



INSIDE MORTGAGE FINANCE

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What the Mortgage Market Reads

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Lenders Target Niche Markets with Varied Strategies, New *IMF*-Sponsored Study Reveals

When it comes to targeting mortgage loan product niches, savvy lenders have adopted a variety of successful strategies for boosting business while keeping costs down, according to a new *Inside Mortgage Finance*-sponsored survey of mortgage brokers and their views on wholesale lending.

The study found that while some lenders focus on low interest rates and little else to drive their wholesale business, others rely on automation and fast service to generate volume.

The research, which involved obtaining survey results from more than 3,200 mortgage brokers, was conducted by Campbell Communications in September. The study, entitled "How Mortgage Brokers View the Shift to Non-Traditional Products," is the second in an annual series that tracks brokers and the important issues that shape wholesale mortgage lending.

One of the most interesting findings in the new study is that most lenders – particularly mid-size firms – have apparently adopted strategies to distinguish themselves from competitors in terms of winning business from brokers and borrowers. And nowhere was this more obvious than looking at the ratings a wholesale lender like Provident Funding in California received from brokers.

Although Provident is not among the largest lenders in the country – the firm ranked 45th in total originations for the first nine months of 2005, according to *Inside Mortgage Finance* – it nevertheless was one of the most popular lenders with brokers when it came to plain vanilla conforming, fixed-rate mortgages. The reason? Provident was rated number one in offering "competitive interest rates."

But despite Provident's strong showing in popularity, mortgage brokers rated the firm dead last in terms of "overall sales force service."

"It's interesting when you compare product strategies to the pricing and customer service strategies for some of these lenders. The most successful lenders have a consistent set of strategies. For example, they have low rates but also spend little on customer service. Or they are highly automated, but concentrate on conforming products which require few underwriting exceptions," said Thomas Popik, a principal with Geosegment Systems, who designed the survey and authored the final report.

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A somewhat different strategy was apparent at InterFirst, the wholesale arm of ABN AMRO in Michigan. A larger lender with a nationwide presence, InterFirst was rated one of the most popular wholesalers in terms of conforming ARMs, despite the fact the company received only a middle-of-the-road rating for “competitive interest rates.” The company earned its highest marks for electronic services, fast underwriting turn times, and pricing concessions for high-volume brokers.

“Again, we can see that InterFirst has a consistent strategy, concentrating on program niches where the sales and underwriting process can be automated,” commented Popik. “Perhaps more fascinating are lenders with apparently inconsistent strategies, such as Chase Manhattan for subprime products. They rate first or second on both interest rates and sales force service, falling behind on two key areas—underwriting and electronic services—where they rank near the bottom of rated lenders.”

Other wholesale lenders rated in the new survey as the most popular in niche products included: World Savings for interest-only loans and payment-option ARMs; Washington Mutual for jumbo loans; and National City Mortgage for second mortgages. The survey also contains rankings of mortgage broker share for other prime, Alt A, and subprime niche loan programs.

In addition to providing detailed mortgage broker ratings on individual wholesalers by mortgage programs, underwriting, pricing, sales service, and other factors such as brand name, the new study also gives report cards on more than 40 prime lenders in the country. ♦

Note: For information on ordering the new 2005 mortgage broker survey report entitled “How Mortgage Brokers View the Shift to Non-Traditional Products,” contact John Campbell at Campbell Communications at 202-363-2069 or john@campbellsurveys.com.



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What the Mortgage Market Reads

November 25, 2005

New Survey of Mortgage Brokers Highlights the Convergence of Prime, Alt A and Subprime Markets

The mortgage production business has become a much diversified market in 2005 as most originators now routinely offer a varied menu of prime, Alternative A and subprime loans. That's one of the many conclusions found in a new nationwide study of mortgage brokers and their views towards wholesale lenders.

According to the study, there has been a significant convergence of the prime, Alt A or low doc, and subprime mortgage broker communities. Nearly three quarters of the brokers surveyed reported they now regularly originate all three types of mortgages – and very few appear to concentrate on just one major type of product.

The survey, based on responses from more than 3,200 mortgage brokers, was sponsored by Inside Mortgage Finance Publications and conducted by Campbell Communications in September. The study, entitled “How Mortgage Brokers View the Shift to Non-Traditional Products,” is the second in a series that tracks mortgage broker views on many wholesale lending issues.

“Three quarters of all mortgage brokers surveyed make at least one loan per month in all three product categories – prime, Alt A, and subprime. That has big implications. It means that Alt A and subprime lenders can no longer focus their sales efforts on a few specialty brokers. For maximum market share, they have to cover nearly the entire broker base,” said Thomas Popik, a principal with Geosegment Systems, who designed the survey and authored the final report.

The survey found that brokers reported an average of 4.1 prime, 3.0 Alt A and 3.3 subprime transactions per month. Meanwhile, broker respondents also reported on average regularly using 2.7 lenders for prime, 2.4 lenders for Alt A and 2.9 lenders for subprime mortgages. On average, brokers reported trying 2.7 new lenders each year for prime mortgages, 2.7 for Alt A loans and 3.5 lenders for subprime products.

