

ELITE PERFORMER MONTHLY

For The Real Estate and Mortgage Professional

Issue 10, June/July 2010 "Summer Edition"

In this issue I am sharing the draft of a recent article written for a National Mortgage Magazine which I believe should be published in the near future. This article is more related to mortgage than real estate, however I feel there are topics that discuss the many changes our industry has been facing and how these changes will help or hurt the consumer. Since the consumer is our employer, good information to be aware of in all aspects of the industry.

Have an excellent summer!

-AH

The Future of the Mortgage Broker and Correspondent

By [Andy W. Harris, CRMS](#)

I want to begin by saying that I support all channels of loan origination if operated with integrity and ethically compliant. To say our industry has gone through change is a severe understatement. While these changes have made a quick impact to how we operate, it's not over yet. More changes are coming and in the next several days we will have an idea on how the final draft of this new bill will impact our business on all channels. Financial reform will happen in one way or another. Is that bad? Depends on who you ask...

For those who are still here, we can assume you are fully dedicated to your career. It's been a very busy year from RESPA reform, the SAFE Act, NMLS, etc. It's important right now for anyone in the mortgage industry to STOP and take time to reflect on what's actually happening without premature decisions or assumptions. The last few years have been a challenging mental game and how you controlled your emotions and predictions during this time makes a difference. Decisions made were either derived from a positive view or negative view. Those decisions impact your life and business today.

Over the last few years I have witnessed a lot of pessimism and fear regarding our industry, primarily the wholesale lending channel. This behavior created massive panic followed by extensive marketing from smaller to mid-size lenders looking to capitalize on net branching opportunities from the falling broker community. This of course would expand their retail influence for line capacity, market share, profits, etc. Man did they succeed. I am not a big fan of monopolization in our industry which reduces competition and negatively affects consumers and small business. The quick "too big to fail" merging of banks/depositories was a concern regarding influence to their now massive servicing portfolios, but excessive net branching should also not go unnoticed.

So where do we go from here? I predict that wholesale, correspondent, and retail bank loan production as a whole will shrink over the next few years while rates increase. Companies who cannot control overhead costs or Loan Originators who cannot obtain

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market share will exit the industry after final HUD, NMLS, and financial reform settles. Time will tell us more about how compliance and buy-backs will affect those in the correspondent lending world on line health/capacity, not to mention asset requirements. Time will also tell how small the wholesale channel will get based off support from Loan Originators and industry business owners. Remember, we as Originators bring the loans to the lenders...how we choose to do that will determine the future of our industry.

Some of you recently might have received a survey requesting numbers to try and determine correspondent and wholesale loan production. It will be interesting to get the results from any of these studies. When hearing these numbers in the recent past or in the future, we need to realize that the bank and brokered loan percentages are/were heavily skewed due to the consolidation and growth of lenders servicing portfolios and the lowest rates in history. They hammered their servicing portfolio with marketing and loans I call the "Super SRP Streamline No Cost Refi"... talk about leverage and profit. Little did these customers know they likely had more favorable choices available.

Undisclosed service release premium (SRP) or disclosed yield spread premium (YSP) really makes no difference as long as the consumer is educated properly about the interest rate and box A of the transparent GFE. It's really that simple. Often we hear more about YSP than SRP simply because of the banking influence. One channel is not better than another, but we have on-going debate on price and benefit (which the consumer can determine). The playing field isn't level, but many Mortgage Brokers look at YSP disclosure and credits as a benefit to their business and their clients. The main item that brings value to the consumer is the Loan Originator. The Loan Originator is in the driver's seat and carries the responsibility on how they handle their clients.

There is no doubt about it that wholesale lending is the most cost-effective and efficient way for the lender to deliver product to the market. Wholesale lending is a very important aspect to our business on all channels. If anyone disagrees with that, than they are either in denial or obviously need to rethink their profession. **The only thing that can kill wholesale lending is US.** If you don't feed something it will starve and ultimately die. The wholesale channel needs to continue to receive good quality loans. The word "monopoly" and "competition" don't work well together in our industry. The local small business Mortgage Broker in the community is very important for the health of our industry and the protection of the consumer through competition.

I am currently a supporter of the wholesale lending channel and have chosen to commit my practice to brokering exclusively with my preferred lending partners. In my opinion, this is the most favorable channel for my clients for pricing and loan comparison. I feel it is more hands-on without the potential compensation hits for not using a line, which some consider steering if there is a better program available by brokering. I simply prefer to work for my client exclusively and not the banks priorities, regardless of the potential missed income as a business owner through SRP or overrides. I still support my colleagues in the banking and correspondent channels who do right by their clients, but

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will stand up to those who spread false information about good Mortgage Brokers or dishonest benefits in carrying a line of credit such as turn-times, pricing, or in house underwriting.

