

Success in a changing environment

For most customers, a mortgage is the largest single financial transaction they will ever make. While bankers generally recognize the importance of accommodating customers who ask them for a mortgage loan, many do not aggressively try to capture this business. A successful mortgage division provides an excellent source of profit for the bank, introduces new customers to the bank, and generates additional cross-sell opportunities.

The market turmoil of the last 12 months has further increased the opportunity for banks to grow their mortgage business. Many financial institutions have vanished and wholesale lending is on the decline. The current mortgage environment, while challenging, offers opportunities to companies prepared to take advantage of them.

Pricing, Profitability, and Risk. A successful mortgage strategy must address all three. It's amazing how many banks do not have a comprehensive plan in place for their mortgage division. A successful plan

addresses the current mortgage operation and provides a vision for the future.

Keys to Success:

- Identify best secondary marketing pricing. Implement best execution model to continuously monitor pricing trends.
- Develop a fully loaded profitability model for each product. Monitor overall costs and eliminate operational redundancies.
- Define strategy to increase retail branch mortgage production. Incent retail lenders to originate mortgages.
- Update policies and procedures to reflect current risk environment. Assess quality control measures and review audit controls and processes.
- Develop detailed reporting which provides oversight of all facets of the mortgage operation (see next article).

Take another look at your mortgage division. Do you want to set yourself apart from your competitors? Cutler Consulting can help.



Professor Mort Gage

Workshops

- ◇ Secondary 101
- ◇ Secondary 102
- ◇ FHA— Dominate the First Time Homebuyer Market

Strategic Planning

- ◇ 1 day Introduction
- ◇ 3 day Intensive

Call for information about our workshops .

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- **FHA to discontinue risk-based pricing October 1.** Under the new pricing structure, borrowers seeking 30 year FHA financing to purchase a home will pay an upfront premium of 1.75% regardless of their credit standing. This represents a 25 basis point increase. Annual premiums will be based on LTV. If the LTV is 95% or below, the premium will be 50 basis points. For LTVs above 95%, the premium will be 55 basis points.
- **Mortgage Volumes continue to slow.** Purchase originations are expected to decline 25% this year from 2007 levels. Tighter credit standards combined with continued declines in home values will continue to discourage borrowers and investors.

- **The events of September have assured a recession.**

Declining home prices, contracting credit, climbing unemployment, increased energy prices and a meltdown in equities combined to push the economy into a recession.

Not since the bomb shelter building days of the early sixties have we experienced this type of fear.

Hopefully we are at the beginning of the end to the panic of late September and early October.

Cutler Consulting can work with you to establish a reporting system that will allow you to effectively manage your mortgage business and maximize your profit opportunities.

Increase Profitability by Managing the Details

You must have timely and accurate information to successfully manage a mortgage company. Proper reporting provides ongoing feedback on the status of the mortgage division. The following reports should be prepared for management review:

- Loan level profitability by product
- Gain on Sale of Loans
- Monthly Closed Loans
- Monthly Applications
- Fees Collected by type
- Cost to Originate and Close a loan
- Fallout Report
- Required Delivery Documents Outstanding
- Aged Loan Report - loans closed 30 plus days and not delivered
- QC Significant Findings Report
- Broker Scorecard
- Net Profitability Report
- Cycle Times (processing, underwriting, closing, total)
- Project Management Reports

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Developing a Mortgage Plan for 2009

We are in the most challenging financial environment that most of us have ever seen. As you begin to plan for 2009, there is more uncertainty now than any time in the last 50 years. What are the risks posed by the current market? What opportunities do you have to increase profitability and build market share? Is building your mortgage business one of them? Let Cutler Consulting help you make an informed decision.

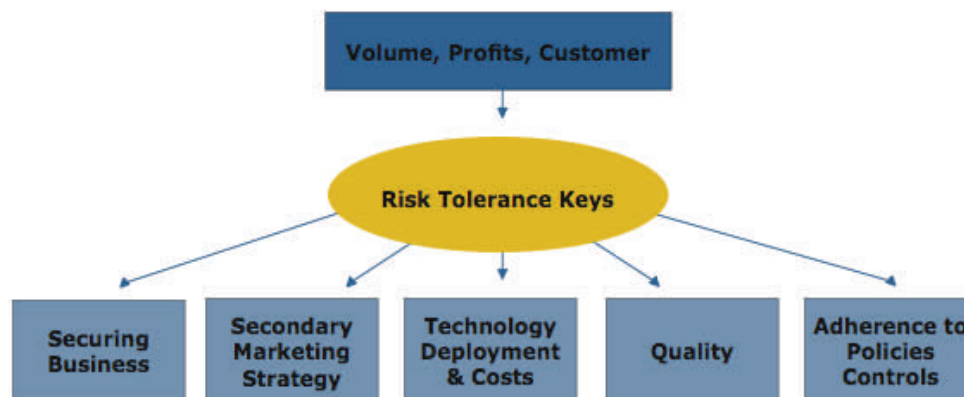
What will we do to help you make this determination?

