DIFFERENT STROKES FOR DIFFERENT FOLKS
THE BUYING HABITS AND PREFERENCES OF MORTGAGE BORROWERS

AUTHORS
Ahmet Hacikura, Partner
Alina Lantsberg, Principal
Tom McAndrews, Engagement Manager
One of the authors of this paper recently did some mortgage shopping. His goal was to test the refinancing process with a few lenders. He is disappointed to report that the entire experience was an utter pain—and that’s being generous. There was much to complain about, but the most vexing experience came in trying to compare one lender versus another.

The process involved countless hours spent scouring lender websites trying to make sense of their claims, dozens of missed calls from 1-800 numbers (which often came at the wrong time of day), and even more calls with Nick and David and Jim and Heather and Todd and their nameless automated voice message systems with their abrupt good-byes.

Throughout, he struggled with some basic questions: How do these prices compare across the different products? How fast will this lender process my loan compared with the other? What if something comes up that this lender doesn’t like after I choose them? Or what if this lender is poor at managing closings?

As these questions and the process exhausted him, he couldn’t help but sigh: Why bother? Why not just go with lender A? None of them are really all that different from each other anyway.

Before the process even really began, he simply wanted to do away with the headache of sifting through so many interactions and so much information.
THE RIDDLE

Ask any prospective or recent borrower what matters most in choosing a lender, they will tell you price—price over all else. And of course customer experience. These are the twin pillars that supposedly, for most borrowers, drive the decision to go with one lender rather than another.

Exhibit 1: Factors most important in choice of mortgage lenders to apply to

<table>
<thead>
<tr>
<th>% OF RESPONDENTS</th>
<th>Purchase borrowers</th>
<th>Refinance borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reputation for competitive pricing</td>
<td>57%</td>
<td>44%</td>
</tr>
<tr>
<td>Reputation for good customer service</td>
<td>42%</td>
<td>42%</td>
</tr>
<tr>
<td>Having an existing relationship with the institution</td>
<td>33%</td>
<td>32%</td>
</tr>
<tr>
<td>Receiving a referral from a realtor, developer, or agent</td>
<td>17%</td>
<td>19%</td>
</tr>
<tr>
<td>Strength of brand</td>
<td>19%</td>
<td>18%</td>
</tr>
<tr>
<td>Receiving a referral from a friend, colleague, or family</td>
<td>16%</td>
<td>16%</td>
</tr>
<tr>
<td>Convenience of branch location</td>
<td>18%</td>
<td>19%</td>
</tr>
<tr>
<td>Quality of the website and literature</td>
<td>7%</td>
<td>5%</td>
</tr>
<tr>
<td>Other</td>
<td>8%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Source: Oliver Wyman Mortgage Consumer Survey 2016

But how do prospective borrowers know which lender has the best prices or provides superior customer experience or the speediest approval or the most reliable closing?

Human beings can consume and process only so much information in a given span of time, and the amount and complexity of information that must be processed to choose a mortgage lender is extraordinary: hundreds of lenders to choose from, complex bond math to work through, numerous customer service variables to analyze—and what is an APR versus a rate versus points anyway? Comparison sites that aggregate rate information can help but are often confusing in and of themselves, and posted terms often differ from the rates and fees customers eventually pay.

Even if one assumes that mortgage borrowers are actually able to process all this information, the choices they make are often inconsistent with the opinions they express. For example, while most borrowers state that price is critical to their decision, a recent Oliver Wyman survey found that 71 percent of borrowers apply to only one lender and 63 percent consult just one type of information source before making their decision on where to apply. Many go on to select a lender that they perceive to be less expensive when the facts say otherwise.

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Given all this, how do prospective homeowners cut through the clutter to pick their lender? How do they make one of the most important financial decisions of their lives?

DIFFERENT STROKES FOR DIFFERENT FOLKS

Different people approach life’s choices in different ways. Some rely on instinct, others on the advice of institutions. Some trust only family and friends and view the rest of the world with hostility. Others, wary of any single resource, dig and dig until they are satisfied that they’ve exhausted all available sources of information.

To see how this dynamic plays out in mortgage shopping, Oliver Wyman surveyed nearly 1,000 recent borrowers, asking, among other questions, what sources of information they used when deciding where to apply for a mortgage and how many lenders they applied to. We put the responses through a statistical clustering analysis to see what patterns emerged among both purchase and refinance borrowers (see Exhibits 2 and 3).

