The Mortgage Professional

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From the Digital Filing Cabinet
Free Excel Mini Calculation Sheets

If you are using a smart phone, such as a PDA or one of the TREO devices, you may also find yourself carrying around a financial calculator. This extra hardware is not only a burden physically, wearing holes in your suit pockets, but it begs the issue about why smart phones have yet to incorporate a decent financial calculator with a visual interface.

Until such time as this happens, we have provided what we call "mini sheets" which are simple Excel spreadsheets that can be opened in any PDA based office emulator. One popular shareware version that can be used to open office documents is "documents to go." Once you get the hang of using these, you'll find yourself faxing, emailing, converting to PDF's and printing using a print to remote printer service, or a local printer with an infrared port.

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HUD Warns Against Non-Approved Loan Correspondents Originating FHA- Insured Loans

We have been warning clients of the danger of non-approved correspondents brokering FHA to some wholesalers. The common wisdom is that the practice is legitimate as long as the wholesaler takes the application. **WRONG** - According to the alert, "FHA loan origination services must be performed by a FHA-approved lender or FHA-approved mortgage broker (loan correspondent). A loan correspondent may be compensated for the actual loan origination services it performs either directly by the consumer or indirectly by the FHA-approved lender without being in violation of either the RESPA statute and regulations or FHA regulations."

The notice continued, "In transactions where the mortgage broker is not an FHA-approved broker, the loan origination services cannot be performed. Under these circumstances, RESPA would prohibit the payment to the non FHA-approved mortgage broker because those services, under FHA regulations, would have to be performed again by either an FHA-approved lender or loan correspondent. The payment to the unapproved broker for duplicated services amounts to an unearned fee in violation of section 8(b) of RESPA."

Further, "this payment also acts as a disguised referral fee for steering the borrower to the FHA-approved lender or loan correspondent which is in violation of section 8(a) of RESPA," the alert stated. "While a broker who is not FHA-approved may assist a prospective FHA borrower in obtaining an FHA loan, the non-approved broker cannot perform required FHA loan origination services. In these instances, the fee charged must be paid from the mortgagor's own available assets, must be disclosed on the HUD-1 at closing and a copy of the contract included in the loan file submitted for insurance endorsement.

"Under no circumstances," the alert continued, "may a borrower pay a fee that is not commensurate with the amount normally charged for the similar services, goods or facilities. If the payment or a portion thereof bears no reasonable relationship to the market value of the goods, facilities or services provided, the excess over the market rate may be used as evidence of a compensated referral or unearned fee in violation of section 8(a) or (b) of RESPA and 24 CFR 3500.14(g)." In other words, a broker might collect several hundred dollars for providing mortgage advice, but there is no way a charge of one or two points is commensurate with that level of service.

The policy alert concluded by saying, "RESPA provided further guidance to industry regarding payments by lenders to mortgage brokers in Policy Statement 1999-1. While the policy statement specifically speaks of lender payments to mortgage brokers, those payments are indirectly paid by the consumer and the policy statement would apply equally to payments made directly by the consumer."

This is a warning. For those participants who think that this is a casual warning, note that a sanction or disbarment from FHA or other government programs is PERMANENT, and may preclude broker or originator licensing in many states.

The complete alert can be viewed at www.mortgagemanuals.com/

Fed Funds Are Not Necessarily Indicative Of Interest Rates

For many years students believe that interest rates were driven by Federal Reserve policy. This was particularly true when applied to home-equity lines of credit which were tied to the "prime rate". The reality is that the market perceives where interest rates really are, even though it utilizes the Federal credit market as an indication of monetary supply.

A recent Wall Street Journal article (11/06/07) pointed this out. **"**Under normal conditions, **interest rates** on savings accounts, money-market funds, certificates of deposit, home-equity loans and other types of loans **fall** when the **central bank** slashes the federal-funds rate. Despite a **decline of 0.75 percentage points** in the federal-funds rate since September, **savers continue to benefit** from interest rates on savings accounts, money-market funds and certificates of deposit either holding steady or experiencing only modest declines. Rate cuts usually are most favorable for borrowers, yet **Bankrate.com** reports that borrowing costs on home-equity loans have slipped only to **8.04 percent** from 8.08 percent in July; meanwhile, **30-year fixed** mortgage rates, which are connected to **10-year Treasury yields**, also **have not dropped** as much as analysts expected. Experts attribute the current scenario to banks refusing to lower interest rates on many types of loans to offset higher costs of raising capital, and they have not reduced rates on savings accounts and other such investments because they hope to increase deposits."

Could This Be The Year Of The Upfront Mortgage Broker?

