

TEXAS CAPITALISM[®] INDEX

2020 SURVEY RESULTS FOR MORTGAGE LENDERS

Texas Capital Bank is pleased to publish a special version of the *2020 Texas Capitalism[®] Index* customized for mortgage lenders across the country.

In January 2020, we asked business leaders in the mortgage industry how they felt about the business climate (global, national, regional and local) for the coming year, as well as gauged their opinion about challenges they see for their business and industry in the months to come. In total, 52 mortgage lender respondents completed the 2020 survey.

The results of this study are intended to give mortgage lenders of all sizes an economic snapshot, as seen by their peers. So that it may offer the highest value to you, the survey is conducted annually, and results are published each year.

A note from our economic strategist

Mark Frears, *Economic Strategist, Texas Capital Bank*



If we were in the late 1800s, we could sit on the front porch of the country store talking with business leaders in the community, hearing about all the issues of the day for our town. But in today's global economy, we must consider many sources to get a read on the future of the economy. To provide that additional insight, we're proud to share the *Texas Capitalism Index*.

It is worth noting that **this survey was taken in mid-January 2020**, with news of coronavirus, the impeachment trial, and election year uncertainty front and center. Despite these headlines, optimism was high and increasing versus 2019.

The spread of the coronavirus (now COVID-19) outside of China, and subsequent market reaction, recently has many on edge. But **there is much to be optimistic about**, with other indicators demonstrating strength. The Fed lowered short-term interest rates three times in 2019, and we are set up with lower rates going into 2020, making less expensive capital available. Second, the consumer is in good shape with jobs plentiful, wages increasing and debt at reasonable levels. Third, economic strength in the United States continues to thrive. It is not 4% Gross Domestic Product (GDP), but a good steady 2+%. A stable, steady rate can inspire more confidence as there are not concerns about monetary/fiscal adjustments that need to be made. Fourth, inflation is not a concern. Core prices continue to fall well below the 2% target of the Federal Reserve, which allows our earnings to have greater purchasing power.

The mortgage industry has been doing very well in recent times. The strong economy, with low unemployment, has kept a strong flow of buyers needing new financing. While low interest rates will help this industry in the short term, uncertainties like elections, and regulatory burden, and global impact of COVID-19, cloud the longer term outlook. Businesses will continue to work on attracting new customers, implementing new operational efficiencies, and bringing new products to market. In this very competitive industry, efforts to differentiate will drive new ideas and improvements.

Could global supply chains get stretched and impact the global economy? Certainly. The coming weeks will likely be the most critical period to gauge the strength of the COVID-19 outbreak and whether recovered cases suffer relapses. **A stable U.S. economy and accommodative monetary policy should help markets steady themselves as more information becomes available.**

Pull up a chair and join us in digging into the results of our survey, and as always, **we'd love to talk with you in more detail about what 2020 holds for you and your business.**



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For more economic insights from Mark Frears, **SIGN UP** to receive our weekly Market Intelligence emails.

Texas Capital Bank **mortgage finance clients** were invited to complete a survey on their outlook for 2020 and 2021. In total, **52** respondents completed the survey.



69% are the owner, CEO or President, CFO, or another C-suite role

27% were in leadership positions such as Director, Senior Vice President or Vice President

Most represent well-established midsized to large mortgage companies:



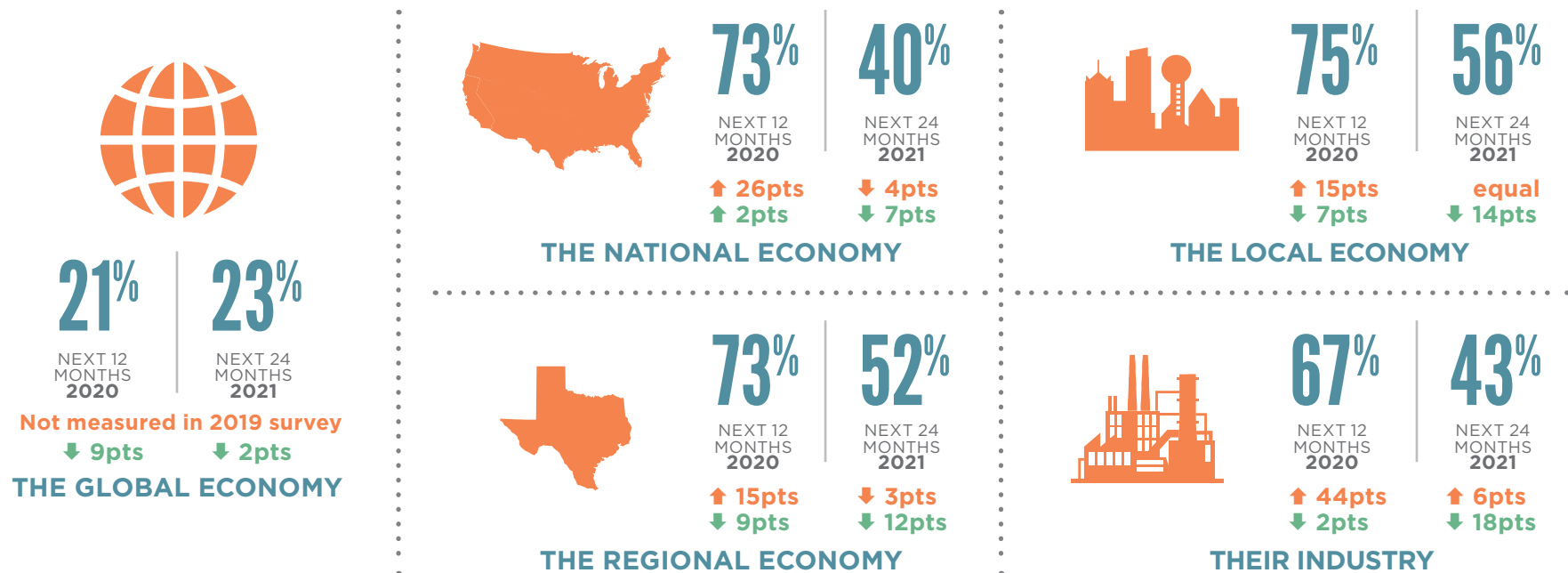
84% represent companies that have been in business for more than 10 years, from all parts of the country:



