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Navigating the "Perfect Storm"

In this post-boom era, we must change the way we do business to survive and regain the consumer's confidence.

By Dale Vermillion

Since last October, the mortgage industry has been through some tumultuous times. We've seen several lenders downsize and close. Recently, a national subprime lender planned to lay off 80% of its employees and stop funding loans. In the same week, another well-known lender specializing in subprime loans and second-lien mortgages filed for Chapter 11 bankruptcy. By the printing of this article, it is likely several more companies will have followed suit.

Today, production and profitability challenges face nearly every mortgage lender, banker and broker across the country. The recent industry occurrences teach us two things. First, we are experiencing a dramatically changing market. Second, to succeed in this changing market, we must change the way we do business.

"We must truly look out for our customers."

Dale Vermillion
CEO of Vermillion Consulting Inc.

By heeding both of these concepts, we will benefit both personally and professionally, while improving the health and reputation of the industry and earning the trust of customers. As a result, customers and mortgage professionals alike will be more successful.

The market is changing. During the last four years the industry has thrived in a market characterized by increasing property values and decreasing interest rates. It was the "perfect environment." This environment allowed lenders to provide mortgage loans to borrowers with substantial credit, income and stability challenges. This, combined with an increase in adjustable rate, option ARM and high LTV programs, as well as low- and no-documentation loans, created opportunities for borrowers who, in the pre-boom era, wouldn't have been able to afford, much less qualify for, the same loan. And not only were lenders able to qualify these customers, but they were able to attract them with historically low interest rates that yielded very competitive payment options in the initial stages of the loan. As a result, our industry closed record numbers for purchase and refinance mortgage transactions.

Today, the tide is changing. Rates are increasing, property values are decreasing, margins are shrinking and regulatory pressures are mounting. We are now in the midst of the "perfect storm." Most importantly, borrowers are cautious and are looking for mortgage professionals who are trusted advocates and advisors.

Right now, many borrowers are feeling the impact of a dramatic increase in payments from rising interest rates. At the same time, the ability to refinance many of these loans is increasingly difficult in areas where property values have stalled and even declined. There simply isn't the equity available to refinance in some cases.

What initially represented a reasonable payment for many borrowers has risen to a level that is forcing major lifestyle changes. These changes have been so significant that the industry is seeing significant increases in foreclosure rates and delinquencies.

So, has the market changed from what was once a time of feast to a time of famine? Not if we understand the market and take a proactive role in helping our borrowers.

What's happened during this post-boom era shows us that we should not focus on short-term solutions for our customers. Instead, we must shift our focus toward long-term solutions. This can be accomplished by assuming a more consultative role. As mortgage professionals, we must truly look out for our customers and make loans that are consumer proactive. We must take into consideration the customer's situation, including their personal and family needs, their financial goals and their overall qualifications. We need to focus on providing mortgage solutions to borrowers that make sense for their lifestyles, which financially improve their situation, not harm it.

During July through September of 2006, the mortgage industry saw one in every 363 homes nationwide entering some stage of foreclosure. This marked a 43% increase from the third quarter of 2005 and a 17% increase from the second quarter of 2006.

These figures illustrate the fact that borrowers were not aligning themselves with loans that would sustain their financial success in the future. Instead, they were enticed by affordable interest rates on a loan that would give them the house of their dreams, the payment they wanted and the cash they were looking for. They signed faster than we could say, "Do you have any questions?"

Consequently, the new homeowners walked away thinking they got a deal, not really understanding the long-term ramifications. A recent Federal Reserve study revealed that one out of every four homeowners with adjustable-rate mortgages are "mystified" regarding the guidelines of this type of loan.

What many borrowers didn't consider was that the low interest rate that attracted them would increase quite so quickly, leaving them teetering between delinquency and default or even among the foreclosure statistics.

As a result, the mortgage community has been perceived as not acting in the best interest of the consumer. This is a perception that, in some cases, has validity. There are mortgage professionals who acted in their own best interest, not the borrowers. However, I believe that is the minority and those individuals will not survive in this new market. The good news is that those of us who do put the customer first, and act with good judgment, integrity and ethics, can change this perception one customer at a time.

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This will ultimately help our customers, while helping our industry and ourselves.

If we sit down and really talk with our customers and assess their retirement, income and financial goals, we will be able to use our resources and professional abilities to steer them toward programs that will truly benefit them and their families in the long run. For example, by putting a borrower into a fixed-rate loan when an adjustable rate simply does not match their qualifications, we improve the long-term probability that they can repay the debt as their income increases. Another example is reducing a borrower's term, when qualified, instead of extending the term, to match their retirement objectives and eliminate their debt more quickly. These are just a few of the many ways to improve the value and quality of the loan. By providing these types of solutions, we dramatically increase our customers' chances of leading financially stable and successful lives.

This practice will not only gain their trust, it will gain their repeat business. And better yet, not only does it get you renewals, it gets you referrals. We all know that the best kind of advertising is word-of-mouth.

By adopting this customer-first approach, we will sleep better at night knowing that we truly helped our customers, and we will rekindle our trust in the eyes of the consumer. Bottom line, we start to improve the image of our industry, while gaining more customers than we know what to do with. B

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