

GROWING PROFITABILITY

Simple v. Complex Business Models in Mortgage Lending

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We see a wide, wide variety of mortgage banking companies, and we see certain models that work much more successfully than others. One of the things that all successful companies seem to have is a very clear set of goals that everyone knows about and is working toward from top to bottom.

We've done work with Indy Mac Bank, and we suspect that every teller and every janitor knows exactly what the company's goals are. We think this has something to do with their great success.

But we've also gone into shops and asked ten people at random, highly senior people included, to list the top 2-3 corporate goals, and we'll get 20 different responses. As you can guess, these tend to be the companies not doing as well.

Another thing we see in successful companies is that all seem to have a *focus*, *discipline*, and *simplicity*. A good example is World Savings. They have very few deposit products, it's essentially a CD shop,

and their Pay Option Arm with common sense underwriting is simplicity itself.

It's almost like Henry Ford's statement about the Model T: You can have it in any color you like as long as it's black. He understood the power of keeping things simple.

The more successful companies we see keep things uncomplicated and don't try to be all things to all people. Many are 100% wholesale, or 100% retail. But not both. Or they'll be focused on a very narrow geographical area, not trying to be in all 50 states.

We think it's useful to be flexible in commission structure, but we've seen companies with, say, 50 loan officers and 50 different commission schedules. We have no problem with that.

But we tend to see companies that really do have one size that fits all, fifty loan officers all with the same commission structure, and these companies tend to be somewhat more successful and more profitable. Maybe there's no correlation there. But maybe there is.

Is it possible to be highly profitable and have a complex business model at the same time? Of course. Countrywide seems to have dozens of moving parts, yet they've been wildly successful.

The difference here is that they have the technology to support it, to provide the controls that are so essential in a complex organization. But absent fairly significant investments in technology, simple seems to win over complex all the time.

There are many ways in which the successful companies generate profits, but they all seem to be (1) *focused* on a very few goals, (2) very *disciplined* in sticking to these goals, and (3) have fairly *simple* business models.