igniting ideas for the mortgage industry.

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Thoughts and Observations On The Market

Banking Building Blocks

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November 5, 2013

Coming off the Encompass and MBA conference, there is a lot to digest and interpret about where we stand today and more importantly what is coming in the holiday season and 2014. There are varying schools of thought in regard to QM, some think that it will be the worst thing that we have seen and others think it will be a non-event. While opinions on this point may vary, one thing is clear- it is coming in January and everyone is going to have to deal with it. After being asked multiple times about what is everyone else up to these days, it got us thinking a lot about what people are not doing these days.

We will be attending the Independent Mortgage Bankers Conference in Miami next month; please reach out if you would like to connect!

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.

Banking Building Blocks

Running a mortgage company or division right now is hard. There is no question that the industry challenges related to compliance are growing and the ability to keep up with them is a daily concern. With that said, compliance and items such as QM, if nothing else, level the playing field. Everyone has to deal with the same rules, regs, and changes. While many lenders are very concerned about how they and other companies are going to handle the coming changes, many are losing focus on what is in their control. After many meetings, discussions, sessions etc, it is clear that a growing number of bankers are struggling with some fundamentals of the business which are 100% within their control. Here is a list of items that we continue to see as fundamentals which are still lost or causing exposure for lenders around the country.

Consistent sales approach:
Whether it is different fee structures per originator or branch, or allowing LO's to do business with various title or MI companies, these multiple levels of processes can only cause compliance risk and operational inefficiencies. Sound familiar? It's time for a change!

Seamless disclosure process:
It's shocking to hear that so many are still struggling with the disclosure process. Maybe the most shocking is that with all the support options that are out there disclosures are still being issued incorrectly. If technology is not the centerpiece of disclosures, there's a major problem. We can ask twenty lenders and there are twenty different disclosures processes. There are enough options and resources to have an efficient and compliant disclosure process in place that is not reliant on manual oversight.

Lock desk policies:
For many, management is simply sloppy. Written policies are sloppy. And those that are well written, with good intentions, are loosely followed; in good times it's easy to let exceptions slip through...and in tight times it's easy to make exceptions in attempts to keep business closing. Whether it is allowing loans to be locked at any time in the process, or having multiple comp plans, or not having a formal exception tracking process, secondary desks are not making their lives any easier with these processes.

A Broker LOS over a Banker LOS:
We cannot believe we are writing this one in 2013 but there are still many lenders operating in a broker version or a broker based LOS. Whoa! How in this day can anyone still be operating in this fashion is beyond us. If this is ringing a bell, you are operating with the highest level of compliance risk combined with the lowest level of operational efficiency. Call us immediately!!! Mortgage banker's today need to be in a Mortgage Banking LOS. There is no alternative and no excuse.

Paper:
It is comical that we visit with lenders and when we sit with shipping department personnel they complain about the random investor that does not accept electronic files. Meanwhile, they themselves are still pushing carts of three pound loan files around the other parts of the office. At the national MBA I was able to get every taxi fare receipt emailed to me. The world is converting to a paperless environment, including taxi cabs and yet we (the mortgage industry) are so document intensive and still clinging to hard copy files. It is difficult to comprehend.

Lack of reporting: Even at this time there are many, many lenders who do not have a strong reporting process in place. We work with many LOS's and people complain about their reporting option yet do little to take advantage of what their LOS has to offer. Rather, they opt for manual spreadsheets that are ripe for data integrity exposure and little to no security, back-up and oversight systems. There are certainly others who attempt to

leverage their reporting technology and simply miss the mark. We've worked with lenders large and small, originating $10MM to $800MM and can say with confidence that the exposure points are pretty darn similar.
Our audits and analysis of reporting protocols almost always leave us concerned. Reports have the wrong filter, rules or data points. Many firms do not have a basic process for turn times, file touches, pipeline counts, and backlogs in their process and yet they are looking at a "total reporting system" for CRM purposes. Here's a hint: Focus on the basics of the business first or else CRM will be very easy to do.

Lack of consistency:
The cost of doing business is not going down and the ONLY to address this is increase margins (laughable right now, but more on that below) or decrease expense. To lower expenses, it's all about knowing how best to leverage technology and create a consistent workflow. When we draw out workflows for lenders, the initial discussions typically leave us with a piece of paper with so many random lines it looks like my toddlers art project. The successful firms have figured out how to make each loan a commodity and have built an assembly line for originations through to post closing.

Forecasting:
We are so quick to slam politicians and regulators over the consequences and ramifications of their actions, but often lenders miss forecasting the impact of their own business decisions. Critical decisions are being made, most notably with staff and margins but not too many have financial models to truly understand the impact they will have.

Staffing: Sure, some lenders are still growing, mostly through acquisitions but most lenders have been right-sizing. While we understand many were overstaffed to begin with and unprepared for a slowdown in volume, we are certain that the pendulum is swinging a little too far. I guess the politicians aren't the only ones who overreact when facing challenging times. We recently met with a client who was very satisfied with staff reductions which saved the company $50 - 100K a month. Unfortunately, margins were cut and product allocation shifts, staffing should have been the least of the concerns.

Margins: We often rant and rave about margin management and how proactive margin management is a core foundation of a successful secondary group and lender. The 'set it, and forget it' policies or strategies are bound to create significant issues for many. A few lenders out there are closing shop and looking for new homes. All of the above items may have been contributing factors but often pricing strategies are at the heart of the issue.

Margins and pricing specials are flippantly tweaked by lenders who are unaware of the consequences of their actions. We know a few firms operating at break-even level and they still have sales complaining. Our opinion, sales needs some training, in sales!!! We get it, there is always a breaking point in pricing where the competition wins, particularly in consumer direct models. But for many, commissions are fixed and there is no point bank. 100 vs 100.35 are essentially the same. Do you really need to cut margin to hit 100.25 to 'win' the deal? We've seen this movie before - rates go up, sales complains, margins shrink and become the new normal. This spells danger and would be clearly seen in a financial forecasting model. And as all margins aren't created equal, a trend toward conventional volume only compounds the problem.

So as we left Washington DC, we heard much concern about cuts, in both margins and staffing but not one owner, CEO, Secondary manager spoke of a strategy of raising margins. The market rallied back a bit but still no movement, it's that 'set it and forget it' mentality again; talk about a missed opportunity. Our strategic opinion, it is the responsibility of the secondary department to come to work each day looking for ways to make the lender more money. Somehow we think this focus has been lost in the day to day grind. The problem here is that secondary or lock desk managers are failing to analyze the true costs of lowering margins and running price specials. Some quick math should give anyone in management the chills.

There is no simple answer to address all staffing and pricing concerns, but the problem as we see it is that many decisions are being made in a vacuum and as independent decisions. A detailed financial model is critical in making these key decisions that directly impact net revenue.

In summary, the industry is in a good place and is filled with passionate people. Too often we all get caught up with items that are out of our control and spend too little time with the details we can control. The ability to stay ahead of your competition or simply be successful does not lie with staying ahead of the regulations but rather keeping the foundation of operational strategies sound and strong.

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.

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