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Thoughts and Observations On The Market

Takeaways from the Secondary Conference 2013

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May 13, 2013

We are just catching up from a busy and productive MBA Secondary Conference in our backyard of New York City and through the sea of meetings, the feelings of industry growth and optimism rang true. Firms have recovered from their annual January and February swoon and the locked pipelines have recovered to normal. A drop in rates certainly helped too, notwithstanding the last week or so. The consistent theme is that volume remains strong and in some cases gaining ground but it will not equate to an equal or greater bottom line in 2013. Recruiting and expansion opportunities are a focus as many are expecting to increase their volume by 2x over the next 6-9 months. We were quite honestly surprised that there was this much opportunity to pick up talent in this market; apparently there are many bank loan officers, branches etc who are unhappy with their current employers and looking for a change. As the info is still fresh in our minds, we wanted to some consistent themes we heard throughout conference. We would have sent this last week but felt many needed the weekend to catch up and decompress. Hope you enjoy.

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.

Takeaways - Secondary MBA - 2013

The best comment I heard from a client upon introduction, was "**Hi, I am a compliance firm that closes loans.**" It reminded me of a similar comment I heard when GM was going into bankruptcy- "GM became a pension plan that produces cars." While both comments may be true, the theme of compliance and the associated costs rang true. Whether we like it or not, the creation of the CFPB has created the right perspective on how firms are approaching compliance. Last year firms were grappling

with how to "deal" with compliance. This year everyone understands that the rules have changed and are working on how best to support it.

Fair Lending concerns are well warranted. There continues to be a lack of understanding about the risks of Fair Lending and more importantly regulators ability to connect the dots very easily. With the introduction of NMLS call reports, HMDA LAR's, and the tight controls around TILA, it is very easy to recreate the multiple points of loan originator, client background, and comparative loan level pricing. Firms are still missing the point of consistent pricing throughout the firm and are very surprised when we mention how they should be addressing. Yes, it appears that creating different rate sheets and margins for compensation purposes is allowed but LO comp aside, this doesn't just create a crack in the door with fair lending exposure, it kicks the door wide open. **Firms need to understand that disparate pricing, policies, concession or exception management, and margins within the firm, and sometime even the same office are a huge exposure item for them.** This is a relatively new issue that some are noticing and many others are still in the dark. Although it is far from intentional, many lenders out there have creating an environment that breeds fair lending exposure, and it's easier for an auditor to flag than ever before.

Can you say Jumbo? Many firms are looking for Jumbo outlets which points to some stability/confidence in the market and increasing home values throughout the country. Overall the next tier of investors are growing. Between NationStar, Homeward, and Stonegate to name a few, up and coming investors are growing market share which is good for the correspondent space as a whole. Having 60-80% of a pipeline allocated to a single investor is concerning, whether it be Wells Fargo or Flagstar. Balance is key to reduce exposure to pricing, risk, and turntime.

Beware of rising rates and the unavoidable plunge of refi business. Many firms are concerned about anticipated rate increases and the subsequent drop of refinance originations. While this is a valid concern, rates are still low and even when they do rise, if refinances are a targeted part of your business (and not just found business), between the rise in home values and increased credit profiles, refinance business is not going to dry up overnight. In the short term, it may not be too concerning but long term business models must account for a shift in philosophy. As we mentioned in the intro, many lenders are looking to expand and engage in sophisticated marketing campaigns. We think it best to ensure investments made today are well though out with long term viability in mind.

Lots of differing models but many are following the heard. Did you ever go to a new restaurant with a group and everyone is ordering the same thing so you do the same. You're not sure why but assume that it must be good if everyone else it ordering the dish. We are seeing many firms obtaining agency approval (because everyone else is) and not knowing what to do with it when it arrives. To a degree it's a game of 'keeping up with the Jones's.' **Obtaining agency approval is a great accomplishment and a huge asset in this market. Unfortunately many firms are obtaining their approval without any in depth knowledge of what is needed from an**

operational standpoint to begin selling directly and either retaining servicing or selling off their MSR via a co-issue relationship (another trend that's gaining momentum in the market.) There is a lot of talent out there and firms will get there but they are going to fall down a few times and/or take a while to get all the details covered. Heck, with so many firms expecting to grow at 2x or even 3x within a 6-18 month span, does anyone even have the time to devote to effectively build out and truly understand these platforms.

Branch expansion is on the rise. There is a large amount of consolidation in the small to mid-market level where smaller lenders are merging/selling to larger companies. There is a large increase in branch acquisitions and not a lot of strong branch integration plans. Firms needs to beware that their firms brand and reputation is at stake when taking over new branches and sometimes entering into new markets. **There is not enough due diligence being done to make sure that the new branch understands the company culture and other company policies and procedures.** The corporate entity is being clouded by the lure of additional volume and not fully flushing why the branch is looking to make a change in the first place and ensuring the boarding process is smooth. There is often a shock in training, cultural perspective, oversight and responsibilities. Yes, it's great to add 10-20MM from a new branch but we all know nothing in this business is easy. Any big producing branch or loan officer looking to make a move is also going to bring some level of baggage - it will never be easy. We suggest finding out the areas of inefficiency or exposure in newfound opportunity. If you haven't found it, you haven't looked hard enough.

Matchbox is here to help provide perspective and help navigate bankers through this ever-changing climate. If you have any questions or concerns about your business and go-forward strategy / operations, don't be shy, reach out to us any time!

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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