By Pat Cutler

OOPs

One of the disadvantages of being self-employed is the lack of group health insurance. Since I have an individual policy, my Out-of-Pocket (OOP) costs such as deductibles and co-payments tend to be high. September 30th marked the end of the 12 month deductible period for my medical insurance policy. As a self admitted hypochondriac, I have no trouble meeting my deductible early in the year. I call the doctor as soon as I exhibit the slightest symptom – a slight rash that I am sure is leprosy, a sore wrist that indicates the onset of arthritis, sneezing that predicts a sinus infection or pneumonia. During my routine physical in August, the doctor informed me that I was due for a stress test and a colonoscopy. Aware that I had met my deductible, I decided to schedule the stress test and colonoscopy before the end of September. The timing was tight, but the doctor's office managed to schedule them both for the third week in September. This was one of those decisions that seemed perfectly reasonable at the time but I would later regret.

The Stress Test

On the morning of my stress test, I arrived at 7:45 fasting and ready to get the visit over so I could head to Hardees for a biscuit and sausage gravy fix. I was told the person who normally administered the test was sick, but a substitute would arrive shortly. An hour later, the substitute tech arrived. I had severe misgivings when she arrived dressed in black scrubs, covered with an indeterminate number of body piercings and her cell phone attached to her ear. Between calls she injected me with radioactive dye (I was still glowing 3 days later); dry shaved my chest with a dull razor, glued 8 monitors to my raw chest with Gorilla Glue and told me to start walking on the treadmill. The goal was to get my heart rate up to 155. After twenty minutes, I was walking very fast and my heart rate was only 119. She jacked up the speed and told me to start running. Her cell phone rang and she stepped out to answer it. When she returned 5 minutes later, my heart rate was 185, I was gasping for breath and I had pulled a calf muscle. She said that was great and began to slow down the machine. After letting me crawl off the treadmill unassisted, she pulled the monitors off my chest. I would have screamed, but I couldn't catch my breath.

The economy has passed its stress test for now. Talk of a depression is gone, the stock market has rallied and the economy looks like it may have bottomed in July. Markets are functioning again. You can actually open your mutual fund and 401(k) statements without mixing up a batch of jell-o shooters. Many economists expect economic growth of close to 3% for the remainder of 2009. Most of the large banks are making money again, some a lot of money.

The Doctor Is In

The day after my stress test, I drank a gallon of lime flavored medicine in 45 minutes and had 7 popsicles. After a long, unpleasant evening, I was at the doctor's office at 8:00 am for my colonoscopy. The nurse in charge of starting my IV could not find a vein. She dug around in my arm with what felt like a kitchen spoon for an eternity. After completely mangling my arm, she gave up and jabbed the IV in my hand instead. I was proud of myself for not crying out.

The doctor was delayed for 30 minutes and I was left to chat with Nurse Ratched. I find it awkward to have a conversation with a fully clothed woman while lying in a bed in a hospital gown with my rear hanging out. The conversation went well until she commented that she had been told she looked good for her age. She wanted my opinion as to whether or not I thought she should take that as a compliment. As all guys know, this is not a discussion you want to have with a woman, especially when you are in a vulnerable position. Luckily the doctor came in about that time, administered the joy juice and the rest is history.

Banks have been prepped and positioned for a colonoscopy administered by pay czar Kenneth Feinberg, doctor of compensation. He has advised the seven companies who received large amounts of government bailout funds to cut compensation to their highest paid executives. The administration's talking heads have been bludgeoning financial companies for the last two weeks over paying large bonuses to their employees and lobbying to dilute financial reforms. They want the banks to play nice and be more socially conscious.

Bankers are in business to make a profit. Wal-Mart greeters are in the business of being nice. The government gave banks access to free money, artificially lowered interest rates through massive purchases of securities and guaranteed their debt. As a result, the banks made a lot of money, which in many cases contractually obligates them to pay large bonuses.

As for developing a social conscience, we have witnessed the results of the government's forcing Fannie and Freddie to lower their underwriting standards so every American can own their own home.

Post-Op

One month later I have my test results. Everything came out great. I can now walk unassisted, my arms are only slightly blue from the stab wounds, and I can sit without a cushion.

After a lot of surgery, the economy is still walking with a limp. We have significant challenges in front of us. A $1.4 trillion deficit, which is almost certain to grow, presents a significant hurdle to economic growth. A lack of available credit continues to hamper recovery efforts. Joblessness at a very high level is likely to be with us for years, negatively impacting consumer spending and hindering economic recovery. New consumer lending laws and regulations will result in higher costs and interest rates for consumers. Ending the Treasury's massive purchase of mortgage backed securities, which has kept interest rates artificially low, could prevent any meaningful increase in home prices. Perhaps most troubling of all is a growing attitude by a lot of people who feel they are owed something by the government, by the banks that were bailed out and by individuals who have done nothing but earn money, make their house payments and pay their taxes on time.

Profitability

Despite continued malaise in the overall real estate market, it has been a very good year for most mortgage lenders. Mortgage originations for 2009 are predicted to be $2 trillion, up from $1.46 trillion in 2008. Low interest rates and depressed real estate values have resulted in large numbers of refinance and first time homebuyer loans. Higher profit margins associated with refinance and first time homebuyer loans, coupled with higher origination volumes, have significantly increased mortgage income. Lenders have been extremely busy handling volume levels this year. There has been little time to consider changes and adjustments that would add long term value to their organizations.

Origination volume for 2010 is expected to fall to $1.5 trillion. Regulatory requirements and government oversight will continue to increase. How will this impact your profitability? Is your current organization the right size given your market presence and tolerance for risks? Are you maximizing your income and minimizing your expenses? What is your strategy for mortgage originations?

Unfortunately, many organizations cannot answer these questions. Now is the time to schedule your annual check-up. Every lender with $5 million or more in monthly originations should evaluate the health of its mortgage division and implement the following lifestyle changes:

- Conduct a Loan Level Profitability Analysis to determine net income associated with originating a loan by product type.
- Establish a centralized lock desk to handle rate locks with investors, manage the mortgage pipeline and track fallout.
- Employ a secondary marketing strategy to maximize price execution. Companies with more than $7 million in monthly volume should have the ability to sell a percentage of their loans under a mandatory delivery execution.
- Institute management reporting to allow effective management of the company. Examples: pipeline reporting, profitability analysis, income and expenses, quality control reports, fees collected, gain/loss, aged inventory, and processing times.

It is dangerous to be right when the government is wrong - ***Voltaire***

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