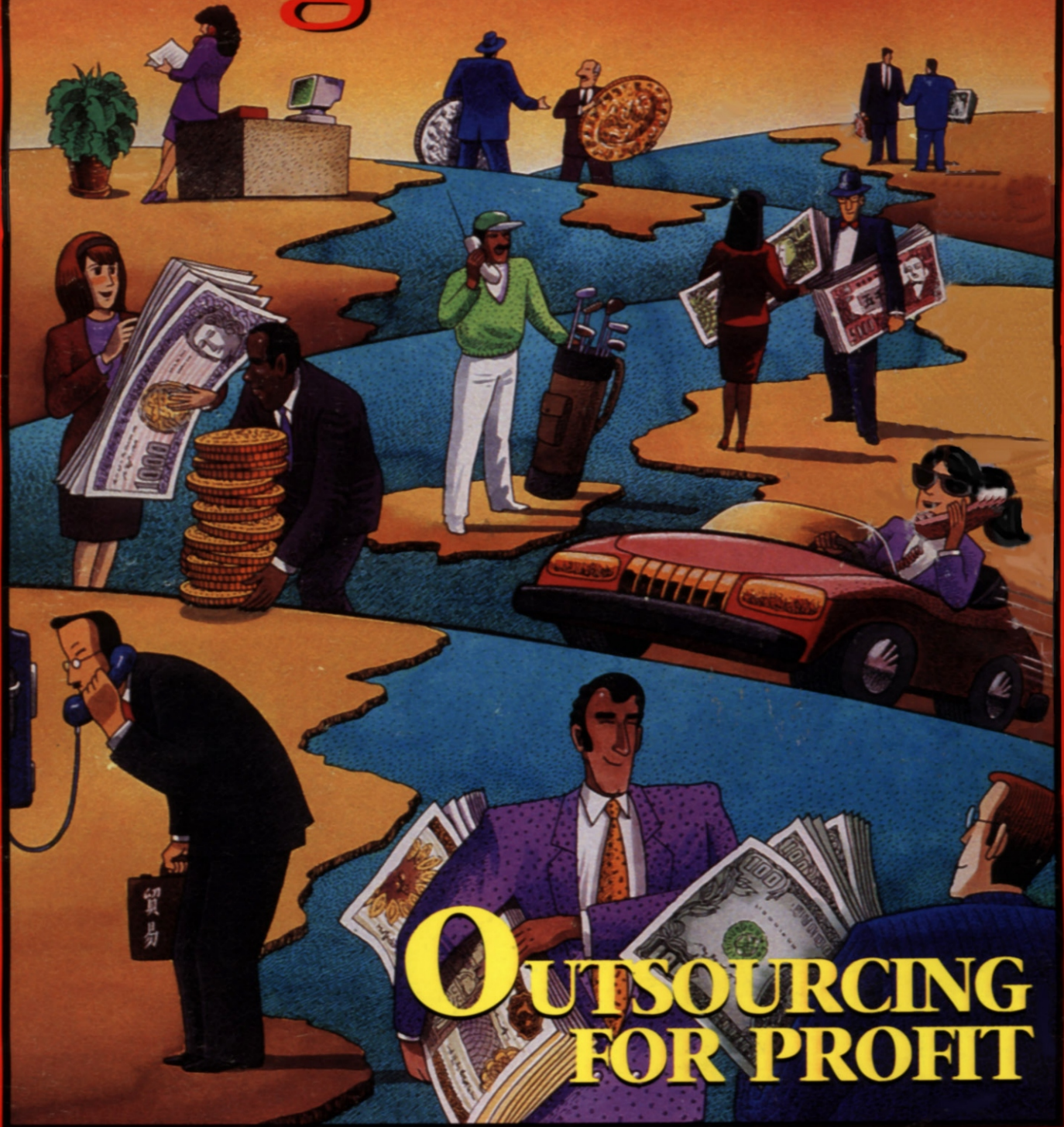


Mortgage OriginatorTM



THE HIRED GUN...

