

# Mortgage Banking



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ORIGINATION

THE  
DELIVERY  
CHANNELS

# BEING IN THE RIGHT GAME

BY DAVID WALDEN

**There is a lot of confusion today about how to successfully run retail production. Some of it's caused by a lot of newcomers to the game that don't fully understand the basic playbook. The winners will learn that corporate bureaucracy is one game and entrepreneurship is quite another.**

**THE FIRST HALF OF THE '90S HAS SEEN A TREMENDOUS** influx of newcomers at all levels of mortgage banking. From the refi rookies to upper-level managers of commercial banks entering the industry mostly through acquisitions, there are a growing number of new players in the mortgage business. New is not necessarily bad, but these players know little, if anything about this business. ● Many of these new entrants bring with them grand visions of how to change the business. But what these newcomers need to learn is that this business has refused to give up its basic "entrepreneurial personality" for well over a century. Is it really going to change now? ● This industry seems to be reeling from misunderstanding and disagreement over how and where we are going. If there is wisdom in the old saying, "It's easier to know where you're going if you understand where you've been," a review of the industry's history might prove valuable, particularly for those suddenly finding themselves in the thick of this unpredictable business. ● But rather than focus on the whole of this multifaceted business, this article will focus on retail originations—where it's been and where it's going. For the next five years, succeeding with retail mortgage originations will require flexibility, diversification and a more astute perception of what "retail" now means to the consumer. Success will require a willingness to implement the necessary business practices to satisfy that perception.





• W A L D R E P •



This era of transformation also will demand a commitment from management to identify and eliminate internal conflicts of purpose between management and the origination staff that inhibit the reinvention of the functional teamwork environment. Without such a commitment these winds of change will prove devastating to many.

Profitability and volume are often stated as obvious objectives. In fact, they are actually two principle by-products of good employee relations, which in turn result in increased levels of customer satisfaction. Unlike the loan administration and risk-management functions, production is at least as much a people business as it is a numbers and paper business. It's crucial for management to take that as the starting point when managing a retail operation.

#### **Where we're coming from**

Through the '60s and well into the '70s, banks and thrifts dominated conventional mortgage lending by capitalizing on two areas: relationships with their consumer/depositor customers and the ability to influence placement of permanent loan business through A&D (acquisition and development) and interim-lending relationships with developers and home-builder customers.

Mortgage bankers found their place in the market by selling service. Their willingness to tackle the complicated and document-intensive origination of FHA and VA loans for first-time buyers and middle-class Americans unable to get conventional financing was their primary niche. Coupled with their "make-the-lender-available-to-the-customer-24-hours-a-day, 7-days-a-week" business approach, they successfully competed for that share of the market. Mortgage brokers as active participants on a major scale in the loan origination market were almost nonexistent.

The late '70s saw mortgage bankers challenge the banks and thrifts for a larger share of the conventional market. The new, high loan-to-value (LTV) ratio, privately insured, conventional loan had been introduced and was originated predominately by mortgage bankers.

Banks and thrifts were slow to embrace these new loans because most of their lending efforts were portfolio driven, and the perceived risk of default was too great. Whole-loan purchase commitments by banks and thrifts as investors to mortgage bankers often re-

stricted the number or percentage of the deliveries of this type of loans. The maturation of the secondary market, with its ability to absorb and balance the risks of high LTV loans, created an unlimited market for these loans, while mortgage bankers continued their quest for market share by selling service.

By the late '70s, the environment that formed the backdrop for this competition for market share changed dramatically. Poor economic conditions had the thrift industry, in particular, staggering from the weakening effects of disintermediation. That industry was forced into a less-competitive posture in the mortgage market.

David Maxwell took the top job at Fannie Mae bringing with him proactive ideas on making it a more aggressive organization. The "negotiated commitment" took on new flexibility and became an effective tool with which the

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mortgage banker could offer an expanded menu of programs. The new menu could include creative financing products designed to be an antidote to prevailing adverse market conditions, which included double-digit interest rates and a widening affordability gap. The balance of power in terms of market share was beginning to shift to the mortgage banker. Mortgage brokers remained a nonfactor in most areas of the country.

