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matchbox

## Matchbox OP(erations) ED(itorial) Page Thoughts and Observations On The Market

Finding Profits In '15

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The founders of matchbox have created a sister company that is focused on building custom technology products that focus on streamlined LOS integrations. Simply put, our goal in this venture is to make your life MUCH easier. The company is Ignite Integration Solutions or IGNITE for short. If you want to learn more about its offerings, please let us know.

It's been a little bit since our last newsletter but this holiday season matchbox (and Ignite) have been quite busy running around to conferences, helping clients close out 2014, and eating leftover turkey sandwiches. As the number of daylight hours grow shorter and shorter, so do the number of closing days left in the year. We basically have another 10 closing days left for 2014 which will close out another stressful, yet successful year in the mortgage industry. Although we all have much to complain about on a day to day basis, we have much to be thankful for.

Each year we are extremely fortunate to meet new clients, make new friends, work with existing clients, and interact with some of the nicest, most talented people in the industry. All of us at matchbox appreciate these interactions and know that these partnerships are the ones which make us better. Being former mortgage bankers ourselves, we understand the challenges that are presented to you each day, and our goal is to assist you in either finding or providing solutions for your model. We know every model is unique and our vast perspective allows us to find the right fit, workflow, vendor etc for every client. We will look to continue this focus in 2015; hopefully using this forum to provide a better, more insightful breakdown of the operational and business challenges faces by the masses. All of us at matchbox want to wish you and families a Happy Holiday season and an even better 2015.

# matchbox - We Speak Mortgage

## Finding Profit In '15

The latest Quarterly MBA Profitability report displays a common theme that most firms are experiencing - volume is up - profit is down. For Q4, we all know volume will trend down for most so will we see profit up? Or will it be a case of volume down - profit down? That's a combination that many faced a year ago. We're doing our best to ensure clients face stable to increasing profits QoQ. There is no doubt that every secondary client of matchbox's is able to increase yield and every technology client is able to operate more efficiently.

The constant theme of shrinking margins come in many shapes and sizes and as we come to a close for this year, these items should be reviewed to see how they can be improved upon for 2015:

- **Integration Expenses:** There has been a tremendous amount of consolidation this year with the M&A market being red hot. Some of these deals have been opportunistic while others have been carefully and strategically conceived. The challenge in these integrations is that it takes some time for the synergies to be realized, if at all, so while volume increases are immediately felt, time will tell if profits will follow. In theory, the topic of profits should be a question answered not with an 'if', but rather 'when'. Unfortunately, many of these transactions are not taking advantage of any economies of scale. Entities are retaining most of their former staff and not shrinking expenses or leveraging scale in an optimal manner. It will be interesting to see how long this will last and how these integrations that look good on paper become challenged on a cultural level when profits are stressed and reality hits.
- **Optimal Secondary Execution:** We are seeing firms, especially ones that are hedging continuing to struggle with hitting their goals and maximizing their gain on sale. But heck, at least they've taken a step in the right direction. And for those who aren't hedging/delivering mandatory, what is taking you so long!?!?! There are many reasons lenders struggle, but there is no excuse for secondary execution to drop or flat-line heading into 2015. Why do so many struggle?
  - Poor data or reporting. Not you? Yes, you!
  - Pricing to the street based on misguided set of investors that are n/a or incomplete. Crazy, but true! If you've had Chase in your model in Q3/Q4, you know what we're talking about.
  - Limited execution - It seems as though almost daily there are new investor outlets with minimal overlays. Think you have the best set of investors? This market is ever-changing, think again!
  - Post-lock adjustments/COCs - Please don't tell us that you're heading into 2015 with Ops manually reminding Secondary of updates to loan files.

We can go on and on here, but these are just some common themes, regardless of hedge advisory firm, or Secondary Manager.

- **New Investors:** As previously mentioned, coming into the year we were seeing a number of new investors or ones that were historically Tier 2 or 3 start to dominate allocation sheets. These investors are no longer niche or fringe players - they're actually impacting Wells Fargo volume. Interestingly, the investor allocation and execution experiences are not constant among correspondent sellers. Pacific Union may be great for one lender, but not another. Same can be said for PennyMac and 5 to 10 other investors. Bid tapes haven't been this popular with investors since the subprime days. What this tells us is that there's tremendous opportunity for those who are aggressively negotiating with new outlets for the best price. Execution outlets should have grown in 2014 and the trend should certainly continue in 2015.
- **Cost of Underwriting:** Like the business ventures, volume and profit, the same can be said about Underwriters and Underwriter output. There has been an increase in number of Underwriters at most firms this year, but Underwriting output has decreased to 1-2 files per day. With Underwriters coming at the biggest cost, their output has a large impact on profitability. We are not seeing many improvements in this area which is greatly affecting lender's bottom line. Firms have to go into 2015 with ideas on how to double Underwriter output next year. It is a crucial balancing point which has tangible benefits on many areas of productivity and profitability. Many lenders still recognize that they are 'not fully utilizing' their technology. Nowhere is this felt more than in Underwriting and Ops. Want to make Sales happy? Let 2015 be the year of LOS and Underwriting efficiency.
- **CFPB, Webinar, & Seminar Costs:** I would be curious to see if firms added a GL code called CFPB Webinar and see if that GL line would be in the top 5 expenses. Firms are spending an absurd amount of time and money attempting to interpret CFPB guidelines and building CMS's. It is by far the biggest fear for any management team. Documenting policies, test audits and improving the compliance process via LOS programming have become standard industry practice. If you've heard of these approaches, but have not implemented anything internally, 2015 should be a busy year! And just when we get comfortable operating in a good rhythm, the new RESPA - TIL changes will be coming into effect.
- **Millenials, First Time Home Buyers, student Loan debt:** These 3 items are hot topics for conversation and debate. They are also key components on where our industry's growth will come from in 2015, 2016, and 2017. These demographics should be the focal point of any business plan moving forward. It's a lender's job to figure out how to market to them and ultimately get them into homes and out

of a rental or their parents basement.

- The Latino Market: This is a rapidly growing sector that continues to grow in number and strength. "Se Habla espanol" should be a term that is part of your 2015 plan as well. Failure to incorporate a Spanish speaking aspect to your business will leave a significant sector of the market off the table which will only hurt more as the Latino population continues to grow. But don't stop there. You also need to incorporate a URLA in Spanish to accommodate this demographic from a disclosure standpoint. If you already have this component established, it should be marketed strongly and used effectively.

Have a great rest of the year and let us know if you want to discuss some of your 2015 goals.

### **About Us:**

matchbox is a collection of gritty industry veterans who decided to create a company aimed at helping mortgage companies ignite ideas that are outside the box to realize their true potential. We have years of real-life, hands-on experience in the business, and we want to offer our keen insight to others as they take on the challenges before them.

As individuals, we each contribute unique perspectives and expertise. Collectively, we provide a true roadmap to success, regardless of your current situation. Like any master craftsman, we are very passionate about our work, and we approach each client as if your company were our own. In the end, we help you, be a better you.