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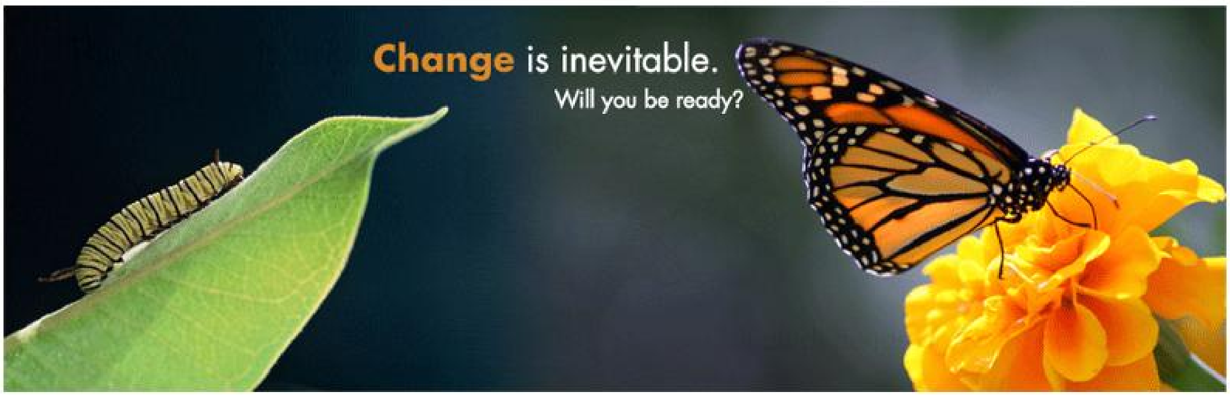
**Thoughts and Observations on the Mortgage Industry**

**May 6th, 2015**




## matchbox consulting services - we speak mortgage...

Miss us? We've been quite busy and we know you have been as well. Coming off a very rare busy first quarter, lenders are in between reviewing strong first quarter results, juggling robust pipelines, getting ready for the purchase season to kick in, and weighing the potential impact of TRID. We have been hard at work assisting clients on all of the above as well as putting together some new and upcoming products. Here are some updates and thoughts on the market from our perspective.

And before we jump in, are you attending the Secondary MBA in our hometown later this month? If so, please reach out to schedule a meeting. We look forward to seeing you all and talking shop.

**Refi Relief, Now What?** Although most lenders state that their Purchase volume is still strong, when the numbers are reviewed the biggest area of growth in most pipelines in the first quarter has been refinance transactions. Not that this is bad news, just that the volume increase should be gauged for what it is. The rate drop in January and MIP revisions could not have come at a better time and has helped pipelines swell. Most companies have held their turn times and are handling the volume surge. It will be interesting to see if these turn-times hold when the Purchase market hits full stride and those realtor relationships will have to take precedence over the surging Refinances. Then again, with rates creeping up a little, will the refinance business hold or will volume taper off? As always, lenders are tasked with managing the ebbs and flows of a volatile pipeline - both operationally and financially.

**Talk Amongst Yourselves.** We had the benefit of partaking in a meeting to discuss a lenders workflow and it was really productive. Each person involved in the process was invited to the meeting where the workflow was discussed in detail and summarized on a whiteboard. Each time there was an item that caused a breakdown for any reason, it was highlighted on the board with a yellow note. When all was done, the exposure items within the workflow was obvious based on the yellow notes. It was a simple, but effective way to gain valuable perspective from the people on the front lines and highlight the areas that were causing breakdowns which were not known to most until the meeting. Once concluded, there are suggestions offered which were implemented over the next few weeks and the firm has seen the benefits of this exercise. This is done on a quarterly basis and has proven to be very effective. Coming off the first quarter where volume MUST be causing bumps in the road, this exercise would prove to be valuable to all who decide to undertake. Communication is always key and too often personnel is so busy with their 'day to day' that productive inter-departmental discussions are tough. Our advice - make this a priority. Not a single lender would fail to find benefit and improve efficiency with a top-to-bottom operational assessment with personnel participation. If you are uncertain of how best to conduct this inter-departmental review, we're here to help. We can mediate this process for you as in independent party to your business and provide insight along the way.