We have long advocated the total transparency of pricing to new loan originators who will be working in a mortgage broker environment. Loan originators and mortgage companies who are in the business for the long haul understand that relationships which yield referrals are based on trust. In the context of what's happened in the mortgage markets over the last two years, it seems to make sense that mortgage originators would be going overboard to explain exactly how compensation works and why it makes sense that a loan originator would be worth one, two or even three points.

One seasoned originator scoffed when we suggested pricing based on a fixed cost that reflected what it actually costs to process a mortgage as opposed to an opportunistic pricing model. Most mortgage brokers compensate originators on the basis of total revenue. This is in contrast to mortgage bankers who traditionally compensate originators based on a percentage of the dollar amount of the mortgage volume.

We understand that mortgage bankers have internal pricing models that count on a geographic loan volume and they build that into their pricing. But mortgage brokers have no such incentives. As a consequence, a mortgage broker who charges two points or 2% of the loan amount, on a $1 million mortgage is pricing himself or herself out of the market. Conversely, a broker who charges 2% of the loan amount on a $50,000.00 mortgage is not making enough revenue to support the cost of originating the mortgage.

What does it really cost to originate a mortgage?

The owner of a mortgage broker understands that there are certain physical costs associated with running a business. Rent, utilities, supplies and other hard costs are a component. The biggest component of a service business, however, is labor. In this case, the labor is provided by the loan originator or a loan processor. How much time is involved in processing a mortgage application?

Labor Cost Analysis for Loan Production

Step	Time
Originator's Duties	
Loan Comparison/Borrower Education	1.00
Credit Review	0.50
Pre-Qualifying	0.50
Finding Best Product	1.00
Recording Application on 1003	0.50
Collecting/Review Supporting Documents	2.00
Assembling Loan File for Processing	1.00
Status (5 minutes week/6 weeks)	0.50
Total Originator Hours	7.00
Originator Hourly Rate (@ $125,000 year)	$ 62.50
Total Originator Cost	$ 437.50

Step	Time
Processor's Duties	
Review of Application/Additional Information	1.00
Vendor order Appraisal/Credit/Title	1.00
Review of Exhibits when received	1.00
Underwriting Preparation (Copy, 1008)	1.00
Closing Coordination (Fee Sheet, Docs)	1.00
Weekly Status (5 minutes - 6 weeks)	0.50
Total Processing Hours	5.00
Processor Hourly Rate ($40,000 year)	$ 20.00
Total Processing Cost	$ 100.00

OK. No originator gets into the loan business to make $500.00 for one origination. By the same token, should a loan officer make $5,000.00 on one application simply because the borrower is not sophisticated enough to understand his or her choices? Here we arrive at the debate that is currently being conducted by regulators across the country. What is a “fair” amount of compensation for a loan originator? Should the regulator determine that? That’s not competitive, or in the spirit of commerce in this country. No one would advocate for price regulation.

To avoid the implication of opportunistic pricing, regardless of whether the originator is working with a prime or subprime borrower, the originator should consider a customer pricing strategy based on the value of the service provided. We all know that some loans are more difficult than others. We should be compensated more for the loans that take more time to process. Loans which take less time to process should be priced more competitively.

As a loan originator, one thing that drives me nuts is the borrower who takes a lot of my time with daily calls to check on what has happened on his or her loan in the last fifteen minutes. High maintenance clients keep us from getting new business, so should we charge them more? I used to joke with this type of client and say "I hope you're enjoying this conversation because it's costing you $125.00 an hour." This would normally curtail frequent conversations.

High maintenance clients are unnecessarily time consuming, but there are loans which are challenging to originate, and require more of my time as a loan originator. When the loan officer is working on a challenging transaction he or she could be opportunistic and withhold pricing information until the loan was near closing. At the last minute the borrower has no time to find competing financing and must accept whatever price is offered. It is more honest, up front, and ethical approach to say "This transaction is going to take me about 40 hours to place, so I need to charge more. Here is my price schedule."

Hypothetical Fee Chart Based on Costs

If you were charging a fee for service, these are the kinds of justifications that make sense. You may note that we haven't added a fee for "difficult person", which would be humorous. There are many add-ons that might cause an extra cost – self-employment, investment property, non-citizen borrowers are among justifiable time challenges. We have proposed some basic fee guidelines here, some are realistic and some are intended to be humorous.

