Altisource
YOUR ONE SOURCE™

THE STATE OF THE ORIGINATIONS INDUSTRY

ALTISOURCE'S ANNUAL INDUSTRY SURVEY

JANUARY 2021

EXECUTIVE SUMMARY

This annual Altisource® Originations Report features the results and analysis of recent in-depth survey findings compiled by Echo Research, an independent market research firm. It was conducted online among 200 professionals in the U.S. mortgage industry between August 17 and August 29, 2020. The purpose of this report is to help lenders optimize their operational and marketing strategies by giving them a look at the elements shaping the mortgage industry today. It also reveals how other originators plan to increase growth and efficiency this year.

COVID-19 has altered the industry and the world significantly and will continue to do so into 2021. Though the pandemic continues to affect health and the economy, people and industries have quickly adapted to the new and evolving normal. Mortgage companies and vendors banded together to adjust processes so they can continue serving customers. At the same time, historically low interest rates led to an all-time high in mortgage lending for new loans and refinancing. While that was great news, many lenders have been unable to meet the massive demand due to capacity issues, which is why they are outsourcing and working with third-party service providers.

The pandemic heavily influenced some of the results of this survey. For example, respondents cited regulatory constraints as the biggest challenge facing them today. They chose technology as the second biggest challenge, yet they also selected technology enhancements, like automation and e-closing options, as the most important factors for differentiating organizations in a competitive market. For the most promising market opportunities, they chose home equity and FHA loans.

Customer service and outsourcing also stood at the forefront. Professionals expect customer experience to not only be a differentiator in 2021 but also an opportunity to make mortgages more attractive. Increasing outsourcing for core services ranked highest again this year for biggest operational efficiencies lenders are considering in today's lower-volume market. Now is the time to utilize technology, improve customer experience and implement outsourcing to help your company stand apart. There are plenty of opportunities to do so, and this report highlights some of them.

Regards,

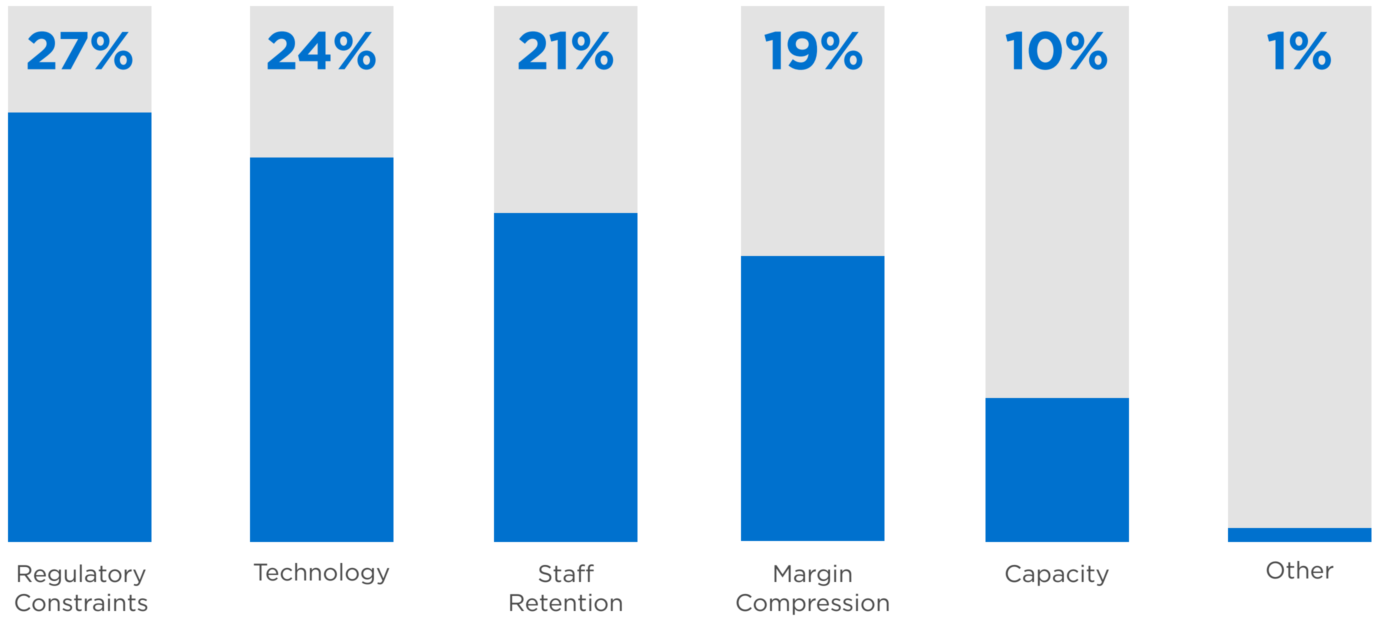
Brian Simon
CMB, President of Trelix™, CastleLine® and Lenders One®

> "From what we're seeing, originators are leveraging the integrated solutions, technology, platforms and experienced teams offered by service providers. That way they're better equipped to serve their growing customer demands, especially in today's evolving mortgage market.
>
> – **Benjamin Hall,** Vice President of Mortgage and Real Estate Solutions

MARKET CHALLENGES

The responses given by the mortgage origination professionals surveyed were heavily influenced by the pandemic this year. This is especially evident in their selection of "regulatory constraints" (27%) as the biggest challenge they face in today's mortgage market. That's followed closely by technology at 24%. Technology has always been a key consideration. Today, the focus on technology includes the ability to provide e-closing, notary and other remote options that can not only make the process more efficient for borrowers, but it can also promote social distancing and help avoid health risks.

