

“It depends on how good you are at servicing,” said one mortgage executive. “If you are good at purchasing and originating quality loans, then you can make more from servicing government loans, assuming that your average FHA loan balance is not significantly different.”

Data from the Mortgage Bankers Association annual cost study suggest, indirectly, that FHA lending helped improve profitability last year, even before the surge in FHA lending. Companies that got at least half of their originations from government lending had a lower average net production loss – \$1,422 – than the industry’s overall average of \$2,655. Lenders that had less than 10 percent of their originations in FHA and VA production reported an average production cost of \$3,202.

But companies with no government-insured servicing reported higher net servicing income of \$65 per loan than those with servicing portfolios comprised of more than 30 percent government servicing, \$16 per loan.

The new FHA loan limits are definitely giving servicers’ bottom lines a major boost.

In February, Congress temporarily raised the maximum loan amount insurable by FHA and VA to \$729,750, which is set to expire at the end of the year. However, under housing legislation enacted this summer, the maximum FHA-VA loan limit will reset permanently at the lower maximum amount of \$625,500 for 2009.

The temporary higher loan limits have definitely improved FHA profitability and allowed the agency to compete freely with Fannie and Freddie on higher-balance loans. The servicing side is having a field day, lenders say. ►

BusinessTrac Illuminates the Pitfalls

Taking a proactive approach to business management by using technology to improve operations and prevent unnecessary losses may be critical to helping lenders survive the most daunting mortgage market in decades.

Del Mar DataTrac, a San Diego-based company specializing in providing the mortgage industry with technology to improve business, says its BusinessTrac product may be just the tool necessary to prevent further bank failures.

According to Rob Katz, president of Del Mar DataTrac, the program is important because it gives companies the “ability to drill down into the business” making their operations more transparent for executives. The increased transparency allows them to make better decisions in regards to altering the company’s business model and profitability.

Katz said the program, which costs between \$15,000 and \$25,000 on average to implement, is virtually priceless in regards to the company’s return investment. “You really can’t quantify a return [on BusinessTrac] because it deals with making better decisions.” Katz went on to say that making “good decisions” could ultimately be “the difference between staying in business and going out of business.”

The BusinessTrac program builds upon Del Mar’s core product, DataTrac, an automation tool that monitors loans from start to finish, ensuring that all regulations are met, all information is correct and the loan contains no errors.

BusinessTrac takes this a step further by granting executives access to see the number of loans at each step of the origination process, in addition to a scorecard that allows the bank to assess anyone that originates with that lender to assess profitability and the number of loans that are completed. This allows the institution to decide which partners are the most valuable to their business.

“It is valuable for lenders to understand where their risks are,” said Katz. “With so much chaos now in the banking world, the more you know about your business, the better.”