DECEMBER 2004
VOL. 13, NO. 16

Origination News

For Mortgage Brokers, Correspondents, Lenders and Wholesalers

How to Generate ROI Post Boom

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Mr. Crosby, director of secondary marketing software for the Middleburg, Ohio-based mortgage technology provider Associated Software Consultants Inc., believes properly utilized technology and process management are ways to more swiftly generate returns after a refinance boom wanes. His opinions on the topic, edited to fit available space, are presented as this month's Viewpoint.

NOW THAT THE REFI BOOM has ended, mortgage lenders find themselves under pressure to maintain profitability levels, as well as looking for ways to achieve a faster return on investment through secondary marketing and risk management software. The growing demand for a faster ROI is a result of the dynamic business environment faced by lenders who are suffering from significant decreases in loan volumes. As a result, these lenders are searching for new, untapped markets by offering additional products and services. Often this need to reach new markets with additional services is what drives lenders to utilize either upgraded or completely new secondary marketing tools. It also puts added pressure on secondary marketing teams to find ways to be more profitable as quickly as possible.

Lenders seeking a faster ROI must first define their evolving secondary marketing needs and compare them to the capabilities of their current system. For example, at the height of the refi boom, there was a big demand for systems that process heavy loan volumes. Now the focus has changed and lenders require a system that will help them make better financial decisions that will quickly generate higher profits.

Other factors that typically effect lenders' needs may include: whether or not they process retail or wholesale loans, which hedging preferences they choose (such as using mortgage backed securities or cross hedging), plans for future growth and potential movement into a new, emerging market. The bottom line is that lenders' needs are always changing and it takes flexible technology to constantly meet these evolving needs.

Once their needs are defined, lenders must evaluate their potential secondary marketing and risk management options. Some lenders use "home-grown" systems that are designed in-house to plug secondary marketing gaps in technology until they get a more comprehensive system. The problem with these systems is that they are often inflexible and usually become obsolete as soon as market conditions or the needs of the lenders change.

VIEWPOINT

"Managing the integration and training process is the key."

These systems may initially seem to generate a rapid ROI — assuming they actually do meet short-term needs of lenders — but the initial cost-savings must be compared to the long-term expense of utilizing temporary patches and updates. It is very hard to make these "Band-Aid" systems work profitably in the long term because of the chronic need to replace them or risk being uncompetitive. These technologies are considered "disposable" within the industry and are not meant for serious long-term use.

Lenders must make sure that a potential new secondary marketing system provides them with the feature points they require. These feature points often include rate sheets, hedging capabilities, and pooling and allocations capabilities. Whatever features are eventually utilized, lenders must also have a system that offers "extensibility" — the ability to adapt cost-effectively to emerging technologies. Extensibility is an important consideration because a system that eats up financial and technology resources in the long-term can completely nullify the advantages of a faster ROI.

Prior to selecting a system, lenders should test the effectiveness of and ability to generate a faster ROI by talking to current users of the software system. Reputable vendors can provide you with several contacts, which can often offer advice on the pros and cons of each system as well as tips on how to conduct a successful implementation. Be very suspicious if a vendor is unable or unwilling to provide you with contact information for some of their customers.

Once a secondary marketing and risk management system has been chosen, many lenders view integration and training as obstacles to a fast ROI. This assumption is false. Managing the integration and training process is the key to lenders realizing a rapid ROI.

One of the most effective steps lenders need to take before beginning the installation process is to appoint a project manager who coordinates the activities of the various internal departments involved with the installation and with the vendor. The project manager is important in keeping the installation project on track, and without such a person, the installation can be delayed and take much more time and money to complete.

Lenders should work with their vendors to map out the entire implementation and training long in advance. The best vendors will already have a formal program to help lenders through the process. Such plans provide lenders with thorough guidelines regarding proper staffing and resources necessary for successful implementation and training. All too frequently, lenders fail to assign enough staff to the implementation or reduce the amount of time spent on training. These mistakes can cost lenders hundreds of thousands of dollars in the long run, depending on loan volume.

Within a month of choosing a new secondary marketing system, lenders and vendors should begin pre-configuration planning. This effort consists of a review of lenders' needs, hardware, software and computer network capabilities with the vendor. Lenders and their vendors identify the feature set that will be employed, reporting requirements, develop a software configuration blueprint, divide the work to be done and budget resources that will complete the project on schedule. This blueprint should be explicit in identifying the expectations and drawing the scope of each phase of the roll out. A milestone that would represent an initial "live" status should be set.

Once the pre-configuration planning phase is complete, lenders should focus their attention to working with the vendor to begin the physical installation of the software, conducting a connectivity assessment with the vendor and gathering the information that they and the vendor will need to configure the system. This phase primarily deals with installing the database, security issues, working with the LAN/WAN and servers, gathering background information for the new secondary marketing system on pricing issues and types of loans, and preparing individual workstations.

Configuration and additional training begins in the first month and is ongoing, especially for large complex systems, where additional configurations may need to be conducted that are based on the experience of using the system. Next, the IT staff responsible for the day-to-day systems operation and individual users of the software go through training as the configuration phase of the software nears completion.

Once implementation has been completed and the staff has received their training, lenders should work with vendors to set up a system to monitor the acceptance of the secondary marketing software. This is the payoff for carefully researching the quality of a vendor's customer support staff. This phase ensures lenders go "live" and start using the system on schedule. The lender and technology vendor can review the configuration thoroughly every three months or as long as necessary to make sure the system is generating a fast ROI. After that, it is recommended that a review be done once a year.

During the entire installation and training process, lenders need to stay focused on moving from one phase of the implementation and training process to the next. A fast ROI is easier to achieve if implementation and training is made a priority and the transition from phase to phase is done quickly and smoothly. Often lenders lose momentum between these phases, costing them a considerable amount of money because it forces them to continue to use their older, outdated software far longer than is profitable. If the implementation and training process is not a top priority, the process bogs down and a fast ROI may be impossible to achieve.

Taking advantage of an implementation and training program gives lenders the capability to achieve a rapid ROI and maximize profitability in the long term. With well-trained staff and a successful integration and implementation, new secondary marketing and risk management software helps lenders manage risk by reducing data errors and data changes, which often require loans to have to be bought back and threaten lenders' profitability. When loans are bought back like this, they have usually lost market value and make it harder for secondary marketing teams to generate a profit.

Reducing these risks enables lenders to focus on their core business, better allocate resources, more effectively manage classic capital market risks and exploit market opportunities.