Since employment in the mortgage banking industry began taking a nosedive, outsourcing has emerged as an effective alternative to traditional employment relationships.



production outsourcing

by David Walden

At one point recently, there existed a drastic shortage of production and production support personnel. Currently, the industry is over-saturated with unemployed human resources that rank from trainees to top level talent on the experience chart. The only employees perceived to be in short supply are originators with an established customer following who can contribute to the "P" side of the company's P&L.

However, even with all the pain, there is also a definite opportunity for gain in this scenario. The "bay-window" of that opportunity is outsourcing. Now it also can be incorporated into your business plan at the executive level. There are a number of experienced production management specialists available for temporary employment assignments as a result of company acquisitions and their numbers soon will be growing. Those assignments can range from simple professional and objective second opinion evaluations of a production employee or production branch to assisting the permanent production manager with a total reorganization of an entire multi-branch production department. They can be as temporary as required. Other than the fee or salary they earn while on assignment, these "clone" production managers, as independent contractors, represent no additional overhead to a company such as benefits, work-

man's compensation or unemployment insurance risk.

And, their usage should not be mistaken as a threat to existing production management or as a statement that existing production management isn't capable of performing the duties of their position. While attending the MBA's Senior Executives Conference, I presented my company business plan to a table of this industry's top executives and at first was enthusiastically received. Then a top lender's CEO asked, "How can I employ you without that decision sending the wrong message to my corporate production manager that I am questioning their capabilities?" I responded that this is an industry that has existed forever embracing a respect for "third party verifications" and audits and the decision to employ my services should be considered consistent with that concept. Another participant to this conversation, a national production manager, then asked, "How can I justify my decision to employ your services, especially in such budget-conscious times, without my superiors feeling they have already paid for the job you would be doing when they signed my paycheck?" I answered "You wouldn't employ my services if you had the capabilities and/or the time to do it yourself. I should be contracted by you primarily when you need to be extended or amplified to allow you to be in two or more places at once dealing

with two or more time sensitive priorities at the same time." While I am confident I addressed their concerns satisfactorily, I was admittedly surprised by those questions and the paranoia they may indicate. Nevertheless, I am clear that they were very real concerns to those who might consider employing outsourced services at the upper management level, particularly in production.

A significant amount of the inquiries about the services we offer is related to the desire or need to rebuild or reorganize existing production centers which have ceased to maintain an acceptable market share and/or cost effective performance levels. It is difficult to determine without investigation whether personnel relations is the cause or effect of a specific lender's production problems. However, it is certainly a predominant factor that plays a significant part in the majority of the solutions to the problems.

UNDERSTANDING THE NEED- A CULTURE CLASH

There is a so-called "culture clash" resulting from a real culture difference taking place as commercial and savings banks enter the mortgage banking business in record numbers. The outsourced production specialist can help bridge this culture gap by acting as a guide to both sides of the equation. Many of the nation's mortgage banking organizations are now owned by banks, and banks seem to be determined to pound a square peg in a round hole. They manage their mortgage banking operations with commercial banking-driven policies and business plans. If this conversion ever fully occurs, it will not be in the near-term, nor will it occur without great expense in terms of lost and wasted investment capital and material opportunity cost to all parties involved.

Why buy a mortgage banking company that includes a successful production operation, and is priced accordingly, if there is a high probability

that plans to change the operation will certainly result in the loss of some, if not all, of the personnel responsible for the success? Businesses have personalities that principally reflect the philosophies and behavior of their upper level management. That personality is either compatible or incompatible with the very nature of the loan origination business. Make no mistake, compatibility is a key to success. If a company is merely indulging the demands of the mortgage origination function as a necessary evil for fee income or servicing opportunities, it will lack the level of commitment to the business required to overcome the self-imposed obstacles necessary to sustain a successful and cost efficient production effort. When the production staff recognizes the lack of commitment or intent to impose change without understanding, they will respond by leaving.