At first blush, the average purchase borrower seeks information from one or two sources and applies to one lender. On deeper examination, however, there is much more going on below the surface. Specifically, four primary types of borrowers emerge:

- **Shoppers** (28 percent of respondents) on average consulted about three sources of information before making a decision. These sources typically included a realtor, their primary bank, and family and friends. Only half of these borrowers applied for a loan with just one lender.
- **Real Estate Agent’s BFF** (26 percent) relied exclusively on real estate agents and cited no other sources of information in making their decision. Almost three-quarters of these borrowers applied to only one lender.
- **Bank Loyalists** (12 percent) relied solely on the advice of the bank where they had their primary banking relationship. And 87 percent of these borrowers applied only to that lender.
- **Villagers** (12 percent) relied mostly on the advice of friends, relatives, and co-workers (though some also sought additional information from their realtors). More than 90 percent of these borrowers applied to only one lender.
Exhibit 2: Cluster analysis for purchase borrowers

PURCHASE ONLY

<table>
<thead>
<tr>
<th>Description of cluster</th>
<th>Share of respondents applying to more than one lender</th>
<th>Share of survey population</th>
<th>Average number of sources used</th>
<th>Percent with mortgage from primary bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>SHOPPER</td>
<td><img src="image" alt="Cluster" /></td>
<td>28%</td>
<td>2.7</td>
<td>28%</td>
</tr>
<tr>
<td>REAL ESTATE AGENT’S BFF</td>
<td><img src="image" alt="Cluster" /></td>
<td>26%</td>
<td>1.0</td>
<td>17%</td>
</tr>
<tr>
<td>BANK LOYALIST</td>
<td><img src="image" alt="Cluster" /></td>
<td>12%</td>
<td>1.0</td>
<td>56%</td>
</tr>
<tr>
<td>VILLAGER</td>
<td><img src="image" alt="Cluster" /></td>
<td>12%</td>
<td>1.4</td>
<td>16%</td>
</tr>
<tr>
<td>OVERALL</td>
<td><img src="image" alt="Cluster" /></td>
<td>28%</td>
<td>1.6</td>
<td>25%</td>
</tr>
</tbody>
</table>

1 A fifth cluster contained those borrowers not otherwise classified
2 Other than primary bank
3 Other includes link to lender from online real estate database company (e.g., Zillow or Trulia), other websites and other non-websites

Source: Oliver Wyman Mortgage Consumer Survey 2016
### Exhibit 3: Cluster analysis for refinancing borrowers

#### REFINANCE ONLY

<table>
<thead>
<tr>
<th>Description of cluster</th>
<th>SHOPPER</th>
<th>REAL ESTATE AGENT’S BFF</th>
<th>BANK LOYALIST</th>
<th>COUCH POTATO</th>
<th>TECHNOPHILES</th>
<th>OVERALL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of survey population</td>
<td>18%</td>
<td>14%</td>
<td>29%</td>
<td>24%</td>
<td>15%</td>
<td>27%</td>
</tr>
<tr>
<td>Share of respondents using various information sources in deciding where to apply</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real estate agent</td>
<td>56%</td>
<td>100%</td>
<td>7%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Primary bank</td>
<td>50%</td>
<td></td>
<td>100%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Friend, relative or co-worker</td>
<td>70%</td>
<td>22%</td>
<td>9%</td>
<td>37%</td>
<td>10%</td>
<td>38%</td>
</tr>
<tr>
<td>Previous mortgage lender</td>
<td>51%</td>
<td>5%</td>
<td>6%</td>
<td>10%</td>
<td>100%</td>
<td>27%</td>
</tr>
<tr>
<td>Online search engine</td>
<td>69%</td>
<td>8%</td>
<td>6%</td>
<td>30%</td>
<td></td>
<td>9%</td>
</tr>
<tr>
<td>Other*</td>
<td>14%</td>
<td></td>
<td>3%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average number of sources used</td>
<td>3.1</td>
<td>1.3</td>
<td>1.3</td>
<td>1.0</td>
<td>1.2</td>
<td>1.5</td>
</tr>
<tr>
<td>Share of survey respondents applying to more than one lender</td>
<td>39%</td>
<td>27%</td>
<td>20%</td>
<td>17%</td>
<td>42%</td>
<td>27%</td>
</tr>
<tr>
<td>Percent with mortgage from primary bank</td>
<td>23%</td>
<td>23%</td>
<td>55%</td>
<td>14%</td>
<td>8%</td>
<td>28%</td>
</tr>
</tbody>
</table>

1 Other than primary bank  
2 Other includes link to lender from online real estate database company (e.g., Zillow or Trulia), other websites, and other non-websites  
Source: Oliver Wyman Mortgage Consumer Survey 2016
Refinance borrowers initially seem quite similar to purchase borrowers. About 73 percent seek information from one or two sources and apply to only one lender.\(^1\) Three clusters we saw among purchase borrowers (Bank Loyalists, Shoppers, and Real Estate Agent’s BFF) were also found among refinance borrowers. But there were some important differences. There was no significant Villager cluster among refinance borrowers; instead, there were two new clusters: Couch Potatoes and Technophiles.

- **Bank Loyalists** (29 percent of respondents in the refinance category) relied almost exclusively on information from their existing primary bank when preparing to refinance their mortgage. 80 percent of these borrowers applied to only one lender.
- **Couch Potatoes** (24 percent) did not shop at all. While a minority of these borrowers sought information from friends or other sources, they were likely to refinance with their existing lender, and more than 80 percent applied to only that lender.
- **Shoppers** (18 percent) consulted a wide variety of information sources—three on average—and nearly 40 percent applied to more than one lender.
- **Technophiles** (15 percent) relied almost exclusively on the Internet for information. These borrowers were also fairly aggressive applicants, with 42 percent applying to more than one lender.
- **Real Estate Agent’s BFF** (14 percent) relied on information from their real estate agent when making a decision. This category probably includes both borrowers sticking with advice they originally received when applying for their purchase loan and borrowers returning to their original realtor for fresh advice. Almost three-quarters of these borrowers applied to only one lender.