Popik noted that because the broker base has converged on the three products, wholesale lenders may find it tempting to use one sales force to market different kinds of loans to the same brokers. But he maintained this could be a mistake as the survey results clearly show that brokers want a different mix of rates and customer service depending on the loan product they are shopping for.

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“In general, the prime market is much more sensitive to rates while the subprime market finds service to be more important,” Popik said. “Lenders wanting to take advantage of the broker convergence should carefully examine what brokers want for each type of product – that’s specifically what our survey is designed to show – and design their go-to-market strategies accordingly.”

While mortgage brokers generally rated different factors as being important for different loan products, there was a surprising amount of similarity among the responses given for trying a new lender – regardless of the mortgage category. When it came to the most important reason that broker respondents gave for trying out a new wholesaler, a “very competitive interest rate” ranked number one for prime, Alt A and subprime lenders.

The second most important factor cited in the selection of a new wholesale lender for selling prime, Alt A and subprime mortgages by brokers was “distinctive loan program.”

In addition to reporting the importance of various factors by loan products, the study provides detailed mortgage broker ratings on individual wholesale lenders by mortgage programs, underwriting, pricing, sales service, and other factors such as brand name. ♦

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INSIDE MORTGAGE FINANCE'S

Inside B&C LENDING

An In-Depth Report On The Dynamic Subprime Mortgage Business

November 18, 2005

Interest Rates are Key to New Broker Business, Poll Finds

Is your wholesale shop planning to beef up its broker network with a high-profile branding or advertising campaign? You may want to reconsider.

In fact, a new survey sponsored by Inside Mortgage Finance Publications suggests that the average broker prefers substance over glitz and that lenders that offer a range of loan programs at competitive prices are likely to have a leg up in the competition for new business.

The poll, conducted by Washington, DC-based Campbell Communications, asked more than 2,000 brokers nationwide to give their opinions on the loan programs offered by wholesale lenders.

The survey also provides insight into the decision-making process of brokers, highlighting the factors that lead them to choose one lender over another – or to work with a lender for the first time.

On the subprime side, the message was clear: while good service is at the top of the average broker's wish list, the nuts-and-bolts of making and closing loans are what matters when it comes to choosing a new lender.

In fact, by a wide margin, brokers identified “very competitive interest rates” as the number one factor in their decision to work with a new lender. That was followed by “distinctive loan programs” and a “broad range of loan programs” as key factors for brokers weighing whether to send a loan to a lender they haven't done business with before.

Somewhat less important were calls and visits by sales reps, word of mouth referrals, and the promise of fast turnaround times.

At the bottom of the importance list, meanwhile, were factors such as technology, the reputation of the lender, and the availability of lender-managed training programs for brokers.

Additionally, just a handful of brokers identified direct mail solicitations or media advertising as the most important factor they consider when deciding whether to try out a new lender.

That's not to say that brokers aren't finding new outlets for their loans, however. The average broker in the 2005 survey reported that it tries 3.5 new subprime lenders each year, and a respectable

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27 percent of those polled said they try five or more new lenders annually.

First Franklin Wins Kudos

The survey also asked brokers to identify their most frequently used lender for subprime borrowers seeking a variety of different types of loans. Perhaps not surprisingly, industry heavyweights dominated the rankings in most product categories.

For instance, First Franklin Financial was named by brokers as their top choice for borrowers seeking subprime 2/28 and 3/27 ARMs.

First Franklin was also the clear top choice for subprime interest-only loans and loans for borrowers with high debt-to-income ratios. Meanwhile, Fremont Investment & Loan was the second most frequently used lender for those types of subprime loans. Argent Mortgage, New Century, and Option One rounded out the top five in all three categories of loans, though their positions varied according to the product type.

When it came to competitive pricing, Chase Manhattan Mortgage garnered the highest average score – 9.33 out of 10. Chase also grabbed high marks from brokers for its low closing costs and the price concessions it makes for high-volume producers and it garnered the best average score, 9.5 out of 10, in a crucial category – how good its sales reps are at returning phone calls.

Accredited Home Lenders scored high marks for its exception policy and fast turn-times, while MILA, a growing Washington-based wholesale lender, scored the highest average marks for electronic services, reliable closing dates and pre-approvals. MILA also received the top average score from brokers for trust in its brand name and for its policy of not soliciting its borrowers for refinances. ♦

Most Important Subprime Loan Programs As Identified by Surveyed Mortgage Brokers	
Loan Program	Percentage of Responses
2/28 & 3/28 ARMs	92%
100% LTV	87%
High debt-to-income ratio	82%
Interest-only	66%
Piggyback loans	52%
Fixed-rate loans	45%
80% LTV	32%
HELOC with first mortgage	22%
Option ARM	20%
Standalone HELOC/2 nd mortgage	18%
Negative amortization	8%
Other	3%

Source: "How Mortgage Brokers View the Shift to Nontraditional Products."

[For information on ordering the new 2005 mortgage broker survey report entitled "How Mortgage Brokers View the Shift to Nontraditional Products," contact John Campbell at Campbell Communications at 202-363-2069 or john@campbellsurveys.com.]

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