BIGGEST CHALLENGE ORGANIZATIONS FACE IN TODAY'S MORTGAGE MARKET

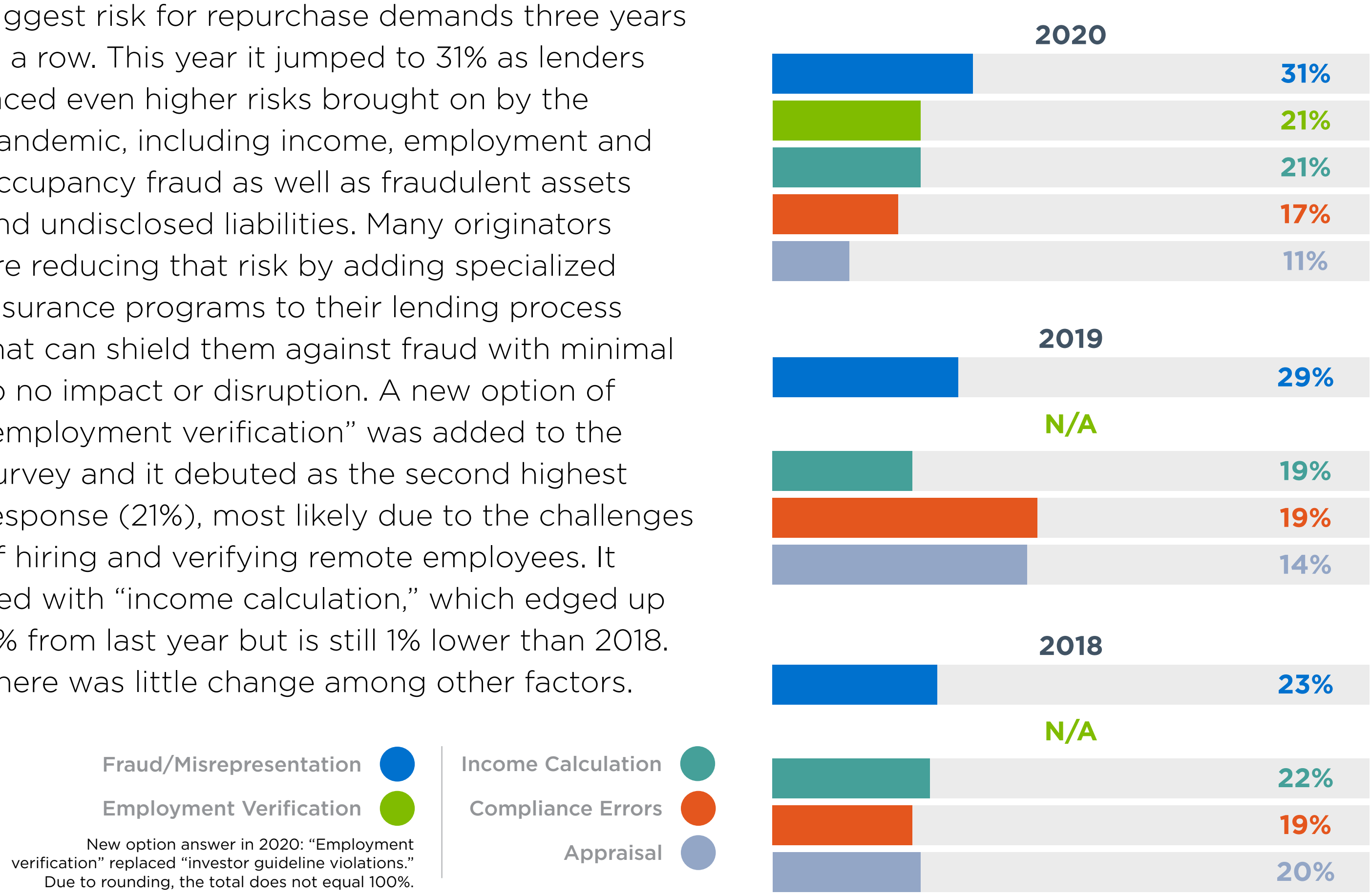


The overall margin of error for this sample size is +/- 6.9% at the 95% confidence level.

27% CITE REGULATORY CONSTRAINTS AS THE BIGGEST CHALLENGE THEY FACE IN TODAY'S MORTGAGE MARKET

"Fraud/misrepresentation" was chosen as the biggest risk for repurchase demands three years in a row. This year it jumped to 31% as lenders faced even higher risks brought on by the pandemic, including income, employment and occupancy fraud as well as fraudulent assets and undisclosed liabilities. Many originators are reducing that risk by adding specialized insurance programs to their lending process that can shield them against fraud with minimal to no impact or disruption. A new option of "employment verification" was added to the survey and it debuted as the second highest response (21%), most likely due to the challenges of hiring and verifying remote employees. It tied with "income calculation," which edged up 2% from last year but is still 1% lower than 2018. There was little change among other factors.

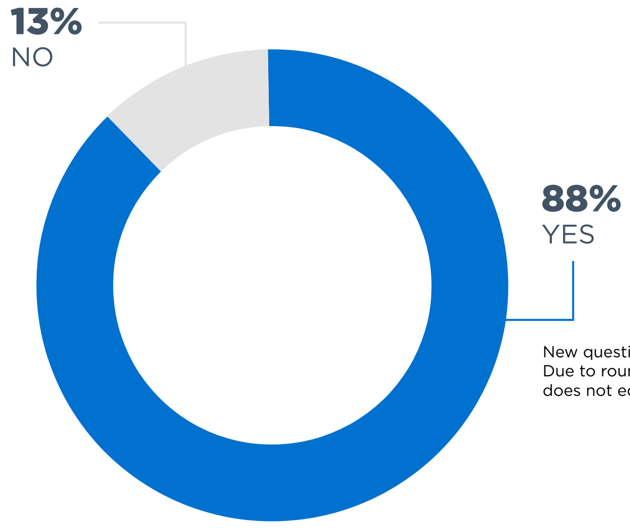
BIGGEST RISK OF REPURCHASE DEMANDS



New option answer in 2020: "Employment verification" replaced "investor guideline violations." Due to rounding, the total does not equal 100%.

A vast majority of origination professionals (88%) stated they are considering purchasing insurance for noncredit loan manufacturing. With the rising potential of loan fraud mentioned above and other factors these days, they are looking for solutions to help protect themselves and their customers.

CONSIDERATION OF INSURANCE FOR LOAN MANUFACTURING RISK (NONCREDIT)



New question in 2020. Due to rounding, the total does not equal 100%.

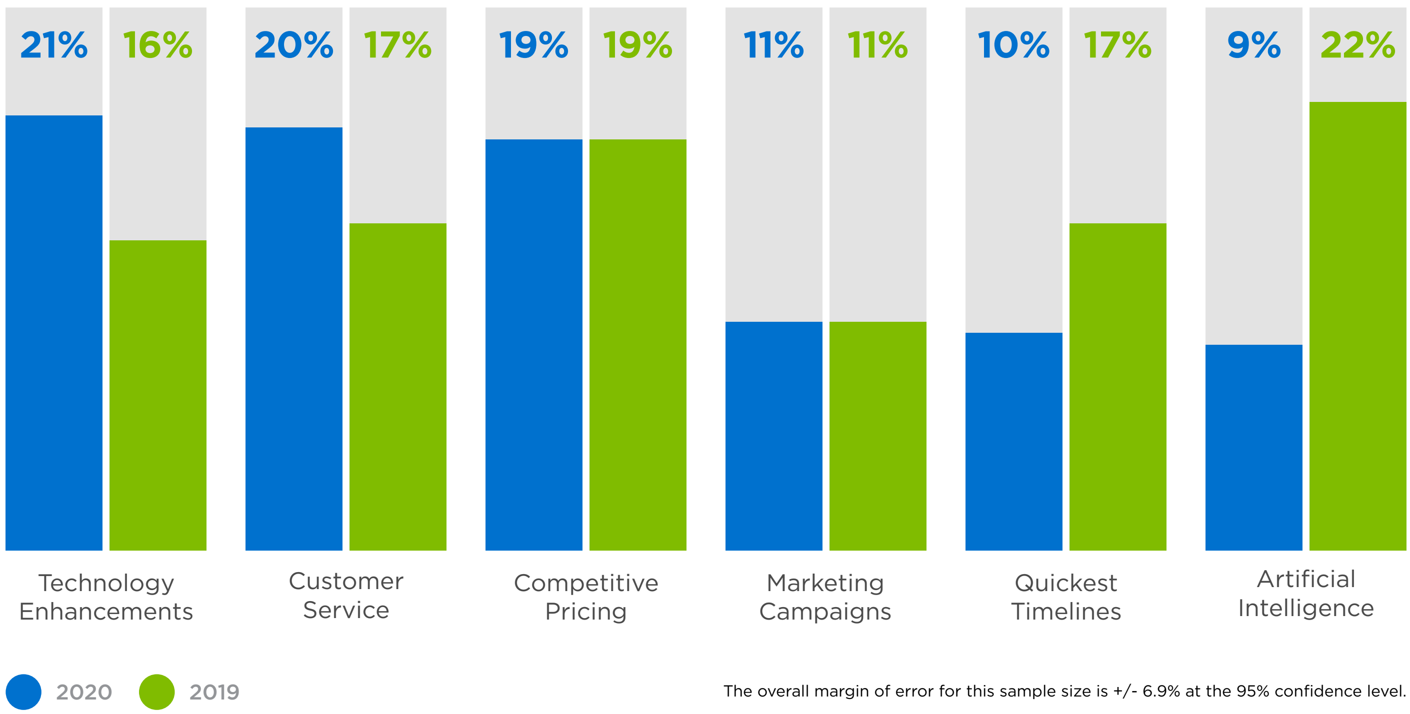
88%

OF ORIGINATION PROFESSIONALS STATED THEY ARE CONSIDERING PURCHASING INSURANCE FOR NONCREDIT LOAN MANUFACTURING

MARKET STRATEGY

Competition has always been a significant challenge for mortgage lenders, especially in today's economic insecurity. That's why having a viable market strategy in place is more essential than ever. When asked to choose the most important factors that can differentiate their organizations in a competitive mortgage market, approximately one in five of the survey respondents cited "technology enhancements" (21%), "customer service" (20%) and "competitive pricing" (19%). Yet, while technology rated high and increased year over year, "artificial intelligence" (AI), which was ranked highest in 2019, plummeted significantly (down 13%).

