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

July 15, 2014

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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.

With the World Cup and the LeBron James decision being front and center in the news, we've been thinking sports, and it has spilled over to our newsletter. At the halfway point of 2014, it's that time for a little self-evaluation. How are your 2014 goals looking at this point? Are they a distant memory or still within your grasp? We hope that your decision-making process is filled with varying levels of risk management. We know Germany's focus, strategies, and risk management were carefully planned, and surely, every aspect of LeBron's decision to return to Cleveland and his letter to Sports Illustrated were carefully crafted with his legacy in mind. So, how are you doing in meeting your goals, managing risk, and establishing a well thought-out business strategy?

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.](#)

### Taking Too Much Risk?

With two quarters in the books, lenders had a rough start, but most entered halftime on a bit of a run. While we all analyze numbers, they do not tell the whole story. Many went from scrambling to remain in business to scrambling to keep turn times

in line. It was certainly a tale of two quarters. We always remind lenders that while volume is sexy, managing costs, risk, and profitability are just as important, if not more so. Being a mortgage banker requires each lender to have its grip on multiple areas of risk in order to be successful. What better time than the halfway point of 2014 to reassess what aspects of the business are working well and what needs improving? This includes, but is not limited to:

**Counterparty Risk:** Do you really understand who you are doing business with? Whether it is a broker, correspondent, or a vendor, lenders need to make sure they know who they are doing business with and have the controls to monitor and manage them. In our experience, it's that last point that is missing. Vendor and third-party oversight is a driving theme of 2014, but most lenders are severely deficient here.

**Pipeline Risk:** A big factor in being successful today is being able to know how your pipeline is going to react in relation to market movements. Understanding your business all the way down to details such as purchase/refi allocation, program allocation, investor allocation, origination source, etc. is crucial. Pipeline risk can be seen in a lack of diversity, limited investor and product base, and poor data (be careful with reporting during LOS conversions). Again, volume just tells half the story, the pipeline details and ultimate execution are the keys to sustained profitability.

**Market Risk:** Although rates have been stable lately, they can and will move in an instant. How lenders react to market volatility impacts profitability more than most realize. Timely pricing, management of concessions or exceptions, margin management, and pull-through variables all have a significant impact on revenue. Managing the pipeline well through a volatile market is worth much more than another \$5-10M in volume.

**Compliance Risk:** This risk has shifted in 2014. Previously, compliance risk festered with lenders who failed to implement proper compliance controls. Now that compliance plans are a given, the risk is to prove how they were followed and how employees are properly trained.

**Concentration Risk:** This one is very similar to pipeline risk. Concentration comes in the form of a business model, investor, originator, broker, or product. Simply put, too much of a good thing may not be such a good thing after all. Just ask all those lenders who got comfortable with being 90% refi or call center based. Or those who sold > 50% of their volume to certain investors who make drastic changes to their pre-purchase review/audit policies.

**Liquidity Risk:** Cash and liquidity is king in this market. Having enough liquid cash in your possession is vital to absorb the ebbs and flows of the business. Whether it is payroll, marketing, settlements with broker/dealers, or vendors, all lenders need to understand the cash requirements to ensure that they are not caught in an unexpected cash crunch. Just ask a few big originators which TBA settlements were due to broker/dealers in April or May after a tough Q1.

Understanding and managing risk has always been important but never as much as today. If you are looking for some assistance in seeing how you fare in managing risk, matchbox offers a Risk Management Review. Click [here](#) for more details on this service offering. We can help you not only in identifying areas of risk but also in putting the proper controls in place to better manage it going forward.

## **2nd Half Growth Strategies**

As Lebron decided to change jerseys and head home, we can appreciate what is in our control and what is not. Short and long term strategies must be well thought out, carefully balancing the pros and cons of important business decisions. Integrations and transitions seem to be constants as strategies shift and new business plans are explored.

One interesting aspect of the market this year has been the amount of acquisitions, consolidations, and employee movement. While some of these moves seem to be addition by subtraction, they are presenting a great opportunity to pick up some good talent. With all acquisitions, there is a constant need to improve your skills and your team. Training and developing a bench or farm system is important - it is this talent that appreciates the goodwill and calls the lender 'home.' Talent is something that can make or break a successful operation. Sometimes you won't appreciate what you had until it's gone. Other times you won't realize how long you've been held back until some real talent comes along. An upgrade in talent can push the current team to be better or make them feel threatened. It is the lenders responsibility to integrate the new talent without alienating your current team. I'd venture a guess that the Cleveland Cavaliers don't have this problem bringing in their new acquisition.

Another challenge we are seeing relates to integrating new workflows and creating a new identity. While many lenders are taking over others, there is often a level of autonomy or independence that remains. Integrating these new platforms or business models takes a well-planned strategy. Investments in dollars, training, and technology are just a few requirements, as is an open mind to new processes and perspectives.

The most important item on making any transition a smooth one is working as quickly as possible to get to a common Loan Origination System and Secondary Policies and Procedures. Delays in making these decisions creates tremendous exposure in areas all the way from efficiency, file quality, and reporting to data integrity and revenue.

One last point: as many of your team members are going to take some time for vacation, it is a great time to ask them to have a great vacation, have a relaxing time, and come back with one great idea on how to make their department or team better. They are on the front lines, have the best perspective, and should be counted on for their input on how to make improvements.

### **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.