The Banker/Broker “tifts” in our industry and National Associations needs to STOP. Have opinions, but good people need to come together for support. At a recent industry meeting I had a conversation with a colleague that brought up a good point. The true definition of a “banker” is one who accepts payment on a debt, or a “loan servicer”. Because many of those with correspondent lines do not service loans, they should not fall under the same non-disclosure guidelines as those who do service loans. I have always had my own similar input on this topic, but it was an interesting view. If you were to get a personal line of credit approved at the bank and then use that line to offer a loan to a friend would you call yourself a banker? Does that make you a direct lender or an indirect lender? The structure and judgment of our lending channels is quite interesting.

Pre-judgment without knowledge could be another definition for ignorance. Make sure you understand the pros, cons, and health of each channel and truly how they operate. The one thing we need to always remember and never forget is that our employer, **the consumer**, is the most important piece of this puzzle. What is best for them? Banking or brokering? The truth is that it doesn't matter as long as they have choice, competition, and a person with experience and integrity helping them. Wholesale lending and the Mortgage Broker are here to stay. Correspondent lending is here to stay. I personally feel that I have a unique approach in my business and have no problem being the minority. I'm excited for the future of our industry.

None of us want to see more banks leverage toward retail and away from correspondent and wholesale lending. So what should you do going forward to protect and grow your business as a Mortgage Broker or Correspondent?

- **Closely Monitor Quality and Pull-Through (Brokers)**

Make sure your lock pull-through and loan quality is excellent. Focus on being a preferred tier-1 broker. Lock fall-out should always be 10% or lower (preferably under 5%) other than denied loan files. I know this is a hard number to swallow, but make it a goal. Do not prematurely lock or pull files for resubmission elsewhere. Be a respected and sought after partner for wholesale lenders. I promise that being a preferred broker has its perks.

- **Don't Bite The Hand That Feeds You (Brokers)**

Without your lenders your business cards don't work and you have nothing to offer. Be kind and supportive to your Lenders and Account Executives. Be someone they look forward to seeing every week. Build relationships internally and earn respect. If you are negative or arrogant you really need to re-evaluate yourself and your business. If you have issues with lenders, make sure you communicate them with your account rep.

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- **Education (Both)**

Make sure you maintain your Initial and CE as required under NMLS, but also focus on elective education and building your skills as a Mortgage Professional.

- **Control Your Overhead (Both)**

Now is time to tighten your belt. Check your financials regularly and cut what is not necessary. Carefully review any lease agreements and make sure you keep the term as short as possible and negotiate the lowest rents possible. The same goes for those who buy. Don't let your ego get stuck in an expensive A building when you could increase profits and pay your employees better in a B building. Focus on growing net worth if required.

- **Market and Prospect! (Both)**

Continue marketing efforts and look at low cost ways to attract more business. Focus on referrals, technology, social media, etc. Never put this on hold or discontinue efforts in this area.

- **Stand Strong (Brokers)**

You've dealt with enough. Be confident in what you bring to the market and support the wholesale lending channel. Educate consumers and the media regarding how our industry works and what a Mortgage Broker means to them.

- **Monitor Your Underwriting and QC (Correspondents)**

If you choose to underwrite and fund your own loans, make sure that you have experienced underwriters and tight quality control. The concern and level of buy-backs is on the rise and you can't take the risk of non-compliance or fraud to put your line capacity at risk. There is only so much allocated.

- **Two Arms Are Better Than One (Correspondents)**

Don't put all your eggs in one basket. Make sure you have more than 1-2 approved credit lines. Even more importantly, make sure you are approved with numerous lenders for brokering unique programs needed to be competitive in the marketplace and provide choice and comparison.

- **Choose Your Home Carefully (Both)**

Make sure to do a lot of research on the company you plan to set up your license or your branch with without influence by fear. Reputation is everything in this shrinking industry. Look at others within the company (if a larger company) that could either help or hurt your business. Make sure you have all the tools and support needed. Ensure they have enough in assets for new HUD approval (correspondent) and enough capacity on lines to avoid and funding or other issues.

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Net Worth (owners)

Each State has their own requirements regarding net worth for mortgage brokers to obtain licensing. Some require it and some do not. In my opinion, the verified net worth of a third party originator will not change the level of risk to the lender or to their clients. This must be audited through loan quality, tracking, and scoring. I do not personally believe there should be net worth requirements for mortgage brokers, however I do believe that they should have some kind of surety bond or other insurance as typically required and based off their production. At this point it appears the industry does not require brokers to carry a specific net worth other than State or lender overlays.

Lenders and correspondents are definitely seeing changes in regards to net worth requirements for HUD and bank line/capacity approval. I do support the changes made by HUD regarding TPO approval and originations similar to other conventional methods of origination. Time will determine how this production-driven asset requirement will impact more future mergers to meet requirements. I think there should be a level of flexibility on the smaller correspondent firms, but each business is so unique it's an area I know has been discussed quite often.

Now is an exciting time to be a Loan Originator. Focus on your education and the quality you bring to your clients. Support your local and National associations. We are in the final stages of industry cleansing which presents new market share opportunities for the best of the best. It's extremely important that we police our own going forward to avoid more issues in the future.

Dig in your heels, set goals, and stay positive!

Until next time....thrive.

-AH

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