

A Career as a Residential Mortgage Loan Officer

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Who are the Players?

Small and Mid-size traditional Mortgage Bankers, and Finance Companies funding loans on Warehouse Credit Lines and reselling whole loans to established conduits. Servicing Rights may be retained on Agency (GNMA, FNMA, FHLMC) Loans. The business was born on these types of companies which served a specific geographic marketplace, and provided competition to local banks and savings institutions.

Large, National Mortgage Bankers, who are generally Bank or conglomerate subsidiaries. The wave of bank mergers precipitated by the Savings and Loan Crisis has resulted in significant consolidation. The argument for consolidation among bankers is that it creates economies within infrastructure, thereby reducing costs. The costs savings is extended to the origination of mortgages.

Mortgage Brokers, almost exclusively small, privately owned companies, sell loans to Wholesale Mortgage Bankers or Lenders on a pre-approved basis. These loans are predominantly “table funded” or closed by the Wholesaler.

Smaller Banks, Savings Banks, and Credit Unions, originating loans from their existing customers as their only line of business, who may resell the loans or retain them for their portfolio.

Technology

The mortgage business, due to its traditionally highly labor-intensive processes, has been slow to adopt technology as a cost efficiency measure. However, with the advent of automated underwriting (credit scoring), automation is rapidly becoming pervasive. The benefit of cost-efficiency is offset by a loss of diversity with homogeneity acquiring a premium in the mortgage backed securities markets. While this has been a disadvantage for traditional mortgage banking firms who have not automated, it does allow the lender to provide an unequaled level of service without a major investment in personnel infrastructure.

Origination Techniques

The largest intangible valuation of any mortgage banking concern is the ability to originate new business. Traditionally this has been achieved through a branch network of retail sales and support staff. With the wave of consolidations in the banking business and the advances in automation, support operations in many firms have been centralized. In some cases centralization has been achieved with success. Done incorrectly centralization has destroyed the origination infrastructure. Centralization has been accomplished with most success on a wholesale business where local representation is not needed.

Most revolutionary is the increasing percentage of business originated without the direct referral of real estate agents or homebuilders. In a 1987 survey sponsored by Citicorp Mortgage, 83% of all mortgage referrals were through real estate agents or homebuilders. In 1997, according to a survey sponsored by the Mortgage Banker's Association that number had declined to 67%. Internet loan applications were estimated to be less than 1% of the total number of home loans originated 1997, but the total number was triple the number originated in 1996. Major lenders such as PHH (Cendant), Prudential, and other have adopted an indirect loan origination strategy through real estate and relocation firms.

The Role of the Loan Officer

The loan officer is the intermediary in the home financing process. The loan officer introduces the customer to the mortgage company. As such, the title of this position is also Originator, Representative, or Account Executive. More than anything else the loan officer is responsible for new business development. However, the loan officer is also the customer's only advocate in the process, and represents a borrower like an attorney represents a client.

Many newcomers to the business aspire to join because there is the lure of large income potential and a flexible work environment unlike any other business. While this is true, the decision should not be made lightly. Except in periods of occasional rate drops, the business is extremely competitive. There are over 325,000 professional lenders in the country, and when business shrinks the experienced lender has a huge advantage over newcomers - many newcomers quickly shake out.

Training/Learning Environment

Even if the company you work for (or are hoping to work for) offers training, you will still find yourself at a knowledge disadvantage for up to 2 years. It simply takes time for all of the information to find context in your mind. It is for this reason that the people who generally have the highest success quotient in the mortgage-lending arena have spent several years in support positions. This is because they know how the system works, how all of the behind the scenes personnel function, and they speak the language. This apprenticeship is useful because you receive on the job training and a base salary and you can escape for the time being the brutal pressures to produce loans. Upon completion of an apprenticeship, you still need training to understand the loan officer's specific job.

If you don't have the patience or long-term career outlook you can still enter the business. At periods of very low interest rates almost anyone can be successful - witness the pizza driver cited in the Wall Street Journal, now making \$500,000 a year. If you enter the business during this time and have some initial success, don't fail to prepare for more difficult times ahead. If you find that when the business returns to more normal conditions it is too competitive for you, you haven't really lost anything - take the knowledge you have acquired and re-enter the business again during another of the reduced interest rate periods.

