

Ten Things to Do in 2021

Now that we're kicking off the new year, it's a good time to set goals and establish priorities. Here are ten things we hope you're already doing, but if not, this can be a good reminder for the rest of the year.

1. Develop a Contraction Plan.

Trees don't grow to the moon, and gold rushes eventually come to an end. The current low-rate environment with high volume and higher margins won't last forever, and you should be prepared with a written plan. It should include various what-if scenarios, and you should regularly review them and update them, if necessary.

2. Think about the unthinkable.

When the party ends, it will feel like Armageddon. Volume will drop through the floor, margins will shrink, and your competitors will aggressively recruit your LOs with ridiculous commission rates, just like in 2018. Your competitors have grown their net worth war chests and will have a lot more staying power than ever before. Think this through, expect it to last a long time, and prepare for it now.

3. Assess your low producers.

See who are in the bottom 20% for volume. Cut their volume in half for when the party ends, and decide now if you'll really want to keep them. A low producer is a low producer, and their numbers will only get worse. Know every month who's in that bottom 20%.

4. De-risk and (perhaps) take some chips off the table.

We've seen far too many highly successful mortgage companies fail when the market sold off, typically leaving the owner flat broke or close to it. Now's a good time to de-risk your balance sheet and your business and perhaps take some of your capital out of the business.

5. Get serious about succession planning.

Be prepared in case you lose one of your key people. Succession planning has to cover the owners, but what will you do if you lose your CFO with absolutely no notice? Or your head of production, or any other key person?

6. Get key-man life insurance.

If you have a partner and he or she dies, you probably don't want their spouse as your new partner. Do you have enough cash to buy that spouse out? If not, get life insurance on each partner equal to their percentage of the company's net worth. If you already have such a policy, your net worth has probably grown since you got the insurance, so see if you need to increase the coverage.

7. Be prepared to buy other companies.

There will be some great opportunities when the party starts to unwind. Start a list of companies you might like to buy under the right circumstances.

8. Consider an executive coach.

You don't know what you don't know, and a good executive coach might be the most valuable investment you can make in your own performance or in your designated successor. A good executive coach can help you set stretch goals beyond your current thinking and help turn you into a top performer prepared for good markets as well as tough markets.

9. Know your numbers.

This includes cost to originate, breakeven production, profitability per loan, most profitable LOs, least profitable LOs, new loans underwritten per underwriter, etc. And know them by channel, branch, LO, and so on. This will be even more important if refi volume in 2021 falls off quickly (as it always does) and you need to scale back quickly.

10. Be humble.

Everybody had a great 2020, even the poorly-managed companies, but don't think you have all the answers or have developed a secret sauce. You'll need humility and realism to face the inevitable downturn.

*Joe Garrett and Mike McAuley are principals with
Garrett, McAuley & Co.
www.GarrettMcAuley.com
Joe Garrett 510-469-8633
Mike McAuley 281-250-2536*