



Improving Mortgage Lending Profitability

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Mortgage Lending is a critical component in Credit Unions' bottom lines, and in order to get a handle on the role Mortgage Lending plays, you need to look at a broad range of factors. The following is a checklist of the areas within the institution that need to be monitored:

- 1. Include Mortgage Lending data into the "core" marketing/sales/profitability database:** So frequently Mortgage Lending is evaluated outside of the "core" databases in the Credit Union.
- 2. Understand the different profitability streams from portfolio loans vs. loans sold, and from fixed vs. variable products:** Each of these has very different profit dynamics, and it's important to understand how each contributes uniquely.
- 3. Appropriately allocate costs specific to mortgage lending for all key areas, including:**
 - Origination costs
 - Marketing and sales costs
 - Branch costs
 - Loan loss reserves
 - Loan losses
 - Collections costs
- 4. Appropriately allocate revenue specific to mortgage lending for all key areas, including:**
 - Origination fees
 - Processing fees
 - Late fees
 - Gains on sales
- 5. Understand the different ways to allocate margin:** Since Mortgage Lending is so different in its tenor, it is important to understand how margin is allocated in assessing profitability – e.g. single pool, vs. product portfolio, vs. matching funding basis.
- 6. Compare the mortgage product line with all other product lines in the credit union:** It is important to look at Mortgage Lending relative to other product lines, so as to fully assess its absolute and relative value to the Credit Union.
- 7. Know how to package mortgages with other products so as to create multi-sale profitability:** Mortgage Lending does not need to be a "stand-alone" business line, but should be fully integrated into the Credit Union's member relationship building process.
- 8. Track profitability performance by officer, branch, product, member relationship:** Mortgage Lending profitability should be tracked at all of these levels, and not just on a Divisional basis.
- 9. Do it regularly:** The analysis should not be a one-time event, but part of the monthly measurement process and part of the culture.

About the Author:

Rich Weissman is President and CEO of The Database Marketing Agency Inc. (DMA). DMA is national service provider to credit unions throughout the U.S., providing sophisticated profitability, marketing and sales support through DMA's award-winning IDM™ (Integrated Database Marketing) system. Since its founding in 1996, DMA has successfully grown to become the premiere database agency in the industry. (www.DMAcorporation.com). To reach Rich, call DMA at 503-736-9490 or rich.weissman@DMAcorporation.com.