



Pe▲k Perform▲nce Resources, Inc.

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CASE STUDY 101

Success

Peak Performance Resources and Associated Software Consultants worked with mortgage banker to achieve operating performance gains and improved the lender's return on their software investment.

Background

Seven years ago the lender implemented the PowerSeller Secondary Marketing System to perform limited specific risk management monitoring and reporting on their conforming and government loan pipeline. The secondary group decided not to invest the time and energy needed to implement other areas of the application. Over time, the conforming and government loan position was reduced to 50%. The remaining 50% of the pipeline were loans sold on a best efforts basis, which were tracked by an in-house tracking system. No individual in the organization was responsible for pipeline accuracy. Significant pricing data elements were not being entered into PowerSeller. PowerSeller was not being utilized for best execution analysis; all best execution analysis was calculated manually. A manual determination of the loan level risk base pricing, loan level service release premium, and investor underwriting and funding fees was performed for each loan. Because of the complexity of the risk-based pricing and the calculation components of servicing released premiums, there was a tremendous opportunity for error. Financial decisions were being made using inaccurate information, investor loan sales deliveries were tedious, and loan sale tracking was a time-consuming effort. Mark-to-market reports required manual input into Excel from a variety of source documents. Monthly sales reports were also created in an Excel spreadsheet with all information manually calculated and input, including the price, service release premium and price adjustments. Senior management received no effective management reporting from Secondary or Post closing.

PowerSeller was not being used to manage data integrity issues. As a result, the client had issues with data integrity as well. A contributing

factor to the data integrity issue was that the client received input data from two origination systems. The lender did not have the expertise within the company to change the processes in the Secondary area and solve these problems.

Problem Solving

The lender was grossly underutilizing the PowerSeller system. Because of the underutilization, duplication of effort in Secondary and Post Closing departments involving manual processes created inefficiencies and inaccuracy in data. There was no communication among the multiple systems involved in pipeline tracking, loan sales and loan deliveries and fundings. Data integrity was a primary issue. The manual processes created opportunity for input error, leading to compromised financial reporting and opening the way to serious financial consequences. The lender engaged PPR to identify the specific issues and to make recommendations to maximize efficiencies and profit margins. After the preliminary report, the lender engaged PPR to remain to implement the project to resolve these matters.

Analysis

Through careful analysis the PPR senior consultant determined that the lender needed to improve sale execution of the locked pipeline, reduce the time between loan closing and loan sales, change the delivery methods and improve reporting. An inverted yield curve and negative warehouse spread made it imperative that the lender narrow the timeframe between loan closing and investor funding by making better use of existing automation to increase productivity. The lender's manual and scattered reporting from various sources created too many opportunities for error. The lender's history of selling the conforming pipeline in mini-bulks and allowing loan origination staff to lock Alt-A and Jumbo loans directly with investors on a best -efforts basis diminished profits. A hodge-podge of processes and procedures increased the loan sale cycle time further diminishing profits.

The following issues were areas specifically targeted for improvement:

- ⇒ Inaccurate position, mark to market and MBS/whole loan sales reports
- ⇒ Split pipeline management
- ⇒ Lack of automation for Investor risk-based price adjustments and servicing released premiums
- ⇒ No whole loan sales tracking
- ⇒ No fallout tracking
- ⇒ No management level summary reports on position or mark to market
- ⇒ Tracking of pair-off information outside the system
- ⇒ Tracking of best efforts loans and trades outside the system
- ⇒ Manual processes for best execution analysis
- ⇒ Manual creation of trade tickets

Available

Services

Business Analysis

Secondary
Analysis

Compliance
Review

Sales
Effectiveness

Technology
Integration

Strategic Planning

Sales Planning

Analyzing your Needs; Finding Real Solutions

- ⇒ Manually prepared month-end accounting reports
- ⇒ Handwritten, manual “loans for sale” daily report
- ⇒ Manually prepared Post Closing and Shipping reports

Recommendations

PPR recommended both functional and usage changes using the already installed PowerSeller system. The following issues were operational areas specifically targeted for improvement:

- ⇒ Flawed pipeline reporting resulting from a variety of factors
 - Split pipeline management
 - Lack of automation for Investor risk-based price adjustments and servicing released premiums
 - Inaccurate position, mark to market and MBS/whole loan sales reports
 - No whole loan sales tracking
- ⇒ Decisions made without adequate, accurate information
 - No historical fallout tracking
 - No management level summary reports on position or mark to market
 - Tracking of pair-off information outside of the system
 - Tracking of best-efforts loans and trades outside the system
- ⇒ Inaccurate data from Secondary and Post Closing due to lack of automation
 - Manual processes used for best execution analysis
 - Manual creation of trade tickets
 - Manually prepared month-end accounting reports
 - Handwritten, manual “loans for sale” daily report
 - Manually prepared Post Closing and Shipping reports

By making the recommended changes, the lender quickly realized the goal to evaluate various sale alternatives for their conforming, jumbo and Alt-A loan products and were able to achieve improvement in profit margins through more accurate reporting, elimination of duplicate efforts reducing manpower cost, and improvement in electronic data exchange.

Specific Areas Improved Through Expanded Use of PowerSeller:

- ⇒ Trades
 - Pair-off and Whole Loan Transactions are entered providing improved sale information and mark to market reporting.
 - Best Efforts commitments are now entered into a single system (PowerSeller) not three systems. Gains are calculated, post closing has sale information, and the process is streamlined. Audit reporting was implemented to insure loans were locked with investors.
- ⇒ Best Execution
 - PowerSeller provides best execution indications that consider all major value components.
 - Only eligible loans are being considered for an investor program, eliminating mis-guided sales.
- ⇒ Data Integrity
 - Audit alerts and call to action reporting now draw attention to data issues that need management's corrective response, thus eliminating issues before they become problems and insuring that process and boarding timetables are minimized.
- ⇒ Reporting
 - Month-end reporting is automated and used for accounting purposes.
 - Risk process provides archived sales data and purchase advice reconciliation useful for accounting.

- Archived sales data is now mined to support strategic decision-making.

Conclusions

As a result of the recommendations being implemented by the lender with the assistance of ASC and PPR, the following efficiencies and additional revenue from gain on sales were accomplished. The lender realized these specific results:

- ✓ Increased Secondary productivity
- ✓ Reduction in staff
- ✓ A 20 basis point profit gain through better execution on their Alt-A and Jumbo pipeline
- ✓ Improvement of 15 to 25 basis points to profit margin from reliable best execution analysis for the conforming pipeline
- ✓ Improvements in operational efficiencies in shipping and post closing
- ✓ Reliable fallout tracking and reporting for calculating hedge ratios
- ✓ 5-day improvements in warehouse turn time
- ✓ Significantly improved management reporting

Peak Performance Resources, Inc.

Is a firm focusing on the special needs in the mortgage banking industry. We analyze organizations, programs and processes and make recommendation on ways to improve any organization's structure, efficiency, or profits. We assist you in finding ways to reorganize processes to eliminate duplicate or nonessential practices. We advise you on strategies for entering and remaining competitive in new and existing markets. We develop training for introduction of new concepts, tools and practices. Peak Performance Resources is located on the web at www.pprinc.biz.

Associated Software Consultants

Develops, markets and supports automation products to the mortgage banking industry. ASC's PowerSeller Secondary Marketing System is a full-featured secondary marketing software solution, providing trade management, loan pooling, best execution, risk management and post closing activity support. Associated Software is located on the web at www.PowerSeller.com or toll-free at 1-800-628-4687

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