Your manager does not have time to train you - despite what he or she says. You will find that the training initiative is mostly from you. Most companies are content to let you sink or swim in an approach that most closely resembles college-hazing rituals. One significant outcome of this laissez-faire process is that many states are initiating licensing requirements to keep unethical or unqualified new lenders away from consumers. The licensing training does not prepare you for your job - it is regulatory, not vocational.

Your Next Step

Title

Loan Officer, Account Executive, Loan Agent

Duties and Responsibilities

Primary company representative to real estate community. Objective is to develop referral relationships among the professional community including realtors, homebuilders, accountants, attorneys, home improvement contractors, other lenders, credit unions, and community development agencies. Facilitates individual applications, and acts as liaison between processing, underwriting, closing and the borrower. Duties and responsibilities include

- Developing a specific client base
- Weekly distribution of rates and programs to clients
- Meet with Sales Managers, Agents to promote awareness of company products
- Prepare applicants for application by communicating company requirements prior to application interview.
- Assure complete application is submitted in compliance with company guidelines
- Correctly communicate lock-in of interest rates with borrower, company and investor/secondary marketing
- Perform weekly status checks on all cases in process and report progress to all interested parties
- Continuously update program specifications to maintain guidelines as current
- Participate in coordinating closings/settlements with borrowers/agents/title-escrow companies

Pre-requisite Experience

B.A., B.S. and/or related industry experience either in financial sales or real estate. Loan Origination is an intensive, competitive, direct customer contact related field. Good organizational and communication skills are required. The first 6 months to 2 years require a large commitment to attracting and maintaining a customer base. Markets vary, but there are generally numerous competing lenders within any area. Loan Originators should be able to manage intense competition for business as well as the cyclical nature of seasonal business and interest rate fluctuations.

Compensation

Bureau of Labor Statistics Analysis

Median annual earnings of loan officers were \$41,420 in 2000. The middle 50 percent earned between \$30,610 and \$57,250. The lowest 10 percent earned less than \$24,200, while the top 10 percent earned more than \$82,640. Median annual earnings in the industries employing the largest numbers of loan officers in 2000 were:

Commercial banks \$43,370
Savings institutions 42,760
Mortgage bankers and brokers 42,100
Personal credit institutions 35,040
Credit unions 29,700

The form of compensation for loan officers varies. Most loan officers are paid a commission that is based on the number of loans they originate. In this way, commissions are used to motivate loan officers to bring in more loans. Some institutions pay only salaries, while others pay their loan officers a salary plus a commission or bonus, based on the number of loans originated. Banks and other lenders sometimes offer their loan officers free checking privileges and somewhat lower interest rates on personal loans.

According to a salary survey conducted by Robert Half International, a staffing services firm specializing in accounting and finance, mortgage loan officers earned between \$36,000 and \$48,000 in 2000; consumer loan officers with 1 to 3 years of experience, between \$42,250 and \$56,750; and commercial loan officers with 1 to 3 years of experience, between \$48,000 and \$64,750. With over 3 years of experience, commercial loan officers could make between \$66,000 and \$95,250, and consumer loan officers can make between \$55,500 and \$75,500. Smaller banks ordinarily paid 15 percent less than larger banks. Loan officers who are paid on a commission basis usually earn more than those on salary only.

Typical Compensation Arrangement

Most Loan Originator compensation is strictly commission based. There may be a small base salary, or a draw against commissions earned. Commission schedules may be based on revenue (net fees) or on loan volume. There is generally an enhancement for exceeding standard revenue or origination fee income, which is referred to as overage or gain. There is generally an enhancement for exceeding various revenue or loan volume thresholds. This is referred to as a "tiered" commission structure.

Base Commission Schedule

Closed Loan Volume per Month	Commission Rate
\$0 - \$350,000	0.40% (40 basis points)
\$350,001 - \$1,000,000	0.50% (50 basis points)
\$1,000,001 - up	0.60% (60 basis points)

The commission rate may be based on the cumulative or incremental volume.

Overage/Gain

Exceeding the revenue requirement on loan volume is encouraged, provided that there is no evidence of discriminatory pricing practices. Typically gain is split equally between the company and the loan originator.

Draws Against Commissions

Dependent on the loan originator's performance, the company may offer periodic draws against commissions earned. A draw is simply an accrued interest free loan that is repaid when the commissions are actually paid. Ordinarily this doesn't exceed \$2,000.00 per month. The loan officer may be guaranteed a draw so long as the total outstanding draw does not exceed 2 months.

