

Mortgage Shopping's Digital Divide

— by STEVE DEGGENDORF —

The continued evolution of online technology tools is likely to allow consumers to more easily find the right mortgage to suit their needs. Improved technology could help mortgage borrowers

Fannie Mae studies looked into the online mortgage-shopping habits of consumers across a range of income groups. They found distinct differences among various groups in their past reliance on online tools to shop for mortgages.

find the right mix of rate, fees, risk, features and service so they experience higher long-term satisfaction with their mortgage choice. ¶ This, in turn, could yield significant changes to mortgage shopping on a scale comparable to what has already occurred in the travel and retail industries, where we now expect to be able to go online and relatively easily and transparently find the right product. ¶ Given the likely impact technol-

ogy could have on the mortgage industry, Fannie Mae's Economic and Strategic Research Group collected data on this topic through two different studies. ¶ The studies found distinct differences in the degree to which technology was used in the mortgage-shopping process between

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higher- and lower-income consumers as well as between recent and non-recent mortgage borrowers.

The studies also found a shared desire among all groups to use online technology more in the future.

We define lower-income consumers as people with family incomes of less than \$50,000, and higher-income consumers as people with family incomes of more than \$100,000.

The findings also suggest that there may be opportunities for online tools to improve the ability of all borrowers to shop for a mortgage.

In-person or online

Late in 2012, to gain a better understanding of mortgage shoppers, we collected data from an online panel of consumers. These consumers—approximately 3,600 in total—had either obtained a mortgage in the past four years or were intending to get a mortgage in the next 18 months. This study included

first-time and repeat buyers as well as refinancers.

We found that technology use was one of the biggest differentiating factors among the different segments of mortgage shoppers. It was especially highlighted by differences between income groups.

Results showed that lower-income consumers are more likely to say that they prefer in-person interactions while mortgage shopping than higher-income consumers. In particular, we asked consumers about gathering information, choosing a lender and completing their application while mortgage shopping (see Figures 1, 2 and 3).

Though the data indicates that as income increases, the preference for in-person interaction diminishes and the desire for shopping online grows, there appears to be a desire for a mix of in-person and online experiences across all income groups.

Growing interest in using online technology

During the second quarter of 2013, we collected additional data on mortgage shopping and online technology use through Fannie Mae’s *National Housing Survey*. The *National Housing Survey* is a monthly attitudinal phone survey that polls the adult general population of the United States to assess attitudes toward owning and renting a home, home purchase and rental prices, household finances, overall confidence in the economy and more.

The *National Housing Survey*’s second-quarter 2013 findings reveal that higher-income borrowers are using technology—personal computers, tablets and smartphones—while mortgage

FIGURE 1

PREFERRED SOURCES FOR GATHERING MORTGAGE INFORMATION

| When gathering information about mortgages or refinancing, which of the following are your preferred sources of information? (Showing percent first choice) | Less than \$50,000 | \$50,000–\$100,000 | More than \$100,000 |
|--|--------------------|--------------------|---------------------|
| In-person visits | 48 | 39 | 31* |
| A visit to the provider’s website | 25 | 28 | 32* |
| Internet sites not affiliated with banks or mortgage providers (i.e., mortgage-comparison websites, reviews, etc.) | 13 | 20 | 24* |
| Other | 14 | 13 | 13 |

SOURCE: Fannie Mae

*Denotes a statistically significant difference between “less than \$50,000” and “more than \$100,000” at the 95% confidence level

FIGURE 2

IMPORTANCE OF IN-PERSON PRESENCE FOR CHOOSING A MORTGAGE PROVIDER

| When choosing a mortgage provider and thinking about the provider itself, how important or unimportant is each of the following to your decision? (Showing percent extremely important or important) | Less than \$50,000 | \$50,000–\$100,000 | More than \$100,000 |
|---|--------------------|--------------------|---------------------|
| Opportunity to meet face-to-face with someone | 69 | 62 | 52* |
| The provider has a local branch | 60 | 47 | 39 * |

SOURCE: Fannie Mae

*Denotes a statistically significant difference between “less than \$50,000” and “more than \$100,000” at the 95% confidence level

shopping about twice as frequently as lower-income borrowers (see Figure 4).

This aligns with and supports another key finding from this study: Higher-income borrowers say they are more likely to rely on their own calculations and focus more on offer competitiveness than lower-income borrowers.

In the 2013 study, and similar to our 2012 study, we also found that lower-income borrowers say they are more likely than higher-income borrowers to rely on real estate agents, mortgage lenders, family and friends for advice and recommendations in the mortgage-shopping process. However, all income groups aspire to use online technologies even more

than they currently do; in particular, lower-income borrowers indicate that they will increase their use of technology at a rate that could help close the gap with higher-income borrowers.