**Tired of DIRT?** Sorry, we meant TRID, darn spell-check. By now, everyone knows the initials, but how about the real impact on the pipeline? Like most large implementations, we're seeing some lenders take this very seriously and testing/programming is already underway while others are let's just say, a little 'late to the game'. Let's play out a common scenario: February is a tough month, right? Usually less than 20 business days to close and fund loans. So let's fast forward to August, September and October and TRID could, or WILL, delay closings for 3-4 days with no changes to your workflow. So, we're looking at a February x2 or x3 here as the Closing Disclosure is a game changer for so many parties involved. Sure you can chalk this up to simply a deferment of income and closings, but not so fast. Until all personnel, technology, policies, vendors, and third parties get on board with TRID, the CD regulations are going to be cumbersome, at best, in the beginning and the delays will be closer to a 5-7+ days, not just 3. Is this perspective factored into the 2015 forecasts and goals? Other TRID prep questions that should have some darned good answers:

- When will your LOS be updated with the TRID requirements so you can begin testing?
- Has testing already begun?
- Have you determined how many business rules will need a revision or creation?
- How many people in the firm know what LE and CD stand for? How many have seen the LE and CD?
- Who's in charge of TRID and how are they approaching this task? Do not have people just attend webinars; they will create more questions in how to implement into the LOS and workflow.
- Who is assessing and rewriting departmental level workflow procedures? From file application to closing, every department will be impacted.
- Do you have a Wholesale or Correspondent Division? Who's vetting out the additional oversight and QC this will entail?
- Aside from compliance and operational cost to implement TRID, has Secondary thought about how TRID implementation and management is going to eat into margins and profit? We anticipate considerable leakage here.

DO NOT UNDERESTIMATE TRID. It will have a dramatic effect on the company if not handled correctly. Although the recent changes (ATR/QM) have gone off without many issues, TRID should not be considered in the same light.

**A Secondary Manager & The Lock Processor.** Be honest, which do you have? We see a mix out there in 'LoanLand' and we can say with complete confidence that there are certain characteristics that apply to all lenders, depending on their personnel; especially those who hedge their pipeline. Do not confuse a Lock Desk with a Secondary Department or even a

Capital Markets Manager. Lately, we've seen numerous lenders hedging their growing pipelines with a Lock Desk Manager at the helm; this is dangerous territory. Reports and oversight fall upon this individual/group and senior management. The dynamic not only creates tremendous exposure, but undoubtedly leads to below average performance and depressed revenue. Everything we preach (data integrity, pipeline management, margin management, reporting, proactive oversight, efficient workflow and allocation, etc.) is lost when Secondary is really run by a Lock Desk and the President or CFO. 100% of lenders with this model are under-performing and actually increasing risk exposure to the firm. It is only a Secondary Manager who should understand how best to manage and review a hedged pipeline in a growing, but volatile market.

We've seen so many lenders with substandard performance due mostly to their personnel and oversight. A Lock Processor is simply not enough, particularly as volume is near record highs or at least 18-24 month highs. Volume is great, but with it comes exposure in the form of pull-through (e.g. new business models/relationships) and cash. Yes, cash. We're not sure how many lenders realize how close they were to considerable risk over the last few weeks. At a time when pipelines are near/at all-time highs, rates dropped and left lenders with massive broker/dealer pair-offs. While margins and volume have been strong, most lenders would still be sweating out B/D settlements well into six figures, if not seven. Yes, seven figures! We've been watching mark-to-market reports and have seen a good handful exceed $1M in settlements for May. But crisis averted as rates ticked back up last week. Most interesting in this oversight? We were more stressed than our clients. Why? Because a Lock Processor doesn't understand how critical the above situation could have been. It's time to take the next step; for all lenders to employ a legitimate Secondary Manager.

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