

Mortgage Closing Cycle Time

Benchmark Study

Edition One: December 2020



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Introduction

Lenders and other mortgage professionals have faced significant challenges this year. While the COVID-19 global pandemic has caused widespread health and economic concerns, the historically low interest rates and increased use of digital capabilities among lenders have helped to sustain the housing market.

However, high volumes, mandated closures and social distancing have in many cases caused mortgage closing cycle times to increase. As this is a critical performance indicator, how can lenders better understand the factors that can impact closing cycle times? What are ways to improve them?

One way is to benchmark performance against similar companies, which can help shine a light on potential problem areas as well as innovative solutions.

Freddie Mac's first edition of the Mortgage Closing Cycle Time Benchmarking Study provides an in-depth look into one of the industry's key efficiency measures – closing cycle time.

Cycle times may vary depending on economic trends, technology adoption, geographical footprint, loan characteristics, seasonality and widespread disruptions such as a pandemic. Lower mortgage

closing cycle times are a result of increased operational efficiency, allowing more loans to go through lender pipelines. Mortgage closing cycle time is one of the main barometers of productivity and effectiveness of mortgage operations.

By providing an assessment of the mortgage closing cycle time metrics on loans delivered to Freddie Mac, this study aims to:

- Create greater transparency across the participants in the housing and mortgage industries.
- Enable lenders to benchmark performance against industry averages across categories.
- Help lenders uncover efficiencies, leading to high-performance lending.
- Help develop a blueprint for future changes by identifying areas to adjust strategies.

The importance of an efficient mortgage process has always been front and center as it impacts cost, customer satisfaction and competitive strength. This is true for all institutions across multiple functions—from loan officers to C-Suite executives. Actionable insights and strategies gathered in this benchmarking study can help to improve lender efficiencies by reducing costs, promoting growth, increasing customer satisfaction and improving pull-through rates.

Summary Findings

- Long-term: The industry is becoming more efficient, with cycle times declining by six days in the past several years as more lenders continue to adopt digital technology.
- Short-term: The COVID-19 pandemic combined with record high volume drove the Q2 2020 average closing cycle time upward to levels not seen since 2017.
- Top performing companies in Q2 2020 processed loans up to 63% faster than their lower performing counterparts.
- The cycle time for the top performing companies did not deviate despite the size or type of institution.
- COVID-19-related disruptions had a two-day negative impact on the purchase mortgage cycle time. Whereas backlogs, mainly by small-size institutions, extended cycle times for refinance loan production by more than four days.



Detailed Findings

HISTORICAL TRENDS

Long-Term, the Housing Industry Is Becoming More Efficient at Closing Loans

The industry average closing cycle time has been declining over the past several years as the housing industry continues to see significant technological transformation. Technological advancements became a priority across the industry as more lenders implemented digital platforms and tools that drive cost savings, increase customer satisfaction and reduce closing cycle times.

The average closing cycle time for purchased mortgages has gradually decreased over the past four years (Exhibit 1). It has decreased from an annual average rate of 46 days in 2016 to 40 days in 2019 and part of 2020. However, in the past several quarters, the industry saw an increase in loan production time. This was mainly driven by loan processing challenges related to the COVID-19 pandemic, as well as a backlog caused by capacity constraints resulting from elevated refinance volume activity due to declining interest rates, which will be further discussed.

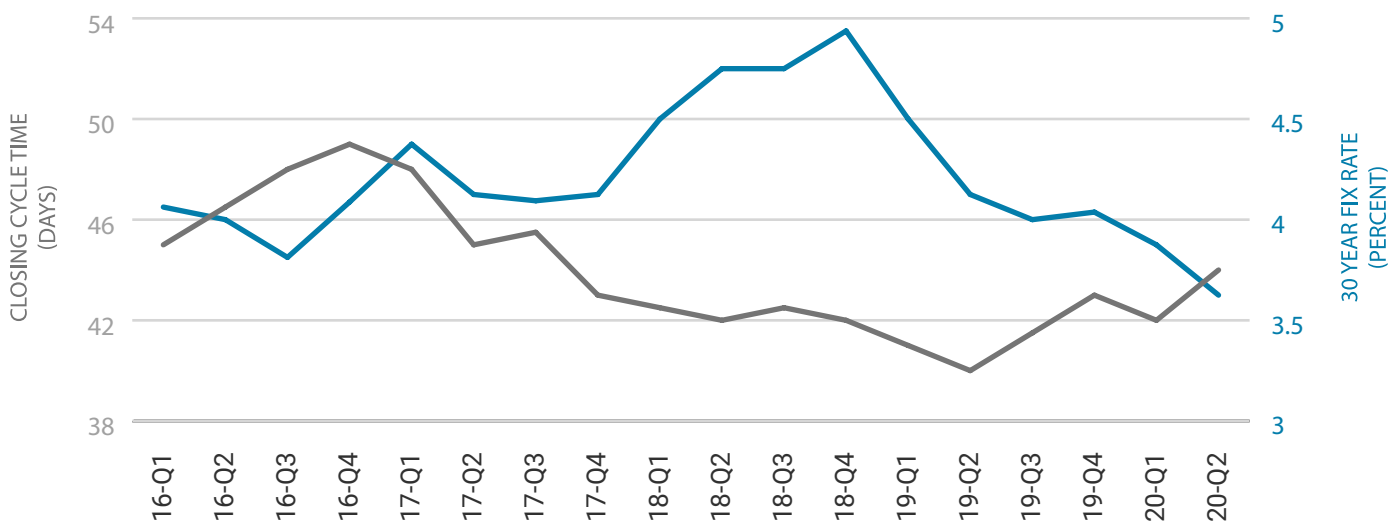
Industry average closing cycle time in 2016:

46 days

Industry average closing cycle time in 2019:

40 days

Exhibit 1: Closing Cycle Time Trends By Quarter vs. 30-Year Fixed Rate Mortgage



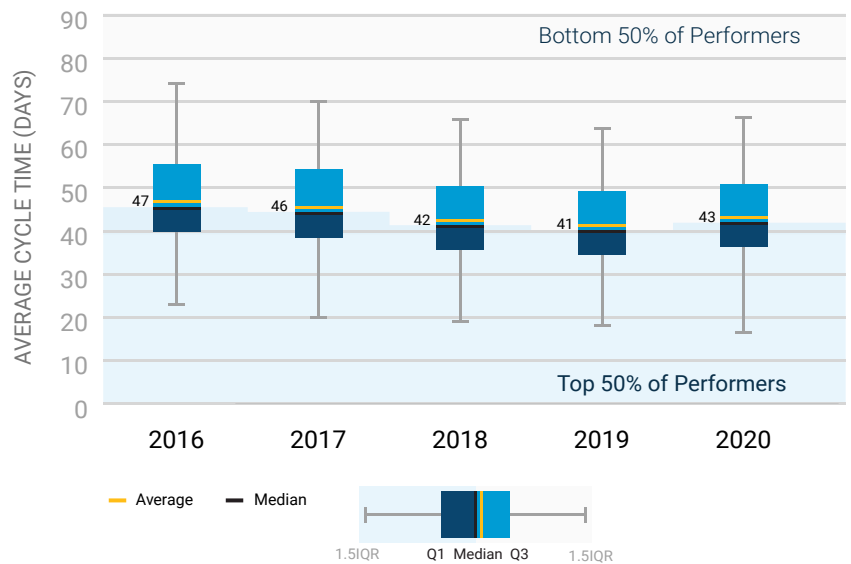
Source: Freddie Mac (data as of June 2020); FRE funded loans from Jan 2016 to Jun 2020; N = 1,294 lenders





Furthermore, not only have average closing cycle times been on a downward trajectory, but it has also been converging across the whole spectrum of lenders. The range between the higher and lower performing companies has narrowed over time and is more pronounced across the lower performers, whose cycle times have improved the most (Exhibit 2).

Exhibit 2: Annual Distribution of Lender Average Cycle Time



Source: Freddie Mac (data as of June 2020);
FRE funded loans from Jan 2016 to Jun 2020; N = 1,294 lenders

Note: Lenders performance standing is measured based on institution's average mortgage closing cycle time across lender sample distribution.

Cycle time has declined 4-6 days in the past five years as more lenders adopt digital technology.



Q2 2020 CLOSING CYCLE TIME BENCHMARKS

Average Closing Cycle Times Significantly Increased

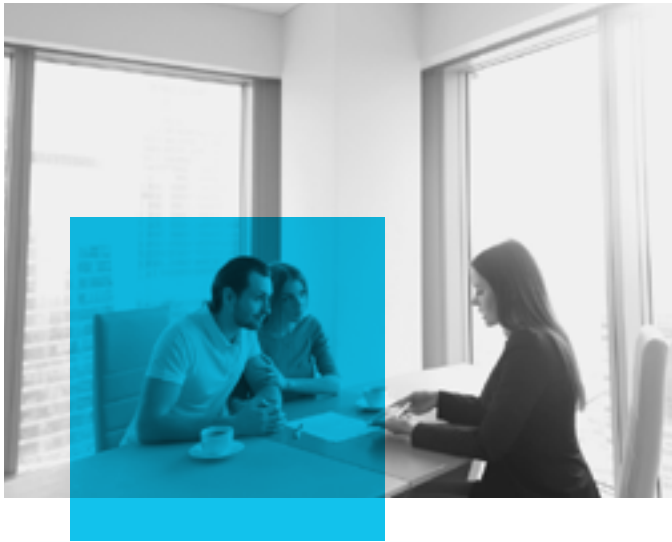
The COVID-19 pandemic and historically low interest rates have helped drive the Q2 2020 closing cycle times to increase (Exhibit 3) to levels not seen since Q4 2017.

