

A National And Industry Crisis

We are at the precipice of disaster from which there will be no recovery if we don't change our course.



At times of great conflict, we look for great leaders. The word “conflict” and the Consumer Financial Protection Bureau (CFPB) are becoming synonymous, especially with the Tsunami of new regulations flooding our industry. In some cases, the “conflict” with CFPB is more closely akin to “warfare,” especially when you endure your first CFPB audit. It is not just mortgage companies reacting to the flood of new regulations from the CFPB. Technology companies are being forced to invest millions of dollars to insure that their systems are compliant with all these new regulations. Questions abound. What does this mean for the future of technology innovation? What does this do to the competitive landscape? Do only the bigger companies survive? Who is going to merge and emerge as the industry leader(s)? Who will survive? Who will die? Sobering questions for a somber time.

By David Lykken

The late Jack Tramiel said, “Business is war!” Mr. Tramiel knew something about war. He was born in Poland to a Jewish family in 1928. After the Nazi’s invaded Poland during World War II, he and his family were shipped off to Auschwitz. Mr. Tramiel was rescued in April 1945 and immigrated to the United States in 1947. Once here in the U.S., he started a typewriter repair business and then got into calculators, which eventually led him into computers. He founded Commodore International and quickly became a crucial figure in the early history of personal computing. For those of you old enough to remember the Commodore 64, it went on to become one of the best selling computers of all time. Even after this success, Mr. Tramiel was forced to leave the company he founded in 1984. After being ousted from Commodore, he bought Atari Inc.’s Consumer Division and launched the Atari computer line. His revolutionary approach to computing was “Affordable computers for the masses and not for the classes.” He was more than a survivor and truly understood that “business is war.”

The concept that “business is war” has never been more evident than it is today in the mortgage industry. We are at “war” NOT with our competitors but with the regulators. In reality, it seems as if the regulators are at war with us. That saying from WWII: “We didn’t go to war, war came to us” may be applicable here.

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We have been hearing reports that the CFPB has been training a team of auditors for months. It’s not surprising then that we are now hearing reports that the CFPB auditors along with a cadre of state regulators are descending upon banks and mortgage companies to do compliance “reviews.” One company said they had over 35 state and CFPB auditors in their office at one time. Another executive said, “We received a 35-page document request a few days before they showed up at our door.” He said, “It was like a mass invasion.” What was most troubling was their attitude. He said, “I thought the premise of our country’s legal system was ‘innocent until proven guilty.’” “Not with this bunch” he said. It was just the opposite, “Guilty until he could prove otherwise.” He jokingly said that his recent IRS audit by comparison was “a walk in the park.”

It seems like we have a great “ideological divide” in our country, more so than ever before. This is so evident when you consider the stark contrast between our two political parties. On one side, we have the Democratic Party led by President Obama, who seems convinced that “more or bigger government” is needed to both “control” the markets (hence CFPB) and to “stimulate” our economy (more government spending). On the other side, we have the Republican Party led by Governor Romney and Representative Paul Ryan who have the belief that we need “less or smaller government” with less controls on business (keeping the “free markets” free) and then get focused on getting our fiscal house in order. It

really comes down to this simple question: Do you want “more government” or “less government” in your mortgage business? I have been saying on my radio program (www.LykkenOnLending.com).

com), “Politicians are getting involved in YOUR business, don’t you think it is time you get involved in THEIR business?” Be a leader ... get involved ... make a difference!

Never has an election been more critical for our country and to our industry. I firmly believe that we are at the precipice of economic disaster from which there will be no recovery if we don’t change our course. If we continue down the same path of bigger government and more spending, it will not only threaten our fragile housing recovery that is just now trying to get underway, but it will destroy us economically as a world power.

No matter which way the election goes this coming November, the mortgage industry has some very difficult days ahead. We still have serious systemic problems as an industry. Here’s what I mean:

strong industry leaders speaking with one unified voice helping politicians understand the importance of having strong and viable privately funded secondary markets.

- When misguided municipalities irrationally threaten to use the right of eminent domain to keep delinquent homeowners from being foreclosed upon, what investor is going to invest in a mortgage-backed security secured by loans within that municipality’s boarder? We need leaders to rise up in every community to educate local governments on how to positively impact their real estate markets and not torpedo them.
- We have already lost some great mortgage insurance companies, so we need to keep the remaining companies strong. This is going to

Again, there are two solutions before us this election year. Do you want government to identify the problems and put in their “big government” solutions ... OR ... are you for “we the people” of the mortgage industry doing something about it?

I firmly believe that when we fail to regulate ourselves from “within,” we will be regulated by forces from “without” ... in this case outside regulations. For this reason, I am of the opinion that Dodd-Frank and the CFPB is NOT going away anytime soon.

Some may feel like the Dodd-Frank “Wall Street Reform and Consumer Protection Act” was a declaration of war on our industry. And if that is the case, it may seem as though the CFPB is the enemy with which we have to fight. It can seem that way especially when you read an article in the Washington Times titled, “Consumer bureau seek sleuths for bad bankers.” The article started out with this, “The newly created CFPB is recruiting investigators in ads that suggest the agency plans to go undercover to pursue cases against banks, credit card companies and other financial companies.” After reading this, I can better appreciate the perspective that “Business is WAR.”

