Mortgage Brokers - You've Been Set Up

People, loans, and money are seeking out and moving toward quality. To survive in this market, you need to understand this fundamental shift.

Mortgage brokers, you were set up to be the “fall guys” the “patsy” in the next “S&L Bail out.” Having mortgage brokers blamed for our mortgage mess was planned about fifteen years ago. Didn’t you get the memo?

How can I say that? Well years ago I was among a former group of “Fall guys.” I’ve been there, done that.... and completely understand how you’re feeling right now. Let me explain by giving you a bit of history.

The most recent, past occurrence of this “banking” problem happened in the 80's. During that time, there was no appraisal licensing. Anybody could, and did, call themselves an appraiser and appraisals were completed on napkins. Banking regulations were far less restrictive and a mortgage broker was almost unheard of. If you were breathing, you could get a loan to develop land into a subdivision, or build an overly elegant office building, even if it didn’t make economic sense... just as long as an appraiser said it was OK on that napkin. As a result of poor oversight, banks and savings & loans experienced massive losses. S & L’s were going out of business at a rate approaching 500 per year and they were taking the savings accounts of hard working people with them (hark, did someone just mutter Lincoln Savings or Clinton and Whitewater). The government stepped in took over S & L’s and paid out over $189 billion trying to keep our banking system from collapsing. This is the “S & L bailout” that the “old timers” talk about. As a result of the failure, we the people (government) came up with a “solution” - Ta da!!!: The Financial Institutions Reform Recovery and Enforcement Act of 1989 (FIRREA). The FIRREA laws required, for the first time, the licensing of real estate appraisers and placed, a heavy burden of regulation on banks and loan officers. Heaven-for-bid, banks were actually required to train their loan officers, file quarterly reports on loan production, list the loans rejected, keep copies of their advertisements and make sure **every** employee complied with dozens of laws and hundreds of rules (How many? Can you say regulations X, Y and Z). On top of that banks are financially **responsible** for the quality of the loan. This “responsibility” required a bank to pay for bad loans.... directly out of their bank vault and profit margins - ouch! Yes, responsibility can sometimes be painful.

As a result of FIRREA, banks found it **beneficial** to shift loan origination to someone else... an untrained individual who was unaware of the FIRREA laws much less HOEPA. This person was cut off from the flow of government information and even better they were unlicensed, so no one knew who they were, where they worked, and they answered to no one but the call of profit. *Sweeeet!*

This out-of- the-loop, uninformed group of sales people were being set up to take the rap if loan problems developed in the future (S & L bailout number two). This was “out-sourcing” a job and responsibility, at its finest. Oh, by the way, these sales people were called Mortgage Brokers. Now before you throw daggers at me; haven’t you noticed how bank branches became smaller? Smart young loan officers, eager to take your loan application from rows of desks inside bank lobbies have disappeared. Why? Banks found it cheaper to use an external sales staff and do away with office space, salaries, employment taxes, and that pesky regulation thing. As a result, the origination of real estate loans, by mortgage brokers, blossomed from 5% to an estimated 70% as of 2005.

Because mortgage brokers didn’t take two years of education as the “old school” bankers did, they didn’t understand the requirements. Mortgage brokers could be hired right off the street and instead of taking two years of bank training, they attended classes on *“how to make more loans”* and how to *“qualify the unqualified.”* And maybe a class on *“how to get the appraiser on your team.”*

As a result of being eliminated from the information flow, brokers were, and continue to be, unaware that many of their common practices place them in legal jeopardy, criminal and civil. Mortgage brokers are being sued and indicted at a pace never seen before in the history of the World! You were set up to take a fall and the bankers just smile. *(Their plan is working just as outlined in smoky rooms with hardwood paneling back in the 80's)*

People find it convenient to say, this is a “sub-prime” melt down or it’s “the fault of the federal reserve” but it isn’t. Sub-prime mortgages are reasonable tools, that if used properly by educated people, can be very beneficial to select borrowers. Sub-prime mortgages can be safe and profitable but only when used in the right instance. Look at World Savings; they had a high use of sub-prime mortgages, given to questionable people, but they have low foreclosure rates **and** high profits. Why? **Good appraisals and underwriting** (i.e., properly educated and trained people).

So here we are today, with mortgage brokers in many states that still don’t get it. Numerous states have unlicensed mortgage brokers and loan originators. Very little, if any, information flow, no requirements for education and people crying about “burdensome paperwork” and tax like licensing fees. The people trying to stop licensing are not evil... just under educated about the good side of licensing and education. As a result, we the people of the United States, are suffering and about to have $500 billion in loans and profits wiped out. Pockets of economic devastation, at a rate no one under thirty-five has never experienced. If only you knew you were going to be the fall guy, the patsy, the shill for the banking system, what would you have done differently? My bet? Obtained information. Some call that - education.

So here’s the solution that may help prevent the next S & L crisis and you being the patsy: Licensing.

Require licensing of every mortgage broker and loan originator, commercial or residential. Licensing will filter out the criminals and require that the mortgage loan officer that is competing against you, has a certain level of understanding of our system.

When licensing has been activated in states, they found that upwards of 15% of the people “acting as loan originators” were criminals..... convicts! No respectable businessperson wants to be associated with criminals. Licensing helps eliminate criminals from your business. *(psst...! It’s also a great way at reducing the competition. To bad you didn’t enact licensing two years ago)*

Once you’re entered into a licensing system, loan officers will be qualified to receive the latest in laws and regulations from the federal as well as the state governments, not some group that filters what you receive. You will have knowledge; one of the greatest things in the world! With education people can learn what is right, wrong and how to help people get the **appropriate** loan...... from conforming to sub-prime.

While mortgage brokers and loan originators may feel licensing is unfair and places a burden on them (greater than the banks) that's not really the case.

- Banks and their loan originators have a massive burden of state and federal laws and regulations that far exceed anything imposed on a mortgage company such as:

- Banks already perform criminal background checks of employees
- Bonding, or self-insurance of individuals
- Bank examiners showing up at any moment and taking over your office.
- Insurance costs
- Compliance training
- **Requirement to maintain large cash reserves**
- Compliance with OTS, OCC, FDIC, HUD and the Federal Reserve rules
- **Complete and total financial** responsibility for bad loans and...
- The likelihood of massive penalties for improper business practices. Examples:
- $41 million dollar fine against ABN-AMRO
- $325 million dollar fine against Ameriquest
- $400 million against HFC

These regulations, responsibilities, and penalties far exceed anything a broker could ever assume responsibility for... or pay. It appears that the playing field is reasonably level between the banks and mortgage brokers... it's the grass that's a different color.

So if you don’t appreciate feeling like a “fall-guy” or a “patsy,” then get licensed and find great education on the laws, RESPA, Consumer Protection Act, and fraud prevention. Borrowers will begin to trust your profession. You won’t have multi-million dollar lawsuits breathing down your neck and we can get this economy headed the right direction. So stop reading and go out and sell something!