Artwork by Paula Douglass

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Be Nimble

Compensation software must handle the complexities of a competitive mortgage world

Commissions, bonuses and temporary pay increases play a key role in recruiting and retaining the best mortgage banking talent. Due to high demand for loans, many companies are looking to immediately hire more originators, processors, underwriters and assistants.

The experienced mortgage banking labor pool, however, is fully employed at the moment and anyone with proven abilities can find a job easily. This is why flexible, loan-based compensation has become an increasingly important tool for companies trying to lure talented professionals away from competitors.

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The mortgage industry’s record-high volume puts pressure on operational staff to close as many loans as possible while meeting quality standards. The average time to close currently sits at about 45 days, according to Ice Mortgage Technology, which is considered too long by many industry insiders. Plus, consumers are often frustrated that the process takes so long.

Lenders and brokerages that perform faster have an advantage in today’s mortgage marketplace. Operational staff members face tremendous pressure to close as many loans per week as possible, and loan-based compensation is an easy way to pay overrides (or a bump up from the normal pay) to these employees to reward them for doing “one more loan this week.”

Productive mortgage originators, always the darlings of a hot mortgage market, are in high demand, and competitive companies dangle all kinds of incentives to fill these positions. Many lenders or brokerages offer lucrative “draws” or guaranteed amounts, providing income to an onboarding originator as they rebuild their pipeline. Meanwhile, sales managers are under pressure to keep their top talent happy.

All of these factors necessitate a commission calculation software system that is flexible, comprehensive and easy to use. A modern accounting and commission management system, built specifically for mortgage professionals, should provide the ability for human resources staff to add employees and change compensation plans quickly. Users should be able to establish changes to their compensation plans in advance through a “set it and forget it” model. Additionally, compensation reporting should occur as frequently as needed.

Emerging trends

During the Mortgage Bankers Association’s Accounting and Financial Management Conference last year, industry experts from across the country met in a virtual chatroom, discussing the trends in commission calculations for 2021. Across the industry, a few key trends stood out.

- **Overrides and bonuses** for operational employees beyond the mortgage originator are increasingly important. Anywhere from eight to 15 people get paid for a loan closing, including processors, closers, underwriters, branch managers and district managers.
- **Commissions, bonuses and overrides** are often paid on different schedules. For example, commissions may be paid biweekly, but overrides may be paid monthly. One person might be paid different types of compensation on different cycles. Mortgage companies must be able to pay multiple people at multiple times using various calculations.
- **Calculating draws**, including overtime (which can change month to month), to comply with overtime laws and regulations, continues to be a critical compensation function.

Loan officers and brokers face another challenge when planning a move to a new mortgage company. Their pipeline of current loan applications belongs to their soon-to-be former employer. A proper compensation system should be able to establish a draw and generous compensation structure that expires within 90 days of the hire. An innovative system should allow the user to create the long-term plan today, ensuring that it automatically goes into effect on the trigger date since it’s much easier for a compensation manager to set up everything the new hire needs at onboarding.

Profitable margins

The best companies take the final step to record everything, even overrides, to the loan-detail general ledger. This last step is essential to evaluating the effectiveness of the compensation plans for each employee.

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> “One of the challenges in using compensation to help with recruitment is proper communication and setting of guidelines between recruiters and compensation managers.”

Mortgage companies often pay an originator more for a loan from a self-generated lead than for a company-provided lead. But is the loan more profitable in the end? If it's not, your compensation incentives may not be lined up correctly with the profitability margins at the loan level.

Compensation tiers create extra units per month, which in turn create extra revenue, even if the per-loan margin for the company is a bit lower because the company paid the team extra basis points to close “one more loan.” Mortgage companies, however, must continuously monitor all compensation in terms of basis points for every loan.

A sufficiently advanced compensation system should be able to provide loan-level transactions — which then record to the general ledger with a few clicks — for every commission and override paid, no matter how small. Technology makes this process easy. Lenders and brokerages should be able to drill down through the reporting to see the aggregate compensation, as well as a breakdown of the eight to 15 individual employee payouts on each loan. As much as all institutions seek additional units, it's critical to not let the costs outweigh the benefits.

Proper communication

One of the challenges in using compensation to help with recruitment is proper communication and setting of guidelines between recruiters and compensation managers. Over the years, the industry has seen compensation plans that are simply incalculable in a modern database system.

In many of these systems, the rate to be paid is based on data that is not available in the loan origination system or the compensation system. All compensation plans are based on some form of logical incentive to pay more for proper employee behavior — rewarding productivity and efficiency. Recruiting managers often seem culturally opposed to checking in with the compensation team before making an offer to a prospective originator.

In each one of these cases, an intuitive and modern accounting tool can help to achieve the same incentive pay with an easier calculation. Compensation managers then say, “But that's not how the contract with the new loan originator was made, so your streamlined plan won't work.” This makes it critical for upper management to change the culture, creating an environment where the recruiting team and the compensation team truly collaborate to provide compensation plans that are both motivational and sensible.

As mortgage banks and nonbanks consider their options for calculating commissions and overrides, managers should ensure that every step of the process is handled by the system. The tool should gather the necessary data; allow for flexible formulas at every level; provide sophisticated tier structures for top achievers in every department; report to different groups at different times; and effortlessly communicate with all involved employees.

All commission and override expenses should be properly recorded to the general ledger and reported with minimal fuss to the lender's payroll system. Ultimately, a great loan-based compensation system that is used properly should become an asset to recruiting and retention, not a tax on the company. ●