Recovery Tips

2014 Opportunities

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By Susan Johnson

Undoubtedly, 2012 was a very good year for the mortgage banking industry. This trend has continued through the first half of 2013 with originators feasting on refinance volumes as well as experiencing a rebirth in the purchase market. With the recent increase in rates, the volume of refinance transactions has dropped off dramatically. While employees may be enjoying this "breather," it appears as though this level of activity may be the new normal. At the same time, originators have had to add overhead to their organizations to meet the compliance requirements imparted by the Dodd Frank Act.

Looking ahead to 2014, it will be crucial for owners to look at all aspects of their business. Determining your break-even – how many loans do you need to close in a month in order to cover your overhead, should be at the top of the list. If volumes are falling short of the break-even level, you can either look to increase the revenue earned on each loan or look to reduce expenses or, more likely, a combination of both.

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Many originators have obtained GSE approval in order to sell to the agencies directly in hopes of increased earnings and avoiding overlays from the aggregators. However, this comes with hefty capital and liquidity requirements. In addition, files need to be free of errors, in a sense – perfect, in order to avoid potential repurchase requirements.

Likewise, given the 3 percent points and fees test in the qualified mortgage (QM) rule, mortgage brokers may be wondering just how they can make money. At first blush, it would seem that a move to a correspondent or mini-correspondent status could create flexibility. However, this comes with additional requirements from a staffing, systems and capital perspective. While non-QM loans can be generated, it remains to be seen what type of appetite the secondary market will have for these types of loans.

If you are a mortgage banker with warehouse lines, turn your warehouse lines to reduce your direct loan costs. Look to clear suspensions quickly – and try to avoid them in the first place. Look at your investor scorecards to understand what types of suspensions are occurring and how often. Use this information to improve the processing, underwriting, pre-closing and post-closing systems. In addition, review your investor purchase advices to make sure the calculations are accurate and that you are not "leaving dollars on the table."

It will also be critical for owners to develop a contingency plan for any necessary overhead cuts. This plan needs to look not only at people but processes. During times of high volume, inefficiencies with both people and processes can be hidden. When looking at employee cuts, it is important to remember that the cuts need to make sense. For example, if you cut too deep in your origination staff, you may not have enough "boots on the ground" to take advantage of any niches or new markets. Similarly, if you cut too deep in your backroom operations, you may not be able to close the loans that come through your door. It is important to remember that purchase loans are often more difficult and time-consuming to process, underwrite and close than refinance loans. And even

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more importantly, the purchase market is much more sensitive to closing dates than the refinance market – lest you have buyers with a loaded moving van sitting outside of your office. Your processors, underwriters and closers need to understand how to work with purchase transactions. They need to be able to perform their jobs efficiently, timely and accurately.

Lastly, take a look at your break even in terms of originations by state. While you may feel you need to be licensed in as many states as possible, multi-state origination complicates your compliance and licensing functions. This includes keeping up with licensing, audits, and insurance requirements with a number of states. This needs to be balanced with the fact that geographic diversification of originations can be a positive.

It seems as though our industry has been faced with many obstacles and more challenges to come from higher compliance costs, lower margins and now shrinking volume. The answers on how we move forward are not yet clear and will be different for each company and each situation. However, it brings to mind a quote from an unknown source, "The truth is that our finest moments are most likely to occur when we are feeling deeply uncomfortable, unhappy or unfulfilled. For it is only in such moments, propelled by our discomfort, that we are likely to step out of our ruts and start searching for different ways or truer answers." ❖

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