Optimism high for 2020

Our 2020 responses show that mortgage bankers are more confident in the economies closest to home, and they are much more optimistic about 2020 than they were this time last year. As we look to the medium term, optimism lessens across the board, but continues to be highest close to home. There were no very optimistic responses for the global economy in either the short or medium term; a telling sign. However, despite the low level of optimism in the global economy, respondents still maintain their optimism on the domestic front. For the industry, leaders seem optimistic in 2020, but less so in 2021, with 45% providing a neutral response.

PERCENTAGES COMBINE **OPTIMISTIC** AND **VERY OPTIMISTIC** RESPONSES.

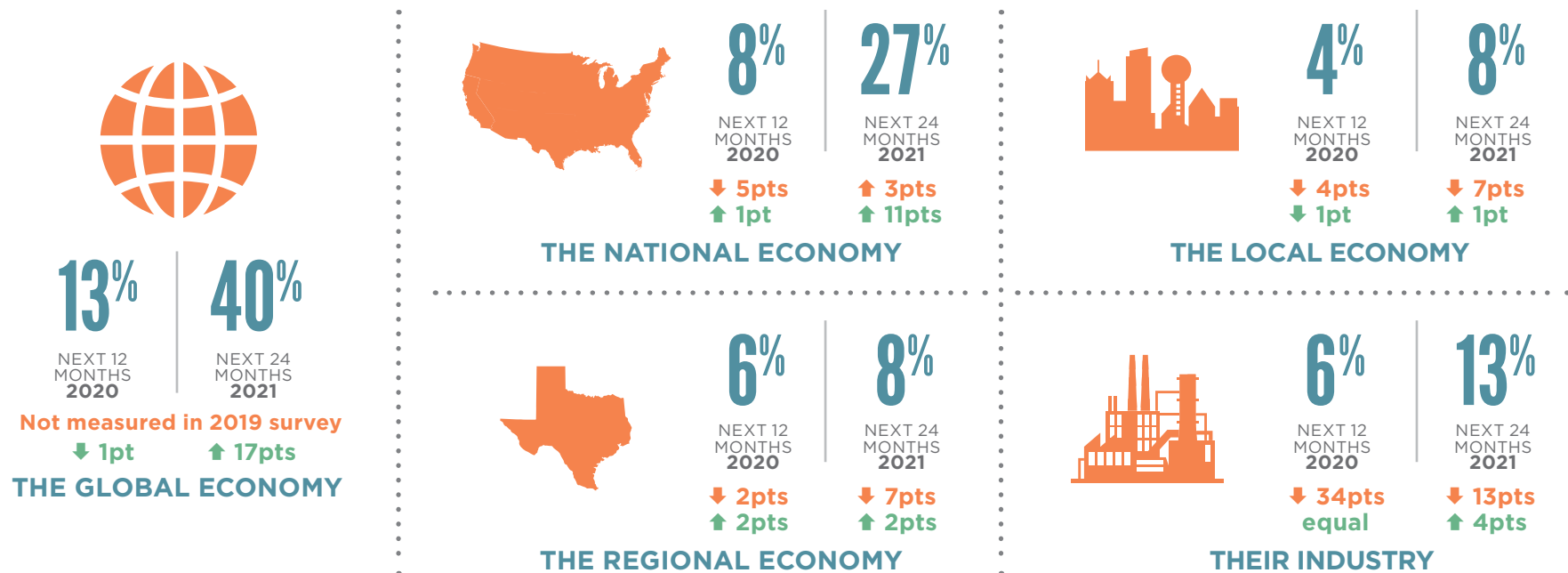


Orange figures above compare 2020 data to 2019. Green figures above compare commercial and industrial responses to all industry responses.