Basic Training

Industry training should be made available to new recruits and those transitioning from internal positions. This training should be product oriented and should assure familiarity with generally accepted program guidelines, products and qualification methodology. This training should yield results as to general aptitude for mortgage origination position. An individual who does not grasp concepts quickly is probably not suited to this type of analytical position.

Vocational/Professional Training is expensive. Expect that classroom training runs from \$100.00 to \$300.00 a day PLUS expenses like travel, lodging, food and additional material. IF you are the kind of person who can read and learn, you can economize significantly by buying books and other low-tech training materials.

There is a lot of "compiled" course material. That is, information which is essentially "cut and paste" from industry guidelines and hastily assembled for re-sale. Even some material offered for sale by industry associations is offered more for their revenue than for your edification.

If you are considering texts consider ours - "[The Loan Officer's Practical Guide to Residential Finance](#)" - it is one of the most widely distributed texts on the Loan Officer's job and, at \$44.00 (ordered through our website - \$55.00 cover through Barnes & Noble or Amazon.com) one of the best training values available. It is the only residential real estate finance book written solely for the loan officer. It is the longest continuously published text of its type and it is updated each year.

The book takes a Montessori approach - starting with simple concepts and building on each one until you have a contextual body of knowledge.

This will help you with the decision as to whether you should invest in further training. Based on your location, we can recommend a solution, but we need to speak first to determine the best solution for your training needs. Before you invest in classroom or on-line training you must become familiar with the business by reading a text like the Loan Officer's Guide. This will help you in deciding what area of knowledge you need more focus on.

Types of Training

Introductory Mortgage Training/Classroom Style - these can be very generic or too detailed - any class lasting less than a week will be short on substance

Mortgage Sales Training - while important for initiates with no sales experience, sales training has almost no value for the new loan officer. Much of the sales ability of the new loan officer is derived from the understanding of product, giving confidence. Also, many aspects of the mortgage loan sale are product or service related - not generic - so the value of sales training without product knowledge is virtually nil. We recommend

products that incorporate the sales and job functions of the loan officer to broaden the loan officer's understanding of how their products serve the customer. [The Loan Officer's Practical Guide to Marketing - Developing a Marketing Plan](#) is one of these texts, but also include tools; flyers, spreadsheets, presentations, letters, introductory packages - features you can get no where else at any cost. At \$89.00 this is 1/5 of the cost of similar products with less functionality.

Specialty Training - focuses on niche, or small, segments of the market and is generally targeted to the more experienced loan officer seeking to broaden his or her understanding. These are NOT recommended for loan officers with less than one year experience.

Internet Training - Despite the appeal of the idea of sitting at your desk and getting training, this is a very unsatisfactory experience - it is self paced, but the content is too thin when approached in this way. If you can read, you will achieve more knowledge this way. The exception is for licensing certification when this is a very useful and time effective way of meeting the requirement. It is NOT vocational training.

Correspondence Training - this is basically reading training with the addition of someone checking your work (not necessarily feedback - just correction) to achieve a certificate. Because the courses are "specialized" they often are "over the heads" of initiates.

Loan Officer Initiation

The process of initiation is one that should result in a business plan for the loan originator. In many cases, the employer will provide certain "built in" business sources as a result of controlled business arrangements or other outside marketing sources

Typical Controlled Business Arrangements	Typical Other Employer Referred Business
<ul style="list-style-type: none">• Homebuilder Division receiving end loan financing as partial compensation for providing construction financing.• Subsidiary of Real Estate Firm, Home Builder, or Bank with existing customers	<ul style="list-style-type: none">• Direct Mail Solicitation• Paid Media Advertising• Sponsorships of Industry Events

These employer provided relationships or business leads are typically compensated at a lower level than business generated by the loan officer directly. They provide a base level of compensation. The expectation is that the loan officer will augment business levels through developing business source relationships within his or her chosen community.

Building an Originator Business Plan

Perform a Market Analysis The originator may have a general idea of a specific segment of real estate or related business that they wish to concentrate on. Or, they may wish to concentrate on a geographic locality. If they do not, their manager should assign them a prospective market.

