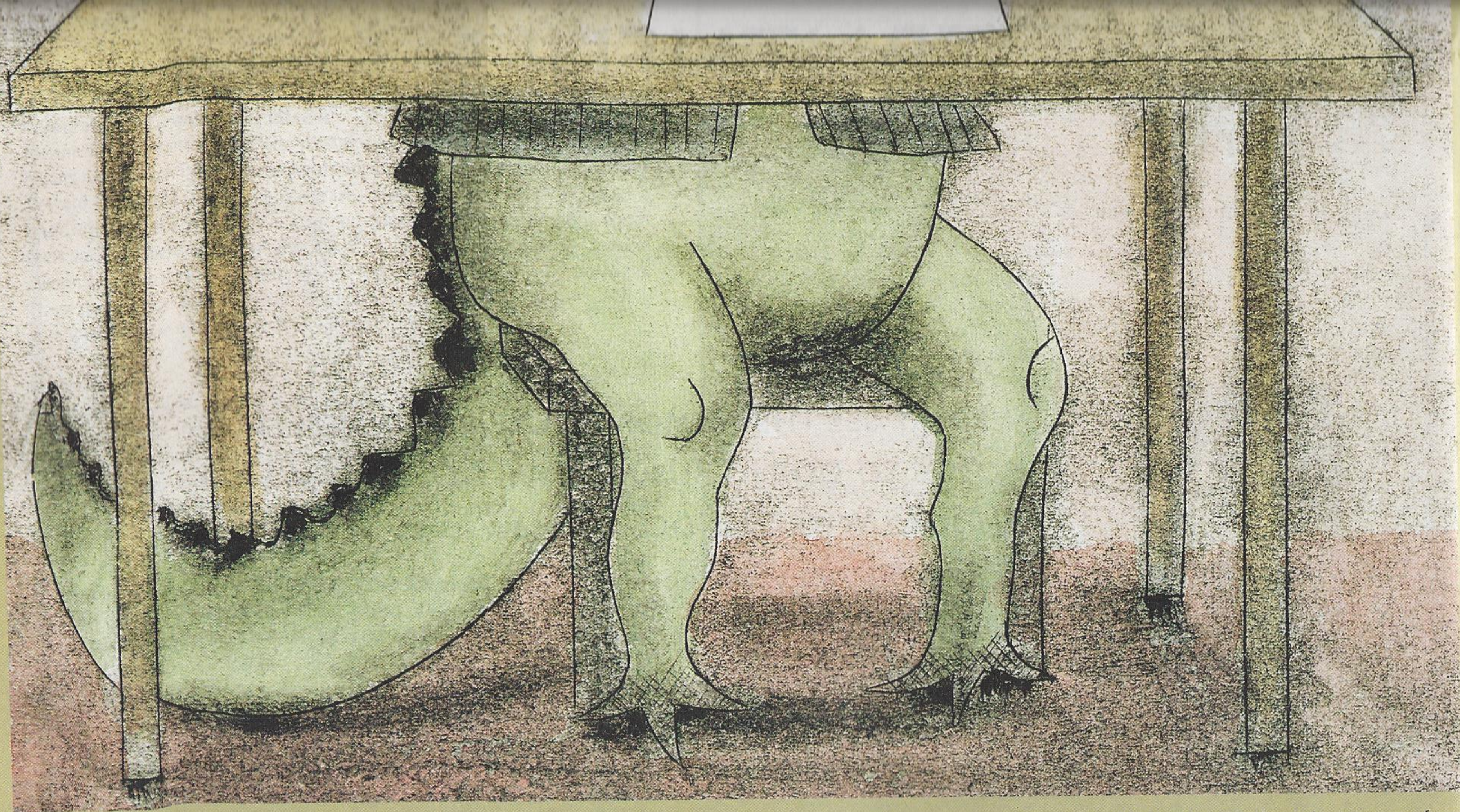

By Eric Weinstein

Well sure, you don't see any 50-ton Triceratopses rummaging through your garbage at night, but they are around. They just look different now. Sharks evolved about 350 million year ago and they are still terrorizing beach resorts, right? Alligators came on the scene about 200 million years ago. Take a stroll through the Florida Everglades slathered in chicken fat. My point is, you can still be a dinosaur in a mammalian world. You just have to learn to change a little.

I am a mortgage broker through and through. That means I am a dinosaur. But, the Consumer Financial Protection Bureau's (CFPB's) January rules concerning Qualified Mortgages (QMs) is the burning meteor about to hit the Yucatan Peninsula. Duck and cover is not going to save you, like they taught us in grade school. This means trouble for us dinosaurs.