Radical changes marked the entire decade of the '80s. Banks and thrifts that wanted to continue extending mortgage credit and/or investing in mortgages were forced to act more like mortgage bankers and sell new production into the secondary market. Portfo-

lio lending diminished and uniform standards for appraising, underwriting and secondary marketing techniques were adopted by the mortgage banking industry. Service corps or massive divisions were set up by depository institutions in the major population centers. Development, refinement and expansion of the conventional mortgage-backed securities market forever changed the secondary marketing side of mortgage banking.

The first major refinance boom in the summer of 1986 created unprecedented origination volume. Real estate sales volume and the resulting lending opportunities reached all-time high levels. Mortgage bankers got larger, and their overhead expanded to handle an ongoing boom. It didn't happen. Rates rose, and volume plummeted.

The industry began to see real estate values and lending opportunities disintegrate. Across the nation, mortgage bankers, commercial banks and thrifts began to fail. The regulatory agencies, particularly the Resolution Trust Corporation (RTC) created by Congress to liquidate the assets of failed thrifts, began to pile large amounts of mortgage servicing on the auction block.

The price of servicing fell because supply exceeded demand. The more fortunate mortgage bankers (those not connected by ownership to a failing bank or thrift, or heavily involved in commercial, A&D and/or interim construction lending) suddenly discovered they no longer could originate servicing as inexpensively as it could be purchased. They laid off large numbers of originators and support personnel, and many closed their retail production departments.

Facing severely limited employment options, many of these production specialists formed their own origination organizations. And why not? They still had their relationships with the real estate sales community as well as knowledge of products and procedures.

The balance of power was again shifting, this time not only without competitive resistance from mortgage bankers but, instead, with the support of the many who viewed the new mortgage broker as a source of cheap mortgage servicing. This external origination capability would avert the heavy cash burden needed to operate a retail production organization. Wholesale mortgage banking became unquestionably the



new and only business plan for many mortgage bankers. But this perception of the mortgage broker as a welcome alternative to the expense of originating retail soon began to change.

#### **Where we are**

The '90s, as expected, already present a whole new array of challenging opportunities and obstacles. The change the industry is experiencing is pushing many predominately and/or exclusively wholesale mortgage bankers back into the retail origination business. Many lenders that operate both wholesale and retail operations have reported significant cost swings in the acquisition of servicing. Three recent refinance booms and one more threatening to increase the runoff of existing servicing portfolios will surely keep upward pressure on the price of servicing for the foreseeable future.

And mortgage brokers are demanding to be paid top dollar for their originations while dictating the pricing policy of the street. Never before has the price differential between Wall Street and Main Street in many major markets been so great. If those industry experts forecasting price wars brought on by the new bank-owned entities struggling for market share are correct, the gap will only widen.

Why are they predicting price wars? Today, many larger banks and thrifts are not so much capital conscious as they are earnings conscious. They have invested their capital through the purchase of a mortgage bank(s) and are driven to produce a return. Production to cover portfolio runoff and expand their asset base is one way to produce the earnings they seek as a return on investment.

Originated mortgage servicing rights (OMSRs) now enjoy similar accounting treatment as purchased mortgage servicing rights (PMSRs), making retail production even more attractive. Also, many wholesale purchasers of servicing are becoming increasingly concerned about quality control issues on third-party originations.

Many mortgage bankers with large retail operations built during the refi boom of 1992-1993 are still hemorrhaging red ink on their operating statements. After the first year or so, they forgot that refinance volume was only temporary while they made permanent overhead commitments to support the volume.

Many are now retreating from the front lines of competition with branch closures and extensive layoffs in an effort to stop the hemorrhaging. This is not an indictment of those lenders. Almost everyone became blinded by the frenzy.

The Financial Accounting Standards Board's (FASB) new FAS 122 may offer relief according to some experts. Others say FAS 122 is playing with smoke and mirrors and could lead to bigger problems later. Nevertheless, this creates a real opportunity for many lenders to advance and attack the business opportunities remaining, given fewer competitors.

