

Know Thyself

The mortgage industry, we all can agree, has ended its boom phase and is entering into the bust phase of its economic cycle. Busts are not pretty, but they do serve a purpose. They remove excess from the industry. The fear is that one may be among the excess. For those of you who are making safe and sound loans, there is nothing to fear, but fear itself. Not that things won't get tough, just like the tough times that were ahead when FDR spoke those famous words, but those who know their business best will survive 'til the next boom.

Much of today's fear and liquidity crunch really boils down to two things: imprudently loose credit guidelines and uncertainty about home values. I am not a credit risk analyst so I won't speak to the first point. The second point is what I will speak to. To discuss this, let's ask a few questions. How good is your assessment of the mortgage collateral? How effective are you at using your resources? What is the efficacy of your process? Honestly answering these three questions or honestly admitting you don't know the answers will help guide you to a better understanding of your business and a better chance of survival.

When it is all said and done, it is the lenders who use their resources most effectively and efficiently who will come out in the best position to exploit the next boom. I like to break the analysis of resources into three areas: Process, External Data, and Internal Data.

Process is the combination of steps used in underwriting the collateral. This includes the personnel involved, what is done at each step, what data is used in the process, and the triggers used to determine the steps taken.

External Data is products and data sources available from third party providers to better assess the collateral. These include, but not limited to, AVMs, property reports, and comparable sales reports.

Internal Data is what data you have within your organization that can be used to better assess the collateral, lending markets and overall risk.

This last area is often over looked, but can give the best results. Here's why it is a gold mine:

- 1) Where you do most of your business is where most of your data is.
- 2) Nothing gives you a better understanding of your business than your pipeline
- 3) Even a relatively small lender can gain a valuable and proprietary understanding of the areas where they lend most, and know when a loan is not in their data "sweet spot".
- 4) There is no lag in your internal data, while there can be significant lags in external data.
- 5) It's Free!

I'm sure you're familiar with the old sayings like: "The key to success is to know thyself." If this axiom is true for people, why wouldn't it be true for lenders? Gathering and using internal data enables a lender to analyze where it is having success and profitability, and where there are problems and risks. No amount of external data can do this. Don't get me wrong, external data is extremely important, too.

During this time of industry uncertainty, it is not time to pull back on the analysis of your business, but to know it better. It is not time to lick your wounds, but time to push through the pain to gain an advantage. This crisis is an opportunity for those who can envision the future and embrace the changes.

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