Opportunities to Increase Profitability and Resiliency: Webinar Summary

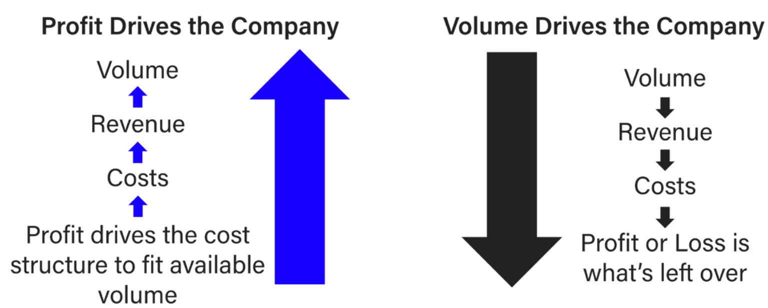
June 2022

Lenders are facing a serious time in a difficult market. According to the MBA's 1Q2022 data, median productivity as fallen by over 50%. While market issues actually started in the 3rd quarter of 2020, lenders are seeing net production income decreasing significantly from Q32020 record highs, and costs per loan skyrocketing to an average of $10,600 in Q12022.

On June 29, 2022, CWDL hosted a webinar with **Jim Deitch, CEO** of **Teraverde**, and **Mark Wilson, Managing Partner** of **CWDL**, to discuss how lenders can manage costs and uncover opportunities to be profitable over the next 6-18 months as they weather market volatility. The following is a summary of the key takeaways from this discussion.

What Drives Profitability and Resiliency of a Lender?

Lenders should ask themselves: are we focused on volume or profitability?



Data shows that lenders who are profit-driven have a resilient model regardless of the market. In any market, there are factors that lenders can't control and factors that lenders can control. Lenders don't set the rates, and the rates and inventory set the volume available. But for profit-driven companies, the lender determines profitability and costs. It comes down to changing the formula on how you run your company:

Profit-Driven Company Formula

Predicable (Actual) Revenue	−	"Target Profit" (such as 10%)	=	$ available to run your company

Setting your target profit first determines how to size your company based on the available capital you have for all expenses. Mortgage companies should have a pretty good idea of what their predictable revenue will be over the next 45 days. If, for example, your target profit is 32 bps, subtract that from your predicted revenue to determine what costs you have to manage to achieve that goal.

Uncovering Opportunities for Profitability

Compensation is a lender's biggest expense, accounting for roughly two thirds of all costs. Before you begin making hard decisions about personnel, can you find efficiencies in your team and manage everyone up to that expectation?

Jim walked through an example of how to data can uncover opportunities for profitability. Showing anonymized real client data from Coheus® Mortgage Business Intelligence, Jim looked at underwriter productivity, and specifically cases decisioned and speed of decision. Underwriters were classified into quartiles to compare the top performers against the average performers:

The data shows that the top tier underwriters made a decision in twice as many cases as the average and made decisions 50% faster than the average.

The "Aha" moment: if this client managed all underwriters up to the top tier, underwriting costs would be cut by 66%

Per Underwriter			
Underwriter Performance	Cases Decisioned	Speed to Decision (Days)	Cost Per Decision
TopTier	736	20.5	$ 170
Average	306	32.6	$ 408
Bottom Quartile	211	37.5	$ 592

How Can I Manage Producers? (LOs, AE, Production Managers)

There's a lot more to a producer than volume. Again, using anonymized Coheus data from a real client, Jim walked through LO data to look at volume, trend, best effort margin earned, speed to decision, speed to close, and pull-through metrics.

Here's a comparison of the top ranked LO vs. the bottom ranked LO:

Name	Quartile (4 is best)	Volume	Margin (BPS)	Turn Time Days	Cures	Pull Through	Revenue
Kip Bergdoll	**3.8**	25,324,990	503.7	36	4,709	80.4%	1,275,620
Latosha Moses	**2.5**	23,473,498	287.2	57	10,021	76.2%	674,159

The "Aha" moment here? These LOs had roughly the same volume, but Kip Bergdoll had a better margin, better turn time, lower cures, and better pull-through percentage – resulting in twice the contribution margin.

Just as in the underwriter metrics, it's up to leadership to determine what's driving these differences. For the underwriters, is it training? Expectations? For the LOs, is it too many concessions? How can leadership manage all staff up to the performance of your top tier?

