

# **Unlocking profitability in mortgage originations — 4 key areas of focus**



# Table of contents

<b>Rising Costs and Compressing Profitability</b>	<b>3</b>
---	----------

<b>Solutions to Address Increased Costs</b>	<b>4</b>
---	----------

<b>How Guidehouse Can Help</b>	<b>6</b>
--------------------------------	----------

# Unlocking profitability in mortgage originations — 4 key areas of focus

## Rising Costs and Compressing Profitability

For the past three years, the mortgage origination industry has faced increased pressure through rising interest rates, decreasing production volume,

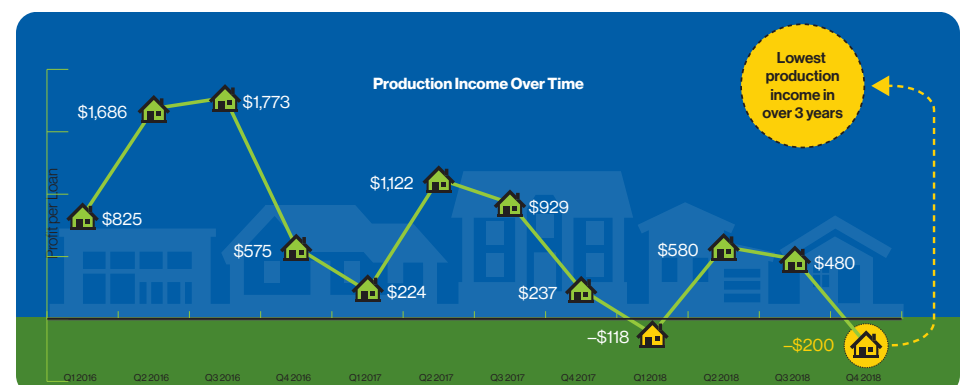
inventory shortage, and process inefficiencies. These industry-wide challenges significantly increased the costs to generate a loan and negatively impacted the overall profitability of banks and their mortgage subsidiaries:

- ✓ In Q4 2016, the profitability of originating a loan was \$575, with a cost per loan of \$7,562;
- ✓ In Q4 2017, the profitability of originating a loan dropped to \$237, and the cost increased to \$8,475;
- ✓ In Q4 2018, the profitability further decreased to a negative \$200, and the cost of generating a loan continued to increase and reached \$8,611.

Although the profitability and production expenses of mortgage origination vary from quarter to quarter, an overall decreasing trend of production income was observed from 2016 to 2018.

As seen below, in Q1 2018, for the first time the profits of generating a loan

reached a negative \$118; by the third quarter of 2018, profits were no longer negative, however they were roughly half of what they were only a year prior; in Q4 2018, the production income per loan was negative again and reached its lowest point in the past three years.



1. Mortgage Bankers Association, 2019, "Q4 2018 MBA Quarterly Mortgage Bankers Performance Report".



According to the Mortgage Bankers Association, by the end of 2018, only 44% of institutions generated positive pre-tax net income.<sup>2</sup> This is the lowest number observed in the past three years, compared with 73% in the same period of 2016 and 56% in the same period of 2017. The disappointing industry performance may be attributed to a weaker US economy as 2018 ended, and the growth expectations for 2019 were lowered amid signs of a global slowdown, volatility in the financial markets, and other risks such as trade wars and political uncertainty. Given the current circumstances, it is essential for financial institutions to quickly identify the key areas for cost cutting opportunities, to ensure profitability in this competitive mortgage origination market.

### **Solutions to Address Increased Costs**

Faced with the challenging market environment and complex regulatory requirements, financial institutions need to take essential steps and work diligently to adjust pricing strategies, streamline business processes, adopt cutting-edge consumer-facing technology, and seize new customer-onboarding opportunities to reduce the risk of non-compliance and ensure profitability.

To fulfill regulatory requirements and stay strategic and competitive, in the mortgage origination market, Guidehouse recommends that institutions consider the following areas while making capital planning and other strategic decisions in 2019 and beyond.

2. Institutions include banks and their thrift subsidiaries, independent mortgage companies, and other financial institutions who conduct mortgage origination.





### Process Redesign



### Automation AND Technology



### Product Innovation



### Outsourcing



#### FOCUS AREAS

Our experience suggests that process inefficiencies lead to items such as a circular process of clearing multiple rounds of conditions between processors and underwriters, potential for TRID tolerance violations, loans in post-closing with a large number of defects, and state/regulatory violations.

Lenders' current loan origination platforms require different extent of upgrades or system replacements to cover their current shortfalls in business efficiency, regulatory changes, and operational effectiveness.

As the overall financial services industry is undergoing a digital transformation, the changing customer needs and increasing customer expectations also foster mortgage lenders to position, assess, and refresh their product offerings and sales channels.

Business Process Outsourcing (BPO) streamlines business operations and helps financial institutions manage assets more effectively. In addition to lowering operation expenses, BPO also makes these expenses more predictable and flexible.



#### KEY TO SUCCESS

A streamlined origination process should have embedded control functions that ensure regulatory compliance, monitor regulatory changes, and flag procedural inefficiencies or potential violations at the early stages.

Enhanced mortgage origination technology should provide users with transparent, streamlined view and actionable insights of the origination process, and allow end users to onboard customers, track status, release documents, and report performance.

As the millennial generation will be purchasing mortgages in the coming years, delivering innovative products and ensuring customer satisfaction are essential elements to effective onboarding and volume growth.

Outsourcing the back-office lending processes will result in long-term efficiency gains, ultimately freeing capital for initiatives such as improved technology and departmental staff enhancements.



