

Mortgage Department Proposal

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Summary

The site presidents have done a terrific job in getting us to where we are today however, we are simply becoming too large and mortgage is too complex to be adequately managed by individuals that are not mortgage experts. This proposal is necessary for the mortgage department to become more in line with industry standards and to realize its full potential. Mortgage should be doing double the numbers we are currently doing. This is a plan to accomplish that.

We have a solid core staff and some quality leadership in the department but what we need is: a unified vision for mortgage as a whole, a sales staff that is properly enabled and incentivized to go after purchase business, an efficient operations strategy that is focused on meeting closing dates on purchase contracts, and accurate loan level data which is used to gameplan and hold staff accountable. What follows is a strategy that is focused on creating the conditions that help us meet these 4 needs, driving purposeful growth in the mortgage segment.

In the "Structure" section, I will present why mortgage must be its own department with its own reporting structure. It's important that your leaders in this area have the authority to make the changes necessary to accomplish their goals. It's even more important that the staff knows that the individual they report to is an expert at what they do.

In the "Branch Analysis" section, I will provide an analysis of each branch in regards to mortgage purchase originations and a starting point for a sales strategy going forward in each branch. If you look at Scotsman Guide, you will find that the top producers are almost all focused on purchase business regardless of market conditions or interest rates with most top loan officers relying on purchase business for 80-90% of their total volume. It's essential that we do more to incentivize and enable our sales staff to get out of their offices, get engaged in their communities, and build relationships with realtors and builders.

In the "Future Vision" section I will show what a similarly sized competitor in the mortgage space is capable of and illustrate the kind of numbers that we can and should be doing. These kinds of numbers are attainable only through focused, deliberate mortgage strategy and is the major reason why mortgage staff must have its own reporting structure.

Structure

I'll start by addressing the problems with the current reporting structure. Currently, the attitude of the bank is that when mortgage is slow, mortgage people can help out with other things and vice versa. This is a losing strategy for mortgage. Especially when its slow, LOs should be out mingling with agents and reminding them that we are out there and ready to close their loans quickly and expertly. Time spent out of the market is time our competitors are taking business from us. When it's slow, operations staff should be focused on making improvements to our processes and procedures that we didn't have time for when we were busy. Also, if our sales staff is focusing on purchase volume, the slow times will be a lot less slow than they would be if we are just sitting around waiting for rates to come back down. The help-out-with-other-things strategy and branch specific decision making has hurt our ability to establish a unified vision and an efficient operations process.

We need a reporting structure that enables and incentivizes mortgage sales staff to go out and bring in purchase business. Currently, the site presidents look at mortgage LOs as another commercial lender with a portfolio to manage. This too is a losing strategy for mortgage. Mortgage sales staff need to feel the freedom of not being entirely responsible for every little thing that may go wrong with their "portfolio" and secondary market loans need to not be looked at as part of their "portfolio" but rather as the highly risk-mitigated transaction that it is. Loan officers should be out getting business, not working through the tedium of gathering underwriting docs and making collections calls. This offloading of responsibility allows the sales staff to focus on the agent relationship (which is the true source of their business) while leaving most of the borrower relationship to the processor. We should require and trust that our loan officer is responsible for the agent relationship, processor is responsible for the borrower relationship, underwriting is responsible for the loan decision, and closing is responsible for balancing and compliance. Mortgage sales cannot be treated like commercial sales if mortgage is to be successful.

We need a reporting structure that helps us with strategizing, communicating, and holding staff accountable for the responsibilities listed in the previous paragraph. We do a decent job of communicating what we see as pertinent information to the mortgage department. The problem is, there is currently no one in the mortgage department who is responsible for the success or failure of any of the staff and we lack specific common goals. We would be much more effective in this regard if we had a Mortgage Sales Manager who is specifically responsible for developing and improving sales at each branch. Also, because decision making is spread out among the site presidents, the quality of mortgage loan data available to us in Encompass is almost non-existent (it is impossible to tell at a glance where a loan is at in the process, how many we closed in the prior month, or even if a loan was closed vs canceled). Accurate loan

data will allow us to define what success looks like and provide actual numbers for the team to shoot for.