To a lesser degree, there is also a culture clash when a mortgage banker recruits or purchases the origination personnel of a mortgage broker. Perceptions of conflicting agendas and unresolved cross-purposes between upper management and origination personnel are the most prevalent obstacles. This prevents the teamwork concept from growing within many companies. This is evidenced by a proclivity of both sides to discredit data and/or conclusions that contradict or conflict with each other's opinions or philosophies. This is accomplished by proclaiming "this business has changed a lot recently and is changing more every day" as their disqualifier of choice. While much of the business of mortgage origination has changed and is ever changing, most of the changes have occurred in the areas of technology, trendy programs, regulatory issues, secondary marketing/investor relations and consumer consciousness. The majority of mortgage loans being originated are still being solicited, processed, underwritten, closed and

insured by employing the same techniques, satisfying the same needs of the customers and clients and confronting the same obstacles and issues as they were 25 years ago.

A SOLUTION: THE OBJECTIVE ASSESSMENT

There is very seldom an easy, "just add water" solution to low production or inefficient operations. Identifying the principle problems within an operation can be relatively simple. An experienced outsourced production management specialist with no emotional ties or prejudiced opinions of the individual personnel or the operation as a whole is capable of extracting information critical to making objective judgments and decisions regarding corrective business plans.

The outsourced production specialist should listen carefully while interviewing loan originators. Those originators will communicate their perceptions of existing problems and possible solutions openly. They typically won't open up to the permanent production manager, especially if that manager is perceived to be even partially responsible for their problems. Think about it. When interviewing a competitor's originators, we are willing to listen and, as a result, we discover not just the competitor's strengths, but their weaknesses as well. Management must learn to listen to its own originators.

The outsourced production specialist can also serve as a messenger with a "reality check" for the permanent production manager. True, loan originators often exaggerate the extent of the effect of a deficiency in their products or services toolbox to a far greater degree and frequency than they report the positives. Naturally, management often resents this "all criticism, little praise" scenario and too often yields to the temptation to silence those complaints by turning a deaf ear, discrediting or discounting the reports and the reporter. Management must be challenged to listen through the exaggerations.

tion and avoid turning that deaf ear to the real source of the report, the customer or client. When management loses touch with the customer, their company loses the business opportunity they are employed to develop and protect. Likewise, the loan originator, who (unlike the mortgagee) is guaranteed a specific financial reward for their efforts, regardless of how intense the requirement, must realize their company has a right to demand an acceptable share of the rewards. In return, the loan originator should respond with a greater and more focused commitment to the salesmanship side of their job description.

While the outsourced production specialist is acting within the context of that aforementioned role of "messenger with a reality check," it is imperative that he also offer objective and responsible solutions to the problems, if any, that are identified during their evaluation of the production centers. This includes being honest with upper management when the reality is they either are now or are potentially more a part of the problem than the solution. Leadership filters down, not up. Management's role is to provide the supervision, discipline and leadership to take the players' (originators) performance to the next level. That is more necessary now than ever before due to increased competition and compressed profit margins, among other less dominant reasons. One major failure of upper management I see all too frequently leads me back to the "culture" word. When management fails to provide the culture that enables their originators to fully utilize both their entrepreneurial and natural talents when meeting the demands inherent to the origination business, they are unnecessarily preventing both the employee and the employer from enjoying the benefits of the optimum performance that employees (and the team of which they are a part) are capable of delivering. And, at the very

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*Rick Miller, owner of
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Fairfax, VA
(2200 loans processed on
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least, that originator will be a significantly more vulnerable target for recruiting to a competitor than an originator who works within an enabling professional environment or culture.

The back office must be challenged to do a better job of making economic business sense from other potential income sources. More than ever before, the need to identify and remove internal obstacles that inhibit winning performances and retard efficiencies is

paramount. The evaluations and insights from a trained, impartial, uninvolved production specialist can prove to be invaluable in meeting this challenge. 🏠



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