igniting ideas for the mortgage industry.

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Thoughts and Observations On The Market

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October 15, 2013

As if our industry did not already have enough acronyms there is another to add to the list that the CFPB is looking for, the CMS. Compliance Management System (CMS) is a 'new' term that the industry will hear more often in the months and years to come. Although this is not technically a new term, as the audits are starting, CMS's are quickly becoming a focal point. A sufficient CMS goes far beyond purchasing a compliance plan from AllRegs and sending out files to a third party for post-closing QC. We'll explain...

Also, as we closed Q3 and just about every banker out in loan land has been assessing their staffing levels and forecasting volume, the reporting, assumptions and perspective better be in line. This week we look at productivity levels BEFORE looking hard look at staffing levels.

We will be attending the 100th MBA in Washington DC later this month; please reach out if you would like to connect!

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.

Have A CMS? The CFPB Says You Better!!!

As our industry continues to be dominated by compliance concerns, the CFPB wants each company to have a Compliance Management System, CMS, in place. It is expected that the CMS is the underlying foundation of a mortgage banker's compliance policies and procedures. A lenders approach to compliance needs to be easily understood to ensure that it is woven into the fabric of operations and the origination process. As lenders increase their compliance procedures through increased training and strengthening their technology to support the multiple compliance needs, there needs to be a system in place to display both the ability to understand regulations but the ability to manage them with efficient and provable systems and processes. Protocols and policies must not only be clearly defined, but also documented and re-verified on an ongoing basis.

The official definition can be found from this excerpt from the CFPB Compliance Supervision and Examination manual:

To remain competitive and responsive to consumer needs in such an environment, supervised entities continuously assess their business strategies and modify product and service offerings and delivery channels. To maintain legal compliance, a supervised entity must develop and maintain a sound compliance management system that is integrated into the overall framework for product design, delivery, and administration - that is, the entire product and service lifecycle. Ultimately, compliance should be part of the day-to-day responsibilities of management and the employees of a supervised entity; issues should be self-identified; and corrective action should be initiated by the entity. Supervised entities are also expected to manage relationships with service providers to ensure that these providers effectively manage compliance with Federal consumer financial laws applicable to the product or service being provided.

We work with many firms that are being extremely diligent about complying with the changing regulatory environment. Note the above reference to 'issues should be self-identified' which goes far beyond outsourcing a relevant sample set. Variances must be flagged and reported to management for action. All of this must be documented and nobody believes that mortgage bankers are perfect, so variances or red flags are expected. Heck, it's probably more of a concern if there are no documented issues and corrective action.

Many are looking to technology to solve these challenges and in many cases, it is possible. The ongoing struggle is to gain the ability to track the implementation of new policy and verify it is being followed and having the intended impact. In addition, lenders are rarely proactive in documenting their action in the forms of official memos and listing management's steps once an issue has been identified. As with most banking updates, many changes are handled abruptly via mass e mail in hoping of "stopping the bleeding" without further follow up. Doesn't a doctor ask for a follow-up visit to run additional tests to confirm the prescription is working properly? Doesn't the doctor note all test results and miscellaneous notes in a file for future reference? This is no different.

As an overall statement, mortgage bankers have improved exponentially in their actions and efforts in complying with regulatory items. They are being proactive and many are truly investing in their staff and infrastructure. The final piece is compiling the actions in a readily available format which is the basis of its CMS. Please do not wait until an audit notice to hastily put together all the items you have put in place. Take the time now to put together your CMS as it will pay dividends for years to come.

Tracking Productivity

We don't need to be Nostradamus to know that Q3 financials and productivity will not be pretty for mortgage bankers and brokers around the country. As the larger lenders have made the abrupt decision to slash staff (i.e. costs) in fear of a dramatic drop in volume, small and mid-size lenders continue to grapple with the if, who, and when questions. While each case needs to be viewed independently we do not see many firms looking deeper into their true production levels to make decisions. For the last twelve months, most lenders were just trying to keep up. They put up with disparate production levels from employees as any production was better than nothing - the warm body syndrome. Now that there is a slowdown, every lender should be looking deeper into why some employees are more productive than others. This goes far beyond Katie processed 30 loans a month and James processed 22 - and even that basic data point can be misleading depending on how internal reports are run. From an operational standpoint, many files are submitted prematurely which impacts productivity. Loan officers, branches, file quality, purchase vs refi, loan program, etc can impact production levels for Ops personnel. All loans are not created equal and a deep dive into productivity levels is warranted.

One of our major goals with a loan originations system implementation is truly defining each positions responsibility and building those roles into the business rules of the LOS. The key to creating and gauging efficient productivity in this market is consistency. File quality and consistent workflow defined by corporate directives is key. Without this consistency, along with ongoing self-assessments (see above CMS policy), production and staffing levels cannot be accurately gauged. Cutting each department by 20% or 1-2 seats is a simple plan but truly managing productivity goes a just a bit deeper.

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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