In case you did not know, a QM is a "Safe Harbor" for loans, because, basically, the repercussions of doing a mortgage loan wrong will be so absolutely horrible. If you do it like a QM, you cannot be sued. This covers, Fannie, Freddie, FHA, VA and USDA loans. To put it in a nutshell, basically, it says you can only make three percent on the deal to be "safe."

This includes the money you make (points and processing fees) plus the lender's fees (underwriters, administration, etc.). Basically, anything that is not a third-party pass through. Attorneys fees, recording appraisal, etc. are not included. Any money that goes to you or the wholesaler is included. That is the numerator. The denominator is the "Amount Financed" as per the Truth-in-Lending (TIL). This amount is lower than the actual loan amount.

On a $225,000 loan, it works out to 2.375 percent or lower based on current average lender junk fees. Mortgage insurance (MI) is included if the upfront MI is above 1.75 percent. It must be nonrefundable, or it is included. Monthly MI paid only is NOT included. Bona fide discount points up to two percent are not included.

So basically, as a broker, you have a few choices. You can make 2.375 percent or less on every deal (or even less if the average loan amount is less in your area), you can get out of the business or join a big net branch, or you can evolve, if it is even possible.

This is the little known part of the Jurassic Era where the rich dinosaurs outlived the poorer dinosaurs. To evolve, you are going to need to be a mini-correspondent now. This is basically, a lender with training wheels. Some big wholesaler will pick you up, get you a exclusive warehousing line, do everything for you and BOOM when the meteor hits, you are a "lender" if only in title, anyway.

The trouble with this is you need the personal financial strength to make the switch. They don't just give warehousing lines to just any hobo on the street. You need the net worth for that plus the costs of additional licensing, higher bonds, etc. Don't forget audited financials for your FHA license, also. That will cost you a bundle. But, with half the market FHA loans, you can't to be stuck without one.

When all is said and done, you are still a broker, but your title is Now "Banker." You are an alligator, not a dinosaur any more. It's the same, just different.

Now, let's speculate and consider I am wrong. What's wrong with only making 2.375 percent per deal? I live in Fairfax County, Va. It is one of the richest counties in the country. My average loan amount is about $350,000. I usually do make only two percent or less on a deal. I am fine, right? Well no.

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thought to myself, "What is there to mull over? What is the big decision? You either have the money to stay in the poker game, or you don't when they raise the ante."

The CFPB's new January rule basically continued the government's theme to push loan origination to those with deeper pockets. Since the financial meltdown, their goal is to have someone's money at stake if things go wrong again. Make no mistake, as a mini-correspondent you will now have more skin in the game, mainly the equity in your home, your life savings and your kid's tuition fund. They want to make sure you are really, really paying attention. The game just got more risky. It's ante up or get out of the game.

So, as an average loan officer, what does this have to do with me? Nothing, absolutely nothing. This is really directed to the owner of a small mortgage shop. As a carnivore, I basically kill what I eat. If one hunting territory is not fruitful, I just go onto another. If my broker doesn't want to change, or cannot change, it will take me about 15 minutes to get hired somewhere else. Loan officers will do what they always do. They will do loans. It is just a matter of who they work for that should concern owners.

In the 1990s, mortgage broker companies did 80 percent of the nation's mortgage business. They were the 38-ton Brontosaurus of their day. Now, mortgage brokers do 20 percent of the nation's business, they are the alligator of their day. We are still around, just trapped in the Everglades feeding on turtles instead of crushing cars in Tokyo. And so it goes.

Eric Weinstein worked in banking, on the commercial real estate side until 1991, when he fell in love with residential lending. In 1995, he started a small mortgage company in his basement called Carteret Mortgage Corporation, which in 2003, grew to one of the largest mortgage broker companies in the United States. These days, Eric is semi-retired, doing mortgages by referral only. As he likes to put it, "He is either saving people money per month or helping them buy a new home. What a great job!" He may be reached by phone at (703) 505-8692 or e-mail eweinstein4u@gmail.com.

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That would be dandy if I was a one-man operation, working out of my basement and had no wishes to ever expand. What loan officer in his right mind would want to come to work for me if the guy down the block could pay higher because he priced higher and his set up was basically the same as mine, except he was a lender and I was a broker?

And going halfway to save money by only getting conventional and not FHA is the same problem. Who is going to work for me only doing conventional loans? Small brokers will have to change, because other similar small brokers will change. That will force them to evolve or die.

I agree that some small brokers will not change and will begin to price their loans below the minimums set. That will not work, however, in the rural areas where home prices and average loan amounts are low. All things the same, if your costs are the same, but your revenues are lower, well, you get the picture. And don't think because your pricing is lower that you will now get double the volume. It has been my experience where loan volume tends to follow the loan officer, not the pricing. You will get the same number of loans, just make less money.

When I went to my first QM seminar, afterwards there were a room full of mortgage brokers mulling this over. I

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