with this, county-recorded mortgage data is contained within the deed of trust or deed record. Fixed rate mortgage deeds do not disclose interest rate terms. The mortgage “Notes” disclose terms aka interest rate and are not publicly recorded instruments. Therein lies the challenge. Adjustable Rate Mortgages (ARM) Riders are recorded and ARM note rates are readily available.

Data.PoweredbyQED.com

As of June 2018, QED has over 7 million actively serviced mortgage loan records with rate identified, db\textsuperscript{Q}, 49+ million actively serviced mortgages (Conventional, VA and FHA) and roughly 140+ million property records nationwide. QED developers are actively updating our database daily. QED’s proprietary algorithm cocktails are deriving an additional 1 million rate-identified mortgage records yearly.


Software: A Culmination of Experience

OG or Organic Growth Sales\textsuperscript{Q} software digitally captures each marketing campaign, response and loan conversion—including every voice call, text, email and Internet inquiry. Additionally, it provides machine learning for ongoing sales feedback for the MLO and each marketing campaign. The data discovery db\textsuperscript{Q} (Holy Grail, page 10) and OG Sales\textsuperscript{Q} work in harmony as this data-driven strategy’s fuel and the engine, respectively. Together they comprise our debut of: A Completely Systematic Data Driven Marketing Approach.

This is system has a “plug and play” simple user interface to embrace the technology-challenged MLO. The interface simplicity should not be confused with limited software functionality. Within its range of MLO sales features, this software incorporates many additional sales tools that are outside the scope of this paper. These features are best described as the next-generation sales intelligence that will bridge the gap of mixed realities so the MLO may communicate the way the customer understands.

\[12\text{ As of June 2018, Data.PoweredbyQED.com has over 10 trillion of actively serviced 1st-lien mortgages throughout the nation.}\]
Window of Opportunity

“We are living in the future we always dreamed of . . . “ Okay, that’s a stretch, but providing MLOs a data-driven marketing solution that works well when rates rise is the next best thing. This disruptive quality is a product of applying three proprietary elements: Precision Marketing\textsuperscript{Q}, db\textsuperscript{Q}, and OG Sales\textsuperscript{Q} software- integrated within a customized hyper-target marketing (HTM) approach.

In the end, our case study is a true Organic Growth MLO solution to the mortgage industry’s rising interest rate challenges. If rates continue to rise, then a clear distinction of MLO winners and losers will be defined by their marketing approach. Mortgage companies will need to update their marketing strategies to adapt to a changing business environment.

A Completely Systematic Data Smart Marketing Approach is a new and completely turnkey data-driven marketing strategy. The OG MLO approach leverages QED’s data insight with HTM precision for a systematic marketing solution to:

**Current Challenges:**
- Rising Interest Rates, Low Origination Margins and Loan Production

**The Solution:**
A Completely Systematic Data Smart Marketing Approach

**High Margins, Low Service Acquisition Costs**
- 2100% Return On Investment
- 0.35 xMSR Acquisition

**Rising Interest Rates**
- 2.8% Response Rates
- 65% Conversion Rates

**Immediately Increase Loan Production**

“Today you have smart data to change the narrative so that rising interest rates work in your favor. Be smart, be an early adopter and put smart data to work.”

Our mortgage industry continues to be challenged by rising interest rates while using old marketing approaches. Today you have smart data to change the narrative so that rising interest rates work in your favor. Be smart, be an early adopter and put smart data to work.

“You are living in the future you always dreamed of. It is right here and right in front of you.”

- Quad Erot Demonstrandum
Terms

db = mortgage database provided by publicly recorded data (mortgage deed records).

dbQ = QED derivative data product = mortgage record rate identity.

% Eligible -- # loans within rate criteria / # loan criteria.

Flyer round # = # of direct mailing sets using same db or dbQ

HTM = Hyper Target Marketing methodology using dbQ. TM = Target Marketing methodology using db.

Loan criteria = fields from public deed records such as but not limited to: Geography, loan amount, closing dates, loan type (FHA), occupancy, transaction type (purchase, refi), lender, broker, etc.

mc = marketing campaign costs defined by sum of data costs and total direct mail costs.
MLO = Mortgage Loan Originator

OG = Organic Growth

Response = Leads defined by voice call, email, text, website inquiry and internet (ppc).

Response rate = # leads divided by total db or dbQ count per marketing campaign set. Rd = Flyer round

Rate criteria = mortgage record interest rate. Predetermines the candidates based on the loan criteria and interest rate criteria.

Precision MarketingQ = Precision Marketing defined by dbQ rate criteria.

MSR asset = mortgage servicing rights defined by dollar fair market asset value.

MSR acquisition costs = # years of MSR net annual income. EX. $1,000 MSR net annual income and $2000 MSR acquisition costs = 2.0 x MSR.

Refi eligible = number of active loans with rates above rate criteria. Eligibility is based on mortgage record minimum rate criteria and NOT individual creditworthiness.
Disclaimer

This white paper is my personal commentary on The Premier Mortgage Company’s four-year case study. I have spent the last 30 years using mortgage data records for the purposes of direct mail marketing campaigns. The results were documented via our proprietary marketing software, which records and digitally files every lead, application, closing and cancellation (post 3/2015). As a result, this white paper is provided for informational purposes only. There are no warranties, express, implied, or statutory, as to the information in the white paper. This white paper is provided “as is.” Information and views expressed in this white paper, including URLs, may change without notice.

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