#### **Institutional vs. entrepreneurial lenders**

Within the retail mortgage origination marketplace, turf wars are escalating as larger mortgage bankers attempt to capture lost market share from mortgage brokers and small mortgage bankers.

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How many mortgage brokers survive may well depend on timing. They are outgunned by their capital-rich mortgage banking competitors.

Nevertheless, they will not just survive, they will thrive, unless the small to medium-sized mortgage bankers relearn the art of personalized service. That appears to be a business practice that larger, bureaucratic mortgage bankers are limited from excelling in by their very size. Like most new artificial intelligence underwriting programs, these huge bureaucracies are rules-based rather than logic-based operations by necessity. They have been hampered by structure and size and to date have proven unable to compete in the personalized service

arena. And, logistically, that probably can't change within the next five years because their current focus is on getting bigger, not better at service.

In addition to the servicing acquisition, pricing and quality control dilemmas already discussed, there is another unspoken perception held by many mortgage bankers that is proving false. The perception is that their former employees now working for (or as) mortgage brokers would readily accept an opportunity to return to the security of a financially stable and structured mortgage banking company whenever they want them back. Many who lost their jobs and were forced to become mortgage brokers to survive, through hindsight, now view the security of belonging to the corporate family of mortgage bankers as an illusion. And therefore they place no value in the concept. Many of these brokers felt forsaken and abandoned by corporate mortgage banking and still do.

That perception will take time to change. Most enjoy the control they now have over their careers in general. More specifically, they value the control they now have over what, when and how they conduct business. Those who pursue low-volume/high-income originations by targeting a high percentage of their income through overages will probably never again be manageable in a mortgage banking environment, especially given today's fair lending legal risks.

Their starting point is a net price, and their definition of an "overage" typically includes the amount of the servicing release premium or servicing value already factored in their wholesaler's net price. Those brokers who conduct themselves with a more traditional and responsible level of business acumen, principles and practices can be indoctrinated into a structured corporate environment.

However, recruiting them into a bureaucratically structured mortgage bank might prove a real challenge. Convincing a prospective employee that it would be a good career move to accept virtually the same commission-based compensation program he or she already has, along with a significantly reduced product menu and a likely loss of operating flexibility, would be a hard sell, to say the least. The mortgage banker must understand the culture those brokers are leaving. Then, they must offer as many of the elements of that culture as possible in



their new business environment that are either proven or perceived by the prospective employee to be important to his or her past, present and continued prospects for success.

### **How we get where we're going**

My blueprint for successful production is based on the observation that the corporate giants of tomorrow are those who are willing to rewrite their business plans based on progressive trends in a changing marketplace where timing can make all the difference. Retail mortgage originations can be operated as a serious cash-producing profit center. The success of the brokers has taught us that. Retail originations also can be operated as an economical cost center for acquiring servicing. Successful wholesale mortgage banking has taught us that.

The successful production department of the '90s will do both, not separately, but as one. Even retail giant Sears finally realized that by only allowing credit purchases with a Sears charge card and/or by only offering Sears' own brands on the sales floor, it was forcing customers who wanted to buy another name brand with their favorite bank card to compromise their preferences or do business with the competition.

The consumers of the '90s are more protective of their assets and selective with their spending money. They want choices and value, not compromise and hassle. They don't like being compromised and won't forget being asked to do so when they refer others who ask their opinions.

Losing that goodwill and losing the business to a competitor is a prescription for disaster in any retail environment, including financial services such as mortgage originations. The successful retail mortgage banker should offer not only its own complete line of programs and prices, but also other popular alternatives, so that if the transaction cannot be retained for servicing, at least the cash-income opportunity can be retained by doing the transaction.

The retail mortgage banker of the '90s also will discover that the secondary benefits are many for being user-friendly to customers. If you give customers what they want at your store, you increase the opportunity for repeat business. You also please the real estate sales professionals, ensuring future referrals by making their customers happy they were referred to you.

