In Charge

— by BILL EARLY —

This is a production re-engineering idea you won't want to ignore. It could ramp up your volume—and save you money.

INVARIABLE: IN·VAR·I·A·BLE *(ADJ.)* NOT VARIABLE; NOT CHANGING; CONSTANT; UNIFORM

Other words to define invariable are: set, inflexible, rigid, habitual. ¶ Any of those words sound familiar when it comes to aspects of mortgage lending in the 21st century? ¶ This article is actually about concepts: variable-versus-fixed, dynamic-versus-static, and different-versus-conventional. I ask that you read carefully, as the conclusions derived and actions you take could affect the way your organization operates going forward. ¶ OK, the refinance boom is over and now we are stuck with an excess of personnel, space, benefit obligations and technical capacity. In other words, we will begin to have more expenses than revenues—again. ¶ How many times has this happened to your organization in the past couple of decades? ¶ There has been considerable talk over the last few years about re-engineering our industry and individual businesses to increase productivity and reduce overhead. ¶ Terms like connectivity, uploading, downloading, resource allocation, empowerment, social media and the like are quite common in strategy sessions and boardroom conversations in banks across the country. We know that automation of routine processes—origination, underwriting and processing—can bring significant labor savings and quality improvements.

There is, however, one example of simple and effective operational re-engineering that requires no investment in hardware, software or networking capabilities. It's called processing without processors.

The situation

I opened my first mortgage company in 1984 and modeled it after the "typical" lender. Coming from a Fortune 500 company as a sales trainer and being new to the lending industry, I felt it best to follow the lead of other successful lenders and implement the systems and processes they utilized.

I enjoyed my new entrepreneur status and aggressively pursued borrowers. Loans were closed, the pipeline was never empty and all looked great. My decision to get into this industry was a good one. I soon realized, however, that one aspect of my new business was requiring too much of my time, managerial energy and bottom line—and that was processing.

The relationship between my company's loan officers and processors was consistently resulting in confusion and complaints from borrowers, underwriters and investors—and I had good people!

What was most amazing was that no one person was responsible for all the miscommunication or incomplete files. The loan officer pointed at the processors and vice-versa. Loan officers would "babysit" files, staring over the processor's shoulder. Processors would avoid difficult files, preferring the "vanilla" slam-dunk ones.

As we all know, there is a significant potential for increased productivity and improved turnaround time in the origination side of the business. But what good does it do to deliver instant credit reports and electronic underwriting information to a loan officer who has never managed a file to completion? Instant delivery of information must be accompanied by an understanding of what the information means.

The traditional originator/processor relationship sets the stage for loan officer failure, in my mind. By denying loan officers the education and responsibility necessary to complete file management, we deny them the opportunity to become mortgage consultants.

Many loan officers are seen as mere application-takers because that's where their involvement and expertise end.

A solution

Then I had an epiphany: We don't really need processors!

And—drum roll, please—we were voted the No. 1 mortgage lender in Western North Carolina in the local newspaper, based on feedback from the community. Our loan officers have processed their own loans for the last 20 years, and love the results.

It's a simple concept. Our loan officers are held responsible for sales—generating referrals, giving presentations, taking applications, securing verification of information contained within the application they take, and closing the deal by creating a saleable product.

I require more of my loan officers than traditional lenders, and I pay them more. By eliminating a complete layer of salaried staff, more funds are available per loan.

Elevated expectations, and compensation that has risen by 42 percent, have resulted in elevated professionalism and results. Production has also increased by 42 percent, frustration has decreased and the loan officers actually have had more time to market.

We have never experienced a capacity problem. We have never had to turn away business because our processors were buried in loan applications. My loan officers gladly work late hours building files, closing loans and enjoying the fruits of their labor.

Another positive: There are no processors to lay off when the market is soft and volume is down—a situation that is prevalent in the banking industry today.

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The many advantages of this approach

Advantage 1: A huge reduction in overhead. During hot markets—the industry refrain is always: "Where do we find qualified staff? Who do we have to train today?" In cold markets—managers worry and say: "Business is very slow this quarter. We are going to have to fire half of our processing staff . . . again. Oh boy!"

Think about the cost savings in this area alone for a minute. A medium-size company with seven processors times $45,000, including benefits = $315,000. What could we do with that extra money? I don't have to begin to tell you. (Hint: Loan officers could use a little extra, which in turn would give you a recruiting advantage, which in turn could produce more loans for you, which in turn could improve the bottom line, and so on.)

Making the loan officer 100 percent responsible for borrower satisfaction and product creation ensures motivation and efficiency. The loan officer benefits directly from having a prepared borrower—taking a complete application and securing all available documents needed for underwriting the file.

When the loan officer collects pay stubs, Internal Revenue Service (IRS) form 1040s, the purchase agreement and three months of bank statements, and orders the appraisal and credit report, what's left for the processor? The greatest benefit is that loan application quality soars—there were considerably fewer requests for conditions from our underwriters, and we were presented with an award for highest-quality loan files from Milwaukee-based Mortgage Guaranty Insurance Corporation (MGIC)—and closings routinely take place in three to four weeks.

Advantage 2: Better-quality loan applications. "If someone follows you with a mop, you are apt to spill." Do you think the loans will be of better quality or worse if we put the entire onus on the loan officer? The incentive to take a really good initial loan application just skyrocketed for the loan officer, I can tell you that.

If loan officers have no one to collect all the data they were supposed to collect at the beginning, they are going to realize that it is best to get it upfront. It takes them approximately one time to come to this realization on their own. Voilà. "My time is too valuable to be running back and forth trying to secure all of this documentation."

