Five Solutions to Survive the Refinance Crash

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The refinance crash has occurred, and we are in the post-refinance market. There will be inevitable industry shake-ups and chaos resulting in consolidations, layoffs and bankruptcies as volume evaporates. Are you prepared? We have the solutions: expand your territory, control and profit centers, market share, product lines and lead sources. He who hesitates is lost.

The Crash

You know that you are facing a crisis, but you do not know the length or strength of it yet. The mortgage boom is over. Refinanced mortgage loans are down 50 to 70 percent and are continuing to fall. Interest rates are rising, so loan volume will continue to drop over the next two to three years.

Game Plan by Default

If you have no game plan for handling this crisis, your plan, by default, is forced downsizing. It is both painful and disappointing as the business that you have built shrinks until it fails. Downsizing has not worked well in any industry market reduction or contraction. Just ask real estate, oil and gas, banking and dot-com survivors.

Five Solutions to Survive

Are your mortgage leads down? Are your phones ringing less? Make a game plan and TAKE ACTION NOW! You can survive if you develop *and* start a strategy now. To survive, you must expand (or grow) in one or all of these five areas:

1. Expand your lending/brokering territory by getting licensed in additional states.
2. Expand your control and profit centers by upgrading to a lender.
3. Expand your market share by acquiring mortgage companies or being acquired.
4. Expand your product lines to include subprime loans, home equity loans and second mortgage loans.
5. Expand your lead sources with a more creative and diversified marketing plan.

You must spend money to save your business. Use the profits you have built up over the last few years from the refinance feast to implement a survival strategy. It is the best investment you will ever make. The best prepared, with a strategic game plan, will survive; the unprepared will perish. It's the law of the business jungle. A strategic game plan will help to maintain or increase the average number and size of your current loan closings. Your top producing loan officers will insist on it, or they will leave you to continue their current success elsewhere. As a result, your goal is to increase volume without increasing basic infrastructure and costs.

1. **Expand your lending/brokering territory.** (Increase your transaction base.) Survival is a numbers game. You must increase your opportunity to expand mortgage loan leads without expanding costs. The best, most cost effective way to increase your opportunities is to become licensed as a mortgage broker or lender in additional states. You cannot receive compensation in an additional state without a valid mortgage license. Your expansion should target high-growth, high-population states (i.e., the Sunbelt).

   With a central call center in one location, you can close loans in 30 to 40 states (at the offices of local title companies) without a physical office in those states. This makes the cost to expand into additional states extremely affordable. The licensing process takes three to four months, so begin your expansion project today to avoid delays due to year-end holidays and license renewals. Your strategy needs to be in place and operational by the end of 2004 in order to survive 2005. By outsourcing the expansion into additional states to licensing professionals, you can concentrate on implementing the next four solutions without distraction.

2. **Expand your control and profit centers.** If you are a mortgage broker, upgrade your operations, and become a retail lender (banker). As a mortgage banker with a warehouse line of credit, you can:
   - Guarantee that your loans will close in an expedited manner. (As a broker, your loan closings can be delayed or denied for lack of available warehouse credit by your wholesale lenders.)
   - Obtain larger profits on original closings with additional profit from the sale of loans in the

secondary market. (You have greater risks but greater rewards.)
- Avoid prejudice against brokers. (Utilize predatory lending laws and HUD's RESPA proposal for a Guaranteed Mortgage Package Agreement and other RESPA changes.)
- Act either as a broker or as a mortgage banker as the case merits. (As a mortgage banker, you will increase your control and profitability on each loan funded. It is advisable, however, to analyze your current licenses; many of them may already grant lender capability to you without you realizing it.)

3. **Expand your market share.** You must grow to survive. The mortgage market is enormous, but it will shrink over the next two to three years. To grow, you must acquire or be acquired. The following is a list of various strategies from which you can choose:
   - Join a national net branch mortgage company.
   - Build your company into a national net branch company.
   - Be acquired or purchased by a national lender.
   - Acquire or purchase other companies to build into a national lender.
   - Affiliate with state or nationally chartered banks, credit unions or savings banks.

   In the post-refinance market, consolidations will be a popular method of avoiding downsizing. You can either be the company that is absorbed or the company absorbing through acquisitions, depending upon your vision and capital resources. The benefits of consolidation are national licensing, increased volume potential, greater control of closings, greater control of expenses, more ways to make profits, greater control of cash flow through warehouse lines, expense reductions through cutting-edge technology and automated processing. In addition, wholesale lenders should consider expanding into retail lending through the acquisition of established broker companies in key states. If you are interested in being acquired by a national bank or national mortgage lender, there are many companies that would be interested in discussing the matter with you.
4. **Expand your product lines. Diversify. Diversify. Diversify.** Consider expanding your product lines to include subprime loans, home equity lines of credit (HELOCs), second mortgage home improvement loans, FHA loans and VA loans. Purchase mortgages for house purchases, debt consolidation loans, home equity lines of credit, home improvement loans and the huge consumer loan market will increase over the next two to three years. These areas can provide the added volume you will need as the refinances disappear.
5. **Expand your lead sources.** The other four expansion solutions are tools to help your marketing be more successful. But marketing is the key to *every* business. The only way to maintain or increase quality mortgage leads that are ultimately closed is to have a highly successful marketing program. You should:
   - Prepare an analysis of how and where you get your leads so you can evaluate the effectiveness of your marketing plan.
   - Be flexible and expand your marketing techniques by targeting and utilizing niche markets, captive markets, purchased leads, real estate agents, partner affiliates (affiliated business arrangements), Internet mortgage Web sites, builders, telemarketers, newspaper ads, TV and radio ads/programs, direct mail, e-mail and referrals. If you increase the number of people contacted, the quality leads will follow. Work smarter, not harder.
   - Take the same successful marketing techniques you are currently using in your home state and apply them to your expanded territory—in effect, reproducing your marketing model.
   - Provide better training for your loan officers by instituting a high quality loan officer training program led by a mortgage coach. If your loan officers are more knowledgeable and skilled, they will provide better service.
   - Recruit and hire top producing loan officers from companies who are downsizing.
   - Use cutting-edge technology and automated processing to save time and money.
   - Provide discounted pricing on loans to borrowers.

Conclusion

It is not too late, but time is running out. So, develop and start your game plan now! To survive the refinance crash, you must:

1. Expand your lending/brokering territory by getting licensed in additional states.
2. Expand your control and profit centers by upgrading to a lender.
3. Expand your market share by acquiring mortgage companies or being acquired.
4. Expand your product lines to include subprime loans, home equity loans and second mortgage loans.
5. Expand your lead sources with a more creative and diversified marketing plan.

After all, the best prepared generally survive industry shake-outs.

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