

## Business Strategy At Leading Mortgage Lender: Developing A Business Case To Sell Assets In The Rapidly Changing Mortgage Servicing Business

**The Challenge:** In the 2 years since we had helped HomeBank enhance/restructure its customer service and implement a new product development process, this Fortune 500 real estate lender’s market had undergone significant changes. Although HomeBank controlled an extensive network of retail mortgage origination locations, its profits historically came from the mortgage servicing business. New aggressive entrants/channels (e.g. online banks) and massive consolidation creating a new level of scale had put into peril HomeBank’s position as the lowest cost producer, and competitors were beginning to target its core client base. Faced with this challenging new environment, the CEO had asserted “our current business model is dead, we need something new.” Management then partnered with us to help find a place in the competitive landscape that, while new, would still be firmly rooted in HomeBank’s core operational strengths.

### The Partnership:

**Analysis:** Our team focused on gaining both a solid understanding of HomeBank’s real capabilities and creating a vision of how such capabilities could be used to deliver profits in the future. As such, our team comprised senior bank executives who could describe HomeBank’s capabilities and contribute their visions of the future, mid-level managers who could validate the bank’s capabilities; and consultants who could generate an objective vision of the future, guide development of the capabilities analysis, and synthesize conclusions.

We began by extensively researching trends in the industry and translating those, with the help of senior managers, into conclusions about what capabilities would be required to succeed in the future. Simultaneously, our team developed a comprehensive list of the capabilities believed to be the bank’s potential strengths and began a program to test these internally and against what competitors could offer.

**Strategy:** Adhering to our 80/20 philosophy, once the yield of new ideas and trends began to taper off, we held an interactive workshop with the bank’s key decision-makers to review results and brainstorm about options. The discussion included industry trends and implied capability requirements, the team’s conclusions about HomeBank’s capabilities, and detailed descriptions of potential future business models. It also included a yes/no decision framework drafted by the CEO to help in evaluating the viability of various models.

Throughout the day-long workshop, senior managers presented conclusions regarding their functional areas. Mid-level managers were included in portions of the meeting to elaborate on capabilities. Repeatedly, core capabilities that senior management had felt could drive a future business model were shown to be either mediocre or irrelevant in light of industry trends. Management decided to follow up with an off-site management workshop to weigh the implications of the workshop’s conclusions. Following this retreat, management concluded that they could not discover any new, solid, and distinct strengths that could be turned into a competitive advantage and that the entire portfolio of mortgage servicing assets should be sold.

**The Results:** The entire portfolio of mortgage assets was sold for over \$1.5B to a competitor who had already built significant servicing scale and could be a lowest-cost producer. The CEO of HomeBank regarded their relatively early decision to sell as a significant coup and, 6 months after the engagement had finished, honored our team of consultants with plaques and recognition awards.

| Requirements For Success In The Future                                     | Current Assessment Of PNC Capabilities | Comments  |
|--|--|---|
| Sustainable low cost/price leader  | ●                                      | Currently the strategic focus of significant internal dialogue  |
| Rapid consumer response and ease of doing business                         | ●                                      | Best demonstrated at initial customer contact, and decreases in quality over duration of relationship |
| Proactive consumer advocacy  | ●                                      | Recognized need/ desire but operators unable to detour  |
| Trust  | ●                                      |   |
| Tailored products and services   | ●                                      |   |
| Ability to mine/leverage information to benefit all players in value chain | ●                                      | Process of mining data has begun, yet critical mass of data remains largely unleveraged               |
| Network of synergistic business partners                                   | ○                                      | DLJ could possibly develop into partner   |
| Flexibility/agility  | ○                                      | Legacy infrastructure   |
| Barriers to exit   | ●                                      | Could be raised by leveraging data and developing strong partnerships                                 |
| 15% return on equity   | ●                                      |   |

No clear/demonstrable strategic advantages

● = Core strength  
○ = Strategic vulnerability