Situation	**Fee**	**Cost**
A+ Credit, Full Doc Salaried 2 Years, with verified Deposits up to conforming This is the base cost for the loan - assuming a 50/50 split the loan officer still makes 1500, and the company owner has enough for a small margin and to pay processing costs	$ 3,000.00	
Reduced Documentation Why should the borrower pay an extra fee when the loan officer is actually doing LESS work. Rates are higher for reduced documentation loans, and there is a smaller array of programs to choose from - we should not be incented to lie.	$ (1,000.00)	
Credit Score Below 620 - poor credit history, credit counseling This borrower requires more work, has some repair to do, and will probably require a more paper intensive program such as FHA or My Community - there is more time invested.	$ 1,000.00	
Unusual Collateral - Renovation/Non-Conforming Condo When there is a non approved condominium, substantial renovation or construction permanent, or a difficult to finance unique property , the loan officer will have to spend substantially more time finding an investor with him to place the loan.	$ 1,000.00	
Special Program - Extra Shopping for Lower Rate When we commit to find a borrower a special program with a lower rate, there is a cost associated with it. If we are being up front with the borrower he or she will understand that we are devoting more time to get a better price at war product for them. In this way, we are not been opportunistic nor pricing but are factoring out or commission in the extra time it will take to find a lower rate. One may have a standard price sheet with standard investors, or one may take a loan to many different investors to find a best price or product.	$ 500.00	
Short Time Frame for Closing When a borrower requests an immediate or very short closing time frame, the loan originator must take himself or herself away from other revenue generating tasks. As a consequence it costs more to close more quickly. The benefit may be that the borrower gets a better price on "immediate delivery".	$ 1,000.00	

Dollar costs are fees, which are generally not tax deductible. When we communicate fees, we should communicate them in writing as a percent of the loan amount. Loan points, whether paid to a mortgage broker or a mortgage banker, are generally tax deductible.

Today's complaint is that borrowers don't understand what the price of the loan is and what the mortgage broker or mortgage banker is making. Can a mortgage broker who participates in opportunistic pricing really say that the borrower has been completely informed about the price? The reality is that, either because of incompetence or because of intentional deception, borrowers do not understand their transactions. Whose job is that? It is the loan officer's job to explain the details of the transaction. If the borrower does not understand, the person who is culpable is the loan officer. If, by some unfortunate chance, legislatures implement pricing regulation it is because of the actions of individuals who do not fully disclose or explain their pricing structure.

By being proactive in the face of this regulation we may be able to preserve the free market as to mortgage financing. Competition benefits everyone because it provides the flexibility to engineer a solution that best meets the borrower's needs. No regulation can do that.

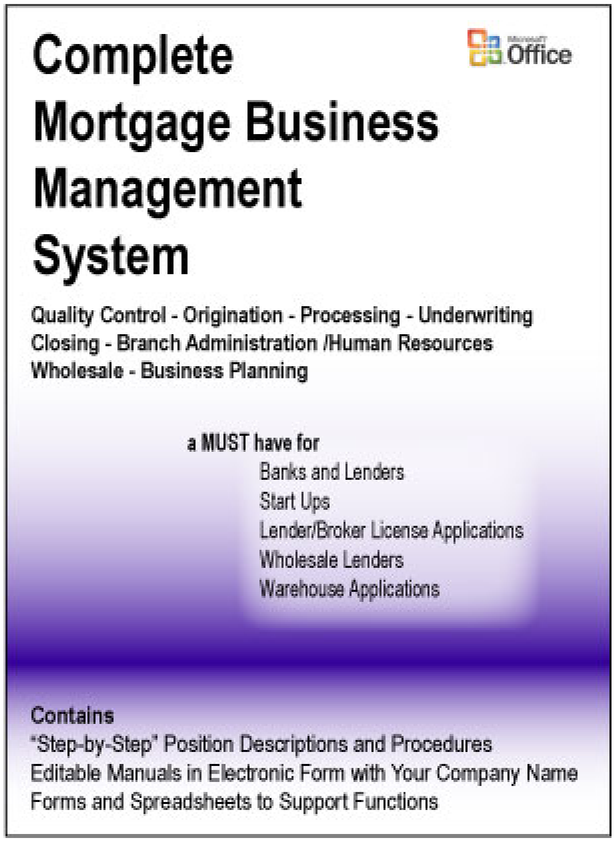
FHA's designed a broker contract in 1997. It clearly identifies the role of the broker and how much the broker will charge, where the compensation will come from, and whose interests are being protected. It is a clear, simple form whose use will prevent further legislation and regulation of the mortgage broker business.

http://www.hud.gov/offices/hsg/sfh/res/mbcontr2.cfm

This Month's Hot Product

1003Check is a pre-application underwriting tool that reviews your 1003 before you submit it to DU/LP/Clues/TOTAL or other program to make sure that the origination process did not miss a critical or fatal piece of information. This product is ideal for offices with a high population of inexperienced loan officers or processors. Avoid looking foolish with your investors and borrowers – catch the problem early.

1003 Check



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