Lenders should also evaluate if their compensation model is designed to produce the desired behaviors (while maintaining compliance with compensation requirements). Make sure your model aligns the interests of the employee with the interests of the company. Are you paying on volume? How can you drive towards better contribution margins?

And of course, don't forget about the importance of company culture and the impact of your decisions. If leadership ultimately needs to make difficult decisions, be cautious about across-the-board pay cuts; while it may seem less severe than letting staff go, your top performers may end up feeling resentful for carrying your under-performers. Culture can beat strategy, even in difficult markets, so make ensure you're balancing fact-based metrics with emotion-based metrics.

Making Every Loan Count

Jim reviewed more Coheus data to show how to uncover opportunities to improve branch performance. In this example, Branch 31 has twice as many withdrawn loans as Branch 25, despite identical credit metrics:

Branch	WA FICO	WA LTV	WA DTI	Approval %	Withdrawn %	Denied %	Volume	Units
Totals	**732**	**89.0**	**37.1**	**79.2%**	**14.9%**	**2.1%**	**1,428,747,690**	**4,782**
Branch 25	740	88.0	36.1	81.4%	11.8%	3.2%	179,041,744	628
Branch 9	705	92.3	40.2	74.7%	16.1%	0.6%	173,595,582	689
Branch 31	739	88.7	35.7	77.1%	20.6%	1.0%	146,436,579	480

The "Aha" moment here: by working with Branch 31 to improve LO pull-through to match that of Branch 25, this client would realize $16 million more in closings with no additional applications or operational costs:

Branch	WA FICO	WA LTV	WA DTI	Withdrawn %	Volume
Branch 25	740	88.0	36.1	11.8%	179,041,744
Branch 31	739	88.7	35.7	20.6%	146,436,579
Branch 31 IMPROVED	739	88.7	35.7	**11.8%**	**162,666,326**
				Increased Volume by Improving Pull Through	**16,229,747**

Withdrawals are not necessarily a cost of doing business, but rather a lost opportunity that can often be uncovered.

In Summary: How to Make a Difference Right Now

1. Commit to be profit driven, not volume driven
2. Commit to aggressive productivity management of every team member. 2/3 of your costs are compensation.
3. Seek "Aha" moments. Aha = meaningful leverage points to manage profitability, productivity and costs.
4. Be proactive. Avoid giving back your prior profits.
5. Put some independent eyes on your company.

Independent Eyes on Your Company

Teraverde and CWDL are partnering to help lenders identify those "Aha" moments to help manage profitability, productivity, and costs. Using the Coheus platform, lenders will receive an interactive review of your last 12 months of financial and operational data and access to Coheus Top Tiering™ System for a one-time fee of $2,500 (some restrictions apply). Contact Jim Deitch or Kasey English for details.

Your numbers have the answers you need!

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About CWDL

When it comes to organizational finances in heavily regulated industries, the devil is in the details. Finding a partner who can extract actionable insights from complex data can mean the difference between sleepless anxiety and a clear-eyed understanding of what's ahead.

At CWDL, we are industry specialists with expert perspectives on mortgage banking. We give you industry-specific audit, accounting, and tax solutions that help you better understand the present so you can plan for future. Our forward-thinking insights have the power to transform the way you operate. The training and education we provide empower your team to do more. Even amidst volatile markets and seismic industry shifts, we're here with the guidance you need to see beyond today and make confident decisions about tomorrow.

At CWDL, we help you see what's possible. Learn more at **www.cwdl.com**.

About Teraverde

Teraverde helps mortgage lenders strategically and digitally transform to increase productivity and profitability. Teraverde believes a resilient and consistently profitable residential lending business model requires actionable insights discovered from Business Intelligence, Mortgage Data Analytics and effective Task and Service Level Management. An integrated approach provides the highest Return on Investment. The Teraverde executive team has lending experience as bankers and IMBs, originating and securitizing over $50 billion of mortgage loans.

Teraverde developed Coheus as an end-to-end solution to turbocharge the Encompass® Loan Origination System. Coheus is fully integrated with Encompass and has been recognized as a HousingWire TEC 100 and Progress in Lending Innovation Award recipient. Coheus is the Leader in Data-Driven Profitability and Efficiency. Coheus incorporates mortgage domain knowledge gained by extensive lending experience. Coheus was built by Lenders for Lenders. Learn more at www.coheus.com

Teraverde is a certified Pro-Elite Encompass consulting partner and Independent Software Developer. Teraverde has worked with over 300 independent mortgage bankers and financial institutions in the United States and Canada.

Learn more at **www.teraverde.com**.