The likelihood that technology will play an even larger role for all borrowers in the future presents opportunities to provide more technology-driven enhancements to the mortgage-shopping process.

The use of technology in mortgage shopping is more pronounced among recent mortgage borrowers—those who took out a mortgage in the last three years. Recent mortgage borrowers also tell us they would like to use technology more frequently in the future compared with prior mortgage

FIGURE 3

PREFERRED METHODS FOR COMPLETING A MORTGAGE APPLICATION

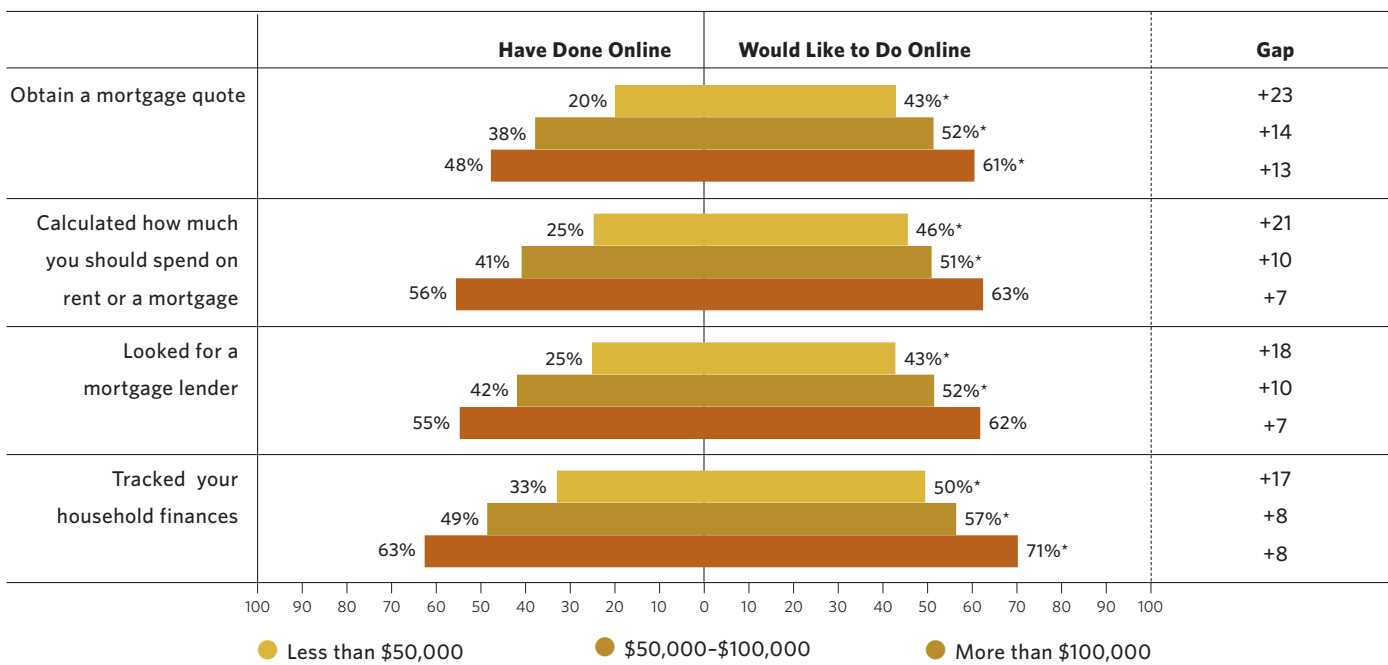
| What would be your preferred method for completing the final mortgage application? (Showing percent) | Less than \$50,000 | \$50,000–\$100,000 | More than \$100,000 |
|---|--------------------|--------------------|---------------------|
| In-person with a representative of the mortgage provider | 74 | 64 | 53* |
| Online | 18 | 27 | 37* |
| By regular mail | 2 | 3 | 3 |
| Over the telephone | 3 | 2 | 3 |
| By email | 2 | 3 | 3 |
| By fax | 0 | 0 | 1 |

SOURCE: Fannie Mae

*Denotes a statistically significant difference between “less than \$50,000” and “more than \$100,000” at the 95% confidence level

FIGURE 4

PAST AND ASPIRATIONAL TECHNOLOGY USE IN MORTGAGE SHOPPING BY MORTGAGE BORROWER INCOME GROUP



SOURCE: Fannie Mae

*Denotes a statistically significant difference between “have done online” and “would like to do online” at the 95% confidence level

Consumers say that social media plays a small role in their mortgage shopping now and it is likely to continue playing a small role in the future.

borrowers—those who obtained a mortgage more than three years ago.

This may partially be explained by the growing use of online tools in general, which makes recent borrowers more likely to use technology that is either new or more readily available.

Recent borrowers also tend to be younger and have higher incomes and education levels than prior mortgage borrowers. However, both groups indicate an interest in using technology more in the future.

