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How Lenders Can Create an Efficient Commissions Calculations and Payments Process That Keeps Loan Officers Happy

BY BRIAN D. LYNCH

Many lenders lack an efficient way to calculate and deliver commissions to their Loan Officers and this issue has the potential to disrupt lender profitability.

Loan Officers' success or failure can make or break a lender's branch. These people are the stars of the mortgage industry and they know it. Good Loan Officers can go to another lender if they are dissatisfied. To the Loan Officer, lenders and the jobs they offer are commodities and the compensation process is one of the few ways lenders differentiate themselves. Knowing the specifics of what matters most to Loan Officers in regards to compensation is the first step in providing them with the motivation to be productive, happy and successful at a particular branch.

The most common complaints from Loan Officers deal with the speed and accuracy of commissions payments. The most common cause of these issues is that the tools being used to calculate those commissions were not designed to do this. In fact, these tools often only perform a portion of the task leaving much of the work to be done manually. The people doing that work are often under stressful deadlines, which only add to the problem.

All too often, we see spreadsheets being used to perform these calculations. One major issue here is that many Loan Officers have customized compensation agreements with their employers. Using a spreadsheet to calculate these commissions often involves manual entry that makes the task tedious and time consuming. Even worse, any increase in the number of loans funded or Loan

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Officers only serves to complicate the process thereby jeopardizing the very accuracy and speed needed. Spreadsheets are a fantastic tool, but they do not provide the systematic approach needed within a large or growing organization to keep Loan Officers happy.

If the calculation of commission on each loan by a Loan Officer were not enough, it is only one part of the commission calculation process. Payroll draws, split commissions and overrides add to the complexity and further invalid the efficacy of using spreadsheets.

To many lenders the task of calculating commissions is so time consuming that they only do it once a month. This can put the lenders relationship with the Loan Officer in jeopardy especially when other lenders with the proper systems can offer more frequent pay periods.

Most Loan Officers expect to be paid the correct payment in approximately a week or less, but most lenders often take several weeks to do so. This erodes the relationship between lenders and Loan Officers, especially if payments need to be reissued to fix mistakes. Loan Officers do not consider these errors to be an acceptable cost of doing business. Instead they see them as warning signs a lender is actively choosing to tolerate mistakes and long delays despite the fact there are other options.

The speed of the calculation is not enough. It has to be correct as well. Incorrect commission checks burn a lender's reputation, encourages Loan Officers to doubt their employer and forces them to devote even more time to double-checking their commissions. These internal headaches waste Loan Officers' time and distract them from the core business of serving customers and closing more loans.

Lenders can fix these problems by focusing on cost-effectively enhancing the speed, accuracy and reporting of commission amounts earned. This can be done by automating the calculation and distribution of commission data to Loan Officers.

Automating the commission process makes it possible for a lender to calculate commissions in minutes rather than weeks. Providing accurate and timely commission data to loan officers helps build the bond between the lender and the Loan Officer.

Moving from a spreadsheet-driven system to an automated approach is often met with some concern about the effort needed to implement such a system. This is mainly due to the fact the people being asked to implement the new system are already working overtime with the existing system. Usually, the system that best addresses a lender's compensation plans will be the easiest to implement and because it addresses a particular lender's compensation plans, the calculations will be more thoroughly tested and as a result should be quicker and more accurate than other systems that might be available.

After implementing the proper system, things like calculating payroll draws and split commissions, normally error-prone, manual processes should no longer be an issue. The same goes for lenders dealing with suddenly higher loan volumes that put pressure on accounting departments. With the automated approach, the level of performance is maintained and the lender is not forced to add new staff.

One of the more practical ways automation can reduce the workload on lenders' staffs is that they often have specialized reporting tools that spell out how commissions were calculated so Loan Officers and even auditors can easily understand at a glance. Often in these cases if a loan officer has an issue with a calculation, he or she can easily figure what the issue is on their own. In many cases the issues turn out to be a miscalculation on the loan officer's part that does not in any way damage the lender's reputation for making inaccurate payments.

As an added benefit, having a systematic approach to calculating commissions can have a dramatic effect on the time needed to audit those calculations and the lender's compliance with Dodd-Frank. The savings in audit fees can be significant. Under the old spreadsheet approach, audit satisfaction was only gained after analyzing large numbers of spreadsheets.

Loan Officers judge their employers by how fast and accurately commissions are paid to them. When there are issues with the accuracy, speed of payments and the clarity of the calculation, loan officers can judge very harshly and seek out other opportunities. The commission calculation and payment process can be dramatically and cost-effectively transformed through automated solutions that not only speed up the calculation but also provide a much higher degree of accuracy and happier Loan Officers!

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