“Wall Street Banker Go Home”?

by Peter Fugaro, CMB

As I walked across Wacker Drive in downtown Chicago on a beautiful October day heading to the Mortgage Bankers Annual Convention at the Hyatt Regency, a crowd was chanting “Wall Street Banker Go Home”. Upon crossing the 1,000s of demonstrators seemingly upset at the industry due to lobbying efforts and foreclosures, I looked at myself and a few things came to mind.

First, the suit I was wearing was purchased at a Geoffrey Beane outlet on clearance for about $129. The shoes I was wearing were bought on-sale at JC Penney. And the reason I was walking across Wacker is because my hotel was over a mile away but was around $80 per night cheaper than staying at the convention hotel. And on this unseasonably warm day, I was a bit sweaty from the 20-minute hike. But hey, why waste $10 on a cab?

Wall Street banker? These people don’t have a clue.

The need for change to the way real estate financing is done in this country is real. Not to digress too much on the past but there were mistakes made across the board: the realtors were up-selling potential homebuyers, the government was encouraging, and providing incentives, to expand home ownership across social and financial demographics, the investors were calling for more securities, borrowers were living beyond their means and yes, the mortgage bankers were enjoying unprecedented revenues. But to point at the industry “lobby” efforts as being the reason for the real pain being experienced by financially distressed families is misplaced.

Lobbying Efforts Will Help Consumers

Washington bureaucrats and industry regulators once again are late to the game and their prescriptions for resolution are knee-jerk and just plain wrong. While the idea of lenders having “skin in the game” and ensuring mortgages are “well documented” and “well underwritten” might appear to make sense at first glance, but the implementation of those objectives can have a devastating effect on the industry and the general public as well.

To meet the proposed definition of QRM and QM, lenders will be forced to require 20% down payments, low debt-to-income ratios and high credit scores.

The Center for Responsible Lending provided a worksheet earlier this year on how long it would take for a family starting out to save 20%. They used factors such as earnings, savings rate, income taxes and home values in determining their analysis. The result: it will take 14 years for the average American family to save enough money to fulfill a 20% down payment requirement.

According to Sentier Research using census data, the real median income of Americans is down 9.8% since the beginning of the Great Recession. And this has led to the average individual having $1,315 less in disposable income. BlackRock, an investment firm, recently reported that the average US consumers DTI ratio is nearly double that of the 1960s and 1970s.

Time magazine (June 30, 2011) reported that almost half of mortgages in the first quarter of 2011 were given to those with credit scores above 750, nearly double from 2008. Experian reports the national FICO credit score average for US residents is 692. Experian also reports that only about 40% have scores above 750.

Debt-to-income ratios below 36%, down payment of 20% and credit scores above 700 … sounds like home ownership will be out of reach for most Americans.

While industry lobbyists are paid to look out for the best interest of their client, in the case of financial reform, what's good for the industry and what's good for the consumer is synonymous. As the protests continue against banking lobby efforts, we are left wondering how many of the demonstrators would qualify for a mortgage if we let Washington and the new CFPB follow their misguided logic. Home ownership needs to continue to be a sense of pride and accomplishment for Americans of all social standings.

Loan Defaults and Foreclosures Hurt the Whole Community

Some stories surrounding the foreclosure crisis are heartbreaking. As unemployment continues to surpass 9%, families are facing financial distress not seen since the Great Depression. Then there are the sad reports we hear about our heroes coming back from defending freedom and not being able to find ample work. And as our healthcare system continues to be broken, countless Americans are battling serious illness while trying to keep their family from financial ruin. These people need and deserve our help. The industry needs to find a better way to recognize these situations and handle them respectfully and appropriately.

But while the protestors of Occupy Chicago focused their anger on those tragic stories, they are missing a growing segment of the population that is strategically defaulting on their mortgages. This is where the homeowner has the financial ability to make their payments but decides to default on the obligation, usually because the value of the home has gone below the principal balance. Recent surveys show that more than 1/3 of all foreclosures are of the strategic default variety. I am sure my deceased grandparents of the WWII generation would be rolling their eyes at us calling reneging on an obligation "strategic default". They would have much less benign words to describe the practice.

Over the summer, a front page USA Today story entitled "Do we stay and pay, or walk away?" (USA Today, June 11, 2011) did a great job of explaining the consequences to individuals and communities when borrowers abandon their homes and walk away.

Personally, mortgage defaults can negatively affect an individual's credit score by 150 points. This makes access to credit and financial products either more expensive or impossible. And as the job market continues to be competitive, employers are more often using credit scores to determine the character of potential employees. As the USA Today article pointed out, walking way can leave people under a financial cloud for many years.

As homes are abandoned, crime rates rise in these communities. Foreclosure sales also cause home values to further decrease creating a vicious cycle of trouble. When your neighbor walks away from his home, he may be taking tens of thousands of dollars in your home value with him.

Help for Distressed Homeowners

Despite some awkward quotes from Chase CEO Jamie Dimon, foreclosures are not only bad for consumers but bad for lenders and investors as well. Preventing foreclosure is the best course of action a lender or servicer can take when facing defaulting mortgage payments.

Illness can bring a family to its emotional and financial knees. Fortunately, there are resources that can help and the mortgage banking community is investing in those programs. During the convention, the MBA recognized the organization Spare Key and one of its major advocates U.S. Bank Home Mortgage President Dan Arrigoni.
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Based in Minnesota, Spare Key, a non-profit organization, provides assistance to homeowners with sick or critically injured children by making a mortgage payment on their behalf. Most of the Spare Key board of directors are from the financial and real estate community who understand the need help families in crisis.

The MBA announced its own plan to start a 501 (c)(3) non-profit organization and model it after Spare Key. The association is donating $50,000 to start Spare Key pilots and is looking for its industry partners to step up and support the process.

We all need to encourage our friends and neighbors to seek help if they are struggling. Talk to the bank and look to organizations like Spare Key for solutions to keep them in their homes and preserve their community.

Hug a Mortgage Banker

Never did I imagine that mortgage banking would be regarded as a dishonorable profession. We live in a country where capitalism is our foundation and banks are looking to make profits. But while that is happening, they are putting people in homes and enriching lives. Without the mortgage banking industry, home ownership would be nonexistent to the vast majority of Americans.

Mortgage bankers come in all shapes and sizes and from a wide ranging social and economic background. So while the Occupy movement looks to blame the industry, let's keep reminding our families, friends and neighbors that while change is necessary, we are proud of the work we do and the families we help.

Peter Fugaro is the president of Prymak and one of the firms' founding partners. Formed in 2000 in Greensboro, NC, Prymak is an experienced mortgage banking IT and marketing services firm that provides both strategic leadership and tactical resources to lending institutions and mortgage industry providers. Peter received his Certified Mortgage Banker designation in 2011.

Dahlgren Names Minter Recipient of James Jeffery Wood CMB President's Award

Travis A. Minter, Crescent Bank, Myrtle Beach received the James Jeffery Wood CMB President's Award at the MBAC 56th Annual Convention.

The Award is presented at the sole discretions of the MBAC President to recognize an individual who has served selflessly is support of the Association and the President . Lisa Dahlgren noted that Minter has committed time throughout the year to support both her efforts and the overall goals of the Association. He chaired the Membership Committee in 2010-2011 and worked closely with the Board and all Committee chairs.