1. **Data Collection** – Information such as organization charts, financials, business plan, fee schedules, incentive plans, rate sheets, policy and procedures manuals, product descriptions, underwriting guidelines, and investor agreements will be collected. We will conduct interviews with you, your associates, and others who know your company structure, processes and culture.
2. **Analysis** – We will review and summarize all of this information to understand your current state of organizational effectiveness. Then we develop clear, practical, actionable steps for improvement which are presented to you and your group for discussion and refinement.
3. **Finalize Plan** - Once we have everyone's input, we will prepare and present a final step by step mortgage plan. Projected profit margin and risks (interest rate, operational, reputational, credit) will be part of the final plan.

Developing a plan is often the easy part. Implementing it is something else. Cutler Consulting always seeks to be involved and accountable for implementing the plan. We welcome the opportunity to discuss with you how we can help you roll out your plan in an efficient and timely manner.



Strategy Development



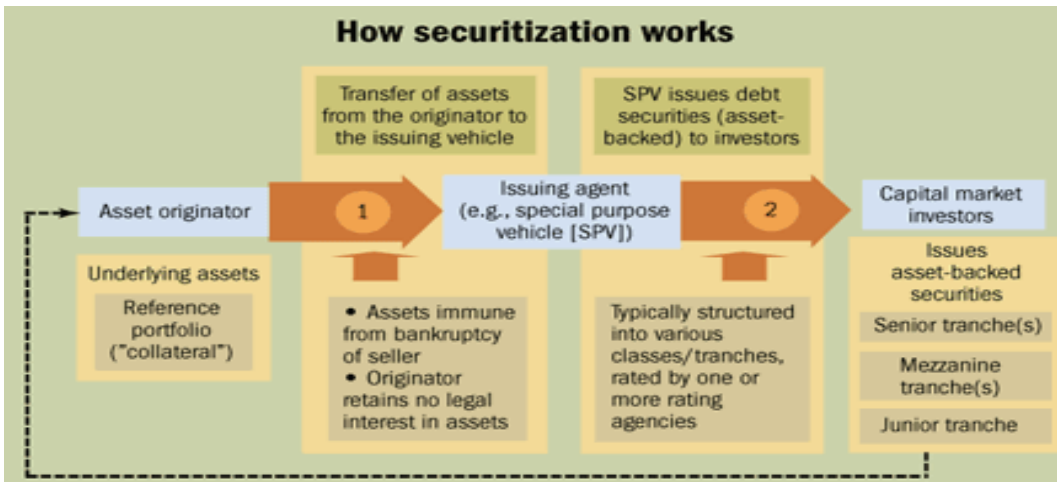
"If the change inside your company is slower than the change outside your company, the end is in sight."

– Jack Welch

Secondary Marketing

Even if you do not originate millions of dollars in closed loans each month, you can improve your bottom line by maximizing your gain on sale of loans. Things you should consider to increase profitability:

- Establish 2 to 3 core relationships with investors that have strong financials and a history of following through on their commitments.
- Track and compare the pricing for all of your investors. Sell your loans at the highest price.
- If you are currently selling your loans to a wholesale lender, consider closing your own loans and selling via the investor's correspondent channel. This should allow you to pick up 25 basis points or more in additional profits.
- If you are delivering \$3,000,000 or more each month using a "best efforts" delivery, switch to mandatory delivery on part or all of your monthly sales.
- High LTV loans should be sold FHA to maximize profits and give your customer a lower payment.



Securitization is the process in which certain types of assets are pooled so they can be repackaged into interest bearing securities. Securitization got its start in the 1970s, when home mortgages were pooled by the agencies. Over the next 30 years, securitization became ever more complex as new structures were developed to securitize home equity loans, lease receivables and small business loans to name a few. Even though the structures were complicated, hedges were placed and AAA ratings comforted investors.

The subprime meltdown put an end to complex securitizations for the foreseeable future. In the future, securitized products are likely to become simpler. After years of posting virtually no reserves against highly rated securitized debt, issuers are faced with regulatory changes that will require higher capital charges and more comprehensive valuations. Restoring investor confidence may also require issuers to retain interest in the performance of the securitized assets at each level of seniority and not just the junior tranches.

Source: IMF

What makes Cutler Consulting different is simple - *our approach*. We are very results-oriented. You tell us what you want from your mortgage business, and we'll figure out the plan to make it happen...

**In times like these,
you need a partner
you can trust....**

Cutler Consulting is a multifaceted financial services consulting company specializing in the mortgage and housing markets. As a strategic mortgage partner, we offer our clients senior management experience, in-depth functional knowledge and skills, and an expansive network of industry resources. We work in close partnership with our clients to deliver solutions designed to increase profitability, improve performance, and gain competitive advantage. In this rapidly changing mortgage lending environment, Cutler Consulting assists its clients with the critical decisions and tasks impacting the direction and success of their businesses.

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