

The Mortgage Professional

Volume XI, No. 2

"Information you can use"

March 1, 2007

"Quality Control Plan? Business Plan? What are You Talking About?"

By Thomas A. Morgan

A mortgage company owner's first encounter with the need for a formal quality control or business plan usually comes as a request from a wholesale lender, or a state or federal regulator. At this stage, the lender or regulator acts like a parent – "Before you can play, you have to do your homework..." Our response, as new financial entrepreneurs, is similar to the child's response – "O.K., here. It's done. NOW can I play?"

With this attitude the company misses the real entrepreneurial moment. The question should be "How will I survive the coming market?" A quality control plan, business plan, or policy document is the written process that describes a business operation. Without it, we are just a bunch of people running around trying to do loans the best we can. High revenues during business booms conceal the huge operational inefficiencies of running a business without a plan. Changing business conditions, lower revenues, and super-vigilant regulators are going to force companies that are intent on staying in business to look at Business Management Systems.

Understanding quality control, business plans and management systems will be instrumental in whether your company survives leaner times.

The Quality Control Misnomer – A Rose by Any Other Name?

Like many buzz-words, saying Quality Control in a crowded room of mortgage businessmen often prompts a dash for the "No-Doz" mints. "That's a back office function, right? It's got nothing to do with production." Historically Quality Control meant the pre- and post-closing fraud review process. But recently HUD, state agencies and warehouse lenders have all used the phrase interchangeably with other processes and a more expansive meaning is evolving.

When you receive a request for a Quality Control Plan, take pains to specify what that actually means – are audit function procedures or business management documentation being requested? There are many aspects of business process management that can be referred to as "Quality Control." Depending on your business model – banker, broker, or wholesaler – a Quality Control plan can mean different things.

Term	Specific Definition	Business Model
Quality Control – Audit	The process by which loans are selected before or after closing to review loan documentation authenticity for alterations or fraud	Broker, Banker, Wholesaler
Quality Control – Business Plan – Best Practices – Origination Policies	The documentation that defines who is responsible for each step in the loan process. Each origination function – originator, processor, underwriter, closer and branch manager/owner – has a set of duties. The Quality Control Business Plan identifies the written policies and practices adhered to by the company.	Broker – Origination, Processing, Human Resources/Company Policy/Branch Operations Banker – same as broker, but add Underwriting and Closing/Funding Wholesaler – Wholesale/ Broker/ Third Party Policies and procedures.

No One Plans to Fail...

...they simply fail to plan. Businesses fail at an alarming rate. When we underwrite self-employed borrowers we treat one factor as absolute – you must have been in business for 2 years. Why? 90% of new businesses fail

during their first 2 years. Of the 10% that make it 2 years, 50% fail in the next 3 years. Confronted with these stunning statistics, new mortgage company principals react with disbelief – we are somehow immune from the inevitable Darwinian process. A review of a perpetual national mortgage wholesaler's customer list supports this fact; of 6,500 approved brokers fewer than 250 were on the approved list prior to 2000. 80% of the brokers and correspondents were added after January, 2004.

Why We Fail

Business climate exacerbates the failure rate of mortgage businesses. The phenomenon of contraction and expansion – boom and bust - is a side effect of the interest rate cycle. Seasonality of related businesses, specifically real estate, adds to the cycle management challenge.

The book “Re-Visiting the E-Myth” looks at the failure rate of small businesses and the divergent roles of entrepreneur, sales, and management that principals have to play. It asks the question “Isn't there a way to guard against these high failure rates?” The answer lays in the most successful business model anywhere – the franchise. Approximately 75% of start-up franchises succeed beyond the 5 year mark. This statistic alone should draw attention. Why is it that these models are so much more successful?

Think about the franchises you visit. McDonalds, Marriott, Radio Shack – the list goes on – run like machines. That is the key. Before the first product or service is offered for sale, the entire process – down to the smallest detail – is already in place. Not one has a “figure it out as we go” quotient. **THIS** is a business. As a manager or owner, you can focus on strategy. If you experience a hiccup in the process you adjust the machine.

So,... PLAN!

“Easier said than done.” A business plan – a sales and marketing concept with financial projections – is not a franchise model. If the plan revolves around the principals performing myriad duties, or if one person or personality is solely responsible for the business, it's not a business. It's a job.

Every task in our business revolves around a set of steps. We seem to like to think these involve more complexity or difficulty than they do. Maybe they seem so self-explanatory to the seasoned professional that they don't seem to require explanation. The reality this creates is that most companies rely heavily on highly skilled (and highly compensated) individuals to carry out relatively mundane tasks.

It's not you... It's me

With no written explanation or documentation, when a problem arises in the process the issue gets addressed with the individual handling the task. It becomes personal. We get involved in “blame storming” to assign fault to an individual. We hold him or her accountable to correct the problem going forward. We do this repeatedly until the individual becomes hyper-vigilant and successfully avoids repeating the problem. Of course, other similarly handled problems arise and eventually the individuals feel personally responsible for “plugging the dike.” This recipe for burnout is repeated thousands of times a day across the country at incredible personal and financial cost.