BUSINESS INITIATIVES RANKED MOST IMPORTANT TO DIFFERENTIATING ORGANIZATION IN A COMPETITIVE MORTGAGE MARKET



The overall margin of error for this sample size is +/- 6.9% at the 95% confidence level.

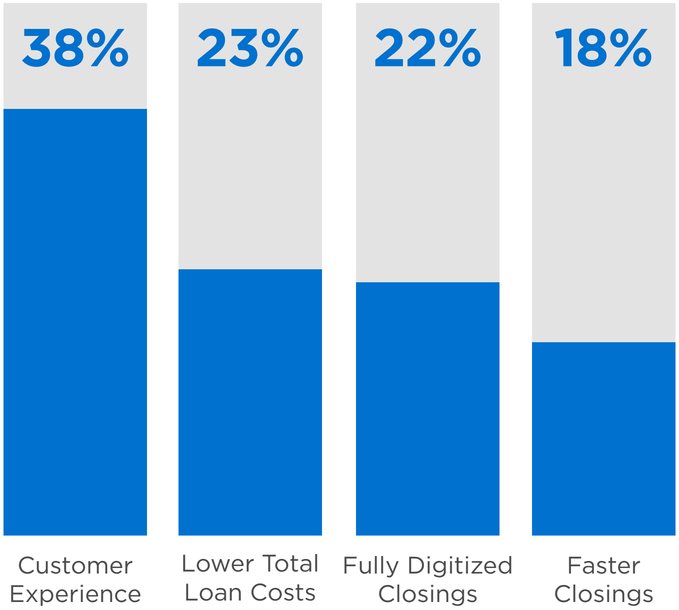
APPROXIMATELY **1** IN **5**

CITED TECHNOLOGY ENHANCEMENTS AS THE MOST IMPORTANT FACTOR THAT CAN DIFFERENTIATE THEIR ORGANIZATIONS IN A COMPETITIVE MORTGAGE MARKET

More than one in three (38%) of the professionals surveyed felt their organizations need to focus on the "customer experience" significantly more than other factors to make mortgage products more attractive to customers. "Lower total loan costs" was a distant second (23%), but it was almost even with "fully digitized closings" at 22% and "faster closings" at 18%. This chart, as well as others in this report, indicate just how imperative it is to provide excellent service to customers. Best-in-class customer service and experiences help set mortgage companies apart from competitors.

Start with clear and responsive communication during the entire loan process. Making sure borrowers understand their loan details and options helps relieve stress. Integrating technology into your workflow is also important. It helps streamline and improve efficiencies that can reduce cycle times and improve client satisfaction. E-close and other remote document options make it more convenient and faster for borrowers to provide information without leaving their homes.

MOST IMPORTANT FACTOR IN MAKING MORTGAGES MORE ATTRACTIVE



Changed to single choice question in 2020. New answer option in 2020: "Better rates" replaced with "customer experience."

MORE THAN

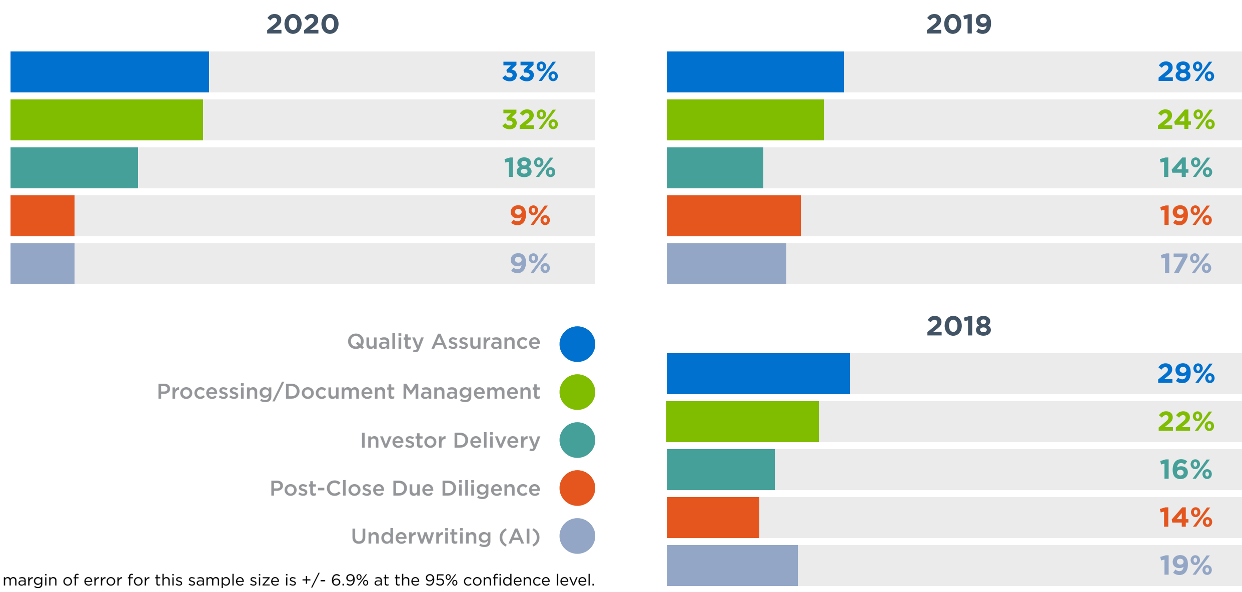
1 IN **3**

FELT THEIR ORGANIZATIONS NEED TO FOCUS ON THE CUSTOMER EXPERIENCE SIGNIFICANTLY MORE THAN OTHER FACTORS TO MAKE MORTGAGE PRODUCTS MORE ATTRACTIVE TO CUSTOMERS

OPERATIONS

"Quality assurance" was selected by 33% of respondents as the production area with the highest fixed expense at their organization. It rose 5% from 2019. The next highest fixed expense was "processing/document management" (32%), which increased 8% from last year. "Investor delivery" came in third at 18%.