For example, in Q2 2020:

- The average closing cycle time was 44 days: This represents a two day or 5% increase from the previous quarter, and a four day or 10% increase when compared to the same time the previous year.
- The average closing cycle time for purchase-only loans was 42 days: This represents a one day or a 2% increase from prior quarter, and a two day or 5% increase from the same time the previous year.
- The average closing cycle time for refinance loans was 45 days: This represents a two day or 5% increase from prior quarter, and a five day or 13% increase when compared to the same time the previous year.

Exhibit 3: Snapshot of the Average Closing Cycle Time

	Q2 2019	Q1 2020	Q2 2020
Overall Closing Cycle Time	40	42	44
Purchase Closing Cycle Time	40	41	42
Refinance Closing Cycle Time	40	43	45



Pandemic Impact

Despite the challenges of the pandemic, the housing market continued to march forward as more consumers looked for ways to benefit from the low interest rate environment, either by refinancing into a cheaper mortgage or purchasing a new home. While lenders adapted to meet the surge in application activity, social distancing and transitioning to an entirely virtual experience exposed gaps and created challenges throughout the application process.

Non-Lending and Processing Related Activities Likely Impacting Purchase Cycle Times



Completing home inspections



Scheduling movers



Remediating agreed upon inspection findings

Some of the key activities that were most impacted by social distancing that caused delays in cycle time included employment and income verification, appraisals, notarization, closings, and inspections. Some lenders had experienced no interruption in the loan manufacturing process in this environment, while others faced challenges.

Our study found that COVID-19 related delays added on average 2 days to a purchase mortgage production cycle. However, it is likely that most of the purchase cycle times increase is related to other non-lending aspects of buying and selling homes.

While challenges remain, the COVID-19 social distancing effect is spurring fast-paced digital evolution in the mortgage industry. The operational challenges lenders are experiencing during this pandemic are pressuring institutions to push even further forward in adopting digital solutions. We anticipate these changes will have a permanent effect in the way consumers and lenders operate in the market. The fast pace of technological advancements that the industry is observing now will accelerate the transition to adapting digital tools in every possible stage of the loan application process.

The 2020 [Forbes Insights study, “Turning Crisis into Opportunity,”](#) shows that 87% of survey respondents say that the COVID-19 crisis is proving to be a powerful catalyst for digitization of their firm’s mortgage processes.

This development will likely result in even greater efficiencies than what we’ve seen in the past several years.



Impact of Refinancing Backlogs

Mortgage cycle times are adversely impacted by the spike in mortgage application volume. To better understand the trend, it is helpful to view cycle times associated with refinance loans against the backdrop of the mortgage volume activity.

The variations in average processing times are sizable, from a low of 40 days to a high of 52 days as volume fluctuates (Exhibit 4). This also shows that closing cycle times are positively correlated with high refinancing loan activity.

The record low interest rates in the second half of 2019 and

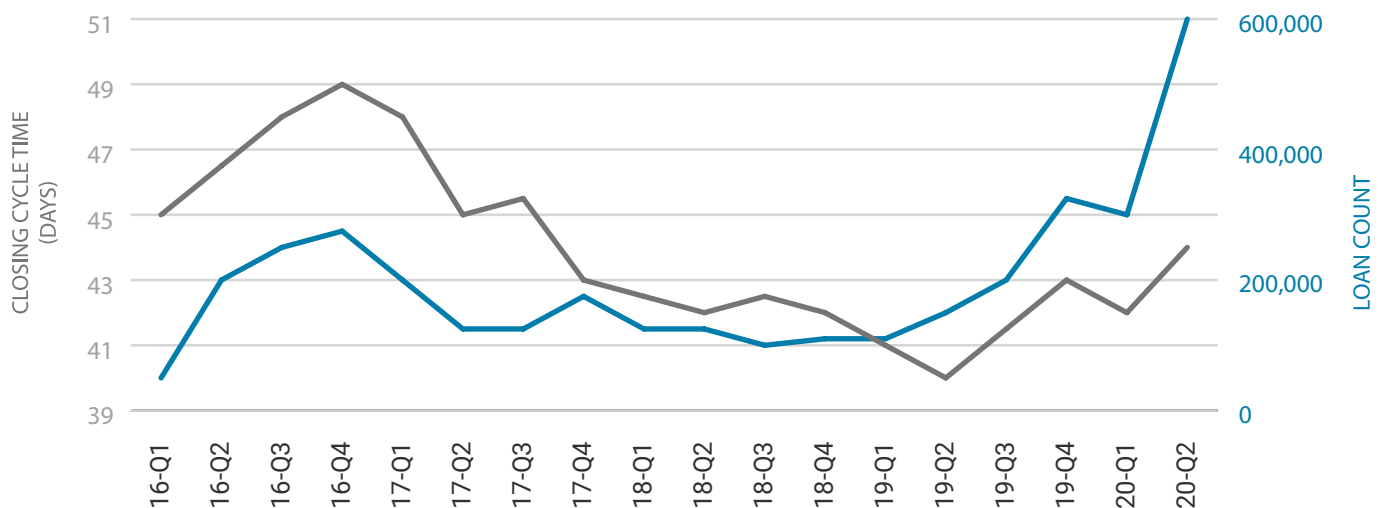
the first half of 2020 caused a ramp up in refinance activity, which in turn caused backlogs. This resulted in extended closing times. Further analysis revealed the impact of production backlogs on the refinance mortgage cycle times are an additional 4.6 days but can vary depending on the size of the institution.

