



RECOVERY TIPS - By JEFF WIRSING

Solving Our Problems

Last issue I started to tell you about how we can fix the origination process. Now, let's stay on this topic. So, how can the mortgage origination industry take the lead in fixing itself and the U.S. economy and create a new model that makes the old model obsolete? Here are my three critical suggestions:

Critical Suggestion #1: The Originators Job is to Originate Loans, Not Define The Customer Experience. Stop Letting The Tail Wag The Dog

The creation of the secondary mortgage market triggered the creation of independent mortgage banking firms. They in turn built revenue generating machines by using highly effective commission based sales people. The unintended consequence of this model is that it put too much power in the hands of the Originator.

Mortgage Bankers, reluctant to over-manage (or manage at all) the very individuals who were bringing in the money, have allowed individual originators to define the company they work for. Mortgage origination companies lack the power to truly effect change at the consumer level because they fear the negative push-back from their originators (who, naturally, resist change).

Critical Suggestion #2: The Mortgage Industry Needs To Re-Invent Itself. Stop Branding The Mortgage Industry in a Negative Light.

No financial services business would set out to create a marketing strategy using the message that its customers should be distrust-

ful of the service provider or expect that the experience is going to be bad. But that's exactly what the mortgage industry has done. I noticed a new television ad recently by a major bank which touts its, "Anti pull out your hair, steal a bus and drive off a cliff loan."

The industry has trained consumers to expect the worst. You can be the best and most reputable mortgage company in the U.S. but if the industry is branding itself in a negative light you are fighting an uphill battle and will lose enormous amounts of money simply because consumers have a trust issue.

Stop Selling A Commodity And Begin Selling Professionalism -

As an industry, mortgage origination is a service rather than a product that the consumer can touch and feel. But mortgages are sold, and marketed, as a product and NOT as a service. As such, it is difficult to differentiate one mortgage originator/Lender from another. The act of getting a mortgage has been so severely commoditized that the process has been reduced to something as unimportant as stopping at the grocery store on the way home from work to buy milk, eggs.

Create a New Value Proposition: The mortgage industry, along with help from the media, has created as its "unique sales proposition" the message that all a consumer needs to know is the importance of comparing rates and pitting one lender against another.

Judging from the financial damage millions of homeowners have suffered clearly this wasn't sufficient to make a real change.

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Critical Suggestion #3: The Mortgage Industry Needs to be 100% focused on the Consumer.

Setting aside the need for improvements in fraud detection, I think we've done a pretty good job as an industry when it comes to creating products and systems which efficiently facilitate the creation of a mortgage backed asset (i.e. originating, processing, pricing, underwriting, closing and delivering etc.). What hasn't changed (some would say it's changed for the worse) is the point-of-sale interaction between the consumer and the LO.

The point-of-sale act of originating a loan is a critical step within the mortgage industry. It is something that origination companies and front-line originators own. I believe that true change in the mortgage industry (i.e. improving consumer confidence and regaining our credibility etc.) begins with the Loan Originator. And to truly improve the quality of MBS we should begin at the point-of-sale as well.

Consider this, if mortgage borrowers never defaulted the meltdown wouldn't have occurred and none of the regulatory and legislative changes would have been necessary. You may be thinking that's a very simplistic statement. And you may be right. But that doesn't make it any less true. So how is it that, among the multitude of changes which were forced on the mortgage industry, there has been nothing proposed which focuses on what is arguably the most important link in the MBS chain, namely the consumer?

At the present time, the origination process begins by asking and answering the question, "What product and maximum loan amount does the borrower qualify for?" But what if the origination process began by asking and answering the question, "What product and strategy will put the borrower in the safest possible financial position?"

What if the point-of-sale origination process supported the premise that the consumer, the loan originator, the mortgage company, investors in MBS and Wall Street are better served when the mortgage strategy seeks to put the Borrower in the safest possible position? What if the act of getting a mortgage began, and ended, with the question... "Is this loan good for the client?"

The question then becomes what would such an origination

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process look like? Such a system might ask questions like:

<<< Does this loan position the Borrower to better manage a financial set-back or avoid putting their financial safety at risk?

<<< Does this loan give the Borrower greater financial choices and flexibility?

<<< Will this loan create a strategy to eliminate non-mortgage debt and/or improve cash flow for saving and investing?

<<< Will this mortgage facilitate the Borrower's ability to stay current and help put them in a position to pay it off

sooner?

A consumer centric origination system might be less dependent on the standard parameters by which a mortgage has traditionally been originated (i.e. ratios and credit history etc.). Rather than looking backward (at what a borrower has done in the past) what if it looked forward and measured the quality of the mortgage asset by assessing the Borrowers strategy for meeting their obligation by scoring their financial foundation and then designing a mortgage strategy that improves it and their commitment to meeting their obligation?

The Real Problem: But perhaps a bigger issue is one that involves asking whether the point-of-sale mortgage origination industry has the ability and the desire to effect a real change? With the combination of mortgage companies giving their power to Originators, and the Originators natural tendency to cling to the current system, it's not surprising that real change, (meaning change from within the industry), hasn't occurred.

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If the industry is ever going to be more than just a sales arm of Wall Street it will need to come together and fundamentally re-define itself.

Individually Mortgage Originators can do good things for consumers. But to make a collective change it will be necessary for forward thinking mortgage companies to take the lead and fundamentally re-invent that part of the origination process which they own, namely what happens at the point of sale. ❖

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