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We are back from the MBA Secondary conference with a lot of feedback about the current state of the market and company health. Overall, it appears the industry has divided itself into two camps- the "haves" and the "have nots". The "haves" are strong and looking at this market as opportunistic and flush with opportunity. The "have nots" are struggling to figure out what just happened and trying to decide their next move. My feeling on part of the struggles of 2018 was the late winter effect on the "busy" season. March was a consistent theme of storms across most of the country and impacting the Purchase and Builder start to the season. Combined with the rate increases, the season did not start in earnest until mid-April which is much

later than normal.

As Memorial Day passes, and we head into summer, it appears that volume has picked up and lock desks are flowing again. With that said, the foundational issues in the market still stand and my fear is that many of the "have nots" will be lulled into a false sense of comfort about their business over the summer when the larger market issues still remain. This market demands companies to be strong and willing to make changes, even and especially during the time when they are not evident. Rates are not going down any time soon, and while this summer may look busy, the end of the third quarter and all of the fourth is going to be ugly if companies do not make changes now. Do not let the spike in volume this summer disguise the fundamental challenges that you have and the need to make changes to set yourself up for the future.

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Whether it is as black and white as have or have not, there are some definite facts that are consistent throughout the country:

-**Margins are compressing** - With rates moving upward and the fight to keep volume flowing as strong as ever, margins are under attack. As listed above, some can absorb the compression (and can do so for some time) without issue, while others are doubling down to keep margins low in hopes of future volume. It is a dangerous game of chicken that is exists and some will lose. The biggest question that no one is really asking is "Why are margins at the level they need to be, or asked a different way, how does a company get to a level where margins match the business model and not the other way around?". Companies are struggling with this and need to look at expenses for cuts which are helpful and needed, but in most cases, are going to amount to very little. The biggest expense for companies today are Loan Officer Compensation, Fixed Payroll, and marketing if you are a direct response company. If you are spending any time calculating margin compression affect on the bottom line, **you should be looking at your Loan Officer Compensation plans, get them consistent, consolidated, and in line with this market.** Items such as exceptions, extensions, and rush requests have to be accounted for in your plans. Every basis point matters in this market and while volume is the driver, you have to also know if your largest producers are receiving the most amount of "breaks" that are cutting into the already shrinking margins.

-**Secondary Margin management** - Many companies are playing the margin vs volume game. How much volume will be get if we drop margins by XXX bps?? The concern here is that it is not a game you can win long term. You may get a spike, but in the end all you are doing is setting a new low for Loan Officers to

ask to drop in the future. What may be a much better strategy is to really look at your 2018 production and evaluate the sources of your higher and lower margins. You will be surprised to see where the highs and lows fall and giving you areas to focus on - to either increase the ability to capitalize on the highs and eliminate the lows. Your Secondary and Capital Markets team needs to step up now and find the pockets of margin that are available. Margin compression is not required across the board. There are pockets which can and should be maximized when the right level of analysis is being completed.

-**There is a housing supply shortage throughout the country** - No matter which area of the country I visit, I hear the same message regarding a housing supply shortage. There is just not enough houses to support the market now. This has trickle down effects on multiple levels, but the main point for this audience is that you have to be looking for other avenues to create supply. Begin looking for strong construction programs or looking for additional programs for your clients. You should also be well-versed in the surrounding pockets of areas where there is a normal level of supply to offset the shortage areas. Hone your Quick Close process so that when a buyer is evaluated, the ability to be pre-qualified, pre-approved, and close quickly are all factors in their selection from the multiple offers that are being presented to sellers on each home today. The shortage issue is not going to be resolved quickly so find the items for your team in order to offset the shortage.

-**Operational metrics and performance** - We live this everyday and get asked how many loans a Processor or Underwriter should be able to handle a day. If you do not know this answer, this is the time to get a handle on it. This is not a market where you can have one processor working on 40 loans and another working on 10. You have to be working to get everyone closer to the 40 and eliminate the excuses on why the 10 is acceptable. **The days of having staff fulfill positions to keep files moving are over**. Loans need to only be moving in one direction in this market and that is to the closing table. You have to take the time to look at your process and staff capacity levels. This side of the equation has to be corrected this summer and it is the perfect time to do it. You should have a low baseline from the first quarter of minimum capacity which can be utilized to compare to current levels of capacity and make adjustments. If you have a Processor or Underwriter that is below that average and see no change, that is an indication of individual capacity thresholds which may never change regardless of the volume levels without additional training or job restructuring.

-**Invest in training** - If you did not take the time to do so in the first quarter when volume was low, then you have to invest time into training now. You are responsible for elevating your staff and improving their capacity. You have to give them the tools to improve and succeed in this market. Much of this boils down to training and having them understand the value of consistency in

their process and using the tools that are available to them. So many get mired in the daily routine that new ideas or improvements are not given consideration. Spark their minds for new ideas with some fresh training sessions on what's available and coming. You will see the benefits of their engagement in their professional development through the quality of work generated.

In summary, we are in a tough market and we do not want companies to have this normal summer volume increase be a disguise for the required changes that are needed for a strong 2018 and 2019. **If you are struggling with any of these items or if you think you are fine and want a confirmation, let us know and we can provide an independent third party review and give you an honest perspective of where you stand in this market.**

The Ignite team is in the development lab improving our current tools and creating exciting new tools for 2018. Call us today for a demo of our full toolset.

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