Next, I'll present my idea for what the reporting structure should look like and what the responsibilities are therein. Jason Schmitz is the Senior Vice President of mortgage and will be on par with the site presidents, will report directly to B- S-, and will have N- and L- as direct reports. The SVP of mortgage will be the "site president" for the mortgage department. The SVPs responsibility will be to increase sales, control costs, and drive increased profitability for mortgage. A unified vision for mortgage is essential for driving this growth and will be my main responsibility.

N- is the Mortgage Sales Manager and will have all Mortgage LOs report directly to her. It will be her responsibility to make sure LOs have a specific plan to bring in **purchase** business relevant to their market and are getting out in their respective communities to execute that plan. Going after purchase business is essential to same branch growth. Refi's won't always be there and LOs should not be sitting at their desks waiting for rates to drop. We want them out in their communities, at the forefront of agent's minds, and winning purchase business from our competitors. Each branch will have monthly/quarterly/yearly sales goals, and will have a sales manager that they can gameplan with and hold them accountable to those goals.

L- is the Operations Manager and will have all Mortgage Processors and Closers report directly to her. Her responsibility will be to standardize mortgage operations with the ultimate goal being to free up LOs from back-office tasks so that they can focus on realtor relationships and drive purchase business growth. She will focus on creating an Encompass driven process for operations, coaching our processors into their proper roles managing the borrower relationship, and training our closers on mortgage compliance. L- has accomplished all these things in her previous employment and I have no doubt she can do it here too. Mortgage operations staff are essential for delivering the results that our LOs will be promising to their agents. N- and L- will work hand-in-hand to clearly delineate what tasks are the responsibility of sales and which are the responsibility of processing.

Our mortgage products will be separated into inhouse and secondary market products. All inhouse products will be the responsibility of the site presidents, executed by our commercial lenders and credit admins, and will otherwise continue as they are being done today. All secondary market products will fall under the mortgage department with ultimate responsibility belonging to the SVP, executed by N-'s and L-'s staff, and desicioned by underwriting. Site presidents will have no signing authority over secondary market mortgages and no authority to direct mortgage sales/operations staff.

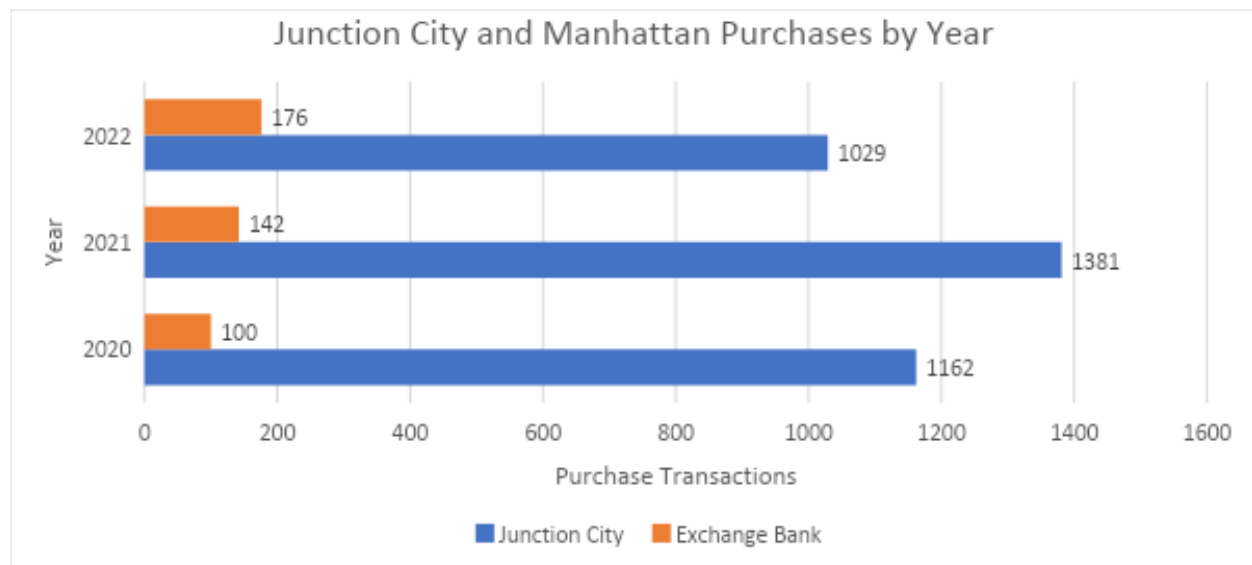
I truly believe that we have a team that can accomplish great things. L- and I agree on the process changes that would benefit the mortgage department, N- has a sales strategy that works, and we have a very knowledgeable, intelligent, and capable staff. Our biggest issue currently is that we lack the unified vision that would allow us all to be rowing the boat in the same direction.

