

 igniting ideas for the mortgage industry.

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2013 Second Half

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Armed with ARM's?

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Welcome Back. I hope everyone had a great July 4th holiday and is coming back today which is most likely the first productive work day of the second half of 2013. In case you missed it, a beneficial jobs report on Friday sent rates to their highest levels of the year. If anyone thought the recent rate hikes were temporary, it is time to start reacting to these new levels. While your pipeline might still appear to be strong it will be affected without some pro active moves. In anticipation that there will be many meetings this week to discuss the current market, we wanted to speak to some of the Operational items that should be discussed while volume is lower. We also speak to what you should be doing in anticipation of having ARM's as a viable product offering with rates increasing.

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.](#)

The Second Half of 2103 starts now...Are you ready?

2013 started with rates low and volume strong but margins were tighter which affected profitability. 6 months into the year and rates have increased, volume has slowed, and margins are even tighter. With Friday's positive job numbers, rates jumped to their highest levels of the year which will have a further impact on volume. Throughout 2012 and much of 2013, we saw many clients attempting to improve their Operational process in the midst of record volume levels. While many were successful, in most cases, positive benefits on the Operational front was offset by negatives in another areas. Whether it was extended turn times, lack of new employee training, or accepting inferior performance in hopes of keeping up with the volume, there were

many areas that ultimately led to additional cost or increased exposure. Many were trying to improve their process while incoming volume was still flowing in. We equate this to merging onto the highway when all cars are flying by. Now that volume has (or will decrease), it is a good time for firms to take a step back and address their Operational challenges in a proactive approach. With volume shrinking, companies can take this time to improve their inefficiencies in a productive environment without it coming at an expense. If you are wondering what some of these items may be, here is a listing of the common challenges for firms:

Disclosure and change of Circumstance process- Every firm we meet with has questions on their initial disclosure and/or change of circumstance process. These questions range from whether disclosures should be centralized or decentralized, who is responsible for performing these tasks, how are these functions being completed, to what systems are used to ensure they are being completed within compliance. This is a good time to flush these items out and make an efficient, compliant disclosure process.

Employee Training- Many new employee's and /or branches were brought on over the past 6-12 months and, in most cases, were provided minimal training with hopes they would figure out the process over time. Now is the time to spend some dedicated time with your new staff members to establish the firm's culture, teach them how things are done within your firm and more importantly why they are done. If there has been one item that has been extremely lacking over the past few years, it is training. Some of that is being supported by LOS enhancements which help but they are not as strong as person to person training sessions with the ability to ask questions and discuss live examples.

Going paperless- We are amazed that many firms are still operating in a physical file environment. While I understand the many challenges of going paperless, I cannot see how they outweigh the negatives of operating in a physical file environment. In summary there are 2 challenges to not going paperless which are interrelated, the first is volume and the other is personnel. It is difficult to make this transition with volume levels high. With volumes shrinking, this is the time to make the conversion. In regard to the personnel, we have heard many times that the current staff could not make this transition. My response is, if not today when will it occur? Can you still see yourself operating in a physical file environment 5 years from now? If not, then why are you waiting for making the conversion. If you will not accept this change today, they will have to accept at some point. This market will be fully paperless in the near future and the longer you wait, the further you are setting yourself

against the competition.

In summary, this industry is GREAT at reacting to difficult news. Agencies and Investors change guidelines on a dime and all firms accept and react positively. There is no reason that firms should not be using this lull in production in just as a productive fashion and making changes on the Operational front. It may take some time for volume to recover and the best offset to that is reducing expenses. Use this time to improve your process to do so and you will be much better off by the end of 2013.

Are you armed with ARM's?

With rates shooting up, the request for ARM products will be increasing if it has not already. We have been operating in a fixed market for so long, there are multiple items to consider when opening up your ARM inventory. Here are some of the items you should be looking for:

1. Lay out your investor offerings and compare the offerings to make sure the differences are clearly identified by investor. Whether it is underlying index, initial fixed period & adjustment period, index rate, margin, or caps, all arms have specific features that your firms needs to be aware of.
2. Once decided upon, many things need to be updated to support the ARM products into your Operational process - Loan Programs in LOS, Loan Program in Pricing Engine, Underwriting guidelines, compliance testing (from converting from a fixed to an ARM), initial disclosures, and closing documents. All of these items need to be determined with your staff who need to be trained accordingly to understand the nuances of each ARM product offered.
3. Sales process- All Sales people should understand how an ARM program works so that they can address any client concerns. It sounds simple but you would be surprised how many of the details are lost in translation with ARM offerings. Many of the challenges we have faced as an industry were tied to non-disclosure and lack of thoroughness in explaining how ARM programs work. All Sales people should be trained to understand your firm's offerings, how they are priced, and the specific lock term changes if any before offering to any clients.
4. Agency offerings- Anyone with recent Agency approval (Fannie or Ginnie) should fully understand the agencies ARM program features, pricing, and delivery process for any proprietary ARM product offered. Do not assume the process is similar to other investors to get a few deals closed. The ARM process can be totally different (As an example, ARM's require their own commitment authority on the Ginnie side) .

Like doing an annual report, you forget the details on things when they have not been reviewed for a while. There has not been a need to focus on the nuances of the ARM products. Do not assume anything with these products as it has most likely been some time since last being offered. Do a full review and develop the required processes to ensure that you have a successful offering of your now needed ARM programs.

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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