



From Scotsman Guide - February 2003

## ***Options for Your Continued Success*** **Preparing for the Changing Economy and RESPA**

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### **Stop and Face the Real Consequences**

If you're the typical, successful broker, you're racing to respond to all your new clients and prospects in the waiting. The residential and secondary loan markets in particular have been hot throughout 2002, given the constant drop in interest rates.

But wait a minute! We all know that the market can't continue like this. Interest rates may not be going up, but they will stabilize, and as a result fewer refinance deals will occur. Residential production levels are expected to drop from \$2.5 trillion in 2002 to \$2 trillion in 2003.<sup>1</sup> According to David Olson of Wholesale Access, brokers account for about 65% of the volume and make about 2% of the loan amount in commissions.<sup>2</sup> Correspondingly, commissions would drop 20%—from \$32.5 billion to \$26 billion by 2003.

And then there's

RESPA—HUD's proposed ruling to protect consumers from even the smallest percent of brokers who prey on low-income and less educated consumers. As you probably know, RESPA would further deteriorate a broker's profits by eliminating the yield spread premium (YSP). But can you guess by how much? Olson says that approximately 45% of mortgage broker income comes from YSP. Based on these estimates, broker compensation would actually drop from \$32.5 billion in 2002 to \$14.3 billion, a 56% decrease in 2003, if RESPA passes.

Moreover, RESPA would impose rules that most brokers can't meet. President Armand Cosenza of NAMB declares, "If implemented as initially drafted, the new law would create an uneven playing field for brokers, [and] force many brokers out of business."<sup>3</sup> This is true since brokers may not be able to finan-

cially guarantee delivery of the required Good Faith Estimate (GFE). Only major players like Wells Fargo Bank and Countrywide would have the funds necessary to fulfill the guarantees.

### **What Is Your Future as a Residential Broker?**

Many of you might be saying, "I really can't do anything about RESPA." You might even be bracing yourself for the potential loss in income and possibility of having to change careers. Others may be fighting against RESPA, despite the strong support it's receiving from consumer groups around the country...not to mention from the American Bankers Association, which has the most to gain for its members—the larger, retail bankers that are not affected by yield spread premiums.

Yet, even if RESPA doesn't pass, several states already have laws in

effect to protect consumers against predatory lending. As these laws are enforced and civil cases are won at local, state, and eventually federal level, residential brokering practices will be under close scrutiny and the risk of litigation will be ever present. In the last sixty days alone, legislation to implement anti-predatory lending has been initiated in 20% of the states and many cities. Oakland and Los Angeles, California have pending legislation, and Georgia recently passed an anti-predatory lending ordinance.<sup>4</sup>

The economy and marketplace will also always be changing...one day up, one day down. For 2003, we've already shown how mortgage brokerage income will decline.

### **Be Proactive – Consider Commercial Brokering Now**

Instead of waiting to see what happens with RESPA, do something

about your career and overall business now. Brokers such as Kal and Yogi Patel of Metropolitan Financial Solutions Company of Schaumburg, Illinois have taken a proactive approach they believe will help them succeed where other brokers will fail, regardless of whether RESPA passes or not.

Originally, Kal and Yogi focused their business entirely on residential brokering. Just six months ago they added commercial brokering to their portfolio of services in order to diversify their business. "Diversifying your services is like diversifying your investment portfolio. The more you provide, the less risk you have of losing everything," says Kal. Commercial brokering has opened up new opportunities for Kal and Yogi.

Now they have the ability to process requests for commercial loans from their clientele—the lucrative Asian Indian segment with typically high net worth and a deep involvement in business. As it turns out, their move into the commercial sector is doubly smart, since RESPA would not affect the commercial area.

Nine-year veteran commercial broker Jesse Toney adds: "Don't wait to see if RESPA passes. Consider commercial brokering as an alternative now to avoid having to find another career or hav-

ing to work for the banks. Even if RESPA doesn't pass, commercial brokering will only increase your income potential. There are unbelievable opportunities in the multi-family area in particular. But this is a commercial area, which would otherwise be off limits to residential brokers."

### **Proper Training Is Critical to Commercial Success**

Any experienced broker will tell you that commercial brokering requires specialized training and knowledge. "Just because you can fill out a loan application doesn't mean you can successfully close a commercial deal," advises Toney.

There's also a great deal more professionalism demanded in commercial brokering because you're dealing with people face-to-face, rather than over the phone as is typical in residential brokering. In residential brokering, the computer determines the validity of the deal—as long as you meet the criteria, the loan will be approved. In commercial brokering, presenting a well-written and supported narrative is critical to getting the loan approved. You also have to know which lender to approach, since each one specializes in different industries and areas.

You can receive on-the-

job training, or you can obtain training by partnering with someone who has proven ability and success. Mehdi Kazerooni earned his real estate broker's license just last year (2002) but is already closing commercial deals successfully. To do so, Mehdi partnered with a seasoned commercial broker to learn the ropes without making costly mistakes. Additionally, he leverages his existing business contacts.

### **Leverage Your Residential Experience in Commercial Brokering**

As with Mehdi, residential brokers have an advantage since they can leverage their existing base of customers. Although the residential loan agent still has to learn all the intricacies of commercial lending, they already understand the basics of real estate lending. And unlike residential brokering, the commercial borrower is more willing to pay a broker for professional services. These borrowers don't have time to search for the best commercial deal or to prepare and present all the supporting documents.

### **Other Options?**

Residential brokers, and for that matter real

estate agents and lawyers impacted by RESPA, will always have job opportunities at banks or lending institutions. With the pending shakeout in the residential brokerage industry, wholesale lenders will most likely open retail outlets. Banks will expand retail operations, as they will be the primary benefactors of the proposed RESPA rule. Where will they get their employees? You guessed it: from their former competitors.

The typical bank Account Executive, however, will get paid much less for doing the same job as a broker. They also don't have the benefits of being an entrepreneur—a career choice that independent brokers like Mehdi and Jesse consider precious.

The choice is always up to you. In any case, you should evaluate the reasons why you entered into the mortgage business to start with. Then, choose a course of action that will benefit you both in the short- and long-term. ***Be proactive!***

1 "Low Rates to Ride Out," *Inman News Feature*, December 18, 2002.

2 *Wholesale Access Mortgage is a firm that conducts mortgage industry surveys, and testified before Congress. See also U.S. Department of Housing and Urban Development, Office of Policy Development and Research*

*Economic Analysis and Initial Regulatory Flexibility Analysis*. 2002, pp. 14 and 16.

3 See letter from President Armand Cosenza, published in *Scotsman Guide*, January 2003.

4 See Oakland Ordinance, October 2001; "Georgia Predatory Lending Law Takes Effect," Mortgage Bankers Association Online, State and Local, Predatory Lending Resource Center, October 1, 2002.

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