Time is money, as every good loan officer knows. After an experience or two chasing down missing documentation, you can bet a full application (or something close to it) will be taken at the first sitting by the loan officer.

Loan officers learn to recognize problems early and resolve or, better yet, avoid them altogether. Their skills and confidence grow significantly. The knowledge acquired through building files from start to finish represents a genuine competitive advantage.

Loan officers experienced in total file management and borrower satisfaction can make presentations to the most discerning and cynical referral sources. There isn't an issue regarding the mortgage process that they are unable to face.

Advantage 3: No miscommunication between parties. "We lovingly called this situation the dreaded 'Bermuda Loan Triangle.' It was scary, people got lost in it, it was an unknown place and no one, to my knowledge, ever booked a trip there.

The more people who touch some aspect of a system the better the chances are of having miscommunication.

Removing processors from the equation requires focus on the borrower, attention to detail, product knowledge and innovative efficiencies.

The loan officer is forced to spend more time with the borrower, increasing opportunities to establish better relationships. Real estate surveys tell us that the average borrower knows four people who will buy homes within the next 12 months. The average borrower is definitely someone with whom we must spend more time.

> **The elimination of processors has also resulted in a reduced reliance upon the traditional way we market to Realtors.**

Advantage 4: The loan is processed quicker. Think about it. I take the loan, gather the information upfront and order the appraisal, credit report, title, and boom—it's almost done. According to Michael Hammer's 1995 book, *The Reengineering Revolution,* IBM Corporation did a study in the mid-1990s that revolved around its financial approval process. IBM concluded that the actual time it took to do the paperwork was minimal; it was the handing off of the paperwork time after time that took a long, unnecessary period.

IBM, in its processing improvement testing program, eliminated six stations and reduced the timeline by 90 percent. This obviously would also reduce your expenses, ensure timely closings and make the client and referral source very happy indeed.

Our loan officers deliver real value and service to their borrowers, from application to attending all closings. By attending all closings, the loan officer ensures all questions are correctly answered. After all, the loan officer built the file from start to finish and possesses full command of the facts.

The closing is an opportunity to demonstrate complete product knowledge in front of the borrower, listing and buyer Realtors® and closing agent. All are sources of borrower referrals.

Advantage 5: Eliminate us vs. them. The following quotes capture the feeling of warring camps when processors and loan officers are left to play the blame game. "Those salespeople don't know what they're talking about." "The sales group gets to have all the fun and make all that money." "If they only appreciated us office folks a little more, we would work harder."

"Those processors don't understand my needs." "Let's see you processors get out here in the freezing cold and get rejected every day!" "How about you try working on commission with no guarantees!"

A knowledgeable loan officer is of greater value and is appreciated by the borrower. The borrower made the application with the loan officer and prefers to deal with the loan officer—not his or her assistant. By directing the borrower to the proper loan product, explaining what's necessary to secure approval and reducing loan turnaround, the loan officer isn't dependent upon price for success. Professional consultation is consistently measured by results rather than price.

Advantage 6: Clients/affinity groups want to deal with one person. You just spent two hours with the president of Royal Tires and his wife, who applied for a $349,500 loan with you. The next day, the wife calls your office to ask a question, and she is referred to Suzanne Qu for an answer. Get real! "I want to talk to the person who assured me of this, that, and the other thing. I want a straight answer from the loan officer who will probably make $3,500 on my transaction," says the wife.

Less reliance on Realtors

The elimination of processors has, interestingly, also resulted in a reduced reliance upon the traditional way we market to Realtors. Remember, the loan officer who is processing his/her own files has a direct interest in efficiency. By utilizing the documentation and information on the borrower, the loan officer can uncover multiple affinity professionals and groups that represent hundreds of prospective borrowers.

The endorsement of a satisfied borrower to his or her certified CPA, insurance agent, private banker, financial planner, human resources director and social clubs is worth thousands of dollars in a marketing budget. A loan officer fully versed in the intricacies of delivering loan consultation, approval and borrower satisfaction has a competitive advantage with these in-file affinity referral sources.

Advantage 7: More contact, better relationships, increased referrals. Isn't it becoming more obvious as we progress through these re-engineered steps? The loan officer is now in contact much more than before. He or she is learning more about the client. The loan officer is in a position to ask for more referrals and tap into the client's affinity groups that are listed in the file (more than eight groups in each file, based on our experience).

The trust is greater, the commitment is more dependable, the process is better defined and, by golly, quite often friendships are established and maintained.

It's been my company's experience that one loan—managed from start to finish—can result in six or more sales calls to affinity sources with a satisfied borrower's endorsement. Your processors will never make these sales calls and will rarely identify in-file affinity sources for the loan officer. Even if they did, your loan officer lacks the specifics of the borrower's situation to establish a connection with the affinity professional. As a result, the average loan officer never develops the confidence to pursue marketing appointments with these potential referral sources.

Yes, the future of the residential lending industry does hold many innovations and technological efficiencies. This origination system works well in today's environment. Our loan officers find more and innovative ways to market; we enjoy improved communications and less confusion in file management. The traditional originator/processor paradigm is old—shift it!

Unfortunately, my time is up. But I've enjoyed my visit with you and welcome your inquiries.

Special offer: If you are interested in learning more about the advantages of this approach, reach out to me in an email and I will send you my "Benefits of File Management" PowerPoint presentation showing the full 13 advantages of this innovative system—for free. **MB**

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