

To Retain Top Producers, Incubate Entrepreneurs

...the path to profitability

To retain your best mortgage loan officers, encourage them to run their own businesses within your business. Entrepreneurial incubation not only motivates top producers to stick around, but also keeps customers happy and boosts profits for the entire organization.

A common problem facing mortgage companies is that loan officers think they bring in all the revenue and ownership just skims a big piece off the top. Entrepreneurial incubation is about giving loan officers value and the freedom to work for themselves.

The corporation has an obligation to provide value to the loan officer just as it does to the customer. In fact, the two are dependent upon each other. When loan officers can clearly see what the corporation does contributes directly to their success they are more effective and that translates into better customer service. The company's brand and reputation must support the loan officer and vice versa without conflict or contradiction.

For example, when I was in real estate I dealt with loan officers who were strong, but who were constantly and almost unfailingly let down by what I call the back



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office. The operations side of the business must never leave the loan officer back peddling because of a service lapse. I think this is why most loan officers seek greener pastures in the first place.

Likewise, we've experienced loan officers who didn't share our philosophy and values. They're off the bus because, regardless of production levels, the conflict was high maintenance. As Jim Collins writes in *Good to Great* the first goal is to get the right people on your bus and get the wrong people off.

From a loan officer's perspective, value that the company delivers ranges from providing solid business fundamentals, including payroll, facilities leasing, technology management, to marketing systems that provide a competitive advantage.

Unique Selling Propositions

Much of our effort is spent in creating and implementing unique selling propositions (USPs) that helps loan officers beat the competition and become more profitable. Majestic Mortgage has made a conscious decision to offer borrowers value added services, and its USPs include face-to-face consultations, an accurate HUD-1 three business days prior to closing, cash-flow consulting, an on-line daily market report with auto-alerts for locks and refinances and a Move-Up HomeBuyer's Tax Analysis™ presentation system. A loan officer's personally customized customer presentation package can be up to 28 pages of value-added services.

Majestic recently invested in Internet technology that makes the loan officers' jobs easier and more

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efficient, including a proprietary website system that makes the corporate website appear to be entirely the loan officer's personal website. This ensures brand consistency between the company and among loan officers. It's also far easier this way to rapidly update the site.

We're also experimenting with an on-line meeting center that allows a loan officer to make a presentation and even pass documents to a customer using the Internet. A high-end, e-mail marketing system cuts costs and allows a more personalized marketing program consistent with the tenets of permission marketing. Our experience is showing greater response in terms of repeat and referred business.

USPs are critical strategies to get off the rate auction block. When the values you present to your customers are unique, you'll face far less price pressure and achieve higher customer loyalty. You'll make more money and so will your loan officers.

I constantly ask myself what I'm doing for my percentage of the revenue. Because if I don't perform, if I'm not the best that's out there, my loan officers will wind up leaving. They'll just get off the bus. Pressing ahead with USPs and technology keeps a focus among the team of loan officers on the value the corporation provides them in managing and growing their own business.

Bottom Line Transparency

I found that the entrepreneurial spirit is contagious and generates terrific benefits throughout the company. I encourage everyone in the organization – from the top loan officers to the receptionist – to think like a CEO. That means sharing bottom-line numbers with the entire company. Everyone knows what drives profit. All employees are motivated to make suggestions for cutting expenses, because the savings go into a profit-sharing pool, which commissioned loan officers share as well as salaried operations staff.

One of the clearest benefits is that originators clearly see the additional cost of correcting file problems

in processing compared to the lesser cost of a clean, fully documented file that enters the processing system. Originators are highly motivated financially (as well as in turnaround time and customer satisfaction) to turning in an accurate and fully documented file.

By sharing the bottom line with all employees, we've gained immeasurably. For instance, we saved both time and approximately \$17 per file when our closing manager decided to no longer send FHA packages by FedEx. She discovered that HUD's mailing room is so poorly organized the express packages were treated as exceptions and took longer to reach the certification desk by FedEx than by standard mail. We get our insurance certifications faster and at less cost to our mail budget and warehouse line.

Gaining buy-in to the profits of the company also raises productivity in general as people begin to demand higher capacities of themselves. As with the HUD example, people find ways to be more efficient. I've had this laughed at, but we buy legal paper pre-punched for ACCO fastening to load into the copying machines. The extra expense of the paper is by far offset by the time saved. Even little things add up. Files are neater, too.

