

# And The Alpha Dog Shall Lead The Pack

**Challenging times require secondary marketing officers who display a tenacious and indefatigable spirit. Or, in canine terms, the Alpha Dog personality.**

By Rob Katz

**T**o many lenders, “warehouse line” might as well be an expletive.

During the boom, getting (and keeping) a warehouse line was easy - maybe too easy. Today, acquiring a line has become the biggest obstacle to getting started, and keeping it is one of the worst stress-inducing factors plaguing lenders.

So, what is the magic formula warehouse lenders are looking for today? The answer is simple to say, but hard to achieve: profitability.

Although everyone at a lender’s shop can have an impact on the bottom line, arguably the role with the greatest impact to profitability - the Alpha Dog in the pack - is the head of secondary markets.

Mortgage banking is simply a manufacturing process. You take in raw materials (e.g., loan applications, appraisals, investor product guidelines) and work them through an assembly line process (i.e., underwriting, docs, funding), until you end up with a product that you sell to your customer (your investors).

Just as a widget manufacturers don’t make any money until someone buys their widgets, your entire operation is a cost (which hurts your profitability) except for the team that sells the finished product (secondary).

A good secondary marketing team gets top dollar for its loans. A great team also influences the entire manufacturing process to ensure there are enough raw materials coming in the door and the process of getting to the finished product is as streamlined as possible. The team also monitors which products are selling well and which are taking up shelf space, and make adjustments to the product line accordingly.



Let’s explore some of the specific ways a secondary team can help ensure your warehouse line doesn’t become your biggest headache.

First off, it doesn’t matter how efficient your assembly line is if you don’t have enough raw materials with which to work. Therefore, one of the goals for your secondary markets team is to empower your origi-

nation channels with the tools they need to attract more borrowers.

A year ago, that was easier to do, because you had the power to offer unique and creative loan programs that differentiated your shop from the competition. Today, however, pretty much everyone is offering the same products at around the same price. Therefore, lenders that are thriving are focused on providing exceedingly good customer service.

So, what can someone in secondary marketing do to drive up customer service? For starters, give your originators tools that help them instantly find all of your programs that are eligible for their borrowers, along with the corresponding fully adjusted prices. There are several tools on the market today that put originators at a clear advantage over competitors that still rely on rate sheets and program fliers. These tools make you easy to work with and provide greater accuracy than doing things manually, a combination that will drive up repeat and referral business, and help get more loans in the door.

Also, most owners know that the head of secondary marketing is the Alpha Dog in the office. They know that you control their overall profitability and that their success falls squarely on your shoulders. If you are the Alpha Dog, you need to take advantage of your position

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and push for the rest of the operation to get as modernized and efficient as possible.

Think about it from this perspective: If the head of operations (a huge cost center) wants to spend money on a document imaging system, he may have a tough time getting the request approved. If, on the other hand, the head of secondary (a profit center) wants to spend that same money on the same solution, it should get approved more easily.

If your fulfillment teams (underwriters, closers, shippers, etc.) are still working with MS Excel, MS Word and paper loan files, you are hurting your ability to get top dollar for your products on the secondary market.

Investors will reward you for consistently delivering a quality product by negotiating a higher margin price. Also, if you do business in a way that helps them streamline their operations, they will reward you further.

More and more investors are looking for you to deliver your loan packages as images, and some are even hoping that your images are indexed to their systems. Lenders that comply with these parameters not only get better pricing, but can also get their loans purchased days faster.

So, as the Alpha Dog, you should be the champion for new projects that can have an impact on the orga-

nization. Get involved in technology and workflow decisions outside of your team, because you, more than anyone else, can help make things happen at your shop.

#### ***What works, what doesn't***

Let's think about the big-box retailer Costco for a second. Costco sells a bunch of products at very low margins - not unlike a lender these days, right? Do you think Costco loses money on any of its products? Or, do you think it leverages extensive reporting to track the success and profitability of its entire inventory?

You have to imagine that the products the company wants to move more quickly are positioned by the front door for everyone to see as they walk in, and products that don't turn over quickly don't get reordered.

As the head of secondary, you have total control over what products are being offered and at what price. You need to leverage real analytics to make smart business decisions about your offerings.

One lender I spoke with recently thought they had a killer product, because nearly half of all applications were being submitted against it. But, after doing some digging, he determined that nearly 60% of the applicants were being denied, and their

total cost of offering that product was running at a loss. They ended up dropping that program from its rate sheet, and although its inbound volume dropped a bit, their pull-through percentage jumped significantly (as did their overall profitability).

Back in the day, a "gut check" worked fine for many people. Today, however, you need real numbers measuring every aspect of your business to be able to make the right decisions. If you don't have a business intelligence tool, get one.

#### ***Selling loans quickly***

A by-product of helping to drive up profitability is that the secondary team should be in a position to sell its loans quickly, with few obstacles in the way.

By getting the loans sold quickly, a warehouse line can be turned a couple of times in a month - leveraging even a small source of funds into big lending volumes.

Ultimately, the future of warehouse lending will continue to look more like the past (before the boom). However, it is going to take some time. Fortunately, streamlining your business, driving up customer services, scrutinizing your product offerings and selling your loans quickly can all add up to easing your access to funding. **SME**