Consumers say they use traditional personal computer technology far more than mobile technologies, such as smartphones or tablets, to do their mortgage shopping (see Figure 5).

Although smartphones and tablets show the biggest increases for potential future use, borrowers still told us they would like to use personal computer technology significantly more in

the future to shop for their mortgage and manage their personal finances (see Figure 6).

In addition, consumers say that social media plays a small role in their mortgage shopping now and it is likely to continue playing a small role in the future.

Opportunity: Delivering the right tools

Borrowers responded that they would like to use both personal computer and mobile technology more often in the future to shop for their mortgage. Many researchers, such as the Washington, D.C.-based Pew Research Center's Pew Internet & American Life Project (www.pewinternet.org), have observed that consumers are using online research to enhance their shopping experience—particularly in less-complex product categories—by helping them obtain product information, reviews and price comparisons both at home and in-store.

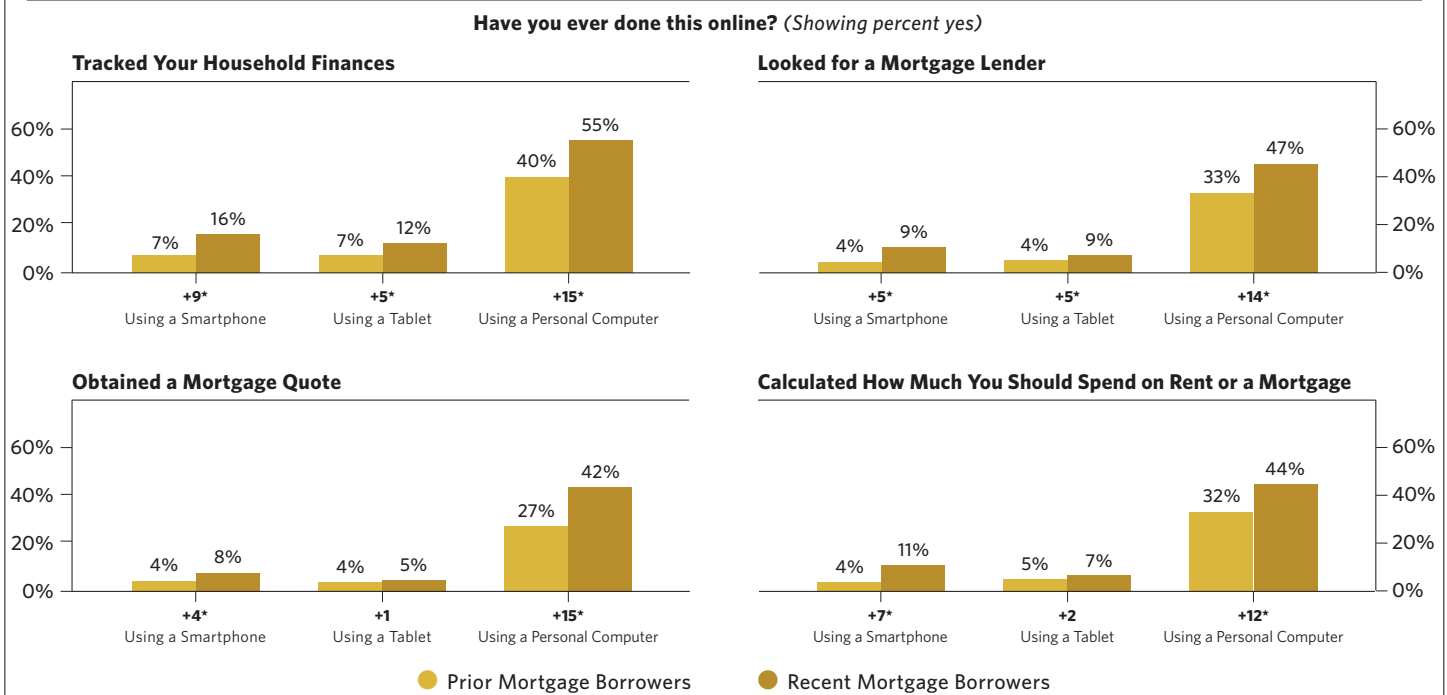
We will see in the coming years what inroads enhanced online and mobile technology tools make in improving the outcomes of complex activities such as mortgage shopping.

In our second-quarter 2013 *National Housing Survey* study, we asked consumers what would have made the process of getting a mortgage easier. Higher-income mortgage borrowers tend to say that an improved ability to compare multiple loan offers would make the mortgage-shopping process easier. Lower-income consumers more often say they would like to have loan terms and costs that are easier to understand. Both of these concerns could potentially be addressed through better online tools.