We anticipate that the average cycle times will eventually decline as pandemic-related mandated closures are lifted and the volume wave slowly subsides. Our economic forecast projects for a decline in volumes in 2021 as the potential to refinance declines.



Our economic forecast projects for a decline in volumes in 2021 as the potential to refinance decreases. This in turn may drive cycle times down.”

Exhibit 4: Quarterly Average Refinance Closing Cycle Times vs. Count of Refinance Loans



Source: Freddie Mac (data as of June 2020); FRE funded loans from Jan 2016 to Jun 2020; N = 1,294 lenders

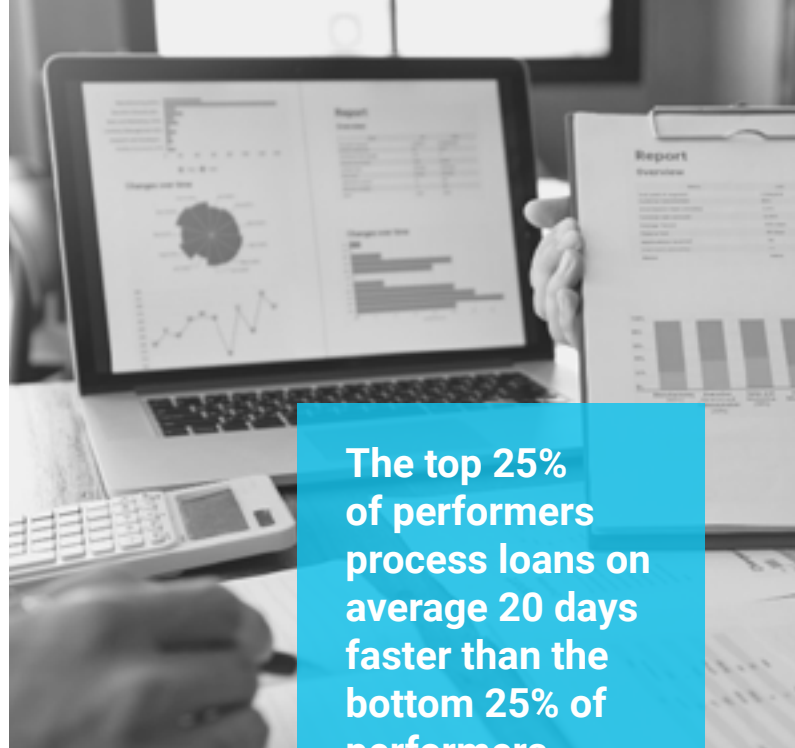


TOP PERFORMERS

The Top Performers Process Loans Significantly Faster

According to our analysis, the overall top 25% of performers process loans on average 20 days faster than the bottom 25% of performers (32 days vs. 52 days)¹. This results in a savings of 63% in the average processing time.

To help institutions measure and compare their average cycle times with higher accuracy, this study also shows the cycle time distribution by quartiles for both purchase and refinance loan categories (Exhibit 5).



