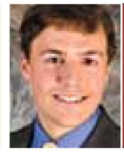

By Joe Bauer
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Stay Ahead of the Higher-Rate Curve

Develop a plan to deal with increasing rates and declining refinances

In the past few years, low interest rates have driven a wave of home refinances and created substantial increases in loan volumes. For many mortgage brokers and originators who focused on refinances, profitability hasn't been a significant challenge.

As rates edged up this year, the volume of refinance deals has been hit, however. This past August, refinance applications were down 62 percent from May, according to the Mortgage Bankers Association. Refinances are expected to continue on this downward trend.

As refinance pipelines shrink and the winter season dampens purchase volumes, mortgage brokers and originators should be prepared to act proactively to maintain their profitability. Here are seven points to include in your planning for a successful year.

1. Costs

To control costs properly, mortgage companies can benefit from analyzing where money is being spent and determining the cost of loan origination. The origination costs typically include: the appraisal; the credit report; the loan-officer compensation; and the interest on warehouse facilities.

Mortgage companies should benchmark these expenses against industry standards, if possible. The costs should be trailed back for 12 to 24 months to identify and fix negative impacts. This exercise can help achieve the right loan pricing and target margins.

2. Comparisons

It is important to know the differences among your producers and branches. For example, mortgage originators who generate less volume but a high-quality or high-margin product often can have a better impact on the company's bottom line than those producing high volumes but sacrificing quality or margin.

Mortgage companies should evaluate the loan quality and margin — along with the total volume — for individual producers and branch locations to see the impact on the company's overall performance. The management then can integrate or link major business functions and business processes within, and across, companies into a solid and high-performing business model. In addition, they should help employees by managing logistics and driving the synchronization of processes and activities with and across marketing, sales, finance and information technology.

"Loans that don't close result in employees getting paid to work on deals that don't generate revenue for the company. Improving pull-through rates leads to a greater efficiency and profitability."

3. Pull-through rates

The pull-through standard measures the numbers of loans in the pipeline that reach closing. Loans that don't close result in employees getting paid to work on deals that don't generate revenue for the company. Improving pull-through rates leads to a greaterefficiency and profitability.

Pull-through rates also can be analyzed at the referral-channel level because referrals from Realtors, customers, builders and direct marketing likely will have different pull-through rates. Understanding your company's pull-through rates by referral channel can lead to wiser marketing and sales investments, which ultimately leads to better efficiency and more volume.

4. Warehouse borrowing

Having efficient backroom operations can yield big returns, especially when it comes to warehouse borrowing. For example, improving turn times by clearing investor stipulations quickly can reduce borrowing costs and generate liquidity for your company. In addition, files that clear the line quickly allow you to avoid costly lock extensions with investors.

After a few profitable years, many mortgage companies are flush with cash. As an alternative to putting the cash in the bank at a low interest rate, mortgage companies are trying to put additional funds into their loans.

5. Technology

For many mortgage companies, technology is a growing expense with increasing investments every year. Investing in technology can impact the bottom line by increasing

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volume and decreasing costs, however. For example, document-management systems can make underwriting and loan processing faster and more efficient.

Integrating phones with loan operating systems and purchasing or upgrading a customer-relationship management system (CRM) can bolster sales leading to higher volumes. In addition, having an effective CRM can increase employees' contacts with customers and encourage them to follow best-practice workflows to advance their success.

6. Outsourcing

Many industries have embraced outsourcing as a way to address noncore functions with expertise and let employees stay focused on the core functions of the business. In the mortgage industry, outsourcing the human resources function can be a good decision. With all of the recent legislation and regulations, staying current with employment practices and monitoring compensation and benefit packages have become a bigger burden. Outsourcing all, or part, of your human-resources functions can ensure that you stay compliant and save money in the long run.

7. Mandatory selling

Selling on a mandatory basis rather than best efforts can improve margins by getting better pricing from investors. Keep in mind that selling on a mandatory basis entails taking on some interest-rate risk because the loan is locked with the borrower, not with the investor. To address this added risk, you can work with a third-party advisory company to help hedge the interest-rate risk in your pipeline. Still, to make the cost of the third-party adviser worthwhile, mortgage companies should be generating at least $20 million a month on loan volume.

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Refinance volumes are expected to tumble further in this coming year with the likely increase in interest rates and the fact that many homeowners already have refinanced at low rates in the past several years. With this uncertainty in the market, mortgage companies should adopt strategies that help them maintain loan volumes, streamline operations and processing, preserve margins, and remain profitable.