PRODUCTION AREA WHERE ORGANIZATIONS HAVE HIGHEST FIXED EXPENSE



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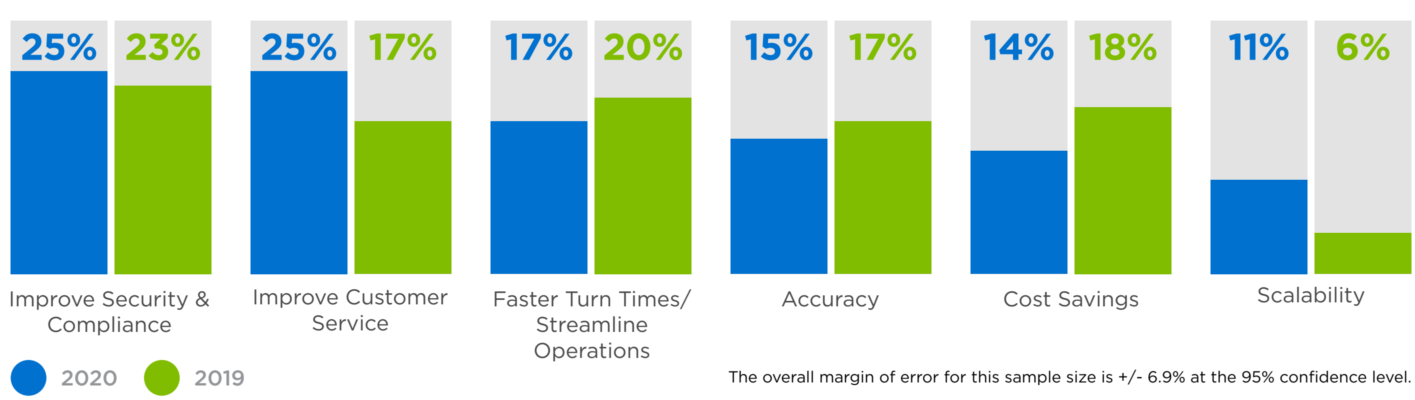
There are several substantial benefits to incorporating tech-based automated solutions to the origination process. This year "improve security and compliance" tied with "improve customer experience" at 25%. Both were higher than in 2019, especially "customer experience," which jumped up 8%. "Faster turn times/streamline operations" was second at 17% with "accuracy" just below it (15%) and "cost savings" following closely at 14%. Automation of previously manual tasks and using AI as a decision-making tool help lenders review, process and approve greater numbers of loan applications at a faster speed, bringing benefits to both lenders and borrowers, especially as costs have risen.

MAIN REASON FOR ORGANIZATION TO INCORPORATE TECH-BASED AUTOMATED SOLUTIONS IN THE ORIGINATION PROCESS



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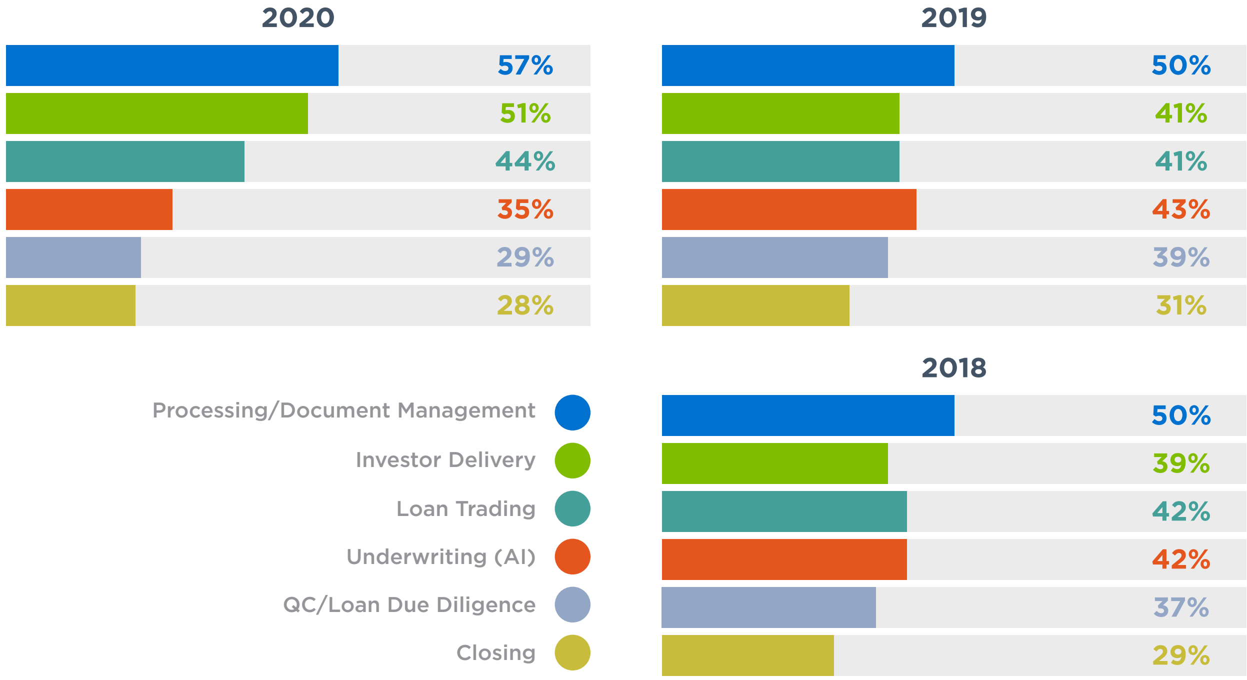
Almost three in five professionals cited "processing/document management" (57%) as the most likely step of the origination process their organization plans to automate or automate further via technology in the next two to three years. That's 7% higher than 2019 and 2018 (in which it was 50% both years). "Investor delivery" also rose to just more than half (up from 41% the year before) followed by "loan trading" at 44% (up only 3% from 2019).

STEP OF THE ORIGINATION PROCESS ORGANIZATION PLANS TO AUTOMATE OR AUTOMATE FURTHER VIA TECHNOLOGY IN THE NEXT TWO TO THREE YEARS



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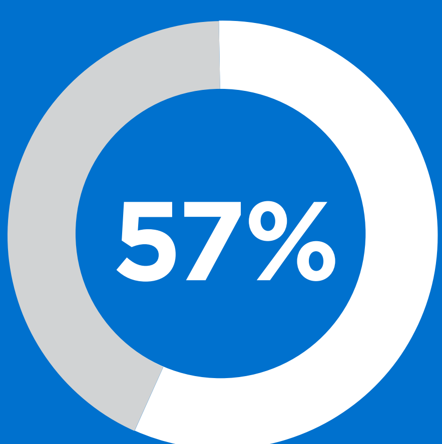
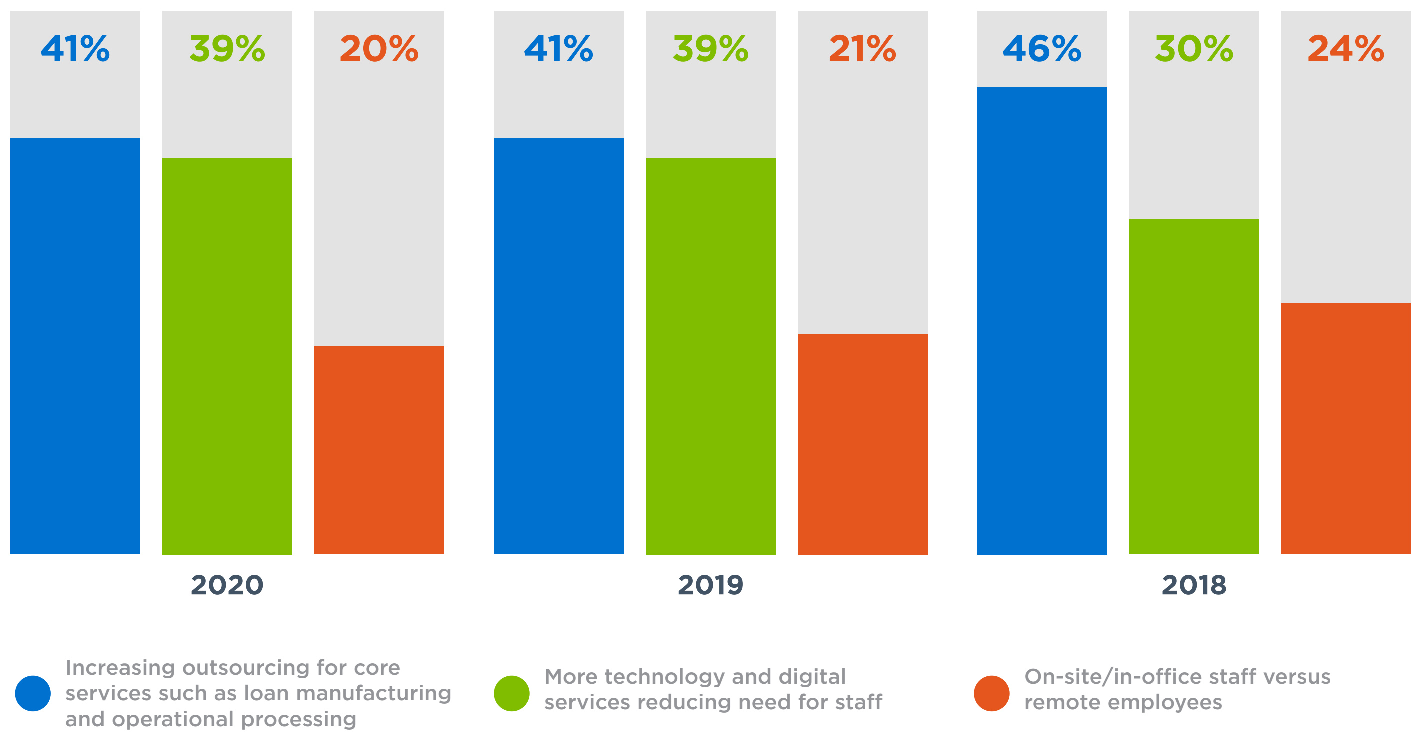


