Creating
Borrowers For Life

Because of the ever-increasing competition in the mortgage industry, it is imperative for lenders who wish to succeed to undertake initiatives to ensure that they stand head and shoulders above their competition.

BY ELIZABETH KARWOWSKI

Ever since the housing market took a hit back in 2008, the industry has been struggling to bounce back. The imposition of stringent federal regulation, coupled with shifting priorities for younger demographics that have, historically, held home ownership in high regard have taken their toll on lenders' bottom lines. Lead generation is getting more expensive by the day, while the overall quality of those leads is slowly deteriorating.

The most frustrating aspect of the mortgage landscape, however, is that those leads that could potentially be converted into new business are falling by the wayside because of sub-par credit scores. To those in the lending industry, it's common knowledge that poor credit is one of the most common hurdles consumers face when it comes to homeownership. The Federal Reserve Bank of New York conducted a study in which it concluded that over one-third of all Americans have a FICO score below 620. One third; that translates into over 90 million people (only takes those over the age of 18 into account). To compound that statistic, the Consumer Financial Protection Bureau estimates that there are another 45 million people who do not even have a credit score. There is little doubt that lenders in today's market are fighting an uphill battle.

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Loan officers across the country are forced to turn thousands of potential clients away every single day because their credit scores fall just short of the qualifying threshold. When an applicant's credit score is ten, twenty, or thirty points short of the score required for eligibility, many lenders are tempted to intervene and advise those would-be clients to take remedial steps to raise their scores. The advice could be something as simple as paying off a credit card to lower their debt to credit ratio, or disputing a delinquent account that the prospective client maintains was reported incorrectly. These minor steps might be just enough raise the applicant's credit score, qualify them for a mortgage on their dream house, and earn the lender a life-long client. However, few lenders realize that providing this type of advice to consumers, no matter how well intentioned, could subject the loan officer and the organization for which he or she works to serious liability from both, the federal government and the consumers to which the assistance was provided.

The Credit Repair Organizations Act ("CROA" or the "Act") is a federal law, which falls under the broader Consumer Protection Act. Under CROA, any person or entity that provides any advice or assistance to any person with the goal of improving their credit in exchange for valuable consideration (i.e. the sale of financial products) can be classified as "credit repair organization" under the law, even if they're not being directly compensated for providing that advice. A reclassification of this nature could have a devastating impact on any organization that engages in the practice of providing this or similar assistance. Once a company is classified as a "credit repair organization", it becomes subject to all of the stringent requirements imposed by the other provisions of the statute, which, if credit repair were not the main focus of that lender's organization, would almost certainly mean that the lender is conducting its business in violation of the law. The Consumer Financial Protection Bureau has begun to take an interest CROA cases, and has already reached seven-figure settlements with several companies that have run afoul of the statutory provisions.

In addition to potentially being subject to governmental backlash, many lending organizations that provide this type of assistance to their potential clients also risk being stripped of their ability to pull credit. Surprisingly, few people in the industry are aware that many of the largest providers of independent verification services require lenders to certify that they do not engage in credit repair. These prohibitions are often glossed over because many lenders do not realize that the advice they provide actually puts them in breach of these agreements. If these verification services discover that the lenders with which they contract are engaging in these practices in-house, they could very well, and most likely will, terminate the contracts and refuse to provide their services in the future.

Because of the ever-increasing competition in the mortgage industry, it is imperative for lenders who wish to succeed to undertake initiatives to ensure that they stand head and shoulders above their competition. For the last few years we have seen a shift from a refinance to a purchase market. Additionally, the average origination costs have been steadily increasing, while the quality of leads is on the decline due, in part, to the credit difficulties widely experienced by consumers. Taking all of these factors into account, the question then becomes, "how?" "How can I differentiate myself from my competitors? "How can I increase my conversion rates?" "How can I establish a rapport with my clients to ensure repeat business and brand loyalty?"

One solution is to form strategic partnerships with third party companies that are able fill in gaps by providing services that you cannot. As discussed above, there are thousands of consumers who get turned away every day because of their credit scores. These consumers look great on paper in terms of employment status, income, and other assets, but their FICO scores render them ineligible for loans. Although lenders cannot and should not attempt to rehabilitate these consumers in-house, they should not just turn them away either. Those unqualified or underqualified consumers represent hundreds of millions of dollars in potential market share and, if lenders are able to implement a system to capture even a fraction of those consumers, they could bolster their bottom line by serving what was previously viewed as an untapped market, while establishing customer loyalty by indirectly aiding those customers that have traditionally been brushed off by the competition.

There are several not for profit entities that specialize in credit remediation and rehabilitation no cost to lenders, whatsoever. Although the non-profits were established to benefit consumers, lenders who choose to partner with these companies stand to become ancillary beneficiaries, while providing a niche service to their prospective clients. The effects of implementing this strategy are threefold in that lenders: 1) are able to insulate themselves from the potential liability that accompanies being reclassified as a credit repair organization, while ensuring that these consumers receive the assistance they require; 2) are able to maximize the value of every lead thy receive by providing this service without expending additional time or resources on conversion; and 3) are able to establish brand loyalty by offering a crucial service that competitors do not provide while simultaneously tapping a pipeline of new business.

When evaluating potential partnerships, it is imperative that lenders are able to pinpoint those organizations that are not only reputable, but that employ experienced personnel who are capable of providing the services necessary to rehabilitate the referred consumers. Not only should a chosen not for profit provide credit remediation, it should also provide coaching and education to give consumers who have traditionally experienced credit difficulties the requisite knowledge base to make sound financial decisions in the future. By affording consumers resources that teach responsible borrowing and spending habits, lenders can help ensure that when these clients return to them, ready to refinance or purchase another home in the future, they have the necessary credit profile to allow for an expeditious closing.

Lenders should also ensure that there are mechanisms in place to monitor the progress of all consumers that they refer to their not for profit partners. This will operate to ensure that not only are the referrals making progress, but that the lenders are advised upon the completion of the rehabilitation process so that they can recapture leads in which they've invested considerable time and resources. The lender should also endeavor to periodically follow up with their referrals during the remediation process in order to build stronger relationships, which should lead to higher conversion rates upon completion.

Although it is getting increasingly difficult to close new loans in the mortgage industry, there are plenty of potential sources of business for savvy lenders that know how to recognize them and have systems and strategies in place to capitalize. By differentiating your organization and providing consumers with alternatives to rejection, you have the ability to maximize lead value and cut origination costs, while simultaneously building lifelong client relationships. ❖

ABOUT THE AUTHOR

Elizabeth Karwowski is the CEO of GCH360, a technology company that has developed a proprietary process and solution, which seamlessly integrates with the lenders' LOS and CRM in order to create new loan opportunity and recapture leads.