



By Pat Cutler

Something New, Something Borrowed, Someone Blue

When my daughter was young, we often watched *Father of the Bride* together. I used to laugh at Steve Martin. That was before my future son-in-law proposed. As fast as you can say “I do”, the Mother of the Bride (MOB) and Bride-to-be began deliberations on the date, time and location of the wedding, the guest list, the reception, the food, the decorations, and the entertainment

After years of negotiating multi-million dollar deals with Wall Street dealers, rating agencies and investors, I was confident I could negotiate a reasonable and sensible budget for a wedding with the MOB and bride. Following several intense days at the bargaining table, we arrived at an agreement. They agreed not to exceed twenty percent above the highest amount I told them we could spend. As the wedding date approached, I noticed the MOB stopped talking when I entered the room. I suspected we were going to be over budget.

I said we had a spending problem. The MOB said we had a revenue problem. You can re-sod your lawn for what flowers cost for a wedding. To save money, I suggested we fire the florist and use flowers from our neighbors’ yards for the reception. The silence was deafening. During the final weeks before the wedding, I developed a tic under my right eye. My best buddy Rabbit told me that drinking Jack Daniels and coke would cure it. It didn’t work, but I learned if I mixed the Jack with water instead of coke, my hangover wasn’t as bad.

The outcome of the contest never was in doubt. The band of sisters had the patience to wait me out and wear me down. I waved my monogrammed white handkerchief in surrender, the one the MOB had made in case I became hysterical at the ceremony. Like Steve Martin, I accepted my little girl had grown up and was getting married. I acknowledged it was important to the MOB that everything about the wedding was just right. If I had to get beat, I am glad they were the ones who beat me.

Going to the Chapel

The country was nine months pregnant with debt and no one could prove who the Baby Daddy was. Afraid of the damage to their political careers if a financial crisis was born out of wedlock, Republican and Democratic leaders agreed to tie the knot for the good of the country. A marriage of convenience was to be arranged. On the way to the chapel, the bipartisan bus ran off the road into a ditch.

Democrats demanded “tax and spend until death do us part” to be included in the vows. The Republicans insisted on “cut spending and reduce taxes from this day forward, for better, for worse, for richer, for poorer, until death do us part”. Liberal and conservative members of Congress refused to line up for the ceremony.

The Gang of Six sashayed down the aisle with a plan to reduce the deficit by \$4 trillion. Still, the processional would not line up. The president and Speaker Boehner tried unsuccessfully to negotiate a plan of their own to reduce the deficit by \$4 trillion. No deal. Boehner claimed the president derailed a possible deal by trying to add new taxes at the last minute. Obama claims Boehner got cold feet after tea party zealots threatened to boycott the ceremony. Reid and Boehner decided to put together their own plans for the wedding. Rehearsals descended into chaos.

At the eleventh hour, agreement was reached to raise the debt ceiling and reduce the deficit. The plan involves a two-step process for reducing the U.S. deficit. The first phase calls for \$900 billion in spending cuts over the next decade; an additional \$1.5 trillion in savings must be found by a special congressional committee. The debt ceiling is raised immediately by \$400 billion, then by another \$500 billion after September. When the additional \$1.5 trillion in cuts are enacted, the debt ceiling will be increased by another \$1.2 trillion to \$1.5 trillion.

The Funeral March was played in lieu of the Wedding March as Republicans and Democrats walked to the altar to exchange vows. No one was smiling. The amount of cuts was less than the Republicans wanted. The Democrats were unhappy tax increases were not included. The inability of the Democrats, Republicans and the president to work together to get a larger deal done does not bode well for achieving a long term solution to getting our fiscal house in order. Standard and Poor’s Rating

Agency, belittled by Congress over its role in the collapse of the housing market, tossed a downgrade on the newlyweds as they left the chapel.

The Honeymoon

A honeymoon can last for five days or five years. Sooner or later the heat subsides. The hard part of being married begins. The events of the last ten days pushed 30 year mortgage rates down to 4.00%. Lenders, most of who have been struggling to originate loans this year, have suddenly been inundated with refinance applications. While another refinance boom is a possibility, this honeymoon could be over before the wedding pictures are ready for viewing.

Early last week, weak GDP numbers, rumors of bank failures in France, the S&P downgrade, and a loss of confidence in our policy makers sunk the stock market and lit the afterburners under bond prices, resulting in an all time low 2.03% ten year yield and 4.00% 30 year mortgage rates. Soon, the outsized up and down moves in stocks and bonds will subside. Investors will begin to move money out of treasuries into investments with higher yields. Mortgage rates will move up. Refinance requests will begin to fade away. The challenges of producing profitable purchase money originations will return.

The purchase market remains on life support. A weak economy, with its attendant high unemployment and underemployment, has pushed a meaningful housing recovery far into the future. Exacerbating the problem, regulatory changes have resulted in significant increases in costs and risks for mortgage lenders. These costs include additional staff, technology upgrades, loan officer compensation changes, increased processing times, and additional legal fees.

Lenders must also assess the potential long term costs resulting from prosecutions and persecutions of mortgage originators and servicers. Some lenders, afraid of repurchase requests, no longer perform delegated underwriting for investors and mortgage insurance companies. Others have set up special departments to review appraisals before giving them to underwriters to review. Increased requests for documentation and delayed closings place further pressure on profitability.

Ideally, lenders would increase their profit margin to cover the increased costs, resulting in a higher rate for the borrower. Unfortunately, when originations are down, competition is fierce for the loans that are being originated. Price concessions are often needed. There is scant opportunity to pass increased costs to the borrower

Besieged lenders are fighting to maintain an adequate level of profitability. Simply cutting costs seldom works. Generating more business to offset costs is a popular strategy, but not a realistic one in a market dominated by purchase business. Increasing fees is a not an option. That leaves increasing gain on sale of loans as the best opportunity to increase profitability.

If you are currently selling your loans using a best efforts delivery to Fannie, Freddie or an aggregator, switch to their mandatory delivery program and increase your gain on sale profits by approximately 50 basis points. If you are currently selling loans to an aggregator under its mandatory delivery program, switch to an Assignment of Trade execution and pick up an another 35 to 50 basis points in gain on sale profits.

The sound you hear around the corner is the other Dodd-Frank shoe getting ready to drop! We face a protracted period of slow growth and high unemployment. Reduced spending, the result of our efforts to strengthen our national, business and personal balance sheets, will weigh on the economy for years to come. Trying to wait things out could doom your company to long term mediocrity or worse. It is time to renew your vows to doing what it takes to build a successful mortgage originations business.

My mother buried three husbands, and two of them were just napping. -- Rita Rudner

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