CITED PROCESSING/DOCUMENT MANAGEMENT AS THE MOST LIKELY STEP OF THE ORIGINATION PROCESS THEIR ORGANIZATION PLANS TO AUTOMATE OR AUTOMATE FURTHER VIA TECHNOLOGY IN THE NEXT TWO TO THREE YEARS

Respondents chose "increasing outsourcing for core services such as loan manufacturing and operation processing" (41%) as the biggest operational efficiency lenders are considering in today's lower-volume market. "More technology and digital services that will reduce need for staff" is right behind at 39%. Both responses ranked the same as 2019. "On-site/in-office staff versus remote employees" (20%) dropped a percent. With companies shifting a vast majority of their workforce to working at home this year, it's interesting that the "on-site/in-office" option didn't jump higher. Then again, that move wasn't a consideration — it was a necessity.

BIGGEST OPERATIONAL EFFICIENCY LENDERS ARE CONSIDERING IN TODAY'S LOWER-VOLUME MARKET

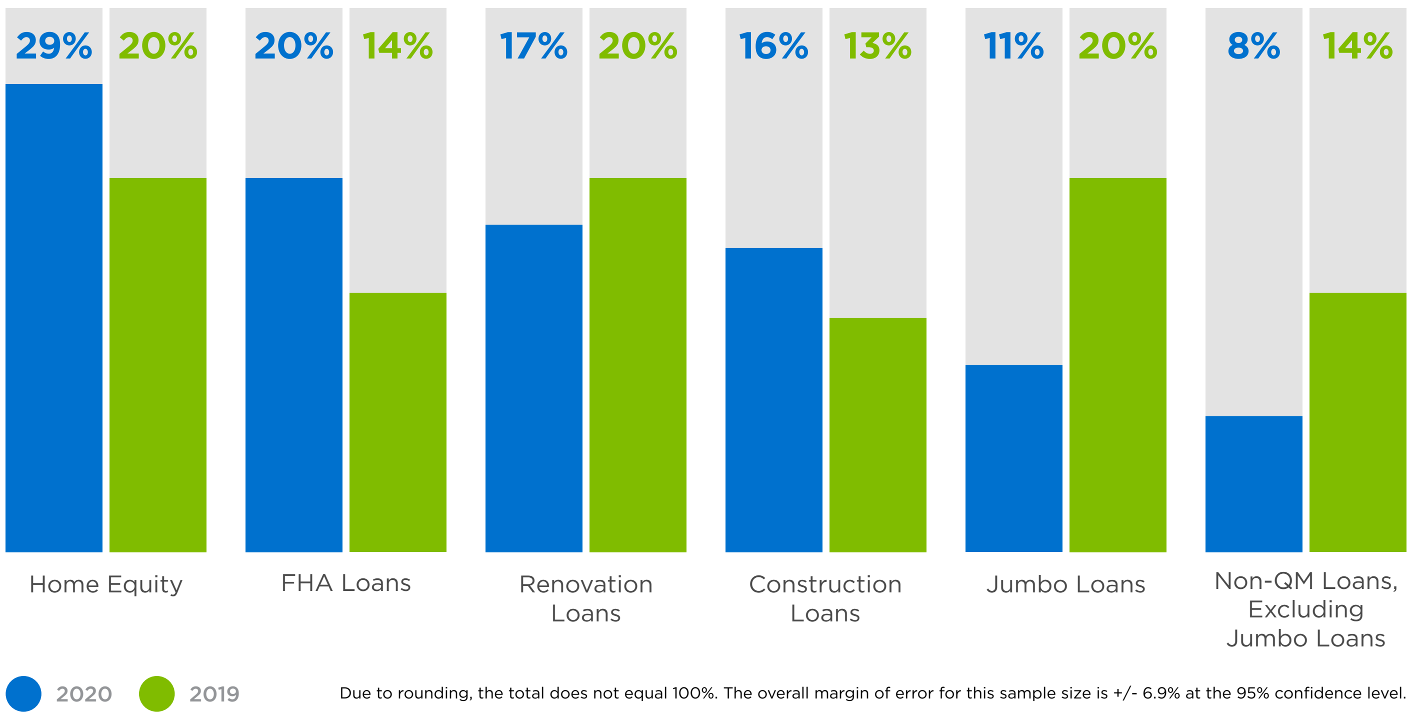


More and more originators are outsourcing core services to trusted partners to improve quality and reduce total cost of loan production. With costs rising and revenues down in many cases due to the pandemic, it makes sense. Rather than spending time and money hiring and training full-time staff, service providers can support and strengthen an originator's workforce by handling a portion of the lender's volume. In this way, an originator can avoid the typical hiring/firing cycles that significantly distract an organization from closing more loans. They can also quickly scale their organization as needed to help meet fluctuating demands.

PRODUCT GROWTH

Over a fourth (29%) cited "home equity" loans as the most promising market opportunity. "FHA loans" (20%) and "renovation loans" (17%) are a distant second and third, most likely due to economic insecurity continuing to influence the markets. FHA loans moved up 6% from 2019 while renovation loans dropped 3%. Last year, "home equity," "renovation" and "jumbo loans" tied at 20% for highest ranking. Jumbo loans dropped 9% to move behind "construction loans" (16%) this year.