It is also important to remember that some things really haven't changed. Real estate sales professionals have always shopped lenders for programs and pricing. History has proven that when lenders don't get involved in this shopping process they will often be closed out of the transaction. Mortgage brokers have shown that Realtors and buyers shop elsewhere less often and less intensely when they believe a broad representation of the programs available in the marketplace can be found at one location: one-stop shopping.

### **Recognizing the competition**

In any retail business, to be competitive first requires that the competition be identified. Mortgage bankers must recognize that mortgage brokers are their principal competitors in the retail mortgage origination business, with alternative production arrangements such as joint

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ventures (controlled business arrangements) coming up strong in many major markets.

One way to be competitive is to offer the products the competition offers plus more, whenever possible. Selling an alternative loan program that allows servicing retention against the terms of a brokered program is often easier and met with less suspicion and resistance when both programs are offered at the same place. The consumer tends to believe the sales points are being delivered more honestly and objectively when the seller will benefit from the sale regardless of the program chosen.

The cost and operating efficiencies of operating a one-stop shop are many.

One of the reasons retail operations in the '80s were perceived as costly was the feast-or-famine scenario under which they historically operated.

Under the blueprint outlined in this article, a production operation can avoid many traditional operating dilemmas. For example, the need to operate at unacceptably high origination costs, or sacrifice department morale, system capacity and good personnel through layoffs, can occur when a company's secondary department fails to supply popular programs available elsewhere in the market. Or, it can occur when volume falls off due to uncompetitive pricing. Any number of scenarios can render a production department "out of the market" and inefficient in terms of cost.

The blueprint I envision allows a production operation to realize and benefit from more-consistent growth and steady volume. It will also provide a secondary department with a relatively steady pipeline of mortgages to capture for servicing, when beneficial, or pass on when necessary. Furthermore, this blueprint affords mortgage bankers a recruiting advantage because they are willing to offer both stability of employment and an opportunity to earn, not an irresponsibly high percentage rate of commission, but rather an opportunity to make more commissions.

The blueprint also encompasses the majority of the benefits that brokerage employment offers commissioned originators who are not overage-dependent. Further, it affords a company the ability to avoid becoming a costly training facility for more aggressive mortgage bankers and brokers, who then decide to leave to earn more commissions once trained.

### **Learning from other industries**

Mortgage bankers must learn lessons from other industries as well. The airline industry is one prime example. Contrary to advertised claims, the "hub system" employed by most major carriers was set up primarily to serve the airlines' best interest in terms of cost efficiencies, at the expense of customer convenience and service. Before long, industry upstarts such as Southwest Airlines, were taking a big bite out of their business opportunities by operating as an inexpensive "point-to-point" carrier.

In 1993, the major airlines attempted to regain control of the market by sim-



plifying their classes and pricing structures and even set up low-cost, point-to-point subsidiary carriers. But, they discovered they couldn't operate profitably overall because they found themselves trapped by the limited options of their "hub system."

Some airline industry experts agree the carriers still are too trapped into compromised business plans to return to profitability. Much of their losses could have been avoided had they recognized that it is the customers' preferences, and not a business's desire for better profits, that have the final say in all consumer matters.

Today's mega mortgage brokers are the Southwest Airlines of the mortgage banking industry. Centralized processing and the "originate-only-what-we-can-service" business philosophy are just two examples of mortgage banking's hub systems. Centralized processing will not work until most, if not all, popular programs demanded by the consumer are available under significantly reduced and standardized uniform document requirements with five or less documents. Why? Because a loan originator cannot honestly look a real estate sales professional in the eye and effectively warrant to the agent that he or she will be responsible for the good service being promised when the majority of the paper-intensive work to be done on the file will be performed at a foreign location. What's more it's being done by personnel not directly accountable for their performance to the originator and not under the regular scrutiny and supervision of the originator.

#### **Top loan officers and good secondary marketing**

In the past, most mortgage bankers have focused on employing first-class loan officers to sell an often second-rate program and/or a second-rate price. This blueprint still calls for a first-rate effort from first-class loan officers. It also demands a first-rate effort from a first-class secondary marketing department. The secondary marketing business is staffed with personnel with as wide a range of capabilities, talents and performance records as any other vocation.

