Tactics for a Rougher Road

BY STEVE GRANT AND ALLEN JOHNSON

Here are five companies that have adopted successful strategies for today's challenging market. Working with borrowers to improve their credit is key to many of their approaches.

There is definitely no shortage of doom-and-gloom stories hovering over the industry right now. Most have been triggered by the undeniable slowdown in home sales, tightening regulations and fallout in the subprime segment. That makes it especially good to hear that even in this rocky period mortgage companies are shifting gears and finding strategies that offer some positive news. From talking to a number of mortgage professionals, we found many are facing up to the current challenge by strengthening or adapting their mortgage programs, technology and services to the new environment. Their approach typically centers on helping borrowers move out of the subprime category and into the alternative-A or prime product arena. This approach can, in turn, help lenders close more loans and increase business even in today's constrained market. Often that means stepping up to provide services that go beyond the norm for origination companies.

It can include putting an even stronger focus on assisting potential borrowers to get the best loan possible; utilizing technology tools to assist in the counseling process; educating borrowers; and ensuring that loan officers and brokers are properly trained.

As the home mortgage market continues to contract and the subprime market, especially, erodes even further, helping borrowers qualify for mortgages and transforming subprime borrowers into alt-A or prime mortgage candidates have become increasingly advantageous strategies for lenders and brokers alike.

To demonstrate the possibilities, following are several examples of programs and strategies that have helped originators of various sizes pick up speed in a slow market.

> **"Credit-score requirements have gone up a lot in terms of being able to qualify for certain programs," Gersin says.**

Lend America gains momentum with an advisory role

Melville, New York–based Lend America is a mortgage banker with a staff of 175 loan officers who serve New York and a growing list of other states across the country. Although its main business niche is Federal Housing Administration (FHA) products, the company does handle some larger home loans. In the current atmosphere, the typical approach to these larger loans is to take an advisory role with the borrower, says Orest Tomaselli, Lend America's regional vice president.

To assist in this effort and ensure that borrowers get the loan they want, loan officers utilize credit-score optimizing technology that looks at a credit report and suggests specific actions the borrower can take to improve his or her score.

"On several occasions we have taken clients from a credit score in the 540 range to a 687 [score] using credit technology from [Salisbury, Maryland–based] Credit Plus [Inc.]," Tomaselli says. "Most of the loan officers use scoring technology every day as an internal tool because of the success we've had with it, especially with these larger loans where the client doesn't have good enough credit. We counsel the client on his or her transaction, and when they see this huge benefit, they're not going to go anywhere else for their loan. We lock them in just by providing this great service for them."

One example of how a score can be dramatically raised involves a Lend America client who wanted 100 percent financing to purchase a $700,000 property. Initially, with a 540 credit score, her only loan choices were a 10 percent down subprime loan or simply not getting a mortgage. The optimizing technology, which allows a mortgage professional to enter a credit-report number and obtain a detailed analysis of the score with advice on how to improve it, helped Tomaselli counsel the borrower to pay off $19,000 worth of debt rather than using that money for her down payment.

"For that borrower, it became a win-win-win situation. She paid off all that debt and was able to get 100 percent financing with an interest rate around 6 percent instead of the subprime rate of 9 1/2 percent," Tomaselli says. "And it was a 30-year fixed rate instead of a two-year adjustable [rate]. This is a great professional tool that most lenders don't use, so it can really put you ahead of the competition."

Interactive Financial Corporation sets the pace with education

Founded in 1993, Troy, Michigan–based Interactive Financial Corporation is a mortgage banker and broker. Interactive Financial created a model branch system that offers services, staffing and pre-tax expense accounting for 40 branches in 25 states across the country. According to Hunt Gersin, Interactive Financial's president and chief executive officer, the company's major approach to the dramatic changes that have occurred in the market has been to use its mortgage expertise in the role of adviser to its borrowers even more than before. Strategies have also included holding seminars to educate borrowers and utilizing available technology to find the right loan for each customer.

Seminars can be an important educational tool to attract and teach borrowers or potential borrowers about the mortgage process and how to get the best loan for their circumstances. Interactive Financial has presented educational first-time homebuyer seminars for more than five years, typically for renters and referrals from previous attendees. Reactions from attendees have been very positive, with many of the renters who turn into homeowners referring other renters to the seminars.

"Although they're set up for first-time buyers, the seminars have also helped many borrowers move into the prime or alt-A range," Gersin says. "By starting the educational process for buying a home early and stressing the importance of good credit, we lay a positive foundation for future home buying and financing. As follow-up, we send out financial tips and other educational tools via e-mail and regular mail."

