Shooting the Wounded … What's Happened to Our Industry?

By Nicholas J. DelTorto

I am amazed at how different the business of mortgage lending is today compared just three years ago. I unfortunately have to admit that I am approaching 30 years in this business. In my mind, it seems like just yesterday that I was starting out as a new loan officer in what was to become my career. I've seen interest rates at 14 percent, three recessions, a couple of housing busts, the Savings & Loan (S&L) crisis, and more than a half a dozen refinance manias; but I can honestly say I've never seen anything like our current state of affairs.

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To say that we have undergone "change" is like saying the Titanic "took on a little water." Financial services have changed forever. What started as "the sub-prime crisis" seemed to evolve into TARP (the Troubled Asset Relief Program), too big to fail, the housing collapse and the current "great recession." I've never been very political, but I have become much more of a student and more active in politics. I'm amazed that so much "we've got to make this right for the consumer" has come out of Washington, when Washington politicians have put our country into the face of the worst budgetary mess, deficit spending and over borrowing that has left us positioned to be a tier-two monetary power, with a questionable future for our children. The double standards seem to be endless, whether it is healthcare reform (that doesn't apply to members of Congress) or secondary market agencies pricing loans based on a "risked-based pricing" that would be considered discriminatory if we varied pricing in the same manner. The "do as I say, not as I do" approach to rule-making would be comical if it wasn't so distressing. These are the very same politicians who are directing their energy toward deep and far-reaching legislation.

It's more accurate to say financial services and mortgage lending have been under attack for a number of years and now they are in the "shooting of the wounded" phase of the cycle. As often is the case with deep and singularly-focused legislation, the baby gets thrown out with the bath water. Granted, our industry needed a clearing out … we needed to change. There were unprofessional and unsavory players. Lending practices had gone awry, but there is plenty of blame to go around. Originators did not create the securities or change underwriting guidelines or put into effect automated underwriting engines that used sophisticated "blind" black box underwriting algorithm that determined if loans were approvable with 100 percent loan-to-value (LTV) and 50 percent debt-to-income (DTI). Regardless of the fact that the blame should be shared, it is the people on the front line, those dealing with the consumer directly that are, in fact, bearing the greatest attention and "punishment." It really surprises me (but it shouldn't at my age) that so much of the blame and punishment has been directed at the frontline originator. It doesn't seem that the regulations have been equally directed at the large, more politically powerful players that equally share the responsibility for the heady real estate and mortgage finance market that existed.

Now we are seeing the after-effects and the unintended consequences. The effect on good players not being able to survive, or the process just becoming so weighted down with regulatory and compliance burdens, that the costs of obtaining a loan have and are going to continue to increase (or your profits will suffer and drive you out of business). The monopoly forming that the big four banks are capturing in market share and the record profits they are enjoying, will certainly result in higher costs to the consumer as the options dwindle. A languishing real estate market continues to suffer under the intervention and "financial engineering" being done. The intervention has really not helped in my opinion, if anything it has dragged out our recovery and made it worse. Home Valuation Code of Conduct (HVCC), Good Faith Estimate (GFE) reform and foreclosure "management" are making it more difficult to help good people and pushing them to a "back up against the wall" decision-making process. Underwriting guidelines have become so restrictive for refinancing good borrowers to allow them to lower payments, consolidate first and seconds and basic restructuring of their debt that it seems we have gone from too many options to no options. Borrowers who want to pay their mortgage often cannot refinance their rates down to current levels, due to loss of property value. This has clearly been made worse by the effects of foreclosure management, federal intervention of foreclosures which resulted in dragging out inventories longer and continues to hamstring the real estate values and ultimate market recovery. I believe that had we allowed some of the natural market forces take effect, we would have had a natural inventory absorption of foreclosures. I guess I'm a free market capitalist and the more we attempt to manage the process, we thereby create some other equal and opposite reaction. I think we saw a good example of this in the TARP bailout and "too big to fail." Had we allowed them to fail, other competitors (many not so "big") would have stepped in and captured the natural opportunities that existed with a healthy competitive environment. The list of examples goes on and on …