A concerted effort to get the very best personnel and performance for both production and secondary marketing departments should be a primary focus for management. The customers will tell the mortgage lenders what products or

services will sell, not the mortgage bankers' secondary marketing or servicing departments. The accountability of both departments should be balanced if a team work ethic is to properly develop.

#### **Choosing the right partners**

One beneficial byproduct of the current personnel oversupply, many of whom are unemployed, is that the opportunity has been created for many lenders to upgrade their staffs. The primary objective in such an upgrading effort should not necessarily be the pursuit of technical or product knowledge (this information can be taught). The focus should be more on finding professionals with positive attitude and talent demonstrated when using technical and product knowledge in performing one's duties as sales (originators) or sales support (processors, underwriters, closers) personnel.

Many employers have reduced the size of their staffs. Surprisingly, many

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have done so using seniority alone as a basis of selection for layoff. At the risk of stereotyping, in my experience this seems particularly true of larger bank, or thrift-owned mortgage banks. Almost without exception, their personnel report the human resources departments behave like the proverbial "tail wagging the dog." They establish and dictate employment policy as if they were a governing authority rather than following the classic business school definition of their function. As a result, many technically superior and talented, consumer service-oriented personnel are unemployed or working in conditions and/or

in positions that fail to benefit either the employee or the employer.

Personnel who are unable to communicate adequately or get along well with other employees and whose quality of work is substandard due to a less-than-desirable attitude are a detriment to a lender. Such employees curtail a lender's ability to maximize business opportunities. They harm the employer's reputation as being "a good place to work" and, as a direct result, "a good place to do business" in the eyes of customers.

Bad attitudes can eventually destroy a business. Management should determine if changes within policy and/or organizational structure would correct the attitude problem. If so, can those changes be implemented without adversely affecting their business plan or other personnel? If so, do it. Such action will make a statement to the entire work force that their opinions and happiness are important. If not, replace the employee with one who is grateful for the employment opportunity, qualified for the position (even if training is required) and compatible with the organization.

Whenever possible, allow the employees to establish policy. After all, they are the ones who will have to function within its boundaries. Employees take a greater degree of responsibility for following policy if they are responsible for the policy.

Like a head coach, the production manager should encourage policy built around the strengths and weaknesses of the branch management team and make adjustments in policy as necessary including times when personnel changes occur. There are many good game plans in the origination business. The key is good leadership that allows the team to find a game plan that the team has the confidence to execute efficiently.

If the team believes it is a winner, it will behave like a winner. And, it will probably be a winner. The production manager should define the corporate objectives as well as the options and obstacles. The production manager should be prepared to provide a tie-breaker vote only in the process of establishing policy.

#### **The navigator: A challenge for leadership**

There are two basic types of corporate production managers. Most major mortgage banks have senior or executive-level production managers by title only. In reality, they are actually pro-



duction administrators by function and necessity due to sheer size and volume. They manage departmental performance by statistics and reports, at arms length, rather than hands on. They employ a layer of middle management to deal with department personnel, operations and consumer matters.

In most major mortgage banks, production management, in the classical sense, is typically performed at or below the regional management level. These production administrators cannot steer or direct, but simply influence the production department's performance by establishing master policy, procedures and directives.

Nevertheless, a production manager has two equally important constituencies: the executive management personnel he/she reports to and the sales and sales support personnel he/she must lead and support. This makes the production manager's job description possibly the most complex in the upper-management hierarchy. The production manager must be equally responsible to both sides. Failure to meet the needs of either side will jeopardize the balance the organization must have to avoid

stagnation and preserve the opportunity for positive growth and expansion.

There is one school of thought in executive management circles that promotes the philosophy that a good manager will not fight battles over policies or issues deemed by upper management to be of little importance. This is particularly evident in larger, more bureaucratic mortgage banks. While that may be good advice for a manager seeking advancement or safety in a political sense within a company, it can prove highly destructive to a production department.