#### EXAMPLE SOLUTIONS

- Compliance Management System Evaluation and Development
- Mortgage Origination Current State Assessment
- Process Mapping with Risk and Controls
- Policy and Procedure Enhancement

- Automated and Semi-Automated Testing Tools
- Origination System Analysis, Selection and Implementation
- Vendor Selection and Management

- Credit Needs Assessment
- Product Design and Review
- Merger and Acquisition Strategy
- Product Transaction Support
- Target Market Identification

- Processing/ Underwriting/ Pre/Post Closing Outsourcing
- Second Line of Defense Regulatory Testing, covering TILA, RESPA, TRID, QM / ATR, SAFE Act, ECOA, FCRA, Flood, GLBA, PMI, state, and other requirements.
- Lookback and Monitoring

## How Guidehouse Can Help

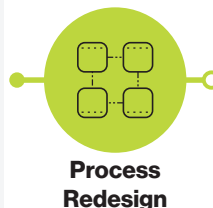
Guidehouse's successful track record of driving transformational improvements with dozens of financial institutions has helped our clients grow strategically, lower operating costs, improve cycle times, achieve greater flexibility to scale operations, and meet compliance requirements. Our experts provide solutions to help clients solve their most significant challenges in areas such as risk and compliance, operating strategy, technology, quantitative analysis, and business process outsourcing. We have been designing and delivering solutions for some of the world's leading banks, mortgage, and consumer finance companies for years.



### Challenges

A top U.S. commercial bank was unable to close a highly profitable loan product within a tight time frame.

Guidehouse professionals redesigned the lending process to achieve more streamlined processing, improve customer service, and decrease loan officer intervention.

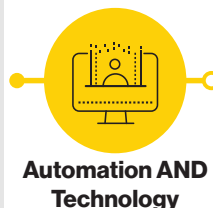


### Outcomes

As a result, the client improved competitiveness, reduced cycle time, and increased throughput of underwriters.

A top non-bank mortgage originator identified process inefficiencies in its operations throughout the US approximately ten months prior to HMDA LAR submission date. As a result of these process breakdowns, the institution was at risk for submitting an inaccurate HMDA LAR.

Guidehouse developed an automated solution to quickly and effectively review over 35,000 HMDA reportable transactions in approximately one month.



As a result of Guidehouse's expertise in HMDA reporting and the use of technology, the institution was able to successfully submit an accurate HMDA LAR by the reporting deadline.

A top regional bank came under scrutiny regarding marketing and product design in certain underserved areas.

Guidehouse collaborated with the client to create new, affordable loan products, and evaluated the client's expansion considerations of its current lending operations.

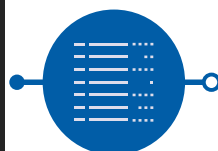


#### **Product Innovation**

As a result, the bank now has a fully-developed marketing plan, including redesigned loan products for meeting business needs in underserved areas.

An institution was challenged by the salability of its loan products in the secondary market.

Guidehouse co-sourced the post-closing department, supplementing the institutions workforce with our offshore team in India, and developed detailed checklists and production schedules to ensure accurate and timely delivery.



#### **Outsourcing**

As a result, the institution now has a streamlined, cost-efficient post-closing business process that continues to improve its salability performance in secondary market.

"Profit per loan associated with mortgage originations witnessed a significant decline in 2018 due to factors such as decreases in volume, rising interest rates, and costs associated with the adaptation of new rules. Given the current circumstances, it is essential for financial institutions to quickly identify key areas for cost cutting opportunities to ensure profitability in this competitive mortgage origination market."

Vincent Urbancic, Director

## Contact



### Vincent Urbancic

Director

M +1-202-973-3243

E [vincent.urbancic@guidehouse.com](mailto:vincent.urbancic@guidehouse.com)

 [linkedin.com/company/guidehouse](https://www.linkedin.com/company/guidehouse)

 [twitter.com/guidehouse](https://twitter.com/guidehouse)

**guidehouse.com**

### About Guidehouse

Guidehouse is a leading global provider of consulting services to the public and commercial markets with broad capabilities in management, technology, and risk consulting. We help clients address their toughest challenges with a focus on markets and clients facing transformational change, technology-driven innovation and significant regulatory pressure. Across a range of advisory, consulting, outsourcing, and technology/analytics services, we help clients create scalable, innovative solutions that prepare them for future growth and success. Headquartered in Washington DC, the company has more than 7,000 professionals in more than 50 locations. Guidehouse is a Veritas Capital portfolio company, led by seasoned professionals with proven and diverse expertise in traditional and emerging technologies, markets, and agenda-setting issues driving national and global economies. For more information, please visit: [www.guidehouse.com](http://www.guidehouse.com).

©2019, 2020 Guidehouse Inc. All Rights Reserved. This material was originally published in 2019 and has been updated only to reflect information about Guidehouse. W163290-C-FS

Guidehouse Inc. f/k/a Navigant Consulting, Inc. ("Guidehouse" or "Navigant") is not a certified public accounting or audit firm. Navigant does not provide audit, attest, or public accounting services. See [navigant.com/about/legal](http://navigant.com/about/legal) for a complete listing of private investigator licenses.

This publication is provided by Navigant for informational purposes only and does not constitute consulting services or tax or legal advice. This publication may be used only as expressly permitted by license from Navigant and may not otherwise be reproduced, recorded, photocopied, distributed, displayed, modified, extracted, accessed, or used without the express written permission of Navigant.