Borrowers who come to Interactive Financial for a mortgage go through a lengthy interviewing process, during which the loan officer records all the relevant financial details and determines available assets and other factors pertinent to the loan. Then the loan officer runs the credit score and does a credit analysis.

"Credit-score requirements have gone up a lot in terms of being able to qualify for certain programs," Gersin says. "Just [a change in the credit score of] 10 to 20 points can make all the difference in the world. We literally go line-by-line to review the credit report with the borrower, because there are so many cases where there are errors such as a past-due [bill] that has actually been paid off—and that can really affect the score. Then we utilize credit-scoring technology to help the borrower get the best loan. The technology's 'what-if' scenarios show us how specific actions will affect the loan.

"We're able to offer suggestions, create a plan for the borrower by looking at any liquid assets that can be put toward credit-card payoffs, collection payoffs or to bring down balances. We can say, 'If you do this, it will add this much to your score and it will change the [mortgage loan] program you qualify for.' By using the 'what-if' and rescoring technology, we've taken loans from denials to deals in 30 days or less," Gersin says.

One recent purchase offers an example of borrowers who needed to qualify for a conforming rate to purchase a home they had been admiring for more than a year. The home was originally listed at $375,000, and then when the listing price continued to drop and eventually settled at $324,900, an offer was written for $320,000. The mortgage company that had previously given the purchasers the pre-approval had gone out of business, and the purchasers were referred to Interactive Financial.

"The borrowers' 609 credit score made it a possible—but not very probable—alt-A deal," Gersin explains. "We needed to help move the credit score to a conforming mortgage level. The difference was nearly 2 percent in the rate, and with a down payment of only 5 percent, the resulting payment was too high. Utilizing the 'what-if' scenarios and other technology, we were able to advise them and make this work. There were a few accounts that showed as past due, but were actually paid. We also suggested paying off a few small debts and collection items. While it took about 30 days to get the credit score up to 642, what a difference it made to our borrower, the seller and the real estate agents," he says.

At a time when so much is predicated on credit score as opposed to an overall picture of the individual, Transcontinental prefers to take a slightly different approach.

As another strategy, many companies, including Interactive, are encouraging their loan officers, brokers and branch managers to keep updated on current technology and the state of the mortgage market, particularly through the online courses that several service providers and organizations offer.

"In this kind of environment, it's often so difficult to get loans closed," says Gersin. "I think anything our staff can learn that helps expedite the process provides an advantage. Credit is obviously an integral part of an approval, so learning as much as possible about the technology that's available and how to use it to help our borrowers get their loans closed is very important," he says.

Transcontinental Lending Group offers a nontraditional spin

Deerfield Beach, Florida–based Transcontinental Lending Group was founded in April 1996 in an effort to capture a niche of the mortgage market by recruiting and training nontraditional loan officers, such as certified public accountants (CPAs), real estate professionals, financial consultants, insurance agents and stock brokers. These loan officers would then add Transcontinental's mortgage services to their own professional offerings to create a one-stop shop for their customers. Currently, Transcontinental Lending Group operates in 26 states.

When Transcontinental began looking at ways to meet the challenges of the changing mortgage environment, regional branch manager Mark Wallach developed a business model that downplays the mortgage side of the business and focuses on the fact that Transcontinental's loan officers help eliminate debt, create wealth and maximize tax advantages for clients. In most cases, that means the company provides a "financing analysis" to individuals, looking at existing credit-card and installment financing, for example, to be sure they have the best current home mortgage financing in place to meet long-term financial goals.

"We don't talk about being in the mortgage business," Wallach says. "Basically, the business model for the branch is that of a financial counselor to people who might come in and say they need a mortgage, but then we do a full analysis of their financial landscape to determine what type of mortgage would be best for them. We don't provide asset advice, and don't invest assets, so it's easy to recruit nontraditional loan officers to assist us because we provide opportunities for the nontraditional loan officers to work with the asset side of an individual['s portfolio]. For example, we might identify that your current financing is not providing for you the monthly savings it could be, or the cash necessary to develop a retirement plan. Then we'd show you that if we restructured your current financing, we could free up cash flow to buy life insurance, disability insurance and a retirement plan. Many of these nontraditional loan officers are very excited to talk to us, because we provide an opportunity for them to sell their services, too," he says.

At a time when so much is predicated on credit score as opposed to an overall picture of the individual, Transcontinental prefers to take a slightly different approach—one that utilizes credit-scoring technology and "what-if" scenarios to add conditions to a transaction. If a borrower meets those conditions, Transcontinental can offer a program based on the higher credit-score profile.

For example, one borrower was recently quoted interest rates on an alt-A product by another lender, based on the borrower's 665 credit score. Transcontinental added in several loan conditions based on the results of a "what-if" analysis, and was able to quote the rate for a 680 score.