Branch Analysis

Purchase business must be our bread and butter. Here I will be showing a comparison of each branch to their respective markets in terms of purchase volume along with my commentary. I will also provide the beginnings of a forward-looking strategy for each branch. I will begin with Junction City, since it has the most industry-like operations process, has the most consistent sales growth, and is gaining market share. The numbers tell a compelling story.

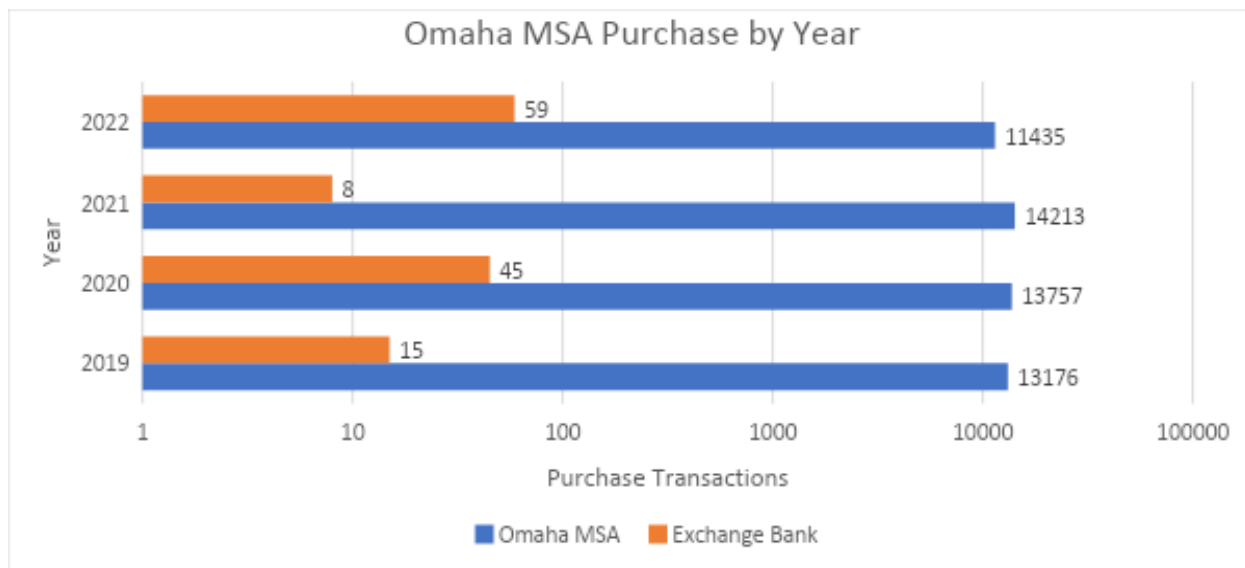
The Junction City branch will be a model for what the other branches will accomplish. M- would make a terrific processing lead. She has the most complete and successful process of any of our other mortgage processors. She has expressed interest in taking on more of a leadership role so this is a win-win. Reward M- for her success by putting her in a better position to share what is working for her with the other branches AND improve operations in the other branches. Mortgage data is admittedly not easy to come by given our current underutilization of Encompass (a problem L- and I would fix with a more unified process) but based on what I could gather, Junction City is the only branch that increased purchase sales year over year from 2020-2022 with 100 in 2020; 142 in 2021; and 176 in 2022. The Junction City branch admittedly has a great niche with N- and M- 's expertise with VA loans and its proximity to Fort Riley but it is also true that the Junction City branch had a plan to capitalize on that niche and executed it well. I'm confident we can replicate that success in the other branches and improve on Junction City's process.

