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Plan for the Road Ahead

Look to the future to prepare for changes in the mortgage industry

By **Brett Reall,** sales manager, Countrywide Specialty Lending

It is rare to read the news these days without seeing a story about the housing and mortgage industries. From the housing market being on the brink of disaster to the latest "predatory lending" fiascos, our industry has taken a lot of heat in the past couple of years.

Also, as a result of lower loan volumes and higher interest rates, we have begun to see an exodus from the industry. Account executives who were in it just for the good times are getting out. Several wholesale lenders have also exited the market. Loan officers who didn't build a lasting platform are moving on. Many broker offices have closed.

For those looking to survive in this market, there are three primary things you should consider focusing on this year: working with technologically advanced lenders, taking advantage of the refinance market and focusing on niche markets.

Technological advances

Automation and competition will continue to drive down the profit per loan for simple loans. Loan officers who have the lowest cost structure will thrive on these types of loans.

There are several mortgage companies now touting that they can get home loans done in as few as four hours with a complete loan package. With automated-underwriting and automated-valuation-model usage up and income documentation more readily available online, cookie-cutter loans will continue to be easier to do. But that also means they may be less-profitable.

Cost-to-produce is a critical focus for mortgage offices. Successful businesses will have efficient production processes in place. As technology usage becomes ever-more-present in the industry, investments in smart technology will be especially important.

Broker offices will need to remove redundancies in their file flows. After all, every time someone touches a loan file, it costs money. To be a low-cost leader, the number of "touches" per file must come down.

Refinancing opportunities

Although purchases and new housing starts may be down, refinance and home-improvement business is continuing. Second mortgages are picking up, and many customers still need debt-consolidation loans. Opportunity abounds for loan officers who can help clients structure monthly savings in spite of rate increases.

This year, it is estimated that the fixed terms will end for $1 trillion worth of ARMs. Many customers with these loans likely will need to refinance. Preparing for and targeting this market can be rewarding.

There are still pockets in the industry where automation will not work and where we can make a profit. These markets require extra knowledge.

Niche markets

There are several niche markets on which you could focus to be successful this year and in the future.

For example, consider non-English-speaking minority markets. Many times, customers who don't speak English are given loans they do not fully understand. Or they end up staying away from the loan process altogether because they may not understand it or may be intimidated by it. If you earn the trust of people in these markets, you could end up with a loyal client base and with many referrals.

Construction lending also is a good niche market to consider. A higher level of knowledge is required of this market, and it takes more time. But you can differentiate yourself from your competition by taking the time to get educated.

Nonprime lending is a great way to get customers who tend to appreciate the effort that their loan officer puts into the loan. Although these loans take more time than a conforming loan, they may yield customers who, in gratitude for your help, will come back for other loans and will refer you to friends and family.

You may also want to look to lower-income markets and underserved borrowers in general. Currently, many of these borrowers are benefiting from some newer, more-aggressive programs. Fannie Mae's My Community loan, for example, helps people who traditionally would not qualify for a home by allowing higher debt ratios and low down payments.

Underserved borrowers can also benefit from community grants and down-payment-assistance programs. These programs can yield you great returns by helping get lower-income borrowers and first-time homebuyers into homes.

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No matter how you approach business this year, your best defense against market swings is to treat your customers right. If you develop a base of customers who rave about your service, you can have business in all types of markets.

Market swings may come and go, but customers' lives do not depend on market conditions. Obtaining referrals does not necessarily require a lot of marketing money on your part. What it primarily requires is that you care about and understand your clients' personal situations.

If you create that feeling in your customers, they will stick with you regardless of market conditions and will understand the value that you bring to the table.

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