igniting ideas for the mortgage industry.

matchbox

Matchbox OP(erations) ED(itorial) Page

Thoughts and Observations On The Market

What We Do

Fulfillment & Advisory Services:

Mortgage
Analytics
Technology
Consulting
Hedging

Quick Links

Learn more about us...

Join Our List

Join Our Mailing List!

Or Pass this along to a friend!

April 30, 2014

So be honest, which category do you fall into? Are you managing staff or staffing to manage? In this newsletter discuss the challenges of managing volume and Ops in a volatile market and some proven strategies that are greared help lenders.

Anyone out there coming to NYC in a few weeks for the Secondary MBA Conference? We are putting together our schedule and look forward to seeing many of you. Please let us know if you would like to get some time on the calendar to talk shop. There's tremendous transition and opportunity out there and we are excited about helping lenders capitalize.

We strive to keep you all well-informed, as we share our views. Staying a step ahead and running a tight operation are the keys to success in the mortgage banking world, and we are here to help bankers do so. We hope you find our newsletter useful, and if there is anything you want us to cover, please let us know.

Managing Staffing or Staffing to Manage?

With Spring upon us, pipelines should be in full bloom with volume. When these sudden surges occur, management and owners will soon be posed the challenge of how to support an underwriting pipeline that continues to grow day by day; this after a few months of pipelines shrinking day by day. You know the drill, 10 files gets submitted, 6 approvals go out and underwriting is now 4 files behind. Before you know it, we are discussing underwriters working overtime and weekends or grappling with the fact that turn-times have doubled. The latter is dangerous territory for all of those wholesale and branch platforms, many of which are first to make a name for themselves with stellar service.

Staffing and scalability is not new to our business, but this time it seems a little more severe. Over the last few months many lenders made the difficult choice of staff reductions, while others retained their staff in hopes of business rebounding. The former is a move to right-size with an eye on the bottom line, but causes a severe challenge to bounce back. The latter is an investment in the future as corporate financials are weakened through over-staffing, but they are not facing the staffing battle now. The continuous cycle of balancing staff vs. volume has never been more challenging and while there is no right answer, there are some items that should be consistent. Regardless of volume levels, these qualities make the severe shifts in volume a bit more manageable:

File Quality. While Loan Originators will be the first to complain about turn-times, they have also been known to have their file quality drop at the first hint of increased volume. With so many things out of the Loan Originators control, the one thing that they do have 100% control of is file quality at submission. There is such a rush to get the file in and get in line, rather than keep the file for another day or so to make sure it is complete and has up-to-date/accurate information. It seems to be an unwritten rule to accept deficient file quality when volume is busy. In our opinion it needs to be the opposite. File quality needs to be at its best when volumes are high so all facets of Ops can run at optimal efficiency.

Pipeline Management. When submitting a file, in addition to ensuring the file is complete, be aware of the timing of the contents within the file in association with the pipeline turn-times. For example, if a file has been around for a few months and is now coming back to life, make sure the credit report and credit file documentation is still current will not soon expire. Do locks have enough time to make it through Ops or are they first submitted with 7 days left, soon turning into a free extension? A 7-day turn time with documents that expire in 5 days causes bottlenecks or at least bumps in the process. Lenders (i.e. LO's and processors) should be aware of the pipeline and proactively update files to ensure they have the best chance to close in the expected timeline, with the least amount of "touches."

Manage Priorities. With a backed up pipeline, there will be priority requests or "rushes" on a daily basis which will increase on Friday's and month-end. All lenders should have a protocol for these requests as they can soon get out of hand. And it's not uncommon for these "rush" files to be pushed through Ops rather quickly to only stall on the LO or client side. This needs to be carefully managed as priorities can get out of whack rather quickly especially as volumes grow and turn-times increase. It is not wise to have one-off Underwriters and Closers make unilateral decisions on which files are priorities as they may not have the full perspective on the situation at hand.

Manage Resources. For lenders that retained staff over the past few months, you hopefully used some of that idle time to cross train. Managing resources in a productive manner should be a constant, even when volume slows down. A spike in applications soon leads to a spike in submissions, then a spike in closings, fundings and an overworked post-closing group juggling warehouse capacity. Departmental capacity can often be managed with some simple foresight and basic reporting. A well devised plan of staffing, setting standards, and cross training will go a long way. Too often employees and priorities are not managed with reports, goals, and minimum standards. Just last month we saw a client struggling with shipping turn-times. We recognized that the average shipper was sending 1-2 files a day as they had other responsibilities. Setting some standards and management strategies doubles their output within two weeks. This was especially key as they knew volume was going to surge in April and it was already an issue in February-March.

As the struggle to staff according in an volatile industry will continue, lenders should be very aware of the items they can always control. This focus will ease the shocks of a growing pipeline, and also allow for increased productivity regardless of environment. *If you have any concerns regarding production or efficiency levels, reach out to matchbox asap. It looks like volume is only starting to heat up.*

The Intangible of Compliance

There is a statistic out there that estimates the cost of compliance on a per file basis has increased from $70.00 per file to about $400.00 per file. We've never been quite sure of how so many statistics are calculated as every lender's definition can be different. Regardless of the calculations, we see this number underestimated as there are many intangible costs of compliance. How are lenders accounting for some of the following?

Estimate the number of hours that were spent in December and January on the ATR/QM changes. Let's say conservatively, it was 50 hours per firm. We doubt that it was only the compliance department who spent time on this. Meetings with management, sales, secondary, lock desk, pricing engines/LOS admins, and Ops were also required. Adding those numbers up? Probably not, but there are a lot of hours invested in this update that are not accounted for in the 'cost of compliance'. After all, this is time that all departments are investing in compliance rather than time spent on growing or supporting the business. **There is a cost to that.**

We have seen many firms increase their compliance staff by 100%-500% in hopes of getting a handle on compliance. Then the auditors make a visit and management and other department heads are pulled in to help out. As many are unfortunately aware, lending in multiple states can mean non-stop audits throughout the year. There is a flurry of activity prior to each audit that pulls core management members away from their day to day. **There is a cost to that.**

We have seen many firms increase the expense of investing in compliance related software and yet still are being hit with tolerance cures and audit fines. It's also quite common to see investor kicks due to a compliance issue. This leads to pair-offs and new commitments at market price tothe second, third or fourth best execution outlet. Sure this gets rolled in to secondary or hedge performance, but it's really a compliance issue. **There is a cost to that.**

With a true appreciation of compliance in today's market, there is no escaping the rising costs. What is ultimately important is to understand all of the costs; including the intangibles. Only when costs are recognized and understood can they be managed and better controlled. If lenders are increasing expenses or investing in new personnel, management should be able to turn their attention to growing and supporting the business which is just as important. Without this, the costs can begin to compound as there is an investment cost (technology, outsourcing, personnel, etc.), consistent compliance issues, which result in real charges to the bottom line, and a pull of other resources to manage or help address the issues at hand. The costs of supporting compliance are so much greater than many realize when all items are taken into consideration. Know your costs.

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 perspective 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.

Are you forwarding our Newsletter?

Each week we see a number of readers open and forward our newsletter multiple times. If you like our letter and are forwarding, first of all, **Thank you**! Also ask your contacts to subscribe as we always like to increase our readership!!!