Below is our purchase volume by year represented in orange against total sales for the Junction City/Manhattan area represented in blue. Market data was obtained from Zillow.

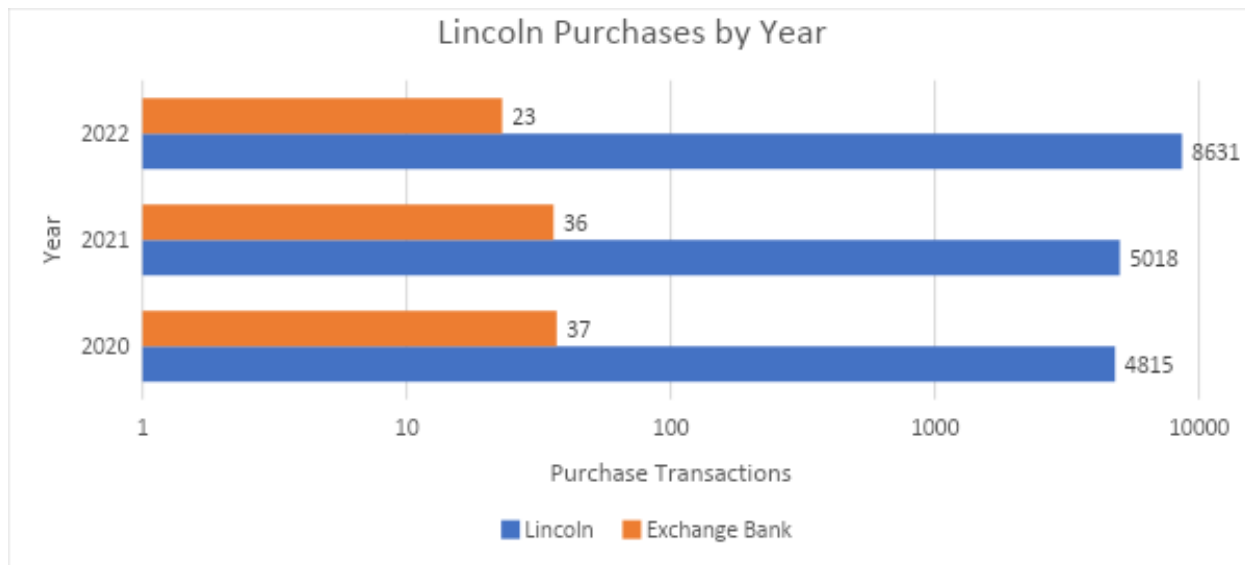


The Omaha Branch has been inconsistent from a purchase business perspective. Purchase sales of 45 in 2020 dropped to only 8 in 2021 at a time where the overall purchase market in Omaha was up. A- (LO) is doing the right things since we have brought him on by being engaged in the community and getting in front of agents but he is hampered by being responsible for gathering underwriting docs from borrowers and other back-office tasks. There are ample opportunities for us in Omaha. I believe some attempts at getting in with the employees of Children's Hospital located directly across Dodge St from us would be