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Purchase Loan Category

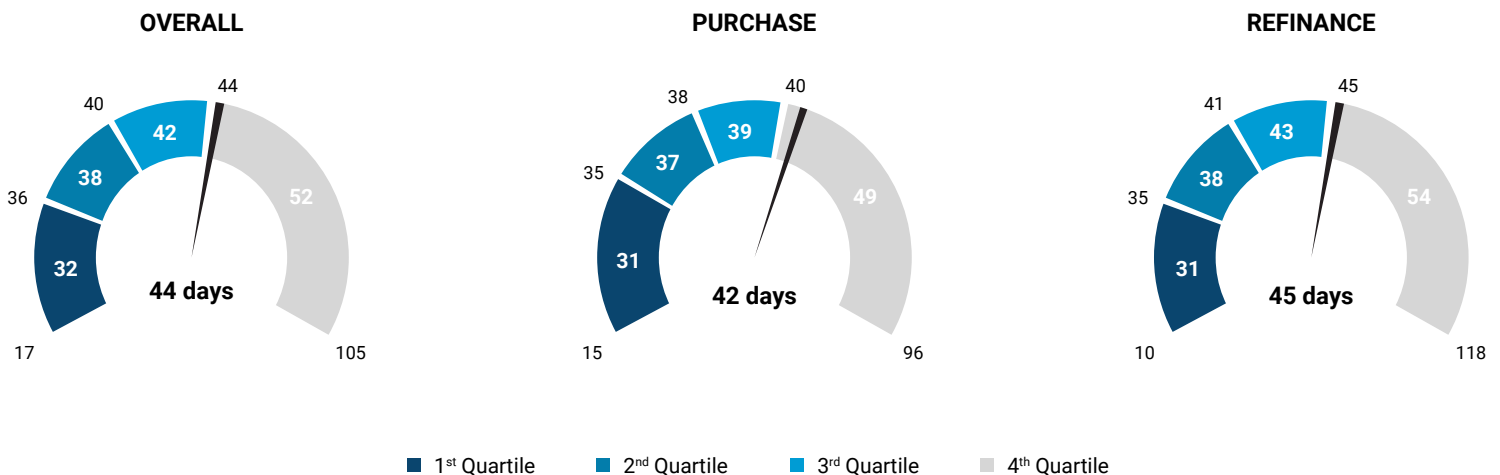
The top performers of purchase loans process them 18 days faster than the bottom 25% companies, a savings of 58% in the average processing time.

Refinance Loan Category

This effect is larger for the refinance mortgages, where the gap between top and bottom performers is on average 23 days, with top performers closing loans at a minimum of 74% faster.

¹ To present an accurate picture of industry norms and help lending institutions accurately assess their own performance, this study benchmarks lenders closing cycle time using quartile statistical technique. The data is broken out into four quartiles. The first quartile represents an average cycle time achieved by the top 25% performers across lender sample distribution, whereas the fourth quartile represents the average cycle time achieved by the bottom 25% of performers.

Exhibit 5: Q2 2020 Mortgage Closing Cycle Time Distribution



Source: Freddie Mac (data as of June 2020); FRE funded loans from Q2 2020; N = 1,012 lenders

Note: Results shown inside of each quartile represent average cycle time for a given quartile.



What is Driving Better Cycle Time Efficiencies for the Top 25% of Performers?

As studies show, technology is the most direct path to cycle time improvement. Lenders across all types and sizes understand the importance of enhancing their digital capabilities around the mortgage process. However, some are more successful in implementing technology than others. The lenders who are leveraging digital technology effectively and integrating digital enhancements with changes to process management and culture are generally those in the top performer category.

Usage of Automated Offerings

Effective optimization and use of automated offerings can be a significant solution to help process loans faster. Running both GSE automated underwriting systems (AUS) can maximize selections on loan options and underwriting efficiency offerings like Freddie Mac asset and income modeler (AIM).

The study shows that top performing companies typically integrate digital tools and offerings into their operations. Lenders that build their manufacturing processes around automated offerings process mortgages five to 15 days faster. Additionally, the top performers leverage these offerings at a higher rate than the rest of the lenders. Exhibit 6 shows that 81% of all loans submitted through Loan Product Advisor® (LPASM) by top performers went through Freddie Mac's digital offerings, such as Assets and Income Modeler (AIM) and Automated Collateral Evaluation (ACE), as opposed to only 68% of loans by bottom performers². Across all lender categories, mortgages with digital offerings produced, on average, nine to 10 days of savings in closing cycle time.

Several recent Freddie Mac studies highlight how lenders, through the adoption of Freddie Mac Loan Product Advisor, were able to significantly boost efficiency and on average shorten the cycle times by as high as 15 days. In addition, these efficiencies translated into cost reductions, improved capacity and improvements in conversion pull-through rates.

²ACE Automated Collateral Evaluation provides Sellers with the option to waive the appraisal requirements for certain Loan Product Advisor® mortgages. Loan Product Advisor asset and income modeler (AIM) is a solution for automating the manual processes of assessing borrower assets and income.

Exhibit 6: Automated Offering Usage By Lender Quartiles



Source: Freddie Mac (data as of June 2020); FRED funded loans from Q2 2020; N = 1,012 lenders

Effective Digital Technology

Implementation:

The majority of mortgage lenders are increasingly implementing loan process automation capabilities. However, the top performers set themselves apart by adopting easy to maneuver technology that is scalable and structured to incorporate external as well as internal digital platforms and tools. Our research identified some of the common characteristics of the top performers.

