

The Price is Right

Banks use the secondary mortgage market to secure preferential pricing

BY DONA DEZUBE



The less loyal customers are, the more important price becomes. So how can community banks best compete in a mortgage market where loans have been turned into a commodity? By partnering with a secondary market partner that can provide a wide array of loan products at competitive prices while still respecting customer privacy. Add in access to training that helps loan officers develop consultative sales skills and technology that streamlines the lending process by moving it online, and you have the right tools to sustain or build your community bank's mortgage business.

The Smart Choice

ICBA SmartLenderSM gives banks a competitive edge with a suite of products that can help reduce origination costs for the bank and its customers. Offerings include:

Point-of-sale technology

- Mortgagebot—enhanced, private-label Web presence/point-of-sale lets banks or their customers take a loan application, get loan approval, access online disclosures, lock rates and more.

Loan processing and settlement products

- Credit*Hi-Lite by Equifax—credit reports: single, joint, and tri-merge.
- FloodWatch—flood determinations.

- Home Value Explorer—automated valuation database.
- Valuation Services LLC—a full range of property valuation services, including AVM assisted appraisals.
- Home Equity Closing Service by Courtesy Settlement Services—home equity closing service at any location.
- Title Services by American Title Inc.—title search, property reports and recordation.
- MGIC—private mortgage insurance.

Compliance

- ComplianceAnalyzerTM by ComplianceEase—anti-predatory lending software.

Sub-servicing

- Dovenmuehle Mortgage Inc.—private-label sub-servicing.

Reinsurance

- ICBA Reinsurance Program—a revenue stream available for MGIC-insured mortgages.

Supporting Consultative Sales

ICBA Mortgage's partner Taylor, Bean & Whitaker in Ocala, Fla., supports consultative sales in two ways.

First, it offers a Certified Mortgage Planner Course. The first part of the program is a home study course that takes between 50 and 75 hours. The course covers using bank databases to create leads, turning leads into applications and converting applications into loans. The second part is a five-day follow-up course held in Atlanta and at various regional campuses.

"At the end of that course, you present your business plan to the instructor, and if you pass, you're a Certified Mortgage Planner," says Taylor, Bean & Whitaker National Sales Manager Mark Hammond. "It's a great program for [helping] bank managers, training loan officers or for giving someone looking for a career change the skill set to not only do an application the right way but to shake the trees and bring in more business."

The second way Taylor, Bean & Whitaker supports consultative sales

is through Scenario Pricer, a loan pricing and underwriting technology program that matches customers with suitable products. Scenario Pricer can be found at the company's Web site, www.CommunityBanksOnline.com.

"It finds all the customer's options and it won't let the loan officer price a loan or quote a deal that the customer doesn't qualify for," says Hammond. "You can lock the loan right from that screen and, after closing, transfer loan data perpendicularly to our other systems."

"Price is always important because, in today's market, our customers are not as loyal as they used to be," says Judy Horton, assistant vice president of the \$333 million-asset First National Bank of Green Forest, Ark. "We want service first and foremost from our correspondents, but we need competitive pricing, and that's what ICBA partnerships have always been able to give us."

How are community banks selling mortgages when customers are bombarded with television advertising, newspaper rate sheets and telemarketers pitching the latest loan fads? Some banks pitch the benefits of doing business with an institution that will protect personal financial information and offer quality loan products.

"If your customers trust you, they feel comfortable with you and don't want to go to a total stranger and share all their financial information," says Robin Eckstein, vice president and head of retail banking at First National Bank of Pasco, Fla. "We're not going to sell you the product of the month, we're going to sell you a product that's right for you in the long run."

ICBA Mortgage's partner Taylor, Bean & Whitaker in Ocala, Fla., shares a similar outlook on bank-customer privacy, says National Sales Manager Mark Hammond. "There are a lot of folks out there that can provide secondary market access to banks, but most of them are banks themselves," Hammond says. "We retain servicing on everything we buy from banks and protect their mortgage customer from competitors."

With Taylor, Bean & Whitaker's free private-label servicing, the customer may not even realize that the loan isn't being serviced in house. "We'll put your logo on the statement and add your slogan or a tag line, like 'Check out our CD rates' and you can change that every month," Hammond says.

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A Consultative Approach

A consultative sales approach can also be effective with rate-driven customers, he adds. When someone calls to ask about a rate, they're typically asking for a 30-year-fixed quote. Instead of just providing a rate quote, ask about the borrower's complete financial situation. For instance, if a customer's mortgage payment is so high that it prevents him from paying off credit card balances or from maxing out his 401(k), it might be better to take an interest-only loan and apply the savings to credit card debt or retirement funding.

“One option would be paying off the credit card at 15 percent or [using] your company-matching dollars to fund your 401(k), than paying down a small amount of principal on your home loan,” Hammond says. “That’s the kind of conversation your loan officer should have with customers.”

Sometimes, rate-focused customers need to be shown what a 25-basis-point rate differential means

in terms of monthly payment. “A quarter of one percent is maybe \$20 or \$40 a month,” says Elizabeth Deal, vice president of ICBA Mortgage. “And if the customer takes a lower rate down the street, that lender is going to sell their information and solicit them right and left for other products. When they have servicing issues, the large companies are going to give them a toll-free number to call, and when they call it, they’re going to be put on hold. With community banks, none of that is going to happen.”

Hammond would argue that the same logic applies to institutions that rate-shop in the secondary market. “You could sign up with 10 secondary market investors and you’re going to get a little better price if you pit them against each other,” he says. “In the short run, you’ll create better margins for your bank, but in the long run, you’ll give your customer to the enemy—your competitor.”

Joe Pfeilsticker, financial services mortgage officer for Citizens State Bank in Norwood Young America, Minn., agrees. “We’re looking for a partner who’s going to take good care of our customers, and [a partner’s] service is just as important to us as their pricing.”

For Pfeilsticker’s \$62 million-asset bank, good service occurs online. “I like being able to go to my investor online to lock, pull credit and print closing documents from one site,” says Pfeilsticker. “I need quick turnaround time on underwriting decisions and my list of conditions and having an account executive that returns call or e-mails if I have questions.”

He also likes the non-prime programs that help Citizens State Bank compete with mortgage brokers. "It's important for community banks to partner with the right people to make that happen, because we're fighting the fact that most people think we don't have all the products and that we can't get the non-prime or more difficult [types of] loans," Pfeilsticker says.

Hammond says Taylor, Bean & Whitaker doesn't do a lot of subprime business, preferring instead to use the Federal Housing Administration (FHA) loan program, which he says offers superior deals to credit-blemished borrowers. "If you know how easy FHA can be then you know they put your customer in a much better product with a fixed-rate that enables them to build up equity rather than a ticking time bomb 2/28 or 3/27 [adjustable rate mortgage]," he explains.

ICBA Mortgage

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Other good options for 100 percent financing are Freddie Mac's Home Possible program, which offers lower fees and reduced priced mortgage insurance at an aggressive rate, a U.S. Department of Veteran's Affairs loan or a USDA Rural Housing Service loan, Hammond says.

In the final analysis, neither price nor service reigns supreme. Like love and marriage or peanut butter and jelly, it's possible to have one without the other, but they're always best when served together. **ib**

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