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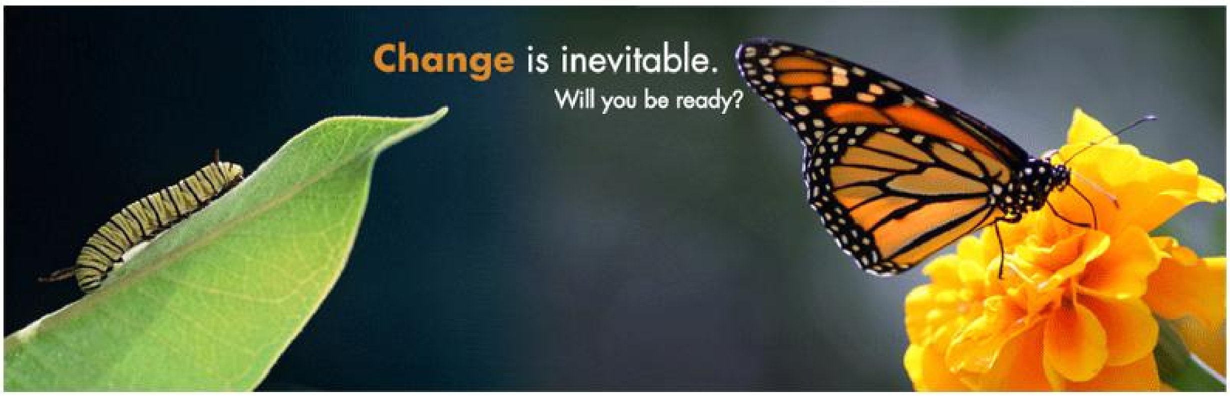
Thoughts and Observations on the Mortgage Industry

January 20,2015



matchbox consulting services - we speak mortgage....

Q1 is typically a bumpy road for most lenders. Applications are down through the holidays and winter months, taking some time to rebound. The thaw in applications and closings usually start in March and last through the Autumn months. Well not this year. Who do we have to thank? Washington and the markets? It's been a while since we were last thankful for those groups. We hope everyone else is as excited for 2015 as we are; it's going to be a great year!

Jump Start to January

Nobody could have called this six months ago, but Q1 for 2015 should be a record Q1 for just about any mortgage lender out there. It felt like just yesterday (September - October) when lenders were growing cautious. 2014 was a good year, but the winter was approaching and the stress of another lackluster Q1 was creeping in. Reducing overhead and getting lean was as priority as many faced losses at this time a year ago, leading to long term damage control and rebounding. So what's changed? Why is this year different? Why should every mortgage lender be giddy with volume and super busy in all departments over the next few months?

Rates have rallied strong and kept applications respectable through the end of 2014 and into 2015; this means higher than usual closings and secondary sales for Q1. Outside of Buffalo NY, the winter hasn't caused too much havoc burying neighborhoods in the Midwest and Northeast. FHFA announced their 97 LTV product, challenging FHA in the purchase market. And now not to be outdone, FHA lowers their absurd MIPs. Add all of this up and if last week and the coming weeks don't have sales working overtime with their largest pipelines in years, they're missing tremendous opportunity.

The decline in rates to their lowest levels in almost 2 years coupled with the reduction in FHA MIP has created the perfect storm for mortgage lending activity to kick off 2015. Never before has FHA adjusted its insurance premiums with an almost immediate effective date AND allowing case number cancellations. Unless average loan amounts are well under 150k, there is tremendous refinance opportunity out there. And for all, a boost to affordability in the purchase markets.

So has everyone been busier than ever over the last week? No? Then keep reading, you're already behind the competition and best catch-up quick. Yes? Do you have all your bases covered to maximize this rare opportunity?

-The Refis. Sorry for the big players in the MSR market, but all FHA loans over 175k with rates at/above 4.25% are prime candidates for a streamline refinance. This is obvious; the real question is what does management's plan look like? Not doing much? Making an announcement or sending a memo to Sales? We've never trusted Sales too much, even if it's to help themselves. There is tremendous volume here, more than most realize. There should be close to 18 months of originations to sort through. Just be sure to (a) be mindful of those EPOs and (b) there are plenty of LOs and branches who have moved on to other companies - don't leave those historical pipelines untapped. Leverage them for some goodwill with key Sales groups.

