

# Why Seconds?

By Kathleen Kerstetter, Vice President & General Manager, *Aegis Home Equity*

REPRINTED FROM SCOTSMAN GUIDE RESIDENTIAL EDITION, AUGUST 2004

During the course of a day, a mortgage broker will inevitably ask, "Why should I offer my clients a second mortgage?" or he/she will say, "I can't make money selling seconds, so I don't offer them!"

In the past three years, with the lowest interest rates in 40 years, there was more mortgage business than most originators could handle. In times like this, not offering certain loan products seemed to be okay. Pick 'n choose. It made sense. But, what about now? As interest rates rise, clients still need to borrow money but won't or shouldn't refinance their 5 percent first mortgage.

Over time, a second mortgage will become the product of choice for your client. So, the time is now to find your lender source(s), educate yourself and the internal staff on seconds and shift a portion of your marketing focus to attract more clients that are looking for a second mortgage.

Can you make money? Yes! But, you need to commit to be efficient in processing the file and closing more units. Also, utilize the low cost alternatives available on second mortgages, such as Automated Valuation Models (AVMs), in lieu of appraisals. Some common vendors who offer AVMs are: CASA, FHLMC HVE<sup>SM</sup> and MRAC, to name a few. In terms of title services, utilize a title search (vs. title insurance closes) and low cost closing and signing services (vs. full escrow and title). Keeping the total cost down and selling the total cost of the transaction could have a positive effect on *your* compensation.

Successful, sustained business entrepreneurs must be able to adapt to the ever changing environment: seeing the

market indicators, predicting (as the facts present themselves) and always being prepared for the future. Second mortgages are already becoming the product of choice for your clients. Find lender sources. Look for broad product offerings, combinations of prime and sub prime, expanded CLTVs and products that are fixed or variable (i.e., Helocs).

Educate yourself. Training sessions with your lender sources or conference calls are a *must* for loan offerings and your processes. So, take the time to learn the underwriting parameters and understand how your lender wants the loan packaged, and do a good job in providing it that way. Let the lender know what your client needs by using comments. (This is so important!) Call your lender sales contact to set it up, and do so at least every 90 days! Be realistic about underwriting review time; you want a lender that will regularly counteroffer and work with you to find the best option for your borrower, not just offer a quick or automated decline.

Second mortgages place *heavy* reliance on credit behaviors, risk scores and cash flow, as opposed to collateral. It is not that collateral doesn't matter, but, in second lien position, foreclosure may or may not make financial sense in a default situation. The general rule is that the higher the credit risk (i.e., sub prime, stated income, etc.), the heavier reliance and scrutiny of the collateral. I cannot tell you how many times our office receives a 1003 that was used on the first mortgage. As the lender, we have no idea what the client's requests and needs are.

Marketing efforts for second mortgages mostly center around debt consolidation and overall monthly



cash flow savings to the borrower, an easy sell to a borrower in need! We are a credit card-using society, so the client base for this approach is huge. Solicit your former clients for the past two years. By now, their need to borrow for debt consolidation, home improvement or vacation is highly probable. Always ask for referrals. Don't think second mortgages are only an 80/20 transaction. Stand alone seconds are a very large and profitable market for the "go-getters" in the mortgage broker world.

Be sure your current resources in first mortgages know you have seconds and specialize in them. Drop off flyers with second mortgage product highlights. Find second mortgage resources. The obvious ones are home improvement service providers, swimming pool contractors or financial planners. But, have you ever thought of asking a cosmetic surgeon? Be creative with where you find potential borrowers for second mortgages! Cross sell off your first! With the flexibility of Helocs, this is an easy cross sell, and you already have most of the loan documentation. Use your lender source to

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get other marketing ideas or examples.  
The time for second mortgages is now!  
Are you ready?

*Aegis Home Equity is the second mortgage division for Aegis Mortgage Corporation, which is based in Houston, Texas. Aegis Home Equity is a nationwide second mortgage lender operating in over 40 states. Kathleen Kerstetter is vice president & general manager of Aegis Home Equity. Kathleen has 30 years of experience in the banking & financial services industry. Her primary experience is in niche lending such as consumer, commercial and dealer auto finance. She has spent the last 10 years working in the wholesale mortgage banking environment, specializing in the second mortgage high loan-to-value lending. She can be reached at: 888-734-1151, ext. 9220 or via e-mail at: [Kathleen.kerstetter@aegismtg.com](mailto:Kathleen.kerstetter@aegismtg.com). ♦*