(Mr. Tenkey's Tips #231) www.mrtenkey.com

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Dear Management:  What does an EPO (early payoff) do to your company?

Well, the big result... it LOSES your company money,  and lots of it...

Costs for a single EPO, involve:  the immediate repayment of premium the investor paid you for the loan, plus an admin fee for their time of (from what I've seen) $500.00 to $2,500.00, the commission you paid to the LO involved... plus time, wasted effort and lost opportunity costs elsewhere.

To help mitigate these, there are two ways I've seen companies try to regain a portion of this loss...

One is to build a buffer into pricing across the board (usually 5-15 bps)... for a "EPO" rainy day fund.  This method does work, but you are also hitting (negatively) the pricing of all... for the sins of potentially a few.

Another option, is to charge back the LO for the commissions paid to them, on the loan in question.  This may look fair to the company based on the circumstances, but the LO might not see it that way.  So that might be a negative discussion point with them, as these roll in.

I actually prefer a hybrid of the two options, myself.

But whatever you choose, there will be effects (positive and negative)...

So stay big picture, consistent and forward thinking on this one peeps!