By Paul Buege
Senior vice president
of branch development
Inlanta Mortgage

Opportunity or Liability?

Despite risks, affiliated lending can increase production

As the mortgage market thins and new business opportunities are less apparent, mortgage professionals should consider one often-overlooked opportunity: affiliated lending. For the right organizations, this model can be an innovative way to open up new business and increase your company's production.

Affiliated lending should come with a warning, however. It carries risks and challenges that those inexperienced with this model may not immediately recognize. Affiliated lending has significant regulatory oversight, for instance, and it requires companies to have a well-planned, long-term business model. In addition, this model necessitates a company creating a group of specialists to carefully lead and monitor their partnerships. Although affiliated lending can offer dramatic opportunities, some lenders have mixed feelings about it.

Many large and mid-sized banks have avoided affiliated lending because of increased oversight by the Consumer Financial Protection Bureau (CFPB) and state regulators. At the same time, a new crop of lenders — mostly independent mortgage bankers — are showing a growing interest in the opportunities afforded by affiliated relationships.

Opinions differ dramatically about the future of affiliated mortgage lending. In light of that, mortgage professionals would be well-advised to consider the risks and opportunities involved in this highly specialized business sector.

Regulations

It's extremely risky to carry on affiliated lending relationships informally or in a loosely managed way. The CFPB has sent a clear message to companies and individuals that illegal kickbacks and sham relationships will be severely punished, so companies must instead conduct their lending relationships with due diligence applied to every deal — or suffer the consequences.

Most legitimate companies involved in affiliated lending support the tougher standards set by the CFPB. As the bureau reviews more of these business relationships, regulators will likely confirm that affiliated lending carries a benefit for all stakeholders. Legitimate affiliated lending relationships share the same common interests and goals, and these qualified relationships have always been about building concrete and substantial benefits for the consumer.

> **"A well-functioning affiliated relationship benefits not only the strategic partners, but also their clients and the regulators reviewing these business structures."**

Structures

There are numerous ways for a company to build affiliated lending relationships with strategic business partners. These relationships can be formed around desk rentals, marketing service agreements and other joint ventures. Regardless, each affiliated structure will offer certain benefits, and admittedly, certain weaknesses.

When forming an affiliated relationship, it's essential to hire a lawyer who specializes in the regulations of the Real Estate Settlement Procedures Act. Establishing the affiliated agreement, however, is only the first step in the process. Lenders also need to fully assess and understand the management and audit requirements for each type of affiliated relationship. A company also must monitor and audit the relationship aggressively or risk regulatory fines and sanctions.

Risks

Affiliated relationships exist in nearly every type of business across the country. These strategic alliances offer companies the opportunity to work together to achieve business goals.

Although the benefits and opportunities of these relationships can be alluring, it's important to recognize that affiliated relationships can have a significant failure rate; by some estimates, as many as 70 percent of these relationships fail. Considering that, before your company enters into an affiliated relationship with another organization, you should fully understand why some similar relationships have failed in the past.

Organizations often make the critical mistake of putting their time and money

continued ››

Paul Buege is a senior vice president of branch development at Inlanta Mortgage in Brookfield, Wis. Buege leads the company's development in joint venture mortgage partnership opportunities with leading real estate, builder and relocation management companies across the United States. He also manages groups responsible for business alliances, marketing services, service arrangements and sales. Buege has more than 25 years of successful strategic and sales management experience. Reach him at (262) 754-6407 or paulbuege@inlanta.com.

Reprinted from *Scotsman Guide* Residential Edition and scotsmanguide.com, March 2014

‹‹ continued

into finding and starting new alliances, only to fail when it comes to putting adequate resources into managing those relationships. In addition, companies often come together for conflicting reasons. When affiliated relationships are based on immediate business needs rather than a long-term business strategy, conflicts can arise and the relationship often fails.

Affiliated lending doesn't work if the companies are committed to each other for only a short period of time. When the stakeholders do not share the same commitment and level of responsibility over the long term, the relationship begins to break down with disagreements, finger pointing and blame.

Business groups

Any company entering into affiliated lending relationships should create a specialized alliance business group to oversee the relationship. This group should be responsible for partner assessment, developing affiliated contracts and monitoring the relationships to ensure that the affiliation is fully complying with government regulations.

The senior management of the business group should be among the highest ranking officials in a company. This will solidify the legitimacy of the business group. Professionals in these groups must guide the strategic partnership between the affiliated companies, so they need to have the skills and ability to foster collaboration within their company and with each stakeholder of the strategic partnerships.

• • •

A well-functioning affiliated relationship benefits not only the strategic partners, but also their clients and the regulators reviewing these business structures. With regards to the latter, well-organized strategic partnerships can make the mortgage transaction more transparent and predictable. Affiliate relationships also can provide consumers with more competitive product offerings, lower fees and excellent service levels.

With all the uncertainties and trends sweeping across the mortgage business, strategic affiliated alliances can play a significant role in building sustainable sources of new mortgage production. These alliances can also help balance costs and risk, expand brand recognition and enhance companies' credibility. By forming a clear long-term strategy and choosing a strong affiliated partner, mortgage companies don't have to face the trials and tribulations of the industry alone. ●

Reprinted from *Scotsman Guide* Residential Edition and scotsmanguide.com, March 2014