The profit-oriented, entrepreneurial philosophy that rises from this approach makes delivering our valued-added premise to consumers more cost-effective. We can confidently post the Freddie Mac weekly on our website, where we never quote rates, and know that we'll meet or exceed that benchmark and be profitable.

Independence

To help loan officers run their own businesses within the business, Majestic establishes a management and marketing account for each loan officer so they can make their own financial decisions – how much they want to spend on assistants or personal marketing, for example. The corporation deposits both a lump sum annually and per-transaction into each originator's marketing account. Loan officers debit marketing and other business expenses against this account.

Services the company arranges, like a personally branded newsletter, are charged against this account, too, but that also makes us keenly aware that the newsletter must deliver value to the originator as well as their customers.

Ed Conarchy, a MOM Top 200 originator at Majestic, pays his personal assistant and transaction coordinator from this fund. Conarchy originated almost \$70 million with his personal staff of two plus a shared transaction coordinator.

The company pays for services that benefit from economies of scale, such as accounting, MIS, facilities and the other fundamentals of a business. Technology in particular benefits from economy of scale. This is significant and needs to be clearly communicated because when top loan officers wander off in search of greener pastures they will find that their time and energy is distracted from sales to these business fundamentals.

Loan officers aren't charged back for use of basic business services. I don't want to be seen as another vendor to the top producer. Vendors can be replaced and I don't want that to occur. The relationship I seek with originators is a partnership.

Commissions are on basis points, not a gross percentage of revenue. Commissions are tiered based on production. I believe that percentage splits make it too easy for weak salespeople to discount. Setting basis points against minimums, with splits on overage and underages, keeps originators focused on writing profitable loans for themselves and the company.

We used to have a problem with monthly highs and lows in origination production. But now commissions are on a graduated scale that begins anew each month. Loan officers fix the highs and lows in production themselves, so they'll achieve their highest basis-point level.

Entrepreneurial incubation has helped us retain our three top-flight loan officers for eight, nine and 11 years, respectively. Together, they produce 65 percent of the company's profit.

One of those top producers is Kevin McGovern, executive vice president of Majestic Mortgage Corp. McGovern, who's been with the company eight years, says a key to his longevity has been our knack for implementing USPs that simultaneously increase efficiency, satisfy and retain customers, and drive higher profits.

"I was a business owner before I came to Majestic Mortgage, and I loved the company's entrepreneurial spirit," he says. "We've been able to implement things here that I had only dreamed of in my previous business."

Conarchy, who's been with Majestic 11 years, also says USPs have been integral to his success.

"The toughest phone call we get is the first one from the customer, when they ask, 'What is your rate?'" Conarchy says.

"That's when you've got to start bringing your USPs to the table, and thanks we've got a ton of them."

The company's USPs help Majestic Mortgage Corp. close 94.8 percent of the applications it takes. For five years running, the company's profit margin after all expenses including commissions, management and officers salaries has averaged 46.8 basis points per loan, reaching 60.4 basis points in 2001. The last two MBA/



MyRateAlert.com™ and the Move Up HomeBuyers Tax Analysis™ are available for loan originators at www.MajesticConsulting.com.

Stratmoor Peer Group profitability studies show profits are feast or famine. Peer companies in the study showed profit from originations when refinancing activity boosted originator production in 2001, but struggled with losses absent that market boost in 2000. While some claim is made of increased efficiencies through, the study indicates more strongly that profitability was most clearly tied to originator productivity.

While I encourage other mortgage companies to empower their own loan officers to become entrepreneurs within their organizations, I know first hand that any shift in business culture can require a leap of faith. At first, I was afraid to release the brakes, particularly about sharing the organization's bottom line, but then I realized that if I didn't cultivate a spirit of entrepreneurship within my organization, my best people would go out and do it on their own as a natural progression of their ambition. As CEO, I want to provide an outlet for that ambition within my organization.

The Majestic Group offers consulting services and seminars to help improve the efficiency and profitability of mortgage bankers and brokers nationwide. For more information, call toll-free at 877-Tom-Ward (877-866-9273) or e-mail The Majestic Group at sales@majesticconsulting.com.