Being politically correct often is synonymous with trading optimum efficiency and performance for personal security and survival. It potentially could be viewed as a sellout by all originators who depend on that manager for guidance and leadership.

While they may not always be pleased, most employees and customers will accept policies or decisions unfavorable to their own positions or agendas if they understand the magnitude of importance those policies or decisions represent to the business. Neither will accept policies or decisions unfavorable to their positions if they believe the sought-after

changes would have little, if any, detrimental effect on the company.

As a production manager, directing employees to tell a customer that a request they perceive to be reasonable won't be accommodated because company policy prohibits it is a sure way to lose that customer. It also contradicts all instructions the employees have been given regarding nurturing good customer relations. It's a "do-as-I-say, not-as-I-do" act of hypocrisy in the eyes of employees. They know that if the customer pursues a high-level management decision, their request, if reasonable, will be accommodated, regardless of any prohibitive or restrictive policy, and often by the author of the policy. Customers who don't push for upper-management intervention certainly won't feel like "the customer is always right" at that company. But it shouldn't have to go that far.

Authority should always accompany responsibility, especially at the customer-service level. A production manager expressing an unwillingness to expend political capital fighting for change on "little things" is akin to telling employees that this manager can't be de-

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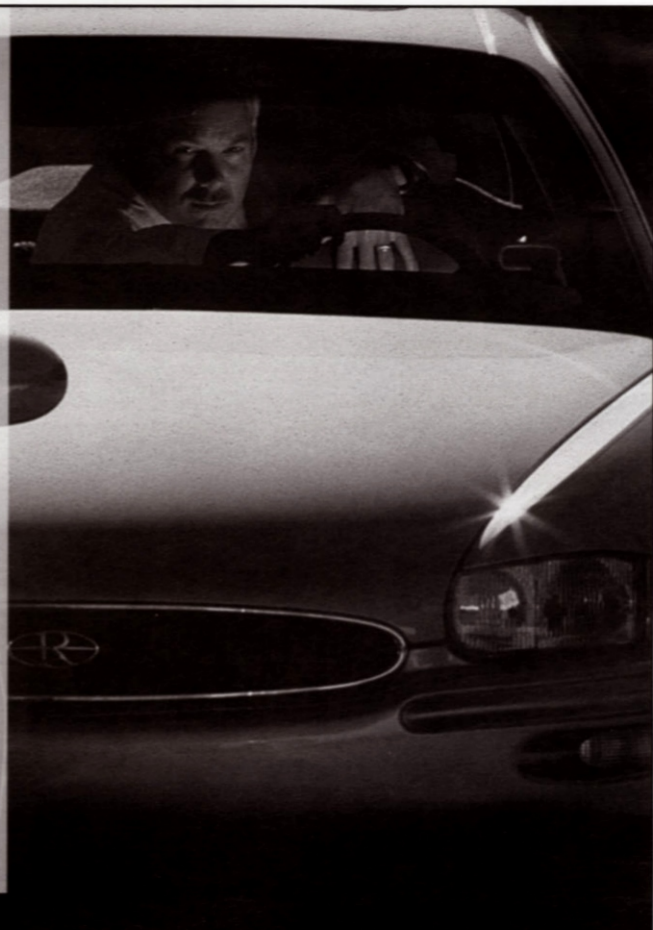
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pendent on for support on simple matters. It also prompts staff to lose confidence in management's willingness to represent the department personnel's agenda on issues of greater importance when any political risk may be at stake with executive management, as it frequently is in bureaucracies of all sizes.

It is those "little things" that are responsible for the erosion and destruction of most relationships, personal, professional or otherwise. Like bricks in a wall, they add up. A qualified production manager should understand that one simple truth about the dynamics of relationships. Production, more than anything else, is a relationship business. "My way or the highway" and "Don't bother me with facts, this is our policy" are two frequently heard philosophies that can destroy all respect for management.

