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March 27, 2013

So we're entering Spring and that means the Secondary MBA is right around the corner. If you're coming into New York and want to get together, please let us know.

First quarter end is upon us and when those financials come out, many mortgage bankers are going to see something a bit odd; a quarter over quarter drop in revenue. The numbers are quite simple, volume is down, and so are margins - a potentially dangerous combination if not closely managed. As volume drops, a natural reaction is to lower margins to maintain originations, but do some quick math and see how much additional volume must be generated to offset a 25bp cut in margin. Sure there are other factors to consider but from a financial perspective, reducing margins will rarely pay for itself. With a secondary pedigree, we're not staunch supporters of widespread margin cuts to maintain volume, but we understand it's inevitable in this business. We implore mortgage bankers to take a closer look at some often overlooked areas for margin recovery to offset the market shifts. Rather than reducing margins, shouldn't you try to tighten up the bootstraps and become more efficient before giving it away?

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.

Get Skinny!

Lock Desk Policies

Most firms are hedging these days, and if so, there are usually lock and extension policies that carry fee's with them. Over the past two years the market has rallied and enforcement of the policies have become quite lax. Now that the market has turned, has enforcement? For example, if hedging, most Loan Officers, and unfortunately some Secondary managers, don't truly understand the cost to lock and extend files. At a time when pricing is already a sensitive, are these costs really being charged to the client? If not, guess who is really paying for it? Certainly not the LO and if margins have already been reduced across the board, these instances just only continue to eat away at profitability. Bankers who see a lot of extensions should probably take a closer look at their lock policies, minimum standards and proactive pipeline management. All companies should have a thorough process to ensure that lock desk charges are applied correctly with the accounting department holding the secondary department accountable. We spoken about secondary managers looking for monthly and quarterly bonuses; now it's time for them to really earn it.

LO Performance
It's simple to gauge LO performance based on volume and units, but how many lenders take a look into LO efficiency? Very often there are consistent originators that use company resources without the corresponding production to warrant and this can even apply to high producers. Whether it is someone who consistently submits incomplete files, or consistently locks for too short a term and then blames Operations for having to extend; or just raising a commotion and getting the most amount of people involved in their loan - these loan originators are out there and should be analyzed. Not all volume is created equal.

Appraisal Costs
Values have stabilized in most markets, but we're seeing many bankers continue to pay for appraisals additional valuations to support the loan approval. This is an easy cost to overlook, especially as we were riding a wave of volume and increasing margins. Times have changed and an appraisal bill of 10, 20, or 30k per month while also reducing margins with lower volume is adding insult to injury.

Fall-out
Although risk management firms and hedging analysts would disagree, most mortgage bankers have a rather simplistic approach to pull through; closed volume / locked volume. We could dive into how managing the pipeline more effectively can save hedging costs and increase margins but for today, we're going in another direction. Why not take the pull through equation and expand the on the analysis a bit. By tracking submissions, approvals, and closings every day, week or month bankers can start to see some telling trends on fall out, and not just lock fall out but also operational fall out. Start running conversions on this data and forecasting volume should be rather simple. If submissions are increasing and approvals are decreasing then loan quality is decreasing and operational costs (i.e. costs per loan) are increasing. If approvals are increasing and closings are not, extensions fees are likely coming your way. This is pretty basic analysis, but sometimes the simple perspective is overlooked and everyone is a little too busy to think outside their normal daily routine.

Secondary should not be making changes in a vacuum and management needs to be cognizant of how significant an impact margin adjustments will be, especially in conjunction with other longstanding and acceptable policies.

A Spring Cleaning

Have you cleaned out your closet lately? The rule goes something like that if you haven't worn something in a year you should get rid of it. Most of us swear we'll wear it someday so we want to hang onto it. What are we left with? A closet stuffed with options and we go back to the same pair of jeans or favorite sweatshirt time and time again. Are LOS's any different? We think not. So often we are asked for advice on Loan Origination Systems and yet the client is currently only using a fraction of the system. Is it time to invest in a new wardrobe or better to take a closer look at what's already right there in front of you.

Many times LOS' bundle services and partner relationships into the LOS. This creates a one-stop shopping approach to Loan Originations and there are many benefits to shopping in the same department store rather than running to several specialty stores, just ask Sam Walton. This concept is not new, but let's delve in further:

1. Time Saver - Many clients ask us to help them become more efficient. Utilizing the services embedded in your LOS without leaving the loan file is efficient. If any of these services are included in your CPL, then it's a no-brainer. Saving valuable time increases production which makes the company more profitable and maximizes user potential.

2. Cost - Many of the services included in your LOS are free to use OR are shared in your CPL; which means you're already paying for them anyway. This is the same as that shirt you refuse to throw out each year. Either start wearing it to maximize what you paid for it or throw it out.

2a. Bundled Services - This ties into cost, but deserves it's own section. When services are bundles together, the cost per service typically goes down, therefore making the service cheaper when utilized through the LOS integration.

3. Data Integrity - there are several advantages to ordering/retrieving services in the LOS - one major advantage is data integrity. The need to re-type or key in data points when accessing a service outside the LOS leads to misspellings and typos that could have easily been avoided if ordered directly through the LOS. This is a sticking point with us because correcting these issues are not efficient. If there is a chance to minimize user error through a service integration, then we're all for it.

4. Regs, Formats & Technology - with the inception of UCDP, we saw appraisal conversions become required where the actual PDF appraisal needed to be converted to XML format. Your LOS should convert to XML format if ordered through the system. If they are not, expect to incur costs from GSEs as they are pushing the conversion cost back to Lenders. ULDD should be included here as well. Sending data sets to Fannie & Freddie should be leverage through the LOS.

Dropping back to the margin topic, let's take a look at the LOS cost discussion. We often hear complaints about how much the LOS costs and yet most companies use a fraction of the system. So basically you are really paying much more for the LOS than you even think. If you are on a volume based model with many parts of the system included and you are spending additional revenue on services that are included in your price, you are paying more, much more. If you are not using a part of the system that is free, then you are paying more per closed loan. If you have a paperless option included in the price and you are wheeling around 2 lb loan packages around the office, you are paying much, much more. There's likely considerable value in your closet, you just need to take a closer look and be willing to try out some new, but old, items.

I understand the the LOS' offerings may not be what you think you need or there may be parts of the system that you cannot use based on your business model, but please keep that in mind when shopping for a new LOS. For example, if you being quoted $$$ per loan or user and using only a fraction of the system, you are really paying 60% higher than $$$ and quite possibly more than your competition. Bottom line, do some due diligence on the parts of the system that you are not going to be using when comparing LOS pricing.

As volume and margins are no longer flying high, are you taking a fresh look at policies, analysis, oversight and technology to help reduce costs and help buoy net revenue? No time? That's why we're here! Call Matchbox today.

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.

Each week we see a number of readers open

Are you forwarding our Newsletter?

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!!!