Common Business Sources for Residential Mortgages	
Realtors	Home Purchase Money Loans
Builders	New Construction Purchase Money Loans/Construction, Acquisition and Development Loans
Attorneys	Purchase/Refinance Transactions
Accountants/Planners	Refinance Transactions
Home Improvement Contractors	Construction/Permanent Financing - 2 nd Mortgage Financing
Other Lenders	Wholesale/Retail Correspondent Lending

Regardless of whether the selected territory is geographic or segment specific, the loan originator must perform in depth research via telephone directories, industry directories, word of mouth, field research and available publications. Discuss the market with other service providers like appraisers, title companies, wholesalers, and other loan officers. The result of this research should be a "prospect list" of potential business relationships. The "prospect list" should be reviewed by the manager to assure that:

- There are at least 30 prospects
- The list contains address, telephone numbers, facsimile numbers, name of the principal(s) of the firm or the office manager/sales manager, approximate number of employees and sales people and the general focus of the business
- The prospects are identified geographically on a map and do not present an extensive travel distance
- The list should be numbered based upon geographic closeness so that, in theory, the numbers could form a logical sequence
- The list should be entered into a mailing list format on computer or hard copy labels and made available to the manager for resolving territory conflicts

Preparation of an Introductory Package

The originator must perform a written assessment/inventory of his or her experience and attributes consisting, at a minimum, of:

- A resume detailing business experience that is relative to the business that is sought
- One (three is better) letter of recommendation from a recent customer
- An "open" or "form" introductory letter from the originator to the prospective customer base specifying simply why they will be rewarded for using the originator
- Supporting materials including distinguishing products or services

The originator must assemble an appropriate product line. Assess/inventory all current programs/guidelines available. Select 3 programs which have at least one of the following characteristics:

- Offer excellent value to the customer - great product/rate
- Offer unique - not generally available - parameters
- Offer flexible guidelines
- Offer superior service opportunity

Assemble a package for internal use containing **all** pertinent documentation relative to these 3 products. This should contain

- Lender underwriting guidelines
- Forms/Procedures for Submission
- Forms/Procedures for Registration/Locks
- Telephone contacts

Assemble, for external publication, a highlight sheet for each of these products. The highlight sheet should contain

- The product name, or a unique interpretation of the name
- Bullet points outlining the unique guideline, value, or service offering
- A current range of rates and points
- The originator's name, company and contact numbers

Assembly of A Marketing and Follow-up Plan

We acknowledge that the amount of time available for sales is limited and marketing as an endeavor has infinite possibilities. To consume the least amount of time and maximize the potential return on the time investment it is important to simplify. Create a weekly marketing and follow up routine.

Monday	Tuesday	Wednesday	Thursday	Friday
Mailing	Sales Meeting	Routine Maintenance Prospects 11,12,13,14, 15	Status Phone Calls To Set Up Next Weeks Appointments	Routine Maintenance Prospects 21,22,23,24, 25
Routine Maintenance Prospects 1,2,3,4,5	Routine Maintenance Prospects ,6,7,8,9,10	Routine Maintenance Prospects 16,17,18,19, 20		Routine Maintenance Prospects 26, 27, 28,29, 30

Mailing

The first mailing should be to all managers, simply announcing appointment of the originator to solicit the prospect and to expect a call. Subsequently, one of the 3 product highlights should be featured weekly, distributed with the mailing, and then to the prospect offices.

Office Visits

The purpose of the Maintenance visits is to simply post the product availability. Request information regarding the office protocol as to lenders. Record this information on the originators notes.

The originator should keep at least one of the Introductory Packages assembled in the event the opportunity presents itself to make a presentation to a manager or key person.

The prospect list should be posted on a graph with notations recording dates of visits.

Calls should be made to all managers for the purpose of introduction and to request the possibility of a meeting. The objective of meeting with managers is to learn the needs of the customers, present the selected products and to gain sanction to visit the office regularly.

Database

The initial visits are investigatory. Learn as much as possible about how business is conducted, what other lenders are utilized, who the key figures are. Record this information on a permanent file. If the originator utilizes computer aided tracking, assure that reports and lists can be generated from it.

Alternately, an originator may use a hardcopy account manager, or index cards, provided there is a mechanism for tracking clients within each account

Fax Broadcast

Establish fax broadcast capability and schedule delivery of featured product flyer for prior to

- Morning of Sales Meetings
- Weekend

Internet

A copy of the current featured product flyer and product information should be made available on the internet.