



By Pat Cutler

String Too Short To Use

Our parents and grandparents were profoundly influenced by the Great Depression. Their formative years were ones of hardship and sacrifice, and the lessons they learned were never forgotten. “Do not throw things away, you may need them another day. Make your own way. Save money, use credit sparingly. Only buy what you can afford. “

For many years, my grandmother kept a huge box in her house labeled “String Too Short to Use”. The box contained thousands of strings too short to use for anything. Her daughter, my mother, saved the excess paper trimmed from sewing patterns. Naturally she did not throw it away. She used it as toilet paper. My only consolation growing up was that she did not force the rest of the family to follow her example. We were allowed to use toilet paper, but we did have a 3 square limit.

We baby boomers joked about how frugal our parents were. We laughed about the garages filled with rusted hedge clippers, old bicycles, ancient baby cribs, dilapidated push lawn mowers, and massive chifforobes crammed with even more junk. We rolled our eyes when our mothers opened kitchen cabinets stuffed with old frozen pie plates, empty Cool Whip containers, and leftover margarine tubs. We said “Just buy a new one!” when our fathers repaired broken toasters and replaced rotten webbing in old lawn chairs.

We thought we were smarter than our parents and grandparents. We whistled as we walked by their junk filled garages. We were better educated; we were masters of the universe, creators of sophisticated financial instruments and real estate investors extraordinaire. Leverage was king and the good times rolled.

Then the music stopped and we were short a whole lot of chairs. People no longer had equity in their homes to borrow against, their investments were decimated and they had little or no savings. I can hear our parents saying, “I told you so. You should have known better.” I believe this is what is referred to as a teaching moment. As our parents already knew, one day we might need those old hedge clippers, empty Cool Whip containers and boxes of very short string.

Independence Day

My grandfather raised earthworms, crickets and Catawba worms for fishing. He wasn't dependent on anyone else for bait and did not have to worry about shortages or price increases. We used to be independent like Papa. Not anymore. The severity of the recession caused too many of us to board the bus to assisted living. We have become dependent on others for our well being. We depend on foreign countries to furnish our oil, supply us with cheap replaceable goods, and buy our securities and bonds to finance our deficits. We expect our government to assist us with making house payments, subsidize our mortgage rates via the purchase of billions of dollars of mortgage securities, and save us from ourselves. Tax credits for first time homebuyers, clunkers, and hot water heaters are the new normal. The dependency hook has been set deep. It will be difficult to spit out.

Troubles in Europe, the oil spill in the Gulf, and deep cuts in state and local budgets continue to zap our confidence. Uncertainty over financial reform, health insurance, taxes and the economy in general prevents businesses from adding to payrolls and banks from lending. To have a real recovery, private companies have to begin hiring in earnest. The pace of job growth will determine how fast we can reestablish our economic independence.

Bring on the Fireworks

Fireworks have been a part of the celebration of our nation's independence since 1776. Political animosity has also been part of our heritage since the time of the original Tea Party. While many of us will be watching or shooting fireworks over the July 4th weekend, the real fireworks in Washington are just

beginning. We can expect a grand finale in November on Election Day. Deleveraging and increased regulation has reduced our prospects for above trend economic growth. We have gone from borrowing money for everything to not being able to borrow money for anything. Although needed in many cases, regulatory changes add costs to banking services, which in turn decreases consumer discretionary spending. Reduced credit, increased regulatory costs and high unemployment do not portend an upbeat economic outlook.

Debt levels have become excessive, with little prospect of improvement short of cutting entitlements and raising taxes. Most Democrats believe we must continue to spend money to prevent slipping back into a recession. Most Republicans, aided by members of the new Tea Party, have suddenly found their fiscally conservative moorings and refuse to go along with increased spending that adds to the deficit. The Democrats are lobbing firecrackers at the Republicans, who are shooting bottle rockets back at the Democrats. Before this is over, the lobbying and shooting will become more intense and the fireworks will be larger and louder. Many current legislators are not expected to be around when the fireworks are over.

Operational Risk Review

Taking calculated risks is part of any successful business. We are sometimes told by bankers that they run very conservative risk-averse mortgage operations. This usually means they sell their loans best efforts. The same companies may have outdated policies and procedures, no centralized lock desk, inadequate management reporting, below average profitability and no formal plan for the future. Management may think they are running a conservative operation; but from a risk perspective, they are not.

Many companies do not have the time or the resources to objectively evaluate their operations from a risk perspective, recommend changes and still concentrate on day to day issues. A comprehensive review of your mortgage operation can be performed by outside mortgage banking experts and should focus on risks, profitability and management information systems. A thorough operational risk review should:

- Determine if your mortgage banking operation is functioning in a manner consistent with best practices methodology.
- Verify actual mortgage operating practices conform to approved company policies and procedures.
- Assess the aggregate risks posed by the mortgage banking operation. Examine your interest rate, price, liquidity, transaction, strategic, compliance and reputational risks, and evaluate the effectiveness of your current risk management practices to mitigate these risks.
- Determine if the overall profitability of the mortgage operation is reasonable compared to companies with similar volumes and business plans.
- Evaluate if the mortgage operation is maximizing gain on sale based on your current strategy and tolerance for risk.
- Determine if current controls and reporting maximize income potential and mitigate risks.
- Identify opportunities to increase profitability within acceptable risk parameters.

Make the decision today to examine all facets of your mortgage operation and give your company every opportunity to be successful.

“Men don’t care what’s on TV. They only care what else is on TV.” – Jerry Seinfeld

This article contains information gathered from numerous sources. The information is considered reliable but is not guaranteed as accurate. The opinions are my own and not deemed appropriate for any purpose other than to provide information to customers and potential customers.

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