This is not intended to be a doom and gloom message, but an honest and pragmatic review of where we have come from, where we are now and perhaps where we can go from here. Our business, over the last 10 years, has attracted a number of very entrepreneurial, creative and hard-working people and small business owners that captured the market share from banks and savings and loans that had become complacent in their outreach and execution. Smaller companies could react quickly to market opportunities and reach out to consumers to help them achieve the dream of homeownership that was promoted and mandated from the top down throughout our government and the entire real estate market chain. The people left in our industry today are the best and brightest … they are the "survivors." The problem is that even with all of the right intentions and hard work, it is going to be very difficult to survive as a small- to mid-sized player on your own. The burden of compliance with all of the new regulations is expensive and only going to get worse. At best, it presents a challenge for any small organization to remain focused on revenue generation when you have to wear so many hats. Technology is advancing swiftly (and finally) in our business as a method of achieving stronger compliance and more efficient marketing, but this also has a significant associated cost.

What previously was an advantage for a smaller mortgage banker or broker was more product options, and a better price due to lower cost of overhead has now become a challenge and frustration based on significantly fewer wholesalers (therefore, worse pricing), a product offering of "One Size Fits All," and rising overhead based on an increasingly complex compliance maze. Licensing, the Nationwide Mortgage Licensing System (NMLS) and loan officer (LO) compensation are just making it all too difficult and many are just throwing in the towel. Everyone is dealing with the velocity of change and frustra-

tion in different ways. It's disappointing to see how many have simply thrown in the towel, others have surrendered their entrepreneurial spirit to just go work for the big bank and so "it will be easy again." Others are doing the best they can to hang in there, but realize the long-term challenges are becoming insurmountable. As an old street fighter, it breaks my heart to see the spirit and drive of so many great sale producers become broken.

If you look long and hard at the reality of the market and how the business is evolving, there are options and the future for the entrepreneur is not so bleak. In fact, it may end up being even better. Certainly, the big banks will capture enormous market share (more than they will be able to effectively serve in my opinion). The housing market, even with all of the aforementioned "hamstrings," will not stay at this current weakened state forever and certainly there are considerably fewer players to service the consumers when the business level increases. There are so many more barriers to entry in the industry that we won't be the next destination of the fly-by-night players as business increases. This market reminds me of the period in the early 1980s when the banks did dominate and the early mortgage bankers and brokers were out there reaching out to serve their referral sources and captured the business, and their market share grew over time. We got away from what we did best, where the rubber met the road—the sales process of going out and forging relationships was where we differentiated ourselves based on being on the front lines and delivering exceptional service and a competitive price. Somewhere along the way, it got too easy; refinances, swelling homeownership and the limited barriers to entry led us to want to own our own shop. After all, let's face it, our ego is one of the main reasons we succeeded, but it also can result in only seeing the blue sky. The reality is that "owning your own business" comes with a host of new responsibilities and challenges that ultimately distract us from what made us successful in the first place … selling, winning and serving our customers.

We need to go back to our roots, the core of our success, focusing on sales and revenue generation and away from being the only one responsible to meet the distractions of compliance and other baggage. Certainly a bank will provide you with the relief from having to wear all of the hats and the larger support structure will do that, but it comes at a steep price. You want to be paid for performance. It can become "easy" at the bank, but remember, you didn't bring that customer in through your efforts. It will be quickly pointed out to you that the customer is in front of you is mainly there because they are a customer of the bank, and as such will be reflected in your compensation.

Branch partnering with the right company provides the best of both worlds. There is strength in numbers. You can run your business, but with the entire support structure you need in the future. Compliance, underwriting, secondary, technology and all the department bench strength you need, to do what you do best. You get paid for the performance of you and your operation, and you benefit from the combined volume with full secondary marketing. Underwriting is done in-house by your teammates; closing, funding and warehouse facilities allow you to control the entire process; and the service quality will skyrocket.

The business has changed, but there are awesome opportunities to lighten your load and get back to where our success started. When looking for the right company to partner with, I would urge you to do your homework. Meet with the company and the various department heads. You'll get a good feel for the level of support you'll receive. Talk to other existing partner offices and see how they feel. Make sure you choose to work with an ethical and stable organization. Any potential organization that tells you with pride how they "get around" compliance with the latest regulations, or one that hasn't invested in technology won't be around long enough to help you succeed. The opportunity in the future will be great for those backed by solid companies, the survivors will get more market share by working to develop and deliver high quality service locally as the market volume continues to grow and recover. You have fought too hard and long and are one of the survivors to just throw in the towel. Choose the right company to partner with so that you can be there to seize the business. Carpe diem!

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