

Cutler Consulting, Inc.

Strategic Mortgage Partners

Case Study - Community Bank

Build a successful mortgage division which will enhance the bank's ability to grow its market share, increase profitability, and reduce risk.

Background

A large community bank with over 100 retail bank branches was seeking a significant upgrade to its mortgage operation. Historically, the mortgage division had operated to accommodate customers who came to the bank for a mortgage loan. The bank's retail group was often at odds with the mortgage group. Communication between the retail bankers and mortgage company was rudimentary. Limited mortgage training and education was provided. The mortgage operation was deficient in a number of key

areas, including origination volume, policies and procedures, reporting, and earnings.

Analysis

The mortgage division lacked a comprehensive plan to improve and build the mortgage business. The retail branch network, a strength of the company, was not sufficiently motivated to seek additional mortgage business. There were only four outside originators, who generated little outside business. Policies and procedures were outdated and did not reflect changes that had been enacted

by mortgage company management. The loan origination and secondary marketing systems were working, but significant upgrades had not been installed and tested.

The challenge was to significantly increase mortgage business, streamline operations, increase income, enhance reporting and mitigate risks.

Cutler Consulting is a management consulting company specializing in residential real estate finance.

Recommendations

Develop and Implement a Strategic Plan

- ◇ Grow market share while maintaining quality and profitability. Concentrate on production that is the most profitable for the company.
- ◇ Install best practices methodology throughout the mortgage division.
- ◇ Upgrade internal and external training and communication, which will reduce errors and improve the relationship between the mortgage division and the retail bank network.
- ◇ Establish a mortgage company operating committee comprised of senior managers to provide input and make decisions on day to day company operations.
- ◇ Build a management reporting system.
- ◇ Instill accountability for results across the entire division.

Grow Origination Volume

- ◇ Implement an incentive program for retail bank lending officers to originate mortgage loans. The initial goal should be 1 loan per branch per month.
- ◇ Increase the outside origination staff from four to eight. Add two in-house originators on a modest salary with the opportunity for a bonus.

- ◇ Set up promotions and contests for the retail bankers and their customers.
- ◇ Promote construction-to-perm and State Housing Authority loans.
- ◇ Develop and implement secondary marketing eligible products that may be placed in the bank's portfolio as needed to enhance the bank's investment goals.

Set up Best Practices Secondary Marketing Department

- ◇ Secondary marketing policies should be approved by senior bank management and the Board of Directors.
- ◇ Modify secondary marketing policy to allow for best efforts and mandatory delivery commitments.
- ◇ Servicing valuations for booking MSR's to be verified by a third party expert in mortgage servicing rights.
- ◇ Implement secondary marketing reports, including daily lock-ins, closed loans, fallout reporting, position report, and mark to market reporting.

Re-engineer Processes

- ◇ Install updates to the front end and secondary marketing systems.

- ◇ Change processing metrics from the number of files processed to include the number of files processed correctly the first time. Error rates must be considered when computing processor incentives.

Risk Management

- ◇ Implement comprehensive reporting and risk controls.
- ◇ Update all policies and procedures to adequately mitigate risk.
- ◇ Implement quality control trending analysis to identify potential problem areas.

Training and Communication

- ◇ Establish a formal mortgage training program to be taught quarterly in every region of the state.
- ◇ Develop and implement a mortgage intranet site that includes training materials, worksheets, forms, economic news, rate sheets, etc.
- ◇ Establish quarterly contests with specific goals for each department as well as individual rewards. Recognize the winners at a quarterly awards luncheon.

Results

- ◇ Retail mortgage loans increased from .6 retail mortgage loans per branch per month to 1.00 loans per branch per month. Total production volume increased by 60%.
- ◇ The secondary marketing department increased its overall profitability 20 basis points, generating \$820,000 in additional annual income.
- ◇ Re-engineered reporting and processes resulted in reduced processing times, a reduction in expenses, and compliance with FASB and SARBOX.
- ◇ On-site training on appraisals, self-employed borrowers and sales techniques provided by the mortgage insurance companies, used in conjunction with mandated web based training, resulted in better trained associates, which increased mortgage originations.
- ◇ Monthly town hall meetings, employee recognition programs, and implementation of a stringent review process resulted in improved morale and elimination of poor performers.