When management loses the respect of employees, it loses its ability to lead. Without leadership, a company loses direction. If the attitude problems of certain employees cannot be traced to unfair or unreasonable company policy or working conditions, the production manager must act fairly, but quickly. The current window of opportunity to upgrade personnel probably won't afford much time beyond the customary 30-day probation period to experiment with attitude adjustments or morale rehabilitation. I say bite the bullet and do what has to be done.

#### **Recruiting loan officers**

When recruiting loan originators, a lender must realize there are three basic types:

■ *Control business-service agents.* Characterized as dependable professionals with good product and procedures knowledge, working exclusively with customers based on control tools, such as interim construction lines, special relocation commitments, portfolio lending capabilities and B & C paper lenders working with credit counseling agencies. They are more service- than sales-oriented. They depend on the business plans and marketing success of a relatively small customer base such as developers and homebuilders.

■ *Product-oriented peddlers.* Typically work for or as mortgage brokers offering an extremely wide variety of flexible and attractively priced programs. Their methodology is to throw up all kinds of products like flak from an anti-aircraft gun hoping one program and/or price

will catch a customer. They seem to be most successful with Realtors in existing home sales and relocation-type lending and jumbo lending where borrowers are more persistent shoppers. Of the three categories, this group typically demonstrates the least-professional techniques of salesmanship and is the most vulnerable to market fluctuations. Their customer relationships typically lack any real loyalties. They experience "high highs and low lows."

■ *Systematic service specialist.* These originators employ professional techniques to develop and maintain strong relationships with real estate sales professionals, as well as a referral system that feeds off an ever-expanding customer base of borrowers, sellers, networking groups, title companies and so on. They are organized, consistent, knowledgeable, competitive, service-oriented and backed up by good support staffs. They distribute information, not price sheets,

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to their customers. They return telephone calls promptly. They are considered professional, dependable and safe to do business with, especially because this user-friendly approach promotes the customer satisfaction that feeds the referral system of real estate sales professionals. They demonstrate a priority commitment to service. They plan their work and work their plan with consistency. They are perceived to be unpaid members of the real estate sales professional's staff. They are the least vulnerable to market swings. They are the most difficult to recruit.

#### **Choosing the right markets**

The two most popular methods used to pick new markets for expansion are isolating markets based on their geographic desirability or personnel opportunity. Geographic desirability is typically based on the demographics of a given market. Primary indicators are existing housing and new construction activity, diversification of the local business base, and overall economic conditions and growth projections. Secondary indicators examined are the number of competitors indexed to the market's projected saturation point, local pricing practices and niche marketing opportunities.

The second basis of evaluation, personnel opportunity, comes into play when a decision is made to enter a new market because the opportunity arises to employ a unique person whose professional personality and career goals are compatible with those of the prospective employer.

The market itself is important only to the extent that it can or cannot support the pursuit of those common goals. While there is no bullet-proof method of entering new markets that is risk-free, there are some basic rules to follow that can help minimize the risk.

First, determine the monthly dollar volume of closings it would take to become a top-10 market share lender during the months of November, December, January and February. These are the trough months of annual production. They typically suffer the lowest volume levels in terms of both closings and new applications, measured within the context of traditional lending cycles, absent any known market-driving phenomenon such as record-low interest rates. There are companies that can provide surveys with this information. Call the number you come up with the minimum acceptable volume standard.

Next, identify the systematic service specialist/originators within that market with personalities and goals compatible with the lender/employer and recruit based on true benefit. There should be some identifiable material advantage to cause the originator to change employers. If one cannot be identified, move on to other candidates. A lateral move made simply for the sake of change usually amounts to merely treating a symptom of a deeper trouble within the candidate, such as burnout.

Finally, recruit a sufficient number of



those originators whose average monthly production during those trough months, when added together, will be sufficient to put the lender in the top 10 of the market, based on the minimum acceptable volume standard already established.

The rationale behind this business plan is simple. There is a certain amount of housing sales activity in every market, even under static or bust conditions. This core business exists because even static populations have changing housing needs. The systematic service specialists are the originators who handle the majority of that core business due to the strength of their relationships with the real estate sales community and their private referral networks. They are not the "also rans" that get squeezed out during the bust markets, yet they benefit as much as anyone during the boom markets.

