

FIGHTING REVISIONIST

History

& SETTING

THE RECORD STRAIGHT

*"There is nothing more dangerous than history used as a defense, or history used for preaching; history used as a tool is no longer history."
—Marcel Trudel*



By **JAMES
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History is always open to interpretation for the simple reason that historians who write it speak from a limited perspective. If you are a Brit, the American Revolution has entirely different meaning for you than it has for an American. If you are a Southerner, your take on the Civil War is different from that of someone from the North. And if you are a politician or someone who stands to gain from controversy, your perspective about the country's mortgage crisis differs widely from people in the real estate finance industry. It is the trap of revisionist history, to bend events to fit an agenda, and we're seeing it today like seldom before in recent years. According to the mainstream press, the main fault for the current woes in home finance sits directly on the shoulders of the mortgage originator, specifically the mortgage broker. And that's just not right. It's not even a well-founded *opinion*, much less good history.

The thing about revisionist history is that if it goes unchallenged, it is like gossip—after a while it becomes something that “everyone knows” and takes for granted like conventional wisdom. There are thousands of things that “everyone knows” that simply aren't true, yet they persist, usually to the detriment of their target. Despite what you might have read recently:

- Brokers did not cause the subprime mortgage crisis.
- Angelo Mozillo did not cause the subprime crisis.
- Every sector had a hand in the subprime crisis.
- Subprime lending is neither inherently evil nor inherently predatory.
- Lenders are not rapacious predators who make money in foreclosures.
- Brokers don't cost consumers more than affiliated originators.

The first one is perhaps the most scurrilous morsel of revisionist history and the one that poses the biggest

threat to the professional originator. Of course, any and all financing during the period gets lumped into the subprime meltdown, when it was actually an overall market meltdown resulting from all sorts of loans, not just subprime. The vituperation flies, nonetheless, from all quarters, including from people who should know better. In the April issue of the AARP Bulletin, a typically well-researched publication that is becoming increasingly militant regarding anything affecting people over 50, a story about “The Fear of Foreclosure” covered the very real concerns of many AARP members. A surprisingly unenlightened quote appeared, attributed to Len Raymond, who founded a non-profit counseling group in Massachusetts for homeowners over 50, in which he said, “I'm shocked by the number of elders who succumbed to predatory financing—interest-only loans and adjustable rate mortgages.” Whether he really meant that all interest-only loans and ARMs are predatory is unknown, but the damage is done. While many of those loans were clearly not used with wisdom, they are hardly predatory as a class. By Raymond's reckoning, is anything other than a 30-year fixed a “predatory loan,” and by extension, all those who recommend them predators? This is revisionist history at its worst.

The last one on the list vies with the first as the most damaging to the origination sector. Do consumers pay more or less when using a mortgage broker? It depends on whom you believe and how carefully you think it out. A few months ago, the Center for Responsible Lending released a report that claimed subprime borrowers who used mortgage brokers paid more—\$5,222 more to be precise—than those going directly to lenders. These overpayments were a result of yield spread premiums, according to the CRL, which believes YSPs give brokers an incentive to “steer borrowers into overpriced products. We must rid the market of perverse incentives that practically guarantee overcharges.” Admittedly, it can and did happen over the course of millions of loans arranged by brokers, but the statement ignores several important facts. One is that lenders, while not charging YSPs per se, nevertheless pay

loan officer commissions and charge processing fees that roughly equal the charges typically levied by a mortgage broker. Another is that yield spread premiums enable the financing of loan costs and limit cash going into transactions so borrowers can be virtually cost-free at closing. Most borrowers understand that concept, but interest groups like CRL are politically motivated, and we know what happens to objectivity when politics come into play.