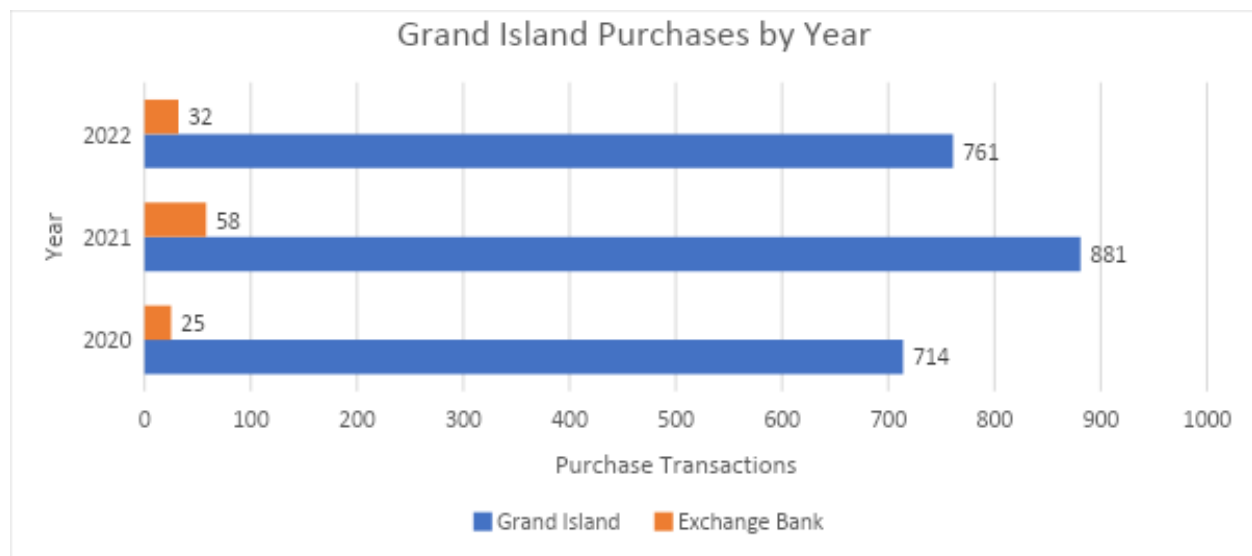
time well spent as well as leveraging N- 's expertise in VA loans to try to help us capture some of the VA business coming out of Offutt AFB. I'm confident that N- and A- could work out a winning strategy in Omaha. The goal here should have Omaha as our best performing mortgage branch.



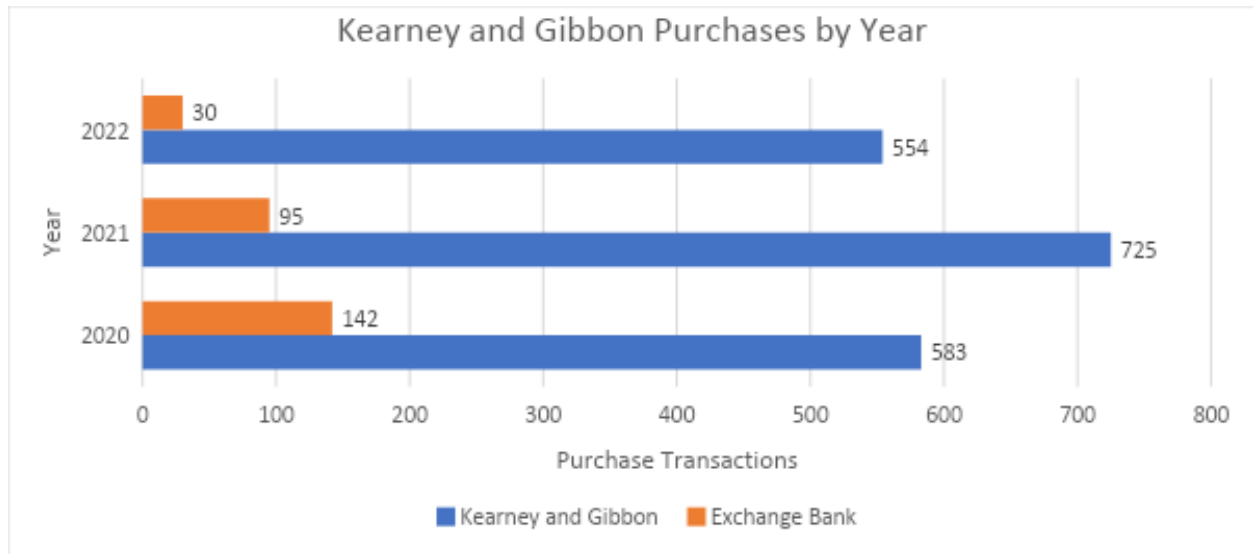
The Lincoln Branch has been fairly consistent with purchase business: 37 in 2020; 36 in 2021; and 23 in 2022. The drop-off since 2020 appears to be attributable to us losing our second LO there in 2021. Losing D- is blow to the Lincoln branch in more ways than one and we are in danger of repeating the failures in Gibbon, Kearney, and Omaha at that branch if we don't change our plan for retaining mortgage sales staff. With that being said, at least one full-time mortgage LO is going to be needed at the Lincoln branch.



