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Thoughts and Observations on the Mortgage Industry

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matchbox consulting services - we speak mortgage...

Happy 2016! After an overall successful 2015, we start the year with the pipelines full of loans that are being held in the abyss of investor review for TRID compliance. As such, everyone is focusing on ways to meet the new requirements and adjust on a daily basis to the new normal and closing capacity.

With that said, there are other items that are important unrelated to TRID. At the end of the this TRID implementation period, there will be a dramatic need to refocus on growing the business and regaining some of those lost profits and momentum. Our goal in the next few newsletters is to focus on what else matters outside of TRID as these items will gain importance in 2016.

We are starting the year with a number of conferences: Texas Secondary Conference (February 1st -2nd), the Mortgage Collaborative Winter Conference (February 21-23), and the Ellie Mae Experience (February 29-March 2.) Please let us know if you are attending and if you would like to meet to learn about a number of new offerings for 2016. We always prefer seeing you in person, so lets find the time to get together at these events.

LO Comp - Back In The Headlines

Although the Loan Officer Compensation rules have not changed, the scrutiny of them is only going to grow in 2016 as the CFPB already announced it's one of their primary focuses in coming audits; and they will be looking back at historical plans, not just current models.

Surprising to us, lenders are still out of compliance and struggling to to present "compliant" based solutions which seem to be very much in the gray area. There are multiple reasons for this, but the view is that the CFPB is going to convert that gray to black and white in 2016. Unfortunately, we won't know exactly where they stand until the first few penalties are announced in the press which may not be for another year. We see many firms present their compensation plans and all have a compliant slant to them with proper wording or details of what they are not doing, but most are a bit off from being fully in-line with the regulations.

To their credit, most, if not all lenders are doing a best efforts job in providing a compliant compensation plan, but surrounding competitors, recruiting challenges and overall profit squeezes are providing ample alternatives for firms to get comfortable with alterations which sum up to their current offering. Others are simply misguided in using their common sense rather than regs in creating their plan. And others believe they found the ingenious model to take advantage of a perceived loophole. These plans all sound kosher on the surface and would likely pass a five minute discussion with an attorney but there's always a BUT, and in these cases the plans only become problematic when you start peeling back layers and asking more and more questions.

In our Operations Review engagements, we suggest firms make a mortgage commodity and build a process where all loans are approached in the same manner and can be fulfilled in the same manner. The CFPB is attempting to do the same with the LO Compensation rules. They want an even playing field for the consumer with as much transparency as possible. With this roadmap they are able to connect the dots and look deeper into lenders pricing practices and Fair Lending policies and protocols. The upcoming HMDA revisions will clarify this even further.

We honestly never would have guessed we'd still be writing about this 5-6 years later, but here we are. Between the CFPB announcements and three recent clients needing to update the plans they've had for years, we're certain this is an exposure point for many. Since the initial Loan Officer Compensation changes in 2010, we have been providing LO Compensation reviews for clients. Our process reviews your current policies, how they are being enforced and potential areas for exposure. We feel this is going to be growing concern in 2016 and 2017 with the HMDA changes. If you are unsure if your plan passes muster or to what degree you have exposure and are operating in a gray area and need some guidance, please let us know and we can discuss options for providing some assistance on making this a non-issue for you and your firm this year.

As a side note: CFPB's take on LO Compensation in audits is likely tied to overall pricing policies. There is tremendous variances out there and many lenders have pricing policies and documentation (or lack thereof) which are ripe with preferred treatment and fair lending concerns. Lenders should not underestimate or ignore the importance of their actual pricing policies. If you don't truly "price to par" or have a well documented pricing plan, we should talk.

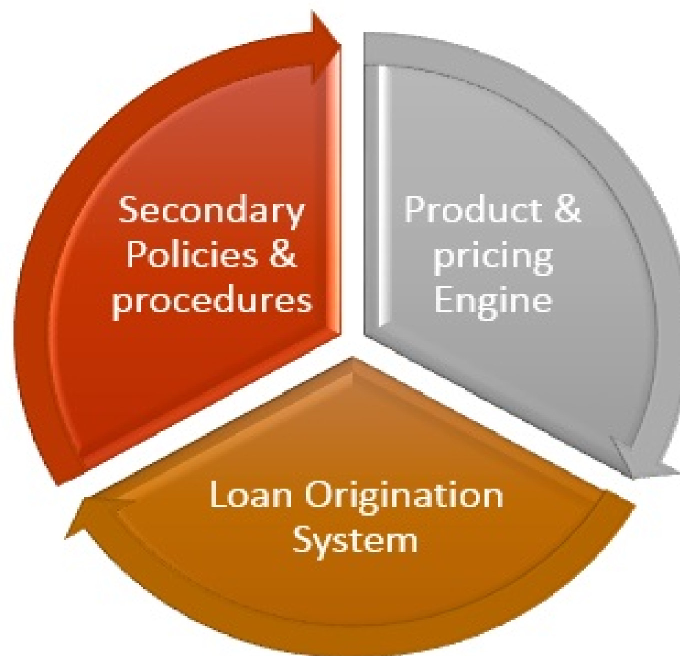
Secondary Performance

We like to say that Secondary Management is more an art than a science. Very often, the Secondary Desk is a Wizard of Oz operation where the SMM sits behind the curtain managing the multiple variables of secondary execution with little insight, oversight, or feedback from others. In most cases, SMM's do a great job and Secondary performs well, or at least that is how it is viewed.

Heading into 2016, most lenders are starting the year with new initiatives and new goals that are targeting improvement. The Secondary Department is often left out as who sets and

oversees goals for the Wizard anyway? Why is that? Because the Secondary Manager is the only one who can present its performance in any way they want. Some of this is by choice and some by necessity. Performance changes, well it was due to the market or an investor of course. Can anyone quibble with that? Our take is that most present the results in the best light as they are the ones that are in control of the reporting of such. This is not to say that the results are not accurate and that the reports are not as positive as they are being presented. Rather, our take is that there is no one (in some cases, including the Secondary Manager) knows if the results are good, or more importantly, can or should be better.

We meet with firms that are hedging and are ecstatic that their performance is 40 bps over best efforts. Our question is - who is at the firm that can see if their performance can be 60 bps with some operational improvements or improved allocation strategy? And is this 40bps better than the next lender down the road who sees the same reports with a 15bp gain? Maybe, maybe not. Our Secondary review engagement targets the areas where additional profitability lies within the secondary and what is really driving current margins and reporting. While it is rare to find a 25 bps issue, it is common to find numerous exposure items or opportunities offer 2-10bps - add those up and we're talking significant revenue. Our knowledge of the Secondary Trinity listed here:



Allow us to connect the dots very easily and provide a strong sounding board for your SMM to discuss avenues for growth in 2016. If you are interested in seeing how the Wizard is operating behind the curtain as compared to other Wizards, and want to push them to improve, let us know and we can discuss our Secondary Review engagement. There is nothing that makes us happier than creating avenues for increased profits in Secondary.

Happy New Year! Hope it's off to a successful start.

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