

THE REAL DEAL

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More wooing for mortgage brokers

To pump up business, firms lure top producers with signing bonuses

By Tracy McNamara



Steven Schnall of New York Mortgage Trust said firms are paying irrationally high sign-on bonuses because mortgage application volume is down.

It's hard to put in long, difficult hours in the mortgage loan business while your phone rings off the hook with enticing offers to jump ship.

This scenario may sound very 2003 -- when recruiting was commonplace during the height of the refinance boom -- but the headhunting climate is alive and well in early 2007, top New York loan originators said.

"The recruiters are out really strong," said Julie Teitel, vice president at Mortgage IT. "I think that I have been recruited [by] every bank and broker in Manhattan this year."

Jeffrey Loyd, a mortgage broker at the Mortgage Zone who said he closed over \$25 million in mortgage loans last year, said he has been recruited heavily as well these days. "I've been called by Chase, Countrywide, Sterling National, as well as had offers to set up my own mortgage brokerage with others in the industry," he said.

Several executives said signing bonus offers usually range from \$50,000 to \$100,000 and are part of a recruiter's pitch. They said while the practice does create turnover (although bonuses are usually awarded to those with at least one year on the job), it's hard to assess actual turnover.

The cooling housing market has negatively affected mortgage companies across the nation both small and large -- Washington Mutual and Countrywide have fired 2,500 workers each, Ameriquest has fired 3,800 -- but loan executives in New York say they're

being lured by mortgage banks and brokerages with higher commission splits and bonuses.

It seems counterintuitive to hand out bonuses while business is declining, but mortgage brokers see it as a necessity to attract rainmakers in order to fuel growth.

"Banks, in particular, are paying sign-on bonuses to so-called top producers," said Eric Barron, president of Barron Mortgage Group.

While condo and co-op prices in Manhattan remain high compared to national home prices, brokers said national mortgage companies like Countrywide are trying hard to break into the Manhattan market.

The median price of an apartment in the most expensive urban real estate market in the United States hit \$767,000 in the third quarter of last year. Barron said companies are recruiting top brokers and officers who are well versed in the intricacies of co-op and condo loan originations in New York.

"Right now I have more than a dozen mortgage broker cards sitting on my desk waiting for me to arrange one-on-ones to discuss becoming part of their 'team,'" said Barron.

Around the country, mortgage lenders have been squeezed lately as rising short-term interest rates have increased their own borrowing costs.

At the same time, there is intense competition among lenders. Companies that laid off employees hired during the housing boom are now running up against the limits of what they can get out of their current workers.

Observers point out that with mortgage gain-on-sale accounting (the practice by which an originating bank realizes an up-front gain upon the sale of the loan to a securitizing buyer) and current industry conditions, profitability will be driven increasingly by volumes to cover fixed costs.

"The reason some firms have been paying what I feel are irrationally high sign-on bonuses is because mortgage application volumes are down by nearly 40 percent from their recent peaks, and mortgage companies are left with both overcapacity in operations and an insatiable desire for more market share," said Steven Schnall, president and CEO of New York Mortgage Trust.

At publicly traded mortgage companies like Schnall's, shareholders want growth, and if the company doesn't deliver, the stock price will go down. When Countrywide fired 2,500 employees, it said the layoffs would result in much-needed annualized savings of \$500 million, given its lower earnings in a slower mortgage market.

In addition, even mediocre lenders made easy money over the past five years. Amid the tougher market conditions of today, some executives say some firms have renewed their

commitment to trying to hire more talented brokers. And companies are willing to pull out all the stops for highly ranked loan executives who already have established themselves as top originators.

In a city where you're only as good as your last deal, New York mortgage executives resoundingly disapproved of the up-front benefits.

"Past performance is not going to be a good indicator of future performance," said Barron. "The individual's business plan needs to be looked at a lot more closely to see if they are going to be able to maintain and increase their origination volume in a contracting marketplace."

Schnall pointed out that firms may offer high sign-on bonuses as their primary means of recruitment if they don't have enough to offer in terms of attractive product mixes, competitive rates and attractive compensation plans. He said many loan officers who left their firms for the quick-cash sign-on bonuses have since quit their new jobs, and in many cases they have come back to the firm from which they were recruited away.

"I believe that the practice is ultimately very unwise," said Jeffrey Appel, senior vice president at Preferred Empire Mortgage Company. The quality of the loan these days isn't so great that it's worth paying a giant bonus to the person who originated it, he said.

Jeffrey Guarino, managing director at Gotham Capital Mortgage Corp., agreed that offering outlandish sign-on bonuses and higher commissions is shortsighted. "You don't attract career-oriented people, but rather just fill loan officer positions to drum up volume. And, if that employee doesn't live up to the goals that the deal was structured under, it can create a problem and a financial disappointment for the company," he said.

Still, some in the mortgage loan business said this wave has been going on since the beginning of time. While big sign-on bonuses were seen in much of 2006, there has been less of this approach by companies in the last few weeks.

"It's always either feast or famine in this industry," said mortgage broker and educator Frank Langone, director of the Real Estate Training Center. "When the refinance boom ends, bigger businesses make offers to buy up smaller businesses that can no longer stay in business. They go back to quality control, trying to tap into the best originators to ramp up business."