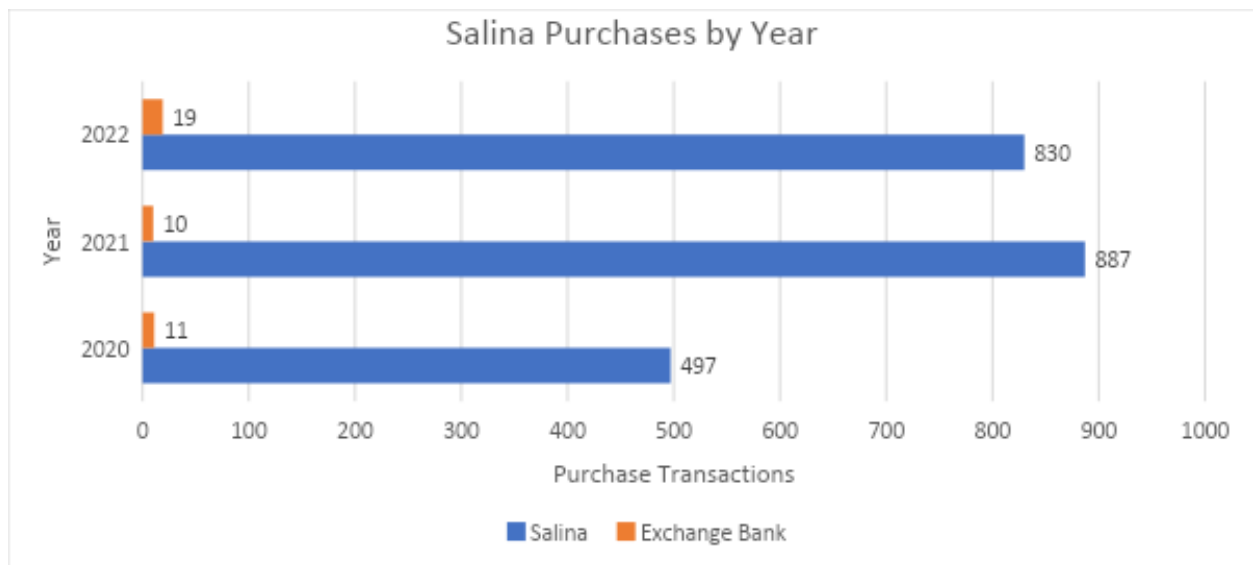
The Grand Island branch's purchase volume has been fairly consistent and has moved in line with its overall market advancing from 25 sales in 2020 to 58 in 2021 and retracting a bit to 32 in 2022. DW- and S- have done a great job in utilizing NIFA loans to drive their business. I would like to see them work on becoming comfortable with USDA loans to help them support some of the surrounding communities as a second pillar to their NIFA business. This branch is our 2nd least performing in regards to market share (which is disappointing considering we have 2 full-time LOs at that branch) and offers us the most opportunity for improvement. A branch like this is where a sales manager that can help with strategy can really be a boon.



Kearney and Gibbon branches have been combined here since they are so small on their own. This may be our saddest story mortgage-wise. We basically owned the market there in 2020 with 142 purchase sales followed by a sharp drop-off of 95 in 2021 and 30 in 2022. Losing both our loan officers in that area in 2021 hurt our overall mortgage volume. Kearney/Gibbon and Omaha are great examples of how important it is for us to hire and retain established sales staff. I'm confident that having an SVP of Mortgage that is focused on the concerns of mortgage as its own entity would help us immensely in hiring and retaining an effective sales staff.



The Salina branch is another example of a branch that suffers from inconsistent sales staff. 11 purchase sales in 2020; 10 in 2021; and 19 in 2022 is not bad considering we lacked a full-time mortgage loan officer there for 2020 through most of 2022. Through May 2023, M- has already closed 13 purchases for the year during one of the toughest mortgage markets in history. It will be interesting to see what she will be able to accomplish there and I'm confident that a more efficient operations team will facilitate a loan officer like M- to really bring in some good business. Retaining M- is essential to the Salina branch's success in mortgage.