Customer Focus:

Customers today increasingly want faster and easier ways to maneuver through the mortgage process. Given the latest developments concerning COVID-19, customers want a limited-to-no touch experience as well. To provide a better borrower experience while maintaining an efficient production cycle, the implementation of effective customer-facing digital tools is critical. Top performers tend to adopt a robust digital experience that provides an omni-channel, consistent look and feel for borrower interactions.

By leveraging the right tools, lending institutions can scale to manage demands, increase consistency of loan decisions, reduce errors and costs, reduce time to close, and drive better customer service.

Effective Digitization:

Many of the leading lenders are implementing a digital infrastructure that:

- **Leverages a mix of buy versus build for technology:** The top performing lenders look for the ability to build at least some capabilities outside of technology platform partners. They are also quick to take advantage of their partners' tools and platforms, such as eMortgage capabilities, automated income/asset, doc and rules management, among others.
- **Uses API-based connectivity:** Workflow and task management built outside of the loan origination system (LOS) significantly insulates the LOS by using APIs for basic functionality, while fully controlling the user experience within their own technology.
- **Leverages test and learns:** These can create capabilities to easily build, test or deploy new features across business processes and technology platform ecosystems. Additionally, lenders can roll out small test and learns without a significant investment.



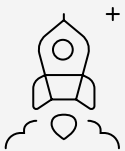


Strategy and Adoption:

Having the right technology tools is important, but so is having a big picture strategy and vision, as well as to implement a plan for effective adoption and processes to create a properly integrated ecosystem. The following characteristics differentiate top performers in this space. Typically, top performers:

- Have a consistent, well-maintained technology and business capability multi-year roadmap that they leverage to align with key partners.
- Factor the scalability of new capabilities into their decision making when investing in new areas and initiatives.
- Roll out new capabilities in small pilots. This allows them to learn, iterate and optimize how they will be leveraged operationally, and facilitates building internal support and adoption of any potential changes.
- Assess business goals, user transformation requirements, risks and organizational culture, before choosing the most effective and appropriate adoption strategy for a new platform or system implementation.

Typical Characteristics Differentiating Top Performers



Have a technology
roadmap



Factor in the
scalability



Roll out
small pilots



Assess before
choosing

BENCHMARKS BY CATEGORY

Institution Type: Independent Mortgage Banks (IMB) Process Mortgages Faster Than Depositories

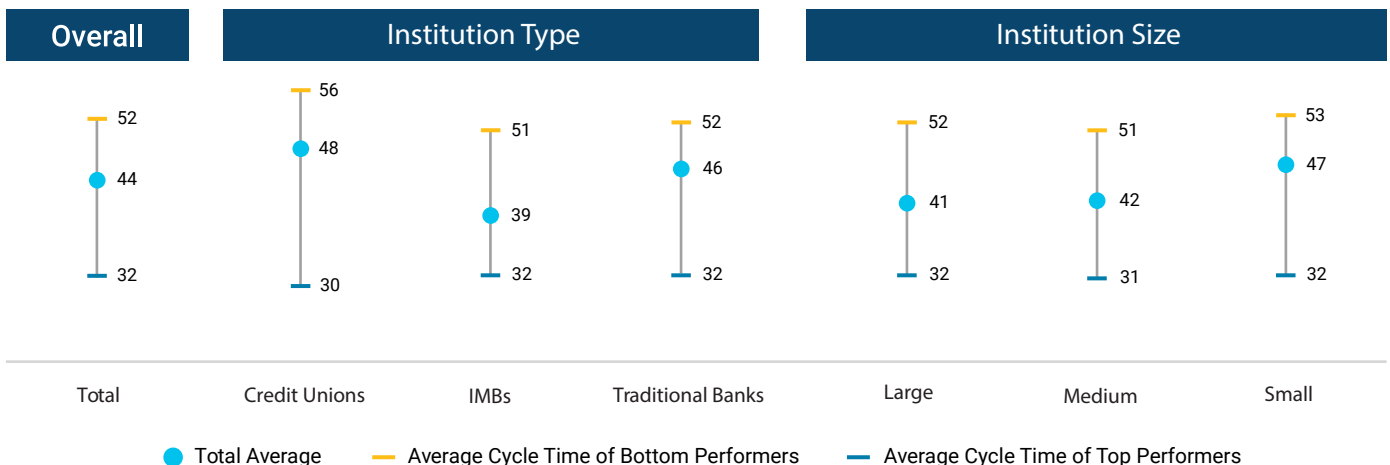
According to the study findings, on average, among all the institution types, independent mortgage banks (IMB) process mortgages faster than the depositories measured. Across all mortgages, IMBs process mortgages seven to nine days faster than other lenders (Exhibit 7). This may be because:

- IMBs are monolines, or institutions with a single line of business, with traditionally more cost-focused and effective mortgage production functions.
- IMBs borrow money to lend, versus a bank, which sources their own funds. As a result, IMBs have more of an incentive to drive costs down because they operate from a higher baseline.
- Online financial technology (fintech) lenders, who all fall into IMB category, are more digitally advanced, which can result in more effective loan processing than depositories.
- IMBs are pursuing digital enhancements at a faster pace in order to remain competitive and stay in business.