Oh, and since matchbox is so focused on Secondary and margins, are *they* proactively managed here? Margin management and execution with these streamlines will be an integral part of you Q1 success. We're looking at rates as low as 3.25% par here, are you?

-Newfound Affordability. What happens to old leads? You know, all those phone calls which Sales could not convert. They couldn't afford a purchase, couldn't qualify for the payment on that cash out refi, or there simply was no benefit. Most never even made it to applications. Others came to an end in Underwriting. All of those denials or withdrawals who failed to qualify over the last few years; they should have renewed life. Are these a focus for the entire Sales organization?

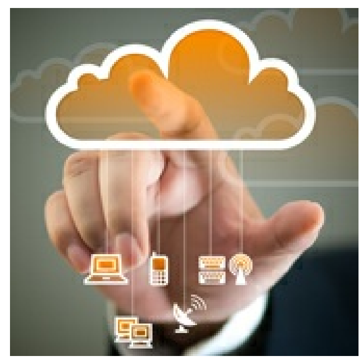
-The Purchase Market. It's January and most real estate agents are preparing for their spring marketing campaigns and listings. Open houses will pick up steam in less than 60 days. Even with the incredible refinance opportunity, the purchase market will and should continue to be the backbone of any mortgage lenders business model. If Realtors are a source of business, they best be on your 'friends & family' plan. Between rock bottom rates, FHFA 97 LTV programs and the reduced MIPs, Sales should be marketing the improvements to both programs and affordability to RE agents. Co-marketing opportunities and referrals should be everywhere.

-The Active Pipe. Wait a minute, is the FHA really allowing case numbers to be terminated and reassigned? Yes, but only for the next month or so. Should we assume that this entire week will be spent canceling every case number in the pipeline and next week will be spent reassigning them? Every FHA loan in the pipeline (except those few 15 yr terms) can see a reduced payment. Click here for the mortgagee letter. That's a pretty nice call for LOs to make to their client. I'm sure they will be very appreciative - maybe enough to even provide you a referral? It is quite sad if this is not the current strategy.

The Referrals. Since we mentioned it with Realtors and your current pipeline, there are some other opportunities as well. It's tax season which means the entire country is meeting with their CPA and possibly some Attorneys and Financial Planners. Changes in the market like we've experienced here must be disseminated to all other professionals who are/could be referral sources. Is every LO having these conversations? Heck, they can start with their own CPA and Financial Advisor. It's not rocket science, but someone must be cognizant that this is an opportunity and follow up that all avenues are travelled.

We cannot remember a time when mortgage lenders should have been busier. Whether it's Sales, Marketing, Processing, Secondary, Management, Branch Managers etc, everyone should have their hands full and a big smile on their face, eagerly looking forward to 2015. And we'd be severely disappointed if Management is not holding meetings and building our reports to confirm this opportunity is translating into applications and submissions. If it's still pretty much 'business as usual' for all departments, it's time you call matchbox, immediately!

And one final note: With the rally in rates, we sure hope margins are up and GOS/net revenue of the current (growing) pipeline is increasing as we kick off 2015!!! The year could not have started better for the mortgage lending community. There are bps to be had out there in loan land - here's to Secondary squeezing them out!



Technology Insight - MIP Reduction

The MIP reduction brings a great opportunity for increased volume, but it also poses some Operational challenges that can quickly offset the margins made on these loans.
Keep in mind that the MIP reduction goes into effect for any FHA Case numbers ordered on or after January 26th. New MIP premiums need to be programmed into your LOS for accurate disclosures on the 26th. Change of Circumstances need to be programmed to line up with the proper FHA case number assignments. Appraisals need to be updated with the updated case numbers. Errors on these items can lead to re disclosure challenges when getting to the closing table and extended delays which could erode margins. It is great that this change went into effect so quickly but it also has lenders scrambling to offer the improved terms to clients and did not leave much time to act diligently. Do not get caught in a refi boom rush and fail to seriously recognize all of the changes that need to be made.

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