Fortunately, NAMB president George Hanzimanolis, who earns a well-deserved break from the rigors of that office this month, was all over the CRL statement, noting that it was from an organization that has become notorious for oversimplifying complex issues and affixing blame “before they fully understand the facts.” Simply factoring in an average YSP and multiplying times the national average loan amount doesn’t begin to tell the story, and Hanzimanolis called them on it with fierce conviction. It’s the best way to deal with revisionist historians; it doesn’t always work, but calling them on their statements with a lot of specificity instead of generalities is the best way to deal with them.


He also addressed the widely held belief that mortgage brokers “caused” the subprime crisis, citing the Government Accounting Office’s report at the end of last year which blamed rising defaults and foreclosures on “relaxed underwriting standards, increased use of low and no-documentation programs and higher permitted loan-to-values” were to blame. None of these, noted Hanzimanolis, are within the ability of mortgage brokers to affect. NAMB’s official statement went on to say, “We believe it is a disservice to the public to assign blame for the subprime crisis on mortgage brokers when we know of so many systemic problems which Congress itself has identified, such as lender risk layering, lax underwriting, credit default swaps, and credit rating agency mistakes, to name a few. Minimizing the importance of these critical aspects is not in the public interest.” And he’s right, though it may be in the politicians’ interests to do so.

To most who have given the whole thing a great deal of thought, which apparently includes too few members of the consumer press, everyone had a role in the subprime crisis, from borrower to investor. Borrowers were convinced (through whatever means) that the upward trend in housing prices would never end. Brokers, eager to make loans, accommodated them with products made possible by lenders, not by the brokers themselves. (*If, however, you knowingly made a stated income loan to a W-2 borrower who clearly earned nothing remotely close to the income they swore they made, you are a major contributor to the current woes, and if not guilty of fraud in the strictest legal terms, are guilty of it in spirit by assisting borrowers in committing perjury.*) Lenders were abetted by investment banks using repayment models long on theory, short on practical accuracy and colored by the huge profits to be made by selling derivatives. Rating agencies did their best with the information on hand, not good enough to model questionable loans on inflated properties. Securities investors were starry-eyed over high yields, and didn’t know what they didn’t know. Wall Street

firms bought securities for their own portfolios, which was their eventual undoing when people stopped making payments. Warren Buffet said recently there was no way you could monitor the performance of the complex derivatives Wall Street created, even “If you gave me 100 of the smartest people you can imagine (to do it).”

So what do you do, as a professional mortgage originator, when you are forced to bear the brunt of blame for this fiasco? How do you explain to the most important person in your professional life, your customer, precisely who caused all the misery that has cost hundreds of thousands of people to lose their jobs and others to lose their homes? For starters, consider:

- Have a position paper ready. It should be a brief, bulleted explanation of the various factors to the current crisis in language all can understand.
- Consult and use the March 2008 Policy Statement on Financial Market Development from the President’s Working Group on Financial Markets: www.ustreas.gov
- Convey that the bad actors are gone. The good ones, the committed professionals like yourself, are the ones remaining.
- Make the most of your NAMB and MBA membership. Get involved. Now.
- Use industry association materials, including the Code of Ethics available on the NAMB site: www.namb.org/images/namb/Ethics/Code_Of_Ethics.pdf, and its companion, www.namb.org/images/namb/Ethics/Best_Lending_Practices.pdf
- Become certified. Industry certifications can mean the difference when a borrower is deciding between two originators with otherwise similar programs.
- Learn more. Take classes. Read everything. Increase your expertise.
- Write a letter to the editor. When a publication in your area tees off on originators, send a polite, well thought out and brief note that sets the record straight. Published comments are where conventional wisdom comes from these days, so sound off. Do so directly to the reporter’s e-mail address (often published in the paper) and copy the editor.

In short, don’t take it lying down. Be prepared to defend yourself and your industry from revisionist history by understanding the facts and having a case ready to present—with materials—on why you are the best choice to do a mortgage loan and why your business didn’t cause the crisis, and certainly wasn’t the main beneficiary of the resulting problems. If you don’t, then before you know it, the ethical mortgage originator will be tarred with the brush of guilt that rapidly evolves into something “everyone knows.” 

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