No matter the lender institution type, the streamlining and digitization of underwriting operations can drive efficiencies and lower loan processing times.

While IMBs lead the way in cycle time metrics across institution types, it is important to note that the top performers within other institution types that have adopted digital advancements have managed to achieve significantly better cycle times (30-32 days) than their peers (Exhibit 7).

Exhibit 7: Snapshot of the Average Closing Cycle Time Between the Top and Bottom Performers Across Lender Categories (in Number of Days)



Source: Freddie Mac (data as of June 2020); FRE funded loans from Q2 2020; N = 1,012 lenders



Institution Size: Small Size Lenders Drove Cycle Time Benchmarks Upward

One key challenge for mortgage lenders is the ability to effectively manage volatility at different times during production cycles. Our study found that as mounting mortgage volume continued to put pressure on lenders' production processes, small size lenders' cycle times were more impacted by backlogs.

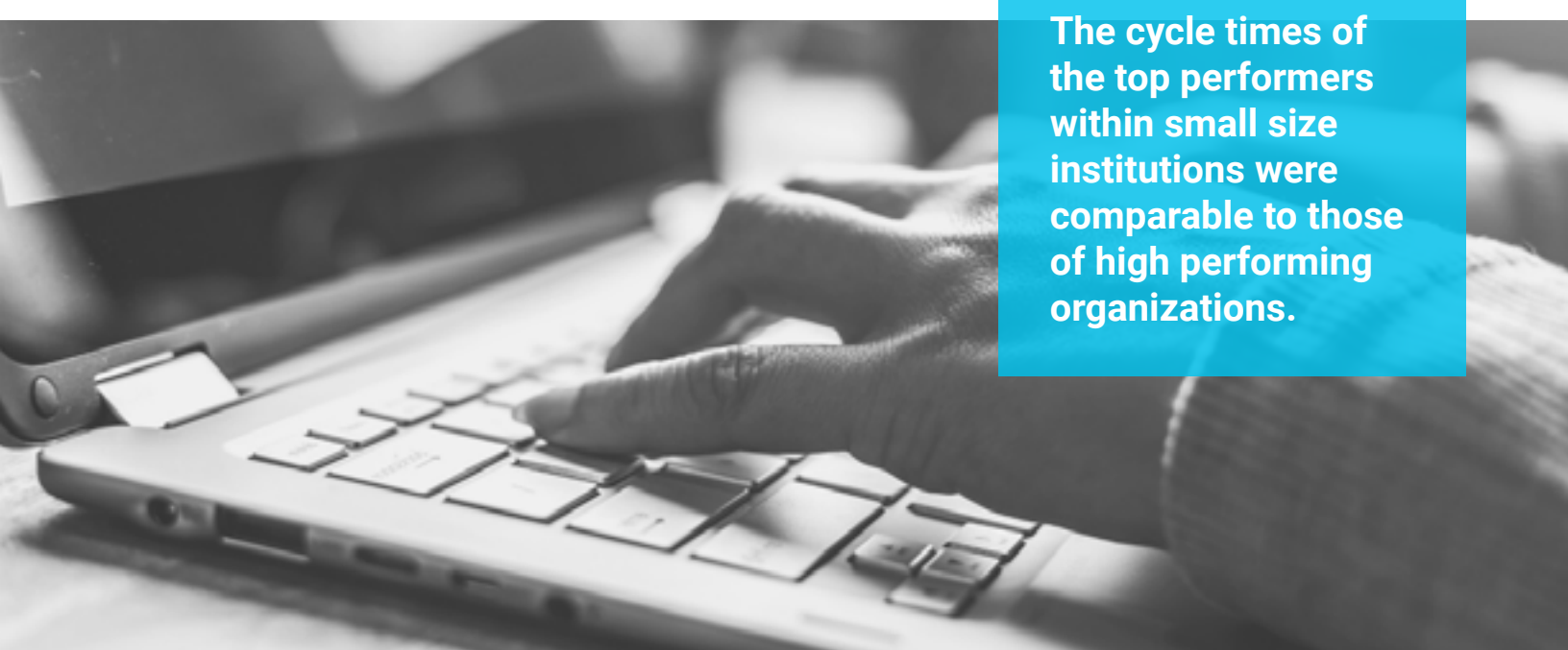
In Q2 2020, on average, small size lenders processed loans five to six days slower than their larger counterparts. Considering that small institutions represent more than 60% of all institutions measured, this ramp-up drove the overall cycle times upward.