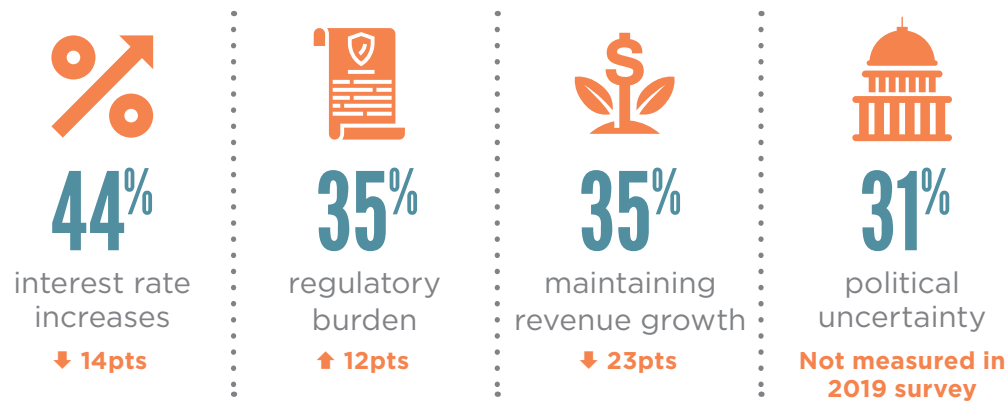
Pessimism low for 2020 but increasing for 2021

A large percentage of mortgage lenders were neutral on the global economy in the short term and medium term, but our results show that a large number become increasingly pessimistic moving from 2020 to 2021. Pessimism was quite low for regional and local economies in both the short and long term, consistent with leader opinion across all industries. Year over year, respondents' pessimism declined overall, with a big improvement in industry sentiment over last year.

PERCENTAGES COMBINE **PESSIMISTIC** AND **VERY PESSIMISTIC** RESPONSES.



The top four challenges that business leaders anticipate in 2020 are:



Orange figures above compare 2020 data to 2019.

Other challenges they face* include:

- 29% customer acquisition **Not measured in 2019**
- 27% impact of election outcome **Not measured in 2019**
- 23% cybersecurity **↑ 4pts**
- 23% technology disruption **↑ 4pts**
- 17% labor/talent shortage **↑ 9pts**
- 15% managing cash flow **↑ 4pts**
- 13% managing labor costs **↓ 2pts**



Interest rate increases and regulatory burden continue to top the list of concerns for mortgage lenders, likely due to their importance to the business, but not due to an upward trend. In fact, rates are down from previous years and are projected to hold relatively steady in the short term.



It's likely that overall **political uncertainty and the 2020 election outcome** are weighing on people's minds, given that a change in administration could have a dramatic effect on both rates and the regulatory environment. This uncertainty seems to be consistent across the board, with leaders in all industries naming it among their top challenges.

*Less than 10% of respondents selected the following responses: availability of capital/credit, business succession planning, changing employee and customer demographics, cost of raw materials/supplies, crisis readiness, employee engagement, foreign competition, healthcare costs, increased tax burden, international exchange rates, lack consumer confidence, trade tariffs.

The top three strategies that mortgage leaders will implement:



52%

attract new customers



40%

implement cost or operational efficiencies



38%

expand products/ services

Other strategies they will employ* include:

34% expand to new geographies

10% upgrade/new infrastructure

21% increase prices/margins

10% acquire other companies

12% utilize new channels

*Less than 10% of respondents selected the following responses: expand manufacturing capacity, merger, transition company to new ownership, upsell/cross-sell to existing customer base.

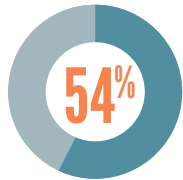
ARE YOU E-READY?

Many lenders are becoming eMortgage ready as a way to stay competitive and realize operational efficiencies.

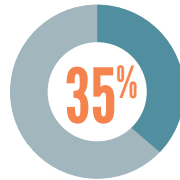
Download our ***Implementing Digital Mortgages*** guide to learn how to get started.



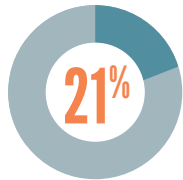
Mortgage lenders plan to rely on a mix of technology and sales/marketing initiatives to achieve their goals in 2020:



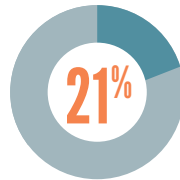
automation tools/
expertise



improve customer
experience



data capture/
analytics capabilities



employee training
and development

However, respondents are not planning to borrow or raise capital for these expenses.



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HOW CAN WE HELP YOU MAKE THE MOST OF 2020?

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Disclaimer: Survey participation was optional. Texas Capital Bank engaged a vendor to help execute our survey and compile results. To review SurveyGizmo's privacy policy for the full extent of information collected and shared, please visit www.surveygizmo.com/privacy/. Questions or concerns about this notice should be directed to Corporate Marketing at CorporateMarketing@texascapitalbank.com.

