



# INSIDE MORTGAGE FINANCE

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*What the Mortgage Market Reads*

June 30, 2006

## **‘Preferred’ Programs Not Giving Mortgage Brokers All of What They Want, New Nationwide Study Finds**

While wholesale lenders have successfully used “preferred mortgage broker” programs as a way to generate increased business from originators, many of these plans appear to be falling somewhat short in delivering maximum benefits.

That’s one of the findings from a nationwide survey of mortgage brokers conducted just last month as part of a major new study of how brokers interact with wholesale lenders in the prime conforming mortgage market.

The study, “How Mortgage Brokers Work with Prime Conforming Lenders,” was conducted in May by Campbell Communications of Washington, DC and sponsored by Inside Mortgage Finance Publications. More than 2,400 brokers responded to the survey and passed validation criteria. This produced a margin of error of 3 percent or less for most general questions.

According to the new study, about one-third of brokers participate in some sort of “preferred broker” or “preferred partner” program when dealing with a prime conforming wholesale lender. And not surprisingly, brokers reported that the most common benefit associated with a preferred program was a yield-spread enhancement.

But some brokers complained that most preferred programs seemed to be tailored to larger firms with higher volume – and not the quality of the loans delivered.

“We often hear about the preferred broker programs but I am a **SMALL** shop, so I rarely get the benefit of such programs,” said one survey respondent. “Maybe they could consider giving preferred status to brokers who submit quality product, even on a small scale, that results in efficient processing for the lender and successful closings for the broker. Making everything volume driven reinforces the whorish nature of the business, instead of focusing on the quality of the business, which all the [account executives] try to sell when they are not price competitive.”

Another broker voiced similar concerns. “Lenders should look at pull-through rates in addition to volume. Small brokers are simply unable to get any preferred programs because volume is always the determiner. That’s unfair to those of us who have good quality loans,” the respondent wrote.

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## Best Preferred Mortgage Broker Programs

Rank	Lender Name	Responses	Share
1	Bank of America	475	11.0%
2	Countrywide	423	9.8%
3	Wells Fargo	336	7.8%
4	InterFirst (ABN AMRO)	231	5.4%
5	CitiMortgage	220	5.1%
6	Chase Manhattan Mortgage	183	4.3%
7	Flagstar Bank	152	3.5%
8	GreenPoint Mortgage	147	3.4%
9	GMAC Mortgage	136	3.2%
10	Washington Mutual	133	3.1%
11	American Home Mortgage	122	2.8%
12	First Magnus Financial	115	2.7%
13	IndyMac Bank	110	2.6%
14	SunTrust Bank	101	2.3%
15	Ohio Savings Bank	96	2.2%
16	Taylor, Bean & Whitaker Mortgage	88	2.0%
17	MortgageIT Wholesale (MIT Lending)	84	2.0%
18	National City	80	1.9%
19	First Horizon	78	1.8%
20	Provident Funding Associates	76	1.8%
21	New Century	60	1.4%
22	American Mortgage Network (AmNet)	59	1.4%
23	HSBC	50	1.2%
24	World Savings Bank	49	1.1%
25	LoanCity	47	1.1%
26	Irwin Mortgage	36	0.8%
27	M & T Mortgage	33	0.8%
28	EverBank Wholesale	29	0.7%
29	US Bank	29	0.7%
30	Lehman Brothers Bank	27	0.6%
<b>Total:</b>		<b>4,308</b>	<b>100.0%</b>

*Source: Study "How Mortgage Brokers Work with Prime Conforming Lenders" by Campbell Communications and Inside Mortgage Finance Publications.*

One of the somewhat surprising findings in the new survey was that while brokers welcome yield-spread premiums and other rate preferences for participating in a preferred program, they also expected several service related benefits that not all wholesalers offered. The survey asked brokers detailed questions about the types of benefits they most commonly received from preferred programs, as well as what benefit they would most like to see offered with these plans.

Additionally, the new survey asked respondents to rate wholesale lenders on their preferred broker programs. As the ranking on the previous page shows, Bank of America was seen as having the best preferred program, garnering 11.03 percent of the votes cast. Countrywide came in second with a 9.82 percent share, followed by Wells Fargo in third place with 7.80 percent.

The survey also asked mortgage brokers to rate individual wholesale lenders on a scale of one to 10 on the benefits of their respective preferred programs.

The new survey is the second in a series that tracks mortgage broker attitudes on prime conforming lending issues. The topics include: compensation goals of brokers by loan size, tradeoffs between service and price, monitoring of pull-through rates and rewards for high pull-through rates, preferred broker or partner programs, most important prime conforming loan programs, and ratings and rankings of prime conforming lenders.

For information on how to obtain the full survey results in the new 232-page report, "How Mortgage Brokers Work with Prime Conforming Lenders," contact John Campbell at Campbell Communications at [john@campbellsurveys.com](mailto:john@campbellsurveys.com) or (202) 363-2069. ♦

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June 16, 2006

## **Multiple Loan Submissions by Mortgage Brokers A Significant Problem for Wholesalers, Study Finds**

A significant number of mortgage brokers appear to routinely submit loan applications for the same borrower to multiple wholesale lenders, according to a new nationwide study of brokers.

And the practice is likely costing many wholesalers millions of dollars a year in unnecessary – and uncompensated – underwriting expenses.

The new study, “How Mortgage Brokers Work with Prime Conforming Lenders,” was conducted in May by Campbell Communications of Washington, DC, and sponsored by Inside Mortgage Finance Publications. More than 2,400 brokers responded to the survey and passed validation criteria. This produced a margin of error of 3 percent or less for most general questions.

While the new survey included more than 100 questions covering a wide range of issues, several dealt with the practice of some brokers that submit a single loan application for underwriting approval to multiple lenders and their motives for doing so. Importantly, the study found that nearly one-fifth of the brokers surveyed routinely submitted a single loan to two or more lenders at the same time.

“If you assume that a lender will receive 100,000 or so applications a year and that it may cost roughly \$500 to underwrite each application, the survey suggests the cost of duplicative applications for some firms is roughly \$9 million a year. That’s a sizable cost,” said Thomas Popik, a principal of Geo-segment Systems and the author of the new survey report.

“If I was a major wholesaler, I’d want to know how I could limit the amount of duplicate loan applications I received from brokers,” he added.

Most of the mortgage brokers who reported submitting multiple loan packages for the same applicant used two lenders. There also appeared to be some correlation between the volume a broker did and the likelihood they made multiple loan submissions.

Importantly, the new survey found a variety of reasons why brokers submitted multiple loan applications on the same borrower. Two of the most common reasons were “uncertain of approval” and “looking for the best rates.” Rates, predictable approval, and dependable turn times were all judged to be

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important factors in brokers' decisions to submit a loan to just one lender, but in varying degrees.

Although many brokers do submit applications to multiple lenders for one borrower, the majority seem to look for lenders they can depend on with just a single application, the study results suggest. "I primarily use three lenders because they are reliable, consistent, expedient and just do things right. I do not typically shotgun my lenders to chase spread," said one respondent.

Released this week, the new survey covers: broker compensation by loan size; views on the tradeoffs between service and price; pull-through rates and rewards for high pull-through rates; preferred broker or partner programs; most favored prime conforming loan programs; and ratings and rankings of prime conforming lenders.

For information on how to obtain the full survey results in the new 232-page report, "How Mortgage Brokers Work with Prime Conforming Lenders," contact John Campbell at Campbell Communications at [john@campbellsurveys.com](mailto:john@campbellsurveys.com) or (202) 363-2069. ♦

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