This doesn't happen in a franchise. If the machine breaks, we fix the machine. Individuals can't be held responsible for a faulty system. In this way everyone – the individual, the manager and the owner - has a vested interest in making sure the system works correctly, and everyone has input into the best practice. Problems don't repeat because, if we follow the system, we don't make the same mistake twice.

It's the system

Keep it simple, stupid – K.I.S.S. Each step broken down into its smallest components seems like overkill. “It’s so simple – everyone knows that,” is a common response to the documentation process. Inevitably it is these small pieces breaking down that create huge problems at the end. Think about it. You only need one missing document to postpone a closing or get a loan denied.

Now, More Than Ever, You Need a Franchise System

There were 325,000 loan officers in 2000. By the end of 2005, there were 675,000. The business levels shrink which results in a smaller pie, and more people clamoring for it. More competition means lower revenues. Lower profit margins mean that losing one loan, or spending a disproportionate amount of time solving problems on loans instead of getting new ones, affect the survivability of the business. A franchise level business management system allows you to gauge profitability, project manpower accurately, and spend time on refining a marketing strategy.

Problem loans also provide a temptation to cut corners to get a loan done – exigent fraud caused by circumstances. That is why the regulators and lenders want you to have a business management system. You have controls in place.

Business Management System = Quality Control = Business Plan

Calling it “quality control” may have had you pouring yourself another cup of coffee. You may have seen it as a hurdle to overcome. But Q.C. really is an opportunity to build a machine – one that will run without us. We are now free to use our creativity to market our business or solve other problems. We are relieved of the stress of being personally responsible for success. If the franchise model business management system doesn’t work the way you plan it to, change it until it does. Statistically speaking, you have a 1400% (5% vs. 70%) better chance of success with the model than without. If you still don’t succeed, you may learn something else. Maybe you are the problem.

HOT OFF THE PRESSES! NEW PRODUCT**The Practical Guide to Compliance**

The thinking mortgage professional’s resource on how to use compliance requirements to educate borrowers, close more loans, and stay out of jail.

The reader learns the requirements of the Federal Laws - who the regulators are and the impetus of the laws. This is followed with a detailed treatment of the Real Estate Settlement Procedures Act (RESPA), Truth-in-Lending (TILA), Federal Consumer Protection Laws like the Equal Credit Opportunity Act (ECOA), Fair Credit Reporting Act (FCRA) and Federal Privacy Acts (Gramm-Leach-Bliley), Home Mortgage Disclosure Act and others. Many compliance books are written from the perspective of a lawyer, providing citations and case law. This book is written in plain English from the perspective of the loan officer's daily business - the forms and disclosures, how they are completed, what they mean, and the practical applications of the law in daily life. \$55.00 at shop.quick-start.net

Add the Library of Practical Guide Products to your resource center

- Loan Officer's Guide
- Processor's Guide
- Marketing Guide
- Compliance Guide



Complete Mortgage Business Management System



Quality Control - Origination - Processing - Underwriting
Closing - Branch Administration /Human Resources
Wholesale - Business Planning

a MUST have for

Banks and Lenders
Start Ups
Lender/Broker License Applications
Wholesale Lenders
Warehouse Applications

Contains

"Step-by-Step" Position Descriptions and Procedures
Editable Manuals in Electronic Form with Your Company Name
Forms and Spreadsheets to Support Functions

The Ultimate Quality Control, Business Plan and Business Management System

For Companies that

- want to protect themselves from liability
- are applying for state licenses
- need a compliance program
- need a quality control/quality assurance program
- need an internal training program
- are transitioning from Broker to Lender
- are applying for a Warehouse Line
- are growing a Branch Network

Products

- Are completely customizable
- Are fully compliant with FHLMC, FNMA, FHA/VA and state and federal guidelines
- Meet requirements of warehouse banks and lenders
- Avoid time spent writing industry standard material
- Allow companies to have policies and procedures in place in a matter of days

Banker Package

Origination - \$295	Package Price \$995 Savings \$575!
Processing - \$295	
Closing/Funding - \$295	
Underwriting/Specs - \$195	
Quality Control - \$295	
Branch Management - \$295	
Total Cost - \$1,570	

Wholesaler Package

Broker/Correspondent - \$995	Package Price \$1,295 Savings \$780!
Processing - \$295	
Closing/Funding - \$295	
Underwriting/Specs - \$195	
Quality Control - \$295	
Total Cost - \$2,075	

Broker Package

Origination - \$295	Package Price \$795 Savings \$385!
Processing - \$295	
Quality Control - \$295	
Branch Management - \$295	
Total Cost - \$1,180	

The Mortgage Professional

Quick-Start Publications

www.quick-start.net

1 Research Court, Suite 450

Rockville, MD 20850

Mortgage Management Systems

Quality Control and Assurance
Managing the Process from Origination to Post-Closing



QuickStart lendertraining.com