**TOWARD SMARTER CUSTOMER ACQUISITION**

Most lenders with a retail footprint tend to take a simple view of mortgage borrowers. Some view their customers through either a purchase or refinance lens. Others take a government-insured versus jumbo versus GSE lens. Yet others like to distinguish between existing bank customers and other potential borrowers. While these characteristics are important, the distinctions are too coarse to drive an effective sales strategy in today’s mortgage market.

For example, let’s assume you are a bank that has little interest in a broad mortgage market footprint. You are interested in capturing 70 percent of your existing primary bank customers (those with checking and/or savings accounts at your institution) who will get a mortgage in the next 12 months. You are likely to assume that the way to get to these borrowers is through some direct outreach through your branch or direct mail or outbound calls with a unique offer—better pricing, distinctive processing, easy application process, etc. But in this pursuit you will forget that when most borrowers make their decision, they either rely entirely on advice from real estate agents or friends or they shop aggressively because they simply don’t trust you—or anyone else. Your efforts of direct appeal are unlikely to work with many potential borrowers who bank with you.

Or let’s assume you are a lender that wants to pursue a strategy of aggressive direct-to-consumer sales. If you’re trying to reach purchase borrowers, you could build a world-class call center supported by a distinctive fulfillment operation and a one-of-a kind digital

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\(^1\) Oliver Wyman Mortgage Consumer Survey 2016
presence. But how will you win over Shoppers, who won’t trust much of what you say? What about borrowers who rely solely on real estate agents or friends? And if you want refinance borrowers, online-focused non-bank lenders have already beaten you to the punch—can you offer a better hassle-free buying experience for Couch Potatoes and/or more intriguing whiz-bang digital tools for the Technophiles?

A lender that wants to directly influence buying choices clearly needs to understand borrowers’ preferences and habits. The clusters of buying habits described above are one way to get finer and deeper insight into a more efficient and precise customer acquisition strategy. For example:

• A lender’s reputation is clearly significant to borrowers—not just as they perceive it directly, but as it percolates to them through real estate agents as well as the borrowers’ friends and family. In addition to providing a great customer experience that will leave a positive impression and lead to future referrals, what else can lenders do to improve their brand and drive more referrals from influencers?

• Can marketing spend be optimized to target borrowers who are true shoppers? And what type of messaging is likely to influence them? Could a bank report competitors’ rates the way Progressive does with auto insurance?

• For bank lenders, Bank Loyalists require much less effort to acquire than borrowers who find their lender through other routes. Are there opportunities to identify these customers ahead of time and direct the efforts of high-cost sales staff to other prospects?

• More generally, given the different types of buying habits, is there room for sales model differentiation (for example, highly skilled sales agents covering realtors, an aggressive family and friends referral program for Villagers, call-center-based sales model for Bank Loyalists)? Can lenders accurately predict what type of mortgage customer people will be?

• Are buying behaviors correlated with profitability? Will Shoppers’ applications be more expensive to process because they likely have unique needs?

These are just a few of the questions lenders should consider to inform a smarter customer acquisition strategy.
POSTSCRIPT: THE MILLENNIAL QUESTION

In the above analysis, we did not say much about Millennials. We are generally skeptical about the hype that surrounds this topic and the stereotypes we so often see in headlines. While each new generation may display tastes and preferences that differ from the prior generation's, there is little to suggest that the fundamental psychology of American consumers has changed.

The most important differentiator among Millennials is that most tend to be purchase borrowers, which should not be a surprise. In our research, purchase borrowers under the age of 34 exhibited more or less the same patterns of shopping behavior as those in older age brackets, with a few minor differences.

Exhibit 4: Cluster analysis for Millennials vs. General population

PURCHASE BORROWERS ONLY

- Millennials tend to...
  - Shop around more than the general population
  - Rely slightly less on real estate agents
  - Trust institutions less
  - Rely on friends and family slightly more

And when it comes to technology, the difference between Millennials and the broader population is not significant. For purchase loans, Millennials were only slightly more likely than the broader population to begin the mortgage shopping process online (11 percent versus 7 percent) and start the application process online (42 percent versus 36 percent).
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For more information please contact the marketing department by email at info-FS@oliverwyman.com or by phone at one of the following locations:

AMERICAS
+1 212 541 8100

EMEA
+44 20 7333 8333

ASIA PACIFIC
+65 6510 9700

AUTHORS
Ahmet Hacikura
Partner
ahmet.hacikura@oliverwyman.com

Alina Lantsberg
Principal
alina.lantsberg@oliverwyman.com

Tom McAndrews
Engagement Manager
tom.mcandrews@oliverwyman.com

www.oliverwyman.com