This is the climate we find ourselves in today. We are an industry with a serious PR problem, with few strong leaders willing to step up and truly lead. In a recent television interview with Neil Cavuto on the FOX Business Network, he jokingly said to me, “You know Dave, mortgage lenders aren’t much more popular than TV news anchors.” It got a good laugh but sadly it is true.

I applaud David Stevens for his leadership at the MBA. But he is just one guy and no doubt and understandably has to struggle with representing the divergent interests of the few big institutions that cover a significant portion of the MBA’s budget. Many small to mid-sized companies have become disillusioned with the MBA, which has opened the door to a new emerging trade association, the Community Mortgage Lenders Association (CMLA). I believe we ALL desperately need to come together for the sake of the greater objective of rebuilding from within our industry. We MUST NOT allow big government to do it. In

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- When over 95+% of all mortgage loans being originated today are FHA, VA, Fannie Mae, Freddie Mac or USDA home loans, we do not have a healthy industry! We have to work toward getting common sense non-conforming loan products back in the market again.
- When investors hear reports that the Obama Administration is putting pressure via the U.S. Treasury on Ed DeMarco, Director of the FHFA, to authorize Fannie Mae and Freddie Mac to do principle write-downs, it effectively drives private investors away from investing in mortgage back securities. If they do, they will price it accordingly. It is critical that we have elected officials that have a thorough understanding of the secondary markets. It is equally critical that we have

require intelligent and responsible leadership making the tough calls to help restore a solid foundation to this critical segment of our industry.

- One of our greatest weaknesses, is the fact that current leaders are not willing to set aside their many divergent interests and focus on solutions that strengthen the whole industry. We have to come together for the sake of our industry to find solutions that are good and that will benefit everyone. This will only happen when we promote leaders with a vision for what strengthens the entire industry and that does not just benefit the privileged few.

There are many areas that I could go on and on about regarding the numerous systemic problems that we as an industry need to address. Good leadership starts by accurately identifying the weaknesses.

fact, I believe when bureaucrats fail to understand a problem they default to regulating everything around the problem. In their mind, that means that they did something. The reality is that most politicians and bureaucrats are ill-equipped and therefore incapable of identify solutions to the complex problems we face. That is why we in the private sector must collectively come together to present a solution that will work.

I firmly believe that technology is going to be more crucial and critical to loan quality and the future success or failure of mortgage companies than ever before. As a result, the liability facing technology companies today and in the future is going up exponentially. And given the complexity of our industry these days, it precludes most thinly capitalized tech companies from making it. For these reasons, I believe we will continue to see continued consolidation. While it may seem that innovation may have to take a back seat to getting systems compli-

ant, the smarter vendors are going to find innovative ways to help their customer mortgage companies be compliant. Innovation never goes away. The question is where will it appear.

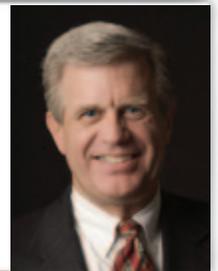
As it relates to loan production channels, I believe that while we may never again see brokers have the market share they once did, they are far from dead. As Mark Twain said, "The rumors of my death have been greatly exaggerated." When we finally hit bottom and truly begin to see consistent growth, we will need brokers and the wholesale channel more than ever. But the biggest surprise will be who is and is not active in the wholesale

channel. Even more interesting is who will be doing what duties. This is where regulations will have a lasting impact.

No question ... these are times of great conflict, but also of great opportunity. This is especially true for the leaders who emerge. I ask you, "Are YOU one of those strong leaders?" If so, I encourage you to "ANSWER THE CALL." If you do, write me at Dlykken@MBS-Team.com or send me a message via LinkedIn and/or facebook. I will send you information about the "The 7-C's of Leadership" ... Character, Courage, Confidence, Charisma, Conviction, Communication & Compassion. ❖

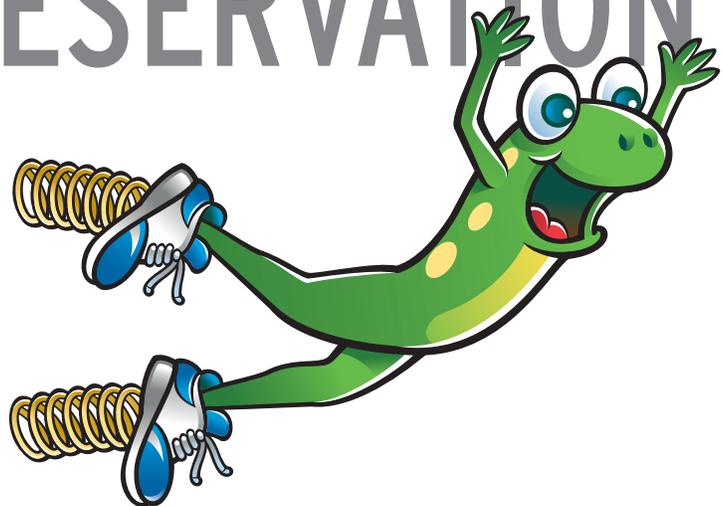
ABOUT THE AUTHOR

David Lykken has his own national weekly radio program called "Lykken On Lending" that can be heard each Monday at Noon Central time by going to www.LykkenOnLending.com. As co-founder and Managing Partner of KLS Consulting doing business as Mortgage Banking Solutions, he has over 37 years of expertise in real estate finance and housing.



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