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
Advertising
Technology
Consulting
Hedging

Quick Links

Learn more about us...

You can also visit our blog for some more thoughts from Match Box.

Join Our List

Join Our Mailing List!

Or Pass this along to a friend!

Find us on Facebook:

June 5, 2013

Good news continues to flow about the industry - home appreciation is up, Fannie & Freddie profit up, Ginnie issuance up, and jumbo issuance up. But what would the mortgage industry be without some drama? Rates are up too, as is the blood pressure of every Secondary Marketing Manager. Bringing back a term from the past, how are you "Nedgers" doing today? Sure it is easy to show secondary profits when rates are on a constant slide, but how well are those positions being covered now? How does it look to not have a hedge position that is deep in the money now? We hope that all bankers REALLY understand that we are in a market that can be volatile and the strongest firms manage their risk for consistent gains and not by gambling on the ability to ride a hot deck. The topic we look to this week is consistency which is hard to find even in this market. We have our thoughts on and felt like sharing.

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.

Consistency is King

Through the many Operational Reviews we have completed, we are still surprised by how companies allow their loan process to be user dominated. What does that even mean? Many processes in place are determined by the user that is completing them and not the company itself. We are often asked to correct this through LOS customization, but is this really the answer? Every company is looking for ways to create efficiency, streamline their process, reduce manual errors and oversight, and close more loans with less effort.
It shouldn't be too difficult if firms are truly committed to improving and can embrace change.

-Every company is concerned with accurate disclosures and providing their salespeople with the tools to issue accurate disclosures. These are the same companies that allow Loan Officers to select their own title companies, or each branch have their own fee structure. If you want accurate disclosures, here's a hint - use one title company and one set of fees. Consolidation allows for better accuracy and efficiency for all. And we have yet to see any business model that was actually dependent on individualizing title companies and fees. Wouldn't a companywide fee structure that is programmed and easily learned, reduce change of circumstances and tolerance cures? Wouldn't this allow loans to move through the process more quickly and help the salesperson? These benefits far outweigh the need to use one-off title company that provides "excellent" service. If the entire firm is using one title company my guess is that excellent service is not far behind.

-Speak the same language. Too often an Ops manager and each staff member have different processes or checklists for their daily workflow. It's a certainty that every banker has at least one great processor, underwriter, etc. and others who are weak. Embrace the process set forth by your best. The weaker producers should benefit greatly by learning from others and they certainly shouldn't be left to continue working under present, self-developed, workflow.

-Eliminate redundancy. Closing and post closing departments often spend significant time correcting or cleaning up information that has come from processing or underwriting. Each file has a varying degree of completeness and these departments are the last line of defense to create an accurate and saleable product. Streamlining this process allows these back-end departments to work smarter, and faster - closing more loans and selling them in a more timely fashion, even further increasing mandatory gain on sale. If files are sent to closing or post closing with inaccuracies, send them back! Does anyone ever learn or change their behavior if they are never penalized or taught a lesson?

Owners and managers will complain about the productivity of their staff, but they are the ones that allow these varying processes. When asked if they have a training process, more often than not there is no official manual. The training process may consist of shadowing another employee for a day or two and then you are on your own. Guess what process the new employee uses when they start. It's probably not a corporate approved checklist. It is management's responsibility to prepare all of the players and ensure they are working efficiently and according to their model.

There is no excuse for inconsistencies. This market is going to change at some point. There will be more investors and there will be more products offered. Rates will rise and volume may slow (sound familiar?) Companies need to get on board with developing some consistent processes in order scale their operations when the market turns. If lenders continue to let employees determine the process they will never be able to successfully grow. Take this time to develop a consistent process.

Everyone likes to say that their process is a little bit different, but also wants to know what everyone else is doing. It is very simple

- the successful companies have a set process, stick to it, and hold their staff accountable to making sure they follow the rules. The other firms sit and wonder why one underwriter can close three loans a day and another struggles to close one. Which company are you?

Still Nedging? Really???

Last year we created a new term for the market - the Nedger. This is a secondary department that does not hedge, but trades on a mandatory basis with no corresponding TBA hedge trade, or maybe they take large daily forward positions based on a very general assumption of locks and pull throughs. Over the past few years, secondary managers have boasted that their returns have been great and they do not have any hedge costs. These companies must have stock in gaming companies because this is what's going on here. Owners would probably not be too happy with a Secondary Manager who spends every other weekend in Vegas. Yes, maybe they were on a hot streak for the last 18 months or so, but the deck just went colder and a 200-300bp loss in two weeks should shock everyone into reevaluating the strategy. We have a number of clients whose true net revenue is essentially the mandatory gain over Best Efforts. Taking a loss like this is not an option!

There is no such thing as a "hedge cost" - hedging is a correct offset to managing your pipeline, an insurance policy, and/or the counter cash transaction that allows you make additional revenue when trading on a mandatory basis. Anyone that feels hedging has an (unnecessary) "cost" to it does not truly understand the risks that the market can play especially when rates spike.

In addition, the biggest risk is the one that most "Nedgers" miss altogether. In theory they feel that have mastered the market by knowing their pull through. So they take XX% of their pull through and only enter into that amount of forward commitments. What they are missing is that when the market spikes and your pipeline is 100 bps lower than the market, their conversion ratio just went from XX% to XX% +YY%. So actually their pipeline is exponentially more likely to close when rates move against them which exponentially increases the risk. So this is the worst possible position to be in. So all you "Nedgers" out there, hopefully you will come through these past few weeks just stumbling, but still standing and can finally make sense of Hedging vs Nedging. Who needs the stress of gambling with the banks profit?

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!!!