LOAN TYPES RANKED MOST TO LEAST PROMISING MARKET OPPORTUNITY

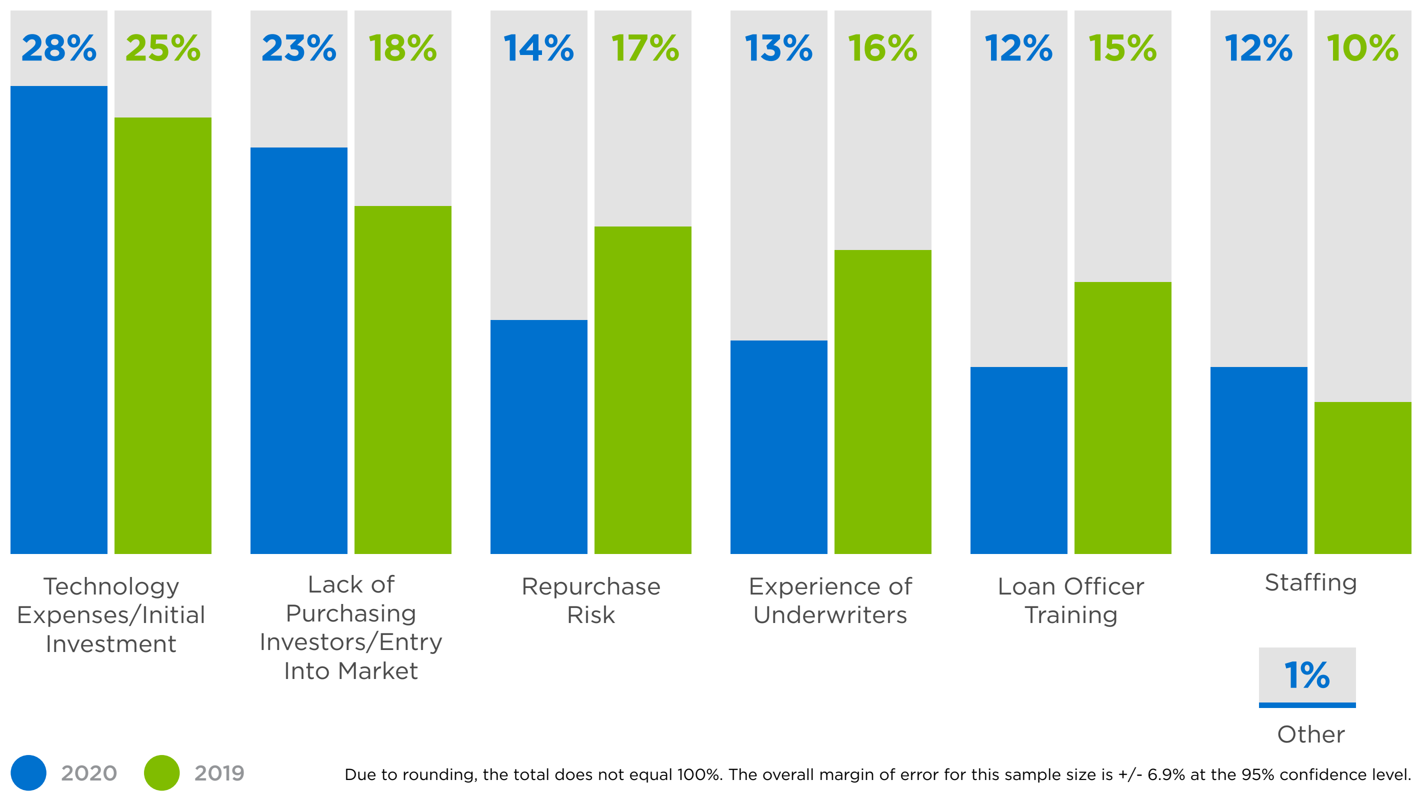


Due to rounding, the total does not equal 100%. The overall margin of error for this sample size is +/- 6.9% at the 95% confidence level.

29% CITED HOME EQUITY LOANS AS THE MOST PROMISING MARKET OPPORTUNITY

"Technology expense/initial investment" was ranked as the greatest limitation to pursuing new types of loans by 28% of the people surveyed. They were also concerned about the "lack of purchasing investors/entry into the market" (23%), which may lead to a market slowdown. "Repurchase risk" was a distant third at 14%. In 2019, it was almost tied with "lack of purchasing investors/entry into the market." The big jump this year could be contributed to the uncertainty in today's market.

GREATEST LIMITATION TO PURSUING NEW TYPES OF LOANS



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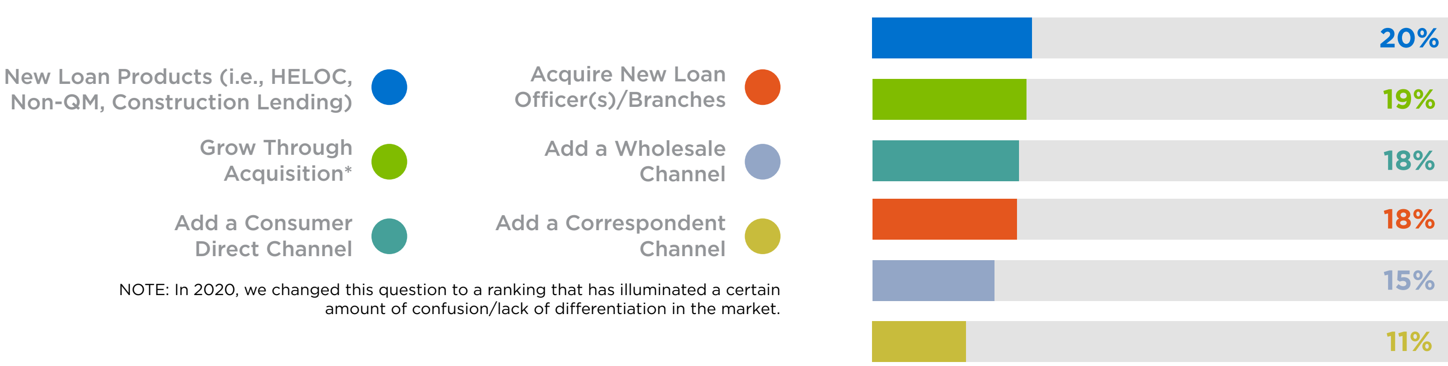
The most important factor when growing a business resulted in a near tie with "new loan products such as HELOC, non-QM or construction lending" at 20% and "grow through acquisition" at 19%. Following close behind, "add a consumer direct channel" and "acquire new loan officer(s)/branches" tied at 18%. On the opposite end are adding a "wholesale" (15%) or "correspondent" channel (11%).