Future Vision

This section is to demonstrate what a staff our size is capable of accomplishing and the path forward. Our mortgage department is similarly sized to Centris FCU (a former employer of mine operating primarily in NE and IA). They closed \$225 million in mortgages last year compared to our \$102 million. Centris has 8 loan officers all located in the Omaha area, one of which also covers Grand Island and North Platte remotely. They admittedly do have more branch locations than us and have a much larger presence in Omaha than us but as shown by the sales data above, access to a larger market is far from the whole story. A great first sales goal for us would be to beat Centris in loan origination volume.

Realistically, we'd need a year to get to a place where we are fully staffed and to make the requisite process and structural changes. But, once we have those pieces in place, with N- and L- focusing on what they know best and implementing a unified strategy we would be set up to double our mortgage sales in the next 1 to 2-year period and have a solid foundation to continue same branch growth into the future. Long term (4 to 6 years) we will bring FHA loans completely inhouse (I led Centris successfully through that process and will do it again for you) and move underwriting and appraisal reviews for VA and USDA loans in house as well, selling them under FHLB's Government MBS product. The goal should be to move slowly towards eliminating correspondents and going to Fannie, Freddie, FHLB, and Ginnie Mae directly and building out a mortgage servicing staff/department for better pricing, consistency, and greater control of the customer experience throughout the life of the loan.

What I would need to begin this process is first, the support of you and the site presidents in regards to the autonomy of the mortgage department. Second, I would need to hire one underwriter since my time will be spread out throughout the department with my main focus split between improving the process/controls and empowering sales staff to go out and sell. I would look for a less experienced, conventional underwriter and estimate the salary to be \$70k/year. I have a few former colleagues in mind). This underwriter will need to have the authority to approve and deny secondary market mortgages (with me acting as arbiter of escalations and review of government loans). To partially offset this cost and to move us more in line with industry standards, I would also want to review all of our mortgage LOs compensation packages. I don't know what they make today but I have the feeling that most of them are primarily salaried with commissions making up a small portion of their pay. This needs to be flipped so that the majority of their pay is commission based as part of the change to incentivize going out and bringing in business. We should not be paying LOs to sit at their desks and wait for the next refi boom. I would also need a solution to dealing with past due or slow paying borrowers for loans that we service or are forced to buy back. I cannot have the LOs making collection calls if we are going to execute this strategy effectively. My first thought is to hire one person to handle collections (or use an existing person outside of mortgage for this purpose) which would also move us one step closer to building a mortgage specific servicing

department (which will be necessary if our goal is to eventually retain servicing on all loans) but I'm open to other possibilities for dealing with delinquencies.

Once we have demonstrated that we can earn and maintain this level of volume (double what we are doing now), I would ask for an additional hire that can manage the post-closing/investor submissions. This will help us improve efficiency and consistency on the backend which will become more and more important as we begin to add more complex and demanding products such as Fannie Mae and FHA direct approval. I would expect the salary for a position like this to run \$50-\$60k based on today's market.

Conclusion

Our mortgage department is capable of much more than it is producing currently. One of the major obstacles to mortgage fulfilling its potential is that decision making is done at the branch level by site presidents who are not experts in mortgage. This proposal places decision making and responsibility for success in the hands of the experts. I have the experience of seeing how things are done at small local credit unions like Centris, to the largest retail bank at Wells Fargo, to the largest fully online non-bank retail mortgage lender at loanDepot. I've seen what works and what doesn't and I've been engaged with the process at various levels throughout my career. I am an expert at what I do and I have no doubt that I have a successful vision for what a mortgage department should look like. I'm confident I can implement it here.

It starts with decision making in the hands of an expert leadership team, clearly defined roles and responsibilities for the staff, attainable yet challenging goals, and a focus on the process that gets us to those goals.

The principals that will drive the team are 1) Close on time, every time 2) Over communicate to agents and borrowers 3) Be an expert at what you do 4) Focus on the process 5) Get better everyday

From my conversations with the staff so far, I feel the hunger for this type of change in the majority of them. I understand it feels like a risk to make large changes like this but there is a risk to keeping it the way it is too. Amazon used to just sell books. In the words of Mark Twain "Change is the handmaiden nature requires to do her miracles"