Using this business plan, a lender chooses to enter a market based on a minimum acceptable volume standard achievable during the slowest months of the annual traditional lending cycle, under other than boom conditions. The plan calls for achieving this result by hiring a sufficient staff of loan origina-

tors whose quality relationships with repeat business customers make this projected volume the least vulnerable from shifts to bust market conditions.

#### **Where we're going**

This blueprint calls for augmenting traditional production with volume production developed through a combination of other methods. They include an aggressive advertising campaign and computer technology (possibly including computerized loan origination) and using inside, salaried loan officers through alternative production programs, such as controlled business arrangements (CBAs). These loan officers can be a mix of technically experienced loan officers who are burned out on cold calling, as well as young loan officer prospects needing technical experience and training before going into the field as commissioned originators. I believe as much as 50 percent of future production can be developed by using noncommissioned loan officers and a more limited product menu.

Most brokerages and small mortgage bankers will seek and discover niches in the market they can profitably serve by

capitalizing on their relationships with Realtors and referral networks, as always, selling fast, user-friendly service. The larger mortgage banks will have to diversify to thrive. It is doubtful they will be able to satisfy their appetite for lending volume by limiting their operation to any one or two business lines. Many will almost certainly need to participate in traditional and nontraditional (B and C paper and home equity) retail, wholesale, broker and alternative production lending, in many instances, just to maintain portfolio size against runoff.

But what about all the talk about the commissioned loan originators' rumored demise? And how about the perception that this business will be forced to surrender its entrepreneurial personality and culture as technological advancements render them obsolete?

To that, I say I'm not convinced. Many recent innovations in business and information technology have arrived on the scene in recent years, and they have been incorporated into the business environment of mortgage banking. Yet, its entrepreneurial personality has still survived. These technologies have been developed

into useful tools of progress to modernize and revolutionize the way business is conducted in virtually every arena, yet this business' culture still exists because its roots lie in its very purpose.

That purpose is based on the principle of service to individual business relationships. These relationships exist in spite of, rather than in support of, the typical bureaucratic restraints of large corporate institutions. Granted, technology will serve that element of our society that are do-it-yourself types, who by nature can, and will, arrange their own home loans over the Internet or wherever. But they are the minority.

The availability of tax preparation software hasn't put the tax preparation industry out of business. There are still full-service islands at service stations, and the availability of soap, water and garden hoses hasn't put many car washes out of business either.

The point is that the mortgage origination business has from the beginning existed in a structure designed to serve the needs of its historically predominate customer base—the real estate sales industry. The mortgage origination and real estate sales businesses mirror each

other in terms of hours on-call, work schedules and commission-based compensation plans tied to transaction closings only.

When changes do occur, they mainly occur to meet the changing needs of the real estate sales business, not often the desires and demands of the owners or management of mortgage lending companies. Technological advances principally serve as a means to better serve the customer's needs and demands. They do not serve as cause for change in and of themselves.

#### **Change in the business climate**

The dinosaurs, to which commissioned mortgage originators are often compared, became extinct when their climate changed so significantly it ceased to support them. The traditional way that the origination industry has operated, in my view, will become extinct only if and when the real estate sales business it serves experiences such significant amounts of change that the entire business climate is transformed from a relationship-based environment.

Changes in the real estate sales busi-

ness are the chief indicators for forecasting change in the mortgage origination business. The real estate sales business is currently going through unprecedented consolidation, giving cause and opportunity for the mortgage origination business to follow suit. While there is truth in the old saying that "one who lives by the crystal ball learns to eat crushed glass," I don't foresee the near-term extinction of the principal way the origination business is conducted, at least not within the next five years.

However, that is not to deny that change has been afoot in retail production. The retail origination business has already been forever changed and is ever changing. A company must incorporate the most cost-effective combinations of the mortgage brokerage operation and traditional mortgage banking. Some real economic benefits are available to the open-minded company riding the leading edge of change. **MB**

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