washingtonpost.com

Big Money, One Mortgage At a Time

Brokers, Bankers Reap Rewards From Torrent of Loan Business

By Daniela Deane
Washington Post Staff Writer
Monday, May 12, 2003; Page E01

Lenny Gordon, a mortgage banker in Rockville, has never seen business like this.

The number of loans Gordon has sold has tripled over the past two years, a period of declining mortgage rates that are now near historic lows. Because he works on commission, his income has soared, too.

Local mortgage bankers and brokers report similar surges. That means huge commission checks and a flood of people wanting to enter the business.

"It's way off the scale," said Gordon, 39, a loan officer and also the branch manager of his National City Mortgage Co. office. "Business is booming on house purchases and then you have the refinancings too, which are at an unbelievable number."

The mortgage refinancing boom has put hundreds of billions of dollars back into the pockets of homeowners, who have cut their monthly mortgage payments and tapped their home equity for cash to renovate their houses and pay credit card balances. It has also meant good times for all the middlemen in the mortgage process -- loan officers, appraisers, title insurers and settlement lawyers.

"These have been the best market conditions they've ever seen," said Michael Sklarz, an analyst at Fidelity National Information Solutions, a real estate information and technology company in Santa Barbara, Calif. "I was at the mortgage bankers' convention last November in Chicago and all they were talking about is how great things are."

Gordon said he sold more than $250 million in loans in 2002. The National Association of Mortgage Brokers says mortgage salespeople make about 0.5 percent of the loan amount, but that that figure can routinely hit 0.75 percent. Gordon would not discuss his compensation, except to confirm that it has gone up at the same pace as his loan production. (A half-percent of $250 million is $1.25 million.)

Not all mortgage salespeople are earning seven figures but many these days are well into six.

"Some are doing better, others are doing worse," said Larry Pearl, managing director of Wholesale Access Mortgage Research & Consulting Inc. in Baltimore. "But it's a good business to be in now."

Of the record $2.5 trillion in mortgages originated last year, more than half, about $1.6 trillion, were refinances. With mortgage rates still falling because of weakness elsewhere in the economy, the refinancing boom shows no signs of slowing yet. Thirty-year fixed-rate mortgages averaged 5.62 percent last week, with 0.7 points in origination fees. A 40-year low, 5.61 percent, was reached in mid-March.

Consumers who take out loans deal with either mortgage brokers or mortgage bankers, also called loan officers. The brokers shop loans around to different lenders; the bankers typically fund loans then sell them to a larger institution. Some mortgage bankers are affiliated with commercial banks or savings and loan associations.

There was a time when local banks or savings and loans directly made and held mortgages, but now most mortgages are resold in the secondary investment market. Because of that, the role of brokers in mortgage lending has become more important since the 1980s. Wholesale Access estimates that brokers now handle more than 60 percent of mortgages. Mortgage bankers handle the rest.

Mortgage brokerages, the majority of which are small -- often just two people -- make commissions of 1 percent to 3 percent of the loans they sell, according to Wholesale Access. After subtracting overhead costs (some brokers work out of their homes, lowering overhead), marketing budgets (some have been doing it so long their business is mostly referrals), any additional staff and other costs associated with running any small business, the rest is profit. A mortgage broker working for a firm shares fees with the owner of the brokerage.

Both loan officers and brokers are typically paid on a straight commission basis. Under current laws, mortgage bankers, because they are acting as bank officers, do not have to disclose what they personally make on each loan. A bank gets its profit from the difference between the interest it pays for money and the interest it charges borrowers.

Mortgage brokers, on the other hand, have to disclose what they are paid. That figure, though, can be difficult for borrowers to find and understand. The disclosure can be just one line on a closing statement, which is one page in the avalanche of papers a borrower gets at settlement.

Borrowers bear the cost of a broker commission through the interest they pay. They also are often charged origination fees, or points. In the case of points, the buyer pays upfront and much of the money goes to loan salespeople.

On loans that carry little or no points, borrowers probably pay more in interest -- and brokers are paid premiums for increasing a bank's yield on the loans.

These "yield-spread premiums," often abbreviated in mortgage documentsas YSP, can total thousands of dollars depending on the size of the loan.

Consumer advocates say many brokers put customers into mortgages with higher rates than they have to pay and that the yield-spread premiums are illegal kickbacks to the brokers from the lenders.

The Housing and Urban Development Department says yield-spread premiums serve an important purpose by allowing low-income borrowers to pay less at settlement. Their interest rates and monthly payments are higher.

HUD is rewriting the rules on how and when borrowers must be told about the various costs associated with their mortgages. Proposed rules would require earlier, clearer disclosure of yield-spread premiums and other compensation to brokers, as well as of many of the other fees charged.

The refinancing boom is attracting more people into the lending business, especially because it is easy to enter. Selling mortgages does not require specialized education; most bankers and brokers learn on the job. Only 13 states require mortgage brokers to be licensed, although mortgage generally need to have state licenses.

Gordon said "a lot of people" were calling to try to get into the business.

Shannon Harvey, a loan officer at Wachovia Corp. in Northern Virginia, is one of the newcomers. He started selling mortgages about a year ago.

"It's better than being either a stockbroker, or working in a family business," said Harvey, who has done both. "And sure, money is a high point."

The good times probably will end when interest rates rise as the national economy improves. Most economists predict a gradual rise in mortgage rates this year.

Chief economist Mark Zandi from research firm Economy.com Inc. said that even a half-percentage point increase in rates would put the brakes on house buying.

Pearl predicted that about 20 percent of mortgage brokerages will go out of business when the flow of customers slows. The number of brokers increased 47 percent in the last two years, according to the mortgage research firm.

"There's a lot of people who jump into the business when there's a refinance boom," said mortgage banker Steve Calem of Washington Savings Bank.

"Whenever rates drop, it's a great business to be in," he said. "All you have to do is be able to answer the phone."