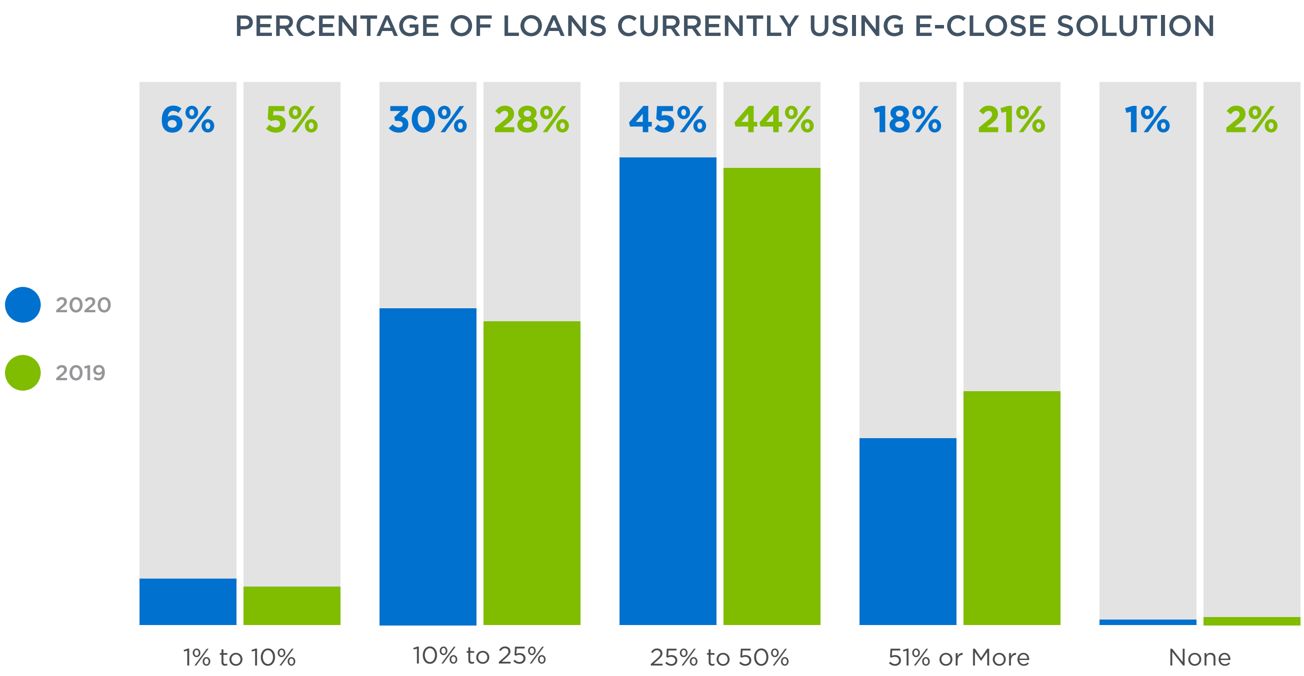
% RANKED MOST IMPORTANT FACTOR WHEN CONSIDERING WAYS TO GROW YOUR BUSINESS

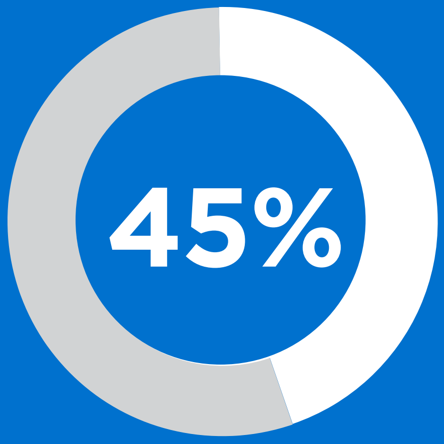


NOTE: In 2020, we changed this question to a ranking that has illuminated a certain amount of confusion/lack of differentiation in the market.

E-MORTGAGE

This year 45% of the mortgage professionals who responded revealed they use e-close solutions with "24% to 50%" of their loans. That's a 1% increase from 2019. Originators closing "10% to 25%" ranked 30% and 18% said they close "51% or more," which is 3% lower from last year. Only 1% said they don't use any e-close solutions, which dropped a percent. The 2020 rankings are almost even with the responses in 2019, which indicates lenders were using e-close options for customer convenience and improved experience before the pandemic hit and social distancing became a necessity.

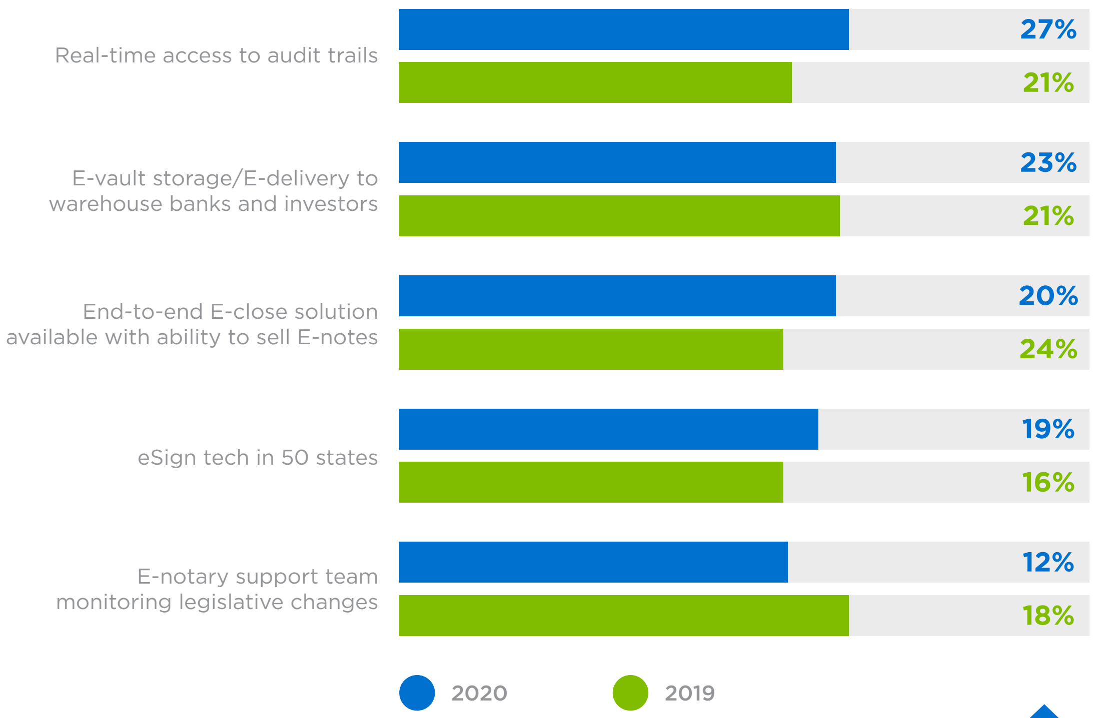




OF THE MORTGAGE PROFESSIONALS WHO RESPONDED REVEALED THEY USE E-CLOSE SOLUTIONS WITH 24% TO 50% OF THEIR LOANS

Respondents cited "real-time access to audit trails" (27%) as the most important factor when an organization is considering an e-close solution. That is 7% higher than "end-to-end e-close solution available with ability to sell e-notes" (20%), which was the top response in 2019. "E-vault storage/e-delivery to warehouse banks and investors" came in second at 23%. "E-notary support team monitoring legislative changes" is listed last at 12%, diving 6% from 2019. It's surprising that professionals don't value the notary support more given the impact of legislative changes in 2020.

MOST IMPORTANT FACTOR FOR ORGANIZATION WHEN CONSIDERING AN E-CLOSE SOLUTION



Besides helping to protect against health risks, reviewing and signing mortgage documents electronically helps simplify the process, making it faster and easier, and it reduces costs. It also improves the closing experience with greater transparency for the consumers who will receive closing documents for review well in advance of a traditional closing ceremony.

27%

CITED REAL-TIME ACCESS TO AUDIT TRAILS AS THE MOST IMPORTANT FACTOR WHEN AN ORGANIZATION IS CONSIDERING AN E-CLOSE SOLUTION

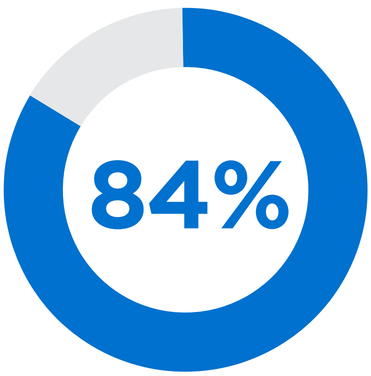
PREDICTIONS

The leading predictions for the mortgage market over the next two to three years are:

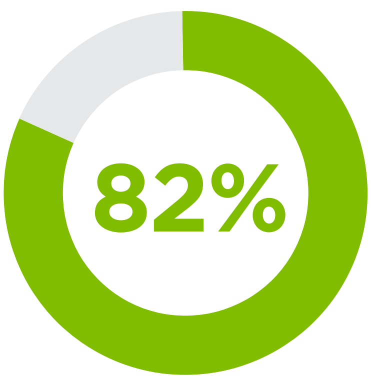
A. Growing costs continue to drive out smaller lenders with likely consolidation in the market (seeing a very slight increase to 84%).

