

[ORIGINATOR'S OUTLOOK]

Friend or Foe?

A third-party originator tells his story about the crisis. By Alan Rosenbaum

PERSPECTIVES

Over the last year, I have read many articles on how the mortgage brokerage industry caused the subprime crisis and that mortgage lending would be better off if the brokers went away. With 22 years experience in the mortgage brokerage/banking industry, and the past 17 years as president of GuardHill Financial Corp., I have seen the creation and expansion of the mortgage brokerage industry. Over the years, I have not necessarily liked or understood the direction of our industry but we nonetheless adapted.

The majority of the loans defaulting are subprime loans originated from 2005 through 2007 and mortgage brokers have been made the scapegoat. However, the true causes were the banks' lax guidelines, oversight and declining values. Brokers originate the loans and submit the files whereby the banks underwrite and fund. We are the originators and the banks are the decision makers. Everyone forgets that the banks made billions on these loans before they went bad and now they are giving back those profits through losses on foreclosures and writedowns.

Though there was fraud in the industry caused by mortgage brokers, much fraud was also caused by bank employees, appraisal companies, title companies and attorneys. The point is why punish firms like GuardHill today when we are clearly providing excellent quality loans with no risk and minimal expense. Reward the best firms for quality and punish the rest. Don't blame GuardHill by refusing to do business with us.

Lenders were desperate to make these highly profitable loans so they continued to bring on more brokers to sell their product. On a full income

verified loan, the mortgage broker typically makes 1% of the loan amount. On a subprime loan, the broker typically made a minimum of 3%. But who was encouraging the broker to originate this type of loan at three times the normal commission? This was where our industry started to change for the worse.

As the president and chief executive of GuardHill, I continuously pleaded with lenders to reduce the size of their

prestigious broker programs and kick out the less experienced firms that delivered poor quality loans. This fell on deaf ears for many years because volume was king and quality was not important; few banks actually held on to these loans. Quality continued to fall within the mortgage brokerage industry as new

companies were established every day to sell subprime loans. We continuously tried to distinguish our firm from the others but senior management at the banks were not interested.

Being one of the top privately held mortgage brokerage companies in the country, I requested that our pricing be improved with the top banks. Their response: "We can't Alan, because full income loans are not profitable for us. We need significantly more subprimes from you before we will consider improving your pricing on A+ quality loans."

The Current Landscape

Where are we now? Over the last two years since the subprime meltdown, we have continuously tried to meet with senior management at banks to explain that we are actually doing more A+ quality loans than ever. However, our industry as a whole, has received so much blame for the troubled mortgages that mortgages and mortgage programs have been reduced or terminated altogether, even

for high quality experienced firms.

Who loses here? Everybody! The consumer has fewer choices and thus is forced to wait for months for mortgage approvals at higher rates due to lack of competition. The banks lose because fixed costs have risen in originating loans while they have lost significant volume and profits during the refinance boom.

The mortgage companies lose because there are fewer products to sell. Many banks refuse to do business with mortgage brokers because of the old stereotype. Some banks have been trying to destroy the mortgage brokerage industry so that they can gain more market share and increase profits by raising rates and paying their own employees less.

The banks need to distinguish which are the few companies like GuardHill that stand for quality and can improve their profits while eliminating the bad brokers. I have strongly expressed the notion that over 80% of their broker channel should be eliminated but they chose to weed out the industry through attrition. This is happening now but could have been done much more timely and efficiently had they rewarded the best firms while punishing the worst with termination. Again, we believe that the banks have gone too far and we are trying to explain that it's not in their best interests to "throw the baby out with the bath water." We should be viewed as both a bank and a consumer's ally and not adversary.

Are there positives here? Yes! Many ill-trained, inexperienced mortgage companies with unethical employees have gone out of business. Lenders have terminated the subprime mortgage although their current guidelines are much too strict. The top mortgage companies are gaining huge market share.

Going Forward

Mortgage brokers should once again be considered the best way to

provide mortgages to the general public. Mortgage brokers are specialists with extensive training and resources. Banks and mortgage companies should form new and improved policies to ensure quality and focus on renewing personal relationships. The banking community should view the best mortgage firms as major friend rather than maligned foe.

There were poor decisions made by some employees at the banks, credit rating agencies, appraisal companies, consumers and mortgage companies. It is very simple to recognize what has happened and what should happen going forward.

This overreaction and finger pointing must stop within the mortgage industry. We should apply the lessons from the last crisis to enhance new and existing policies and procedures so that we can lead the financial system and general economy to recovery.

Due to a lack of competition, spreads are widening which results in increased rates and poor service for the consumer. Let's learn from our mistakes to prevent the greed by a few who impact the decisions that can impede the progress and results of our economic recovery.

It is now the mortgage broker/banker's responsibility to re-establish relationships with the lending community by adhering to the most stringent training qualifications and more importantly a much improved code of ethics so that we can change the misperceived stereotype.

We must go above and beyond to gain everyone's respect and trust and prove that the mortgage brokerage industry is a much needed and specialized industry that will benefit the entire American public. **MM**

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