PROCESS IMPROVEMENT - BY TONY GARRITANO

What Market Chaos Means

As everyone struggles to find their way in this mess of a market, there are some things that we should all keep in mind.

Many have emerged as a result of the economic crisis, making a living analyzing the market and predicting what will happen next. The Editor's Note in this issue talks about the state of unemployment. In fact, U.S. unemployment rates now are compared to what they were back in the Great Depression.

Guess what? The housing market isn't any better. As I said prior, many have tried to predict where we're going as an industry, but this article by CBS sums it up for me. Here's what CBS said about our current housing market:

"It's official: The housing crisis that began in 2006 and has recently entered a double dip is now worse than the Great Depression.

"Prices have fallen some 33 percent since the market began its collapse, greater than the 31 percent fall that began in the late 1920s and culminated in the early 1930s, according to Case-Shiller data.

"The news comes as the Federal Reserve considers whether the economy has regained enough strength to stand on its own and as unemployment remains at a still-elevated 9.1 percent, throwing into question whether the recovery is real.

"The sharp fall in house prices in the first quarter provided further confirmation that this housing crash has been larger and faster than the one during the Great Depression," Paul Dales, senior economist at Capital Economics in Toronto, wrote in research for clients.

"According to Case-Shiller, which provides the most closely followed housing industry data, prices dropped 1.9 percent in the first quarter, a move that the firm interpreted as a clear double dip in prices.

If you can **use technology** to craft a better, more **compliant process**, you can use that to get new business.

"Moreover, Dales said prices likely have not completed their downturn.

"The only comfort is that the latest monthly data show that towards the end of the first quarter prices started to fall at a more modest rate," he said. "Nonetheless, prices are likely to fall by a further 3 percent this year, resulting in a 5 percent drop over the year as a whole."

"Prices continue to tumble despite affordability, which by most conventional metrics is near historic highs.

"The rate for a 30-year conventional mortgage is around 4.5 percent, just above the historic low of 4.2 percent in October 2010. The ratio measuring mortgage costs to renting is 7 percent below its norm, while the price-to-income ratio is 23 percent below its average, Dale said.

"Yet other factors are constraining the market.

"After the fallout from the subprime debacle, in which millions lost their homes when they defaulted on loans they could not afford, banks changed underwriting standards.

"More than four in every five mortgages now require a down payment of 20 percent, and credit history standards have tightened. At the same time, foreclosures continue at a brisk pace, pushing more supply onto the market and pressuring prices downward.

"It is worth noting that another 23 percent of homeowners who cannot leave or are in danger of

The **cowboy days** are over. You have to know everything about **your business**.

mortgage default.

"Indeed, the foreclosure problem is unlikely to get any better with 4.5 million households either three payments late or in foreclosure proceedings. The historical average is 1 million, according to Dales' research.

"The only bright spot Dales found, aside from the slowing in price drop in March, was some isolated strength in states such as Nevada, Michigan, South Dakota, Alaska and Iowa."

Certainly this article is very sobering. It's not good news for sure.

However, it is honest and I think truly captures the fact that we are in a double dip. The bigger question is: What does a market in chaos me to lenders?

It should mean a lot of things, actually. As the old saying goes: You can't keep doing the same thing over and over again and expect a different outcome.

Next Steps

What do I mean? This downturn should be a wake-up call to all that are active in the mortgage space today. You need to stand up and rethink the mortgage process so that we can all re-craft how business is done to make for a better overall process for everyone involved.

I recently moderated a webinar hosted by Veros that was put together to talk about the state of the market half way through 2011 and what needs to be done throughout the rest of the year. The idea was to talk more specifically about technology innovation now and in the future.

During that webinar I challenged those in attendance to rethink the three Cs of mortgage lending and added that there are three new Cs to keep your eye on.

First, let's talk about the old three Cs. Before we can advance, we first have to look at and adjust existing processes. Here's how we can rethink the traditional Three Cs:

Credit: Look beyond the FICO score. People aren't just a number anymore. Nontraditional credit information is critical. You have to get the whole picture.

Capacity: You have to check and double check everything. Gone are the days that you can get the last two W2s and a bank statement and be done with it.

How do you do that? You need to go to trusted sources like the IRS, the Social Security Administration, the borrower's actual place of work and their bank. You can't trust the borrower to tell you the truth.

Collateral: In this market you need to use several valuation techniques. Don't just rely on three comps in the appraisal to give you the real picture, run an AVM and other valuation tools. It's all about due diligence.

New Thoughts

Beyond just looking at the old three Cs, there are three new Cs emerging that you need to pay attention to. Here they are:

Compliance: First, you have to automate compliance. It's too big a task to take on yourself. But despite the industry's general dislike for new regulation, it doesn't have to be all bad. You need to use compliance as your competitive edge. You need to advertise you better, quicker, more trusted approach to mortgage lending to the borrower.

If you can use technology to craft a better, more compliant process, you can use that to get new business. However, in order to get there you have to be proactive, not reactive. Technology is not the enemy, stagnation is.

Cost Cutting: Plain and simple, you have to compete. How do you do that? You have to engage the borrower. In doing so you have to focus on customer satisfaction and retention. The only way to do this is to use technology to genuinely improve the process.

Control: The cowboy days are over. You have to know everything about your business. In addition, you have to know everything about your staff. In short, you have to know about everyone involved in the loan.

But don't stop there. You have to use this knowledge to craft a better business

So, keep in mind the old three Cs and the new three Cs because this is still a business that can make you a lot of money, but it is begging for market participants to make some real changes that will improve how mortgages are done. Are you up for the challenge? ❖

Tony Garritano is Chairman and Founder of PROGRESS in Lending. As a speaker Tony has worked hard to inform executives about how technology should be a tool used to further business objectives. For over 10 years he has worked as a journalist, researcher and speaker. He can be reached via e-mail at tony@progressinlending.com.