B. Stabilization in trend for "private money will be back in the market, restoring the securitization market" (remaining at 2019 levels with 82% in agreement).

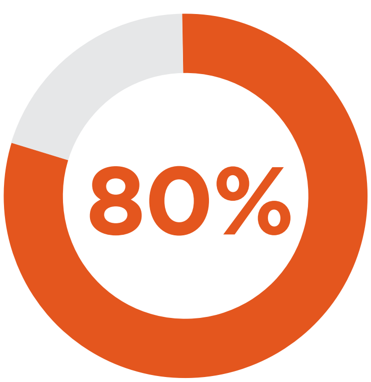
C. Originators will outsource more to third-party vendors to better deal with market fluctuation (stabilizes at 80% in 2020, up from 67% in 2018).



CITE GROWING COSTS CONTINUE TO DRIVE OUT SMALLER LENDERS WITH LIKELY CONSOLIDATION IN THE MARKET



CITE STABILIZATION IN TREND FOR "PRIVATE MONEY WILL BE BACK IN THE MARKET, RESTORING THE SECURITIZATION MARKET"

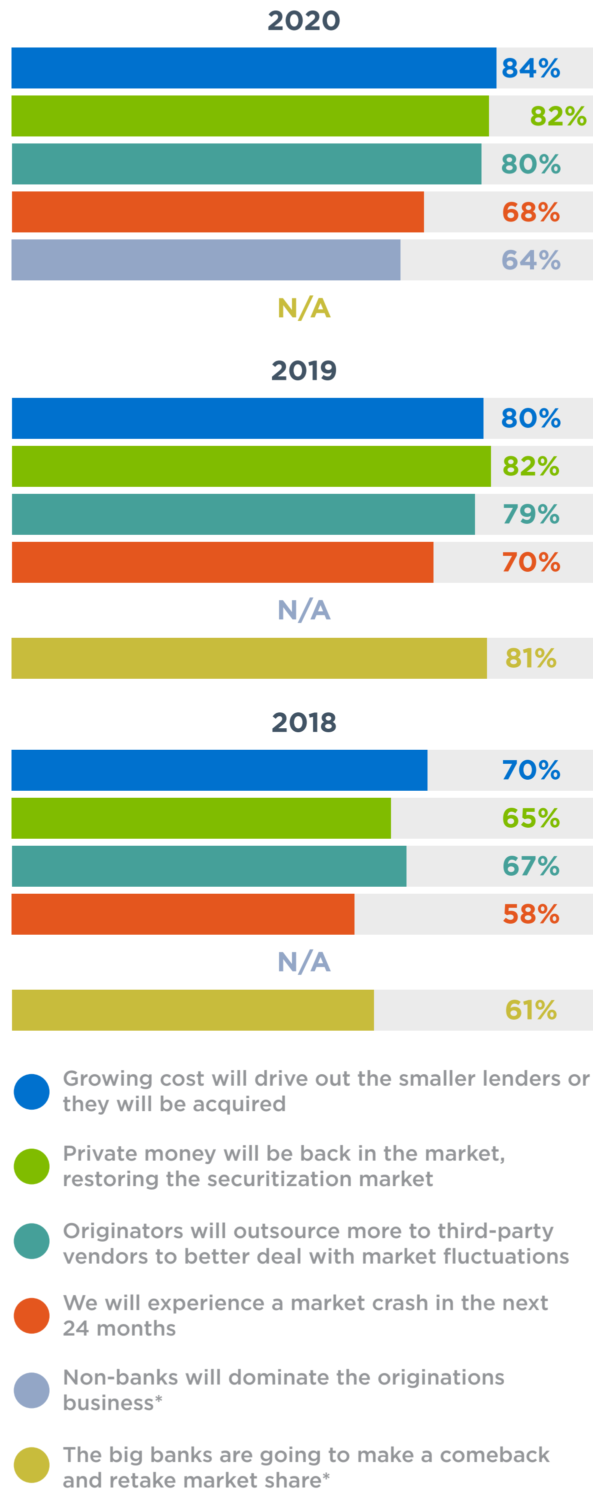


THINK ORIGINATORS WILL OUTSOURCE MORE TO THIRD-PARTY VENDORS TO BETTER DEAL WITH MARKET FLUCTUATION

Rising costs have always been a major factor in the origination of a mortgage loan for any size lender but especially for smaller ones in a very competitive market. This year the onset of economic uncertainty brought on by the pandemic is expected to make that an even bigger challenge, and most respondents (84%) agreed, citing "growing costs will drive out smaller lenders or they will be acquired." That prediction also jumped to the top spot this year. It beat out last year's choice of "private money will be back in the market, restoring the securitization market," which still sits at 82% two years in a row. "Originators will outsource more to third-party vendors to better deal with market fluctuation" remains third (80%) for a second year, up a percent from 2019. "We will experience a market crash in the next 24 months" is again the fourth choice at 68%. Even with the pandemic disrupting the industry and triggering significant unemployment, that option dropped 2% from last year, indicating the government's efforts in 2020 to offset a crash may have given originators more confidence for the future.

While the road ahead is still unclear, as always, mortgage companies of all sizes that prepare for whatever may come will have the best chance of thriving in the market. As indicated by respondents, technology and outsourcing are the most viable opportunities to stay competitive by increasing efficiency, improving customer experiences and reducing costs. Invest in new and upgraded technology, especially e-close and other remote options. Work with third-party service providers and auxiliary teams to help streamline workflows both externally and in the back office. Opportunities are there — you just need to look for them and be ready to meet them.

THE LEADING PREDICTIONS FOR THE MORTGAGE MARKET OVER THE NEXT TWO TO THREE YEARS



*New answer option in 2020: "Non-banks will dominate the originations business" replaced "The big banks are going to make a comeback and retake market share."

ABOUT ALTISOURCE

Altisource® Portfolio Solutions S.A. (NASDAQ: ASPS) is an integrated service provider and marketplace for the real estate and mortgage industries. Combining operational excellence with a suite of innovative services and technologies, Altisource helps solve the demands of the ever-changing markets we serve. Additional information is available at altisource.com.

CONTRIBUTORS

Benjamin Hall is **Vice President, Product for Altisource®**. Mr. Hall began his career in the title insurance industry with Lenders First Choice (LFC) in 2003. During his tenure with LFC, he received four promotions and the prestigious LFC Vision Award. After five years with LFC, he joined nine industry colleagues to develop and launch Timios, Inc. In 2011, he joined Altisource to lead Premium Title's Origination division.

Mr. Hall brings over 16 years of experience in the mortgage and real estate industries and has held multiple leadership roles specializing in product development, centralized fulfillment, system integration and global solutions. He firmly believes the best industry solutions can be validated only by a positive customer experience.

Brian Simon serves as **President of Trelix and CastleLine at Altisource®**. In addition, he also leads Lenders One® Cooperative, a national alliance of independent mortgage bankers. As a Certified Mortgage Banker (CMB) with over 20 years of mortgage experience, Mr. Simon has held many C-level leadership positions at some of the largest independent mortgage banks in the industry, including Chief Operating Officer of New Penn Financial (now known as NewRez), Chief Executive Officer of Caliber Funding LLC (now Caliber Home Loans, Inc.) and Chief Operating Officer of Freedom Mortgage. Mr. Simon has been a long-time member of both the Fannie Mae and Freddie Mac Lender Advisory Boards and has been voted one of the top 100 mortgage banking executives in the industry.

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