"By using technology such as automated underwriting, credit reporting and 'what-if' programs, we've been able to increase scores for consistently weak credit scorers and obtain conventional financing for them. Consequently, our business has not been affected so much by current conditions," Wallach says.

Another important tool for Transcontinental has been educating loan officers to ensure that they have a thorough understanding of credit, know how to assist borrowers and what is happening in the market.

Wallach says he encourages all of his loan officers to participate in online courses, because "this is a profession that has [a] great impact on people's immediate lives and their futures. When we make recommendations, we better know what the outcome is going to be from those recommendations, and how to use the tools that allow us to confidently discuss these options with the customers."

Direct Mortgage Corporation meets the challenge with technology

Salt Lake City–based Direct Mortgage Corporation, a wholesale lender operating in 32 states, has been in the mortgage lending and mortgage technology business since 1994 and now works with more than 3,000 brokers. The company has developed its own automated system to streamline the mortgage process.

Direct Mortgage's primary strategy in response to the current industry environment has been to intensely focus on making sure borrowers have the best loan program for their needs. The technology is a big part of that strategy.

"We're doing an enormous amount of work trying to make sure the borrower gets into the best loan program," says Jim Beech, chief executive officer of Direct Mortgage. "We call it predictive analytics—the idea is that we're supposed to present the customer with all of their options, then know how to suggest what loan product would be best for the borrower.

"[Some] lenders [that] have automated extensively only have a single loan program with different variations of that program," says Beech. "They might offer different terms or doc types or credit scores, but it would still be the same loan product—typically a subprime loan. All their salespeople are out there selling this one loan product, so somebody who really doesn't fit into a subprime category [may] be put into a subprime loan when they could have qualified for better products. We won't do that, and we've built our technology so it actually looks at alt-A products as well as prime."

Believing that the biggest difficulty in getting a loan is knowing the availability of various loan products, Direct Mortgage strives to maintain an extensive loan selection.

Believing that the biggest difficulty in getting a loan is knowing the availability of various loan products, Direct Mortgage strives to maintain an extensive loan selection. It now offers more than 3,600 loan products, available through the company's patent-pending Web site technology.

"Where we've really focused is on the technology, which is going to help us drive down costs. In addition, we've reduced the number of products from 5,000 to 3,600 and raised some of the criteria dramatically in the past few months. Our technology also lets us tell people exactly why they didn't qualify for a particular program, and I think it's really critical that a borrower knows why they've been turned down so they can actually do something about it. I think that type of educational process for the borrower is very, very healthy," Beech says.

"Direct Mortgage plans to share this technology with the entire mortgage industry," he adds. "We are currently in the process of separating the technology into a completely independent entity that cannot only provide loan choices, but can underwrite and automatically order all verifications [appraisal, verification of employment, etc.]—a complete back-office solution for all lenders and brokers."

Indigo Financial Group takes a proven route

Lansing, Michigan–based Indigo Financial Group Inc. officially opened on Feb. 1, 2003, when Michael Szafranski, Indigo's president and owner, purchased the assets from the original owner and changed the company's name. Currently the company operates out of 57 offices in Michigan, Indiana, Illinois and Florida.

Faced with the fallout from the nonconforming market in recent months, Indigo has chosen to put much of its focus on FHA products and on utilizing credit-scoring technology to help borrowers qualify for the best loan possible. Education has been an integral part of the process.

"For many potential borrowers, it might mean we'll meet with them today, but it doesn't necessarily mean they'll get a loan today. Using our experience and the optimizing technology, we work with them to get their credit score up to where it needs to be. That's probably the biggest hurdle. Then we'll meet with them again in six months or so to help them get the loan they want."

Indigo is also helping borrowers by working with churches and non-profit organizations in Detroit, Lansing and Flint, Michigan, to present educational seminars in those communities. Seminar presenters typically offer a free credit report to attendees, provide a brief presentation and then meet individually to help analyze the report and put them on a path that will help them qualify for a mortgage that fits their hopes and plans.

The seminars have had good turnouts, Szafranski says, especially at the Flint, Michigan, events, where attendance as high as 40 to 60 people is common.

Despite the rocky, uphill terrain many of us are traversing right now, the outlook for a smoother journey ahead is quite good for those willing to shift gears. For companies that are thriving, the trick seems to be a willingness to adopt, adapt or improve the programs and services they deliver. Rather than succumb to negativity, those who can integrate these kinds of strategies and programs into their business approach are likely to find the ride a much better experience. **MB**

Steve Grant is president and Allen Johnson is vice president of sales and marketing for Credit Plus Inc., Salisbury, Maryland, a credit information services provider. They can be reached at steve@creditplus.com and allen.johnson@creditplus.com.