Though consumers also have told us they would like to

FIGURE 5

PAST TECHNOLOGY TYPE USE BY RECENT AND PRIOR MORTGAGE BORROWERS



SOURCE: Fannie Mae

*Denotes a statistically significant difference between prior mortgage borrowers and recent mortgage borrowers at the 95% confidence level

Enhanced online tools of all types could help all consumers become better mortgage shoppers and achieve better outcomes.

continue to use the more traditional technology of personal computers at two to three times the usage rates of mobile technologies, consumers also say mobile technologies will show the largest usage increases in their future mortgage shopping. This implies there is a market opportunity to address this demand for mobile mortgage-shopping tools.

Mobile tools hold the promise of offering real-time information and education when and where it is needed, such as when visiting homes for sale or shopping for a mortgage in a face-to-face setting.

Possibly the limited mobile-device screen size will lead developers of new mobile tools to discover the few most important aspects of mortgage shopping for consumers to achieve optimal outcomes. This could, as a result, help simplify what many find to be a complex and overwhelming process.

However, enhanced online tools of all types could help all consumers become better mortgage shoppers and achieve

better outcomes.

Optimistically, the next generation of mortgage-shopping tools will help consumers realize their aspiration to use online technology more often and, in turn, contribute to improved mortgage-shopping results.

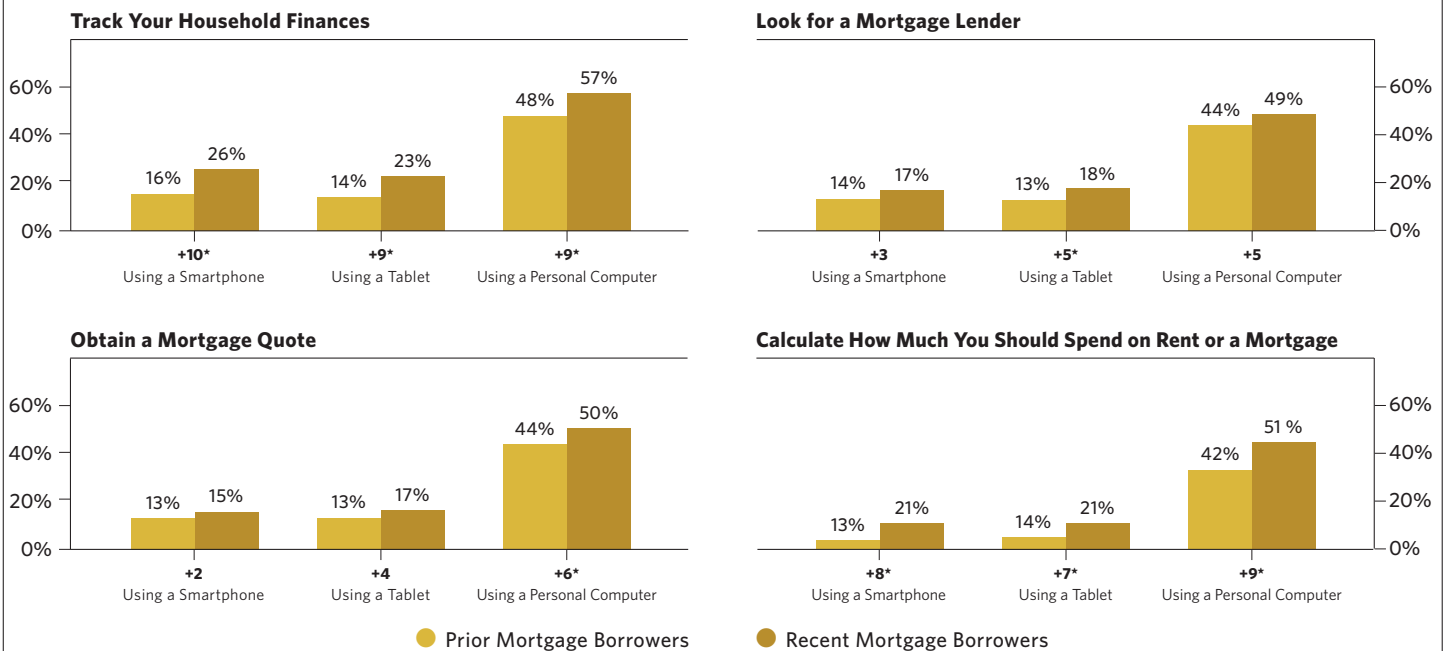
Better mortgage technology might possibly even make finding the right mortgage as much a delight as finding the right home. **MB**

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FIGURE 6

ASPIRATIONAL TECHNOLOGY TYPE USE BY RECENT AND PRIOR MORTGAGE BORROWERS

Would you like to do this online in the future? (Showing percent yes)



SOURCE: Fannie Mae

*Denotes a statistically significant difference between prior mortgage borrowers and recent mortgage borrowers at the 95% confidence level