

*By Pat Cutler*

## **The Search for the Holy Quail**

Hunting is an old Southern tradition, especially during the holidays. Nothing says “Peace on Earth” quite like shooting something. I recently participated in a family quail hunt in the low country of South Carolina. I am a golfer, not a hunter. The only hunting I know how to do requires a ball retriever. Putting a weapon in my hands is akin to outfitting Barney Fife with an assault rifle.

Thirteen of us arrived at the hunt club late Tuesday afternoon. We entered the main house through a mud room filled with orange hats and vests. Hunters wear orange to contrast with their surroundings for safety reasons. Being a Carolina fan, I immediately got a nervous twitch at the thought of wearing Clemson orange. From my perspective, the color orange is more likely to GET YOU SHOT than protect you from danger. I quickly passed by all that orange and entered the gun room. There were so many shotguns along the walls that I thought I had wandered into the sporting goods section at the Super Wal-Mart.

The next morning, everyone assembled to receive instructions from the overseer. He stressed that shooting the dogs, horses or each other was frowned upon and would result in immediate suspension of the hunt. We loaded up the horse trailers and dog boxes and motored to our jumping off points. My horse was named Rebel and looked exactly like the one Hoss Cartwright rode. He was taller than me and 2 ax handles wide. I said a prayer and climbed aboard. Once everyone was saddled up, two pointers named Ace and Sparky took off running and we all followed. Our head guide, Boogie, was constantly talking to the dogs, imploring them to find a covey of quail or calling for them to return to the group. Rebel liked to follow the pack and tailgate. This resulted in a number of unpleasant exchanges with the other horses. Before long, Ace pointed. The hunters dismounted, loaded their guns and moved into position behind Ace. The birds were flushed out. 3 were shot to death. At the end of the day, 24 quail had moved on to their reward, Rebel had eaten 35 pounds of fall flora, pooped six times and my behind felt like it did when Mr. Barineau, the principle at Moore Junior High School, paddled me for disrupting Ms. Graham’s math class. I no longer have any doubt that I prefer riding in a golf cart with an adult beverage to bouncing through the woods on ole’ Rebel.

### **Target Practice**

In the South, most hunters develop their shooting skills from a young age. Baby boys are given a lifetime NRA membership at birth and receive their first gun at the christening. They fire at beer bottles in the back yard, shoot skeet and hunt with their Daddies. During the teenage years, they further refine their skills shooting street signs from the back of a pickup truck.

Our legislators have been using the Federal Reserve for target practice. With elections coming up, they are firing away, trying to find a target they can blame for our current financial crisis. Senators Dodd and Bunning, along with Representatives Franks and Paul, are leaders of a gang focused on shooting down many of the Fed’s proven methods of managing our monetary policy. Regardless of the criticisms fired by our legislators, the Fed is the only entity with the expertise necessary to oversee our complex financial system. It must be allowed to continue to act without the threat of political pressure. The good news is, when it comes to shooting, these guys couldn’t hit a bull in the butt with a bass fiddle. The last time a politician went hunting, he ended up shooting his buddy in the face with a load of double-ought buckshot.

### **Bulls-Eye**

I have been an active participant in the capital markets since the late seventies. I have seen firsthand the workings of an effective monetary system. While there have been a number of significant highs and lows, the constant has been an independent Federal Reserve that can act quickly to affect current economic conditions without fear of political retribution. In 1979, the Fed ended years of crippling inflation by having the courage to raise interest rates to 20%. When the stock market crashed in 1987, the Fed issued statements assuring the public that the Fed was taking positive steps to inject liquidity into the system by purchasing billions of dollars of bonds and securities. It lowered the fed funds rate and jawboned banks and brokerage houses into working with their customers to prevent a panic. Following 9/11, the Fed aggressively cut interest rates and guaranteed depositors their money was available for withdrawal if they chose to do so, preventing a run on the banks. In these examples, the Fed took aim and hit the bulls-eye.

In 2008, the Fed may have prevented a depression by aggressively cutting rates, implementing asset purchase programs and subjecting our largest banks to stress tests to measure their safety and soundness. Calm was temporarily restored to the system. These actions would not have happened without the Fed's ability to conduct monetary policy free from short-term political pressures. To prevent further damage to the already fragile financial system, the Fed, in conjunction with the Treasury and other Central banks, made the decision to bail out a number of large financial institutions to ensure that there would not be a run on the banks. The decision to bail out the banks and Wall Street firms was not a popular one. However, if the goal was to prevent disaster, one could certainly argue the Fed once again hit the target.

### **That Dog Won't Hunt**

Real estate markets around the country have seen some modest improvement in recent months. However, this has more to do with government subsidies and tax breaks than it does with an increase in demand for real estate. Massive purchases of mortgage-backed securities by the Federal Reserve have kept mortgage rates near their historic lows. The tax-credit for first-time homebuyers has fueled demand.

The Federal Reserve is scheduled to wind down its MBS purchase program at the end of the first quarter. Tax incentives will expire at the end of April. There are still too many houses for sale and too few buyers. Underwriting guidelines remain tight. Appraisers continue to struggle to confirm sales prices. Against this backdrop, the housing market cannot achieve a meaningful recovery until the employment situation improves dramatically. A stable real estate market cannot be sustained without continued substantial government support. As we say in the South, that dog won't hunt.

### **New Year's Resolutions**

New Year's is a time for reflection and change. Take a close look at your mortgage operations. If you adopt these resolutions and follow-through with them, you will increase your profitability.

- Establish clear rate lock policies and controls managed by a centralized lock desk. You can be perfectly hedged but still lose money if you don't have absolute control over the rate lock function and the integrity of your pipeline data.
- Develop and implement a complete set of management reports to measure profitability, risks and cycle times:
  - Cost-to-originate
  - Gain-on-sale margin by product
  - Commissions paid in bps
  - Pre-tax earnings in bps each month & YTD
  - Aged loans - Loans closed and in the warehouse for more than 30 days
  - Loans Closed and Not Shipped after 5 days
  - Loans Shipped but Not Purchased for more than 15 days
  - Cycle times for processing, underwriting and closing
  - Quality Control findings
- Purge expired, closed, cancelled and denied loans from the mortgage pipeline daily. Hedging phantom loans is expensive.
- Study your financial results each month. Do not assume that a decline in profitability is the result of decreased origination volume. As an example, there are situations in which volume is down 31% and profits are down 41%. Gain on sale margins may have slipped. Overtime may still be high even though volume is down. Identify the problem and make changes.

*New Year's Eve, where auld acquaintance be forgot. Unless, of course, those tests come back positive - Jay Leno*

*This article contains information gathered from numerous sources. The information is considered reliable but is not guaranteed as accurate. The opinions are my own and not deemed appropriate for any purpose other than to provide information to customers and potential customers.*

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