There are several reasons for the deviation in closing cycle times, such as:

- The lack of economies of scale. When small lenders' volume of applications tripled quarter over quarter, the backlog added more than two extra days to their production cycle.

- The lack of use—or presence—of technology. We found that small lenders are less likely to leverage the digital offerings of their partners when compared to their larger counterparts. Due to budget constraints, small institutions are less likely to make digital investments. As previously discussed, digitization generally helps to boost efficiency and shorten the cycle time.

It is important to note that the cycle times of the top performers within small size institutions were comparable to high performing organizations. This is because streamlining and digitizing underwriting operations often drives efficiency and lowers loan processing times. This suggests that the smaller lenders who have invested in technology are able to produce similar processing times as mid- and large size institutions.



The cycle times of the top performers within small size institutions were comparable to those of high performing organizations.

Key Takeaways and Looking Forward

The ongoing challenges presented by the COVID-19 pandemic and capacity constraints driven by higher refinance volume activity have placed significant pressure on lenders across the industry.

To keep pace with these evolving trends, many lending institutions have focused on technology investments to help them address their changing market and competitive needs of the mortgage origination process.

As organizations continue to navigate and adapt to the new normal, it's important for lenders to understand ways to manage cycle times, which can help determine their effectiveness and ability to compete.

Moving forward, lenders may consider:

- Using this study to benchmark their performance, which can help them to better understand the key drivers behind shorter production cycles.

- Implement a well-integrated and well-executed technology and business strategy, which helps top-performing lenders achieve a lower cycle time. Lower cycle times, in turn, allow for faster origination and higher customer satisfaction.
- Leverage partner solutions, which can reduce inefficiencies in the underwriting process with significant benefits to all type of borrowers.

Industry experts anticipate that closing cycle time will continue to shrink. According to the [2019 Forbes Insights "Digital Mortgages: How Leaders Are Harnessing Tech,"](#) 87% of lenders agree time between application and closing times will compress from months to 14 days or less.

To achieve greater efficiencies and shorter cycle times, it is important to keep a pulse on the progress of the market and compare each institution's progress to the benchmark for the rest of the market.

About the Study and Endnotes

Freddie Mac's inaugural edition of the Mortgage Closing Cycle Time Benchmarking Study provides an in-depth view of key trends across more than 1000 companies over the past several years. Data collected for the study cover the time period from 2016 to the second quarter of 2020. The report includes detailed information on lender mortgage closing cycle times across different institution types and sizes.

Freddie Mac is a trusted partner to numerous lending institutions of various sizes. Freddie Mac's mission is to build a seamless tomorrow together with our partners, industry participants and innovators. It's done through driving awareness of the Freddie Mac approach to technological modernization, continued work in creating innovative solutions, and positioning Freddie Mac as a partner that understands the unique needs of the market.

As a part of our business process, we collect, analyze and model data for 40% + of securitized conventional conforming volume of all mortgage activity in the market. The great volume of data collected by Freddie Mac allows us to observe trends, as well as analyze and model mortgage market opportunities. Our expertise in mortgage technology and our desire to lead and support a path to a more efficient, technologically innovative, transparent and responsible mortgage production process led us to a decision to develop a comprehensive mortgage closing cycle time benchmarking study.

Calculation Methodology

The mortgage closing cycle time (MCCT) is the number of days it takes from the time an application is received to the time the mortgage is closed and funded by an institution. The MCCT is a metric that helps quantify mortgage operational efficiency of a company. Our benchmarking study leverages the average lender mortgage closing cycle time, which is defined as the sum of total days of mortgage closing over the number of total loans.

Average Lender Mortgage Closing Cycle Time = (closing cycle time)/# of loans.

Lender Calibration

Total Lending Institutions		1012
Institution Sizes	Larger Institutions Lenders in the FRE database who's total volume is above \$1000M	195
	Mid-Sized Institutions Lenders in the FRE database who's total volume is between \$250M - \$1000M	201
	Smaller Institutions Lenders in the FRE database who's total volume is below \$250M	616
Institution Types	Mortgage Banks	254
	Traditional Banks	623
	Credit Unions	135





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The authors would like to thank:

Rick Lang, Kevin Kauffman, David Fulford, Riham El-Lakany , Sudamys Alfonso, Jaeyeon Choi,

Tatyana Krol, Hani Al-areqi, Gilberto Mendez, Kristy Vagts George, Robert Reynolds,

Emmanuel Tsikoudakis and Carissa Hampton for their contribution to the study.

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