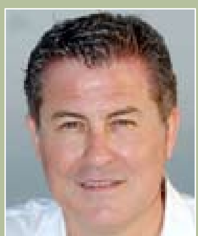
Crisis Cured?

Ten Questions for Mortgage Professional **Robert B. Withers**



Robert B. Withers
President, RBW Capital
American Realty Workouts

One of the most significant elements of the "Great Recession" is the degree to which the housing and lending markets have been involved. Strange new terms, such as "mortgage-backed securities," have become part of the common vocabulary and foreclosures are a widespread — and almost ordinary — occurrence. Every day, we see talking heads look at the macro issue — and we might even see consumers telling their stories. But as the recession loosens its grip, what does the mortgage crisis look like to an on-the-ground industry insider who helps clients navigate the lending process every day? Private Mortgage Banker Robert Withers offers some insights.

1. What concerns and questions are clients bringing to you that they did not have a few years ago?

The biggest myth out there is that banks are not lending right now. Most prospective borrowers are under the impression that there is no money to be had, and even the most qualified borrowers are concerned about getting a loan. The horror stories about closings that take six months are scaring people off. When the financing itself isn't an issue, people are typically very concerned about the market. Everyone is worried about whether the property's value will decrease after purchase. Essentially, there's a lot uncertainty out there.

2. What do you need to get a good deal on a mortgage these days?

It's strictly a "vanilla" market. If you don't have good credit, some assets and a steady, verifiable income you are out of luck. You could try FHA, but there are some restrictions on loan amounts and the types of property you can buy with the loans. Additionally, FHA is being scrutinized pretty closely right now; it's very close to being under water.

3. Is refinancing to get more favorable terms still a commonly viable option?

Since it's such a cautious market, lenders are not refinancing for sheer volume these days. There's no drive to boost production to create securities and sell them on the secondary market (which is where major lenders make their real money). With the damage the credit crisis wreaked on the financial markets, lenders are just not taking chances like they did. The demand for mortgage-backed investments is limited strictly to the most secure — and least risky. Lenders that are still offering refinancing are really cherry-picking. There's no longer the perception of "slice it-dice it-someone will eat it."

4. What are you as a front-line lender doing differently than a couple of years ago?

Good question — and one that doesn't get asked very often. We are actually underwriting files. The lending community, together with the regulators and secondary markets have over-compensated for the lack of quality controls in the past five years. Lenders are asking for more and more documentation to cover their posteriors. Even straightforward loans are being scrutinized. The new HUD requirements for GFEs (good faith estimates) on costs related to closing have confused the same consumers they were meant to protect. I'm actually spending a lot of time over-documenting files for loans that should be completely straightforward and then having to console my clients when they are mystified — or even upset.

5. With all these changes is the mortgage industry regulating itself well enough to prevent another meltdown?

What's happening now is just an overreaction — and good loans are not getting made because of it. My feeling is that the industry has a very short memory. As soon as real estate valuations settle down and show signs of improvement, even the light documentation and no documentation loans will make a comeback. Unfortunately, the entire system is driven by greed, both in the mortgage company boardroom and on Wall Street, where demand for high-yield, high-risk securities starts. As long as these two groups of entities remember what just happened — and whatever administration is running Washington makes stays on them — we can move back to the center and have a healthy, rational lending environment. There's something we have to do first, though: address the current inventory of foreclosures and bad loans. These must be absorbed without trashing the markets.

“We are over-compensating for the lack of quality controls in the market during the past five years.”

Robert B. Withers

Private Mortgage Banker
Wells Fargo Home Mortgage

777 Westchester Ave
White Plains, NY 10604

914.251.8143 Tel
914.490.8623 Cell
866.968.8361 eFax

Robert.Withers
@wellsfargo.com

http://www.wfhm.com/
robert-withers

6. Do you think there’s a possibility of a “double-dip” with the housing market?

Unfortunately, yes. That huge backlog of houses in pre-foreclosure or already foreclosed — we call it “shadow inventory” — is currently being held back by the banks. Obviously, they don’t want to dump the shadow inventory onto the markets all at once because that would depress the value of real estate even more. But I think there’s real potential for a second wave of foreclosures which could be more drastic than what has happened already.

7. What poses the biggest risk of another bubble?

As I am writing this, Wall Street has released absolutely staggering bonuses for 2009. In the past we’ve seen that it takes a few years after a crash to return to this kind of behavior. Here we are, not even a full year since the Fed has starting talking about a recovery, and the drive to make ever-more money seems completely restored. This is just nuts. It could drive banks to start lending very aggressively — even irresponsibly — again. That would produce a bubble the likes of which we have never seen before. One thing we do have going for us is that the current (Obama) administration seems very anti-bank and anti-Wall Street and they are taking some tough positions. At least in the short-run, this should put the brakes on out-of-control growth in the real estate or lending markets.

8. What do you think the mortgage industry will look like five years from now?

A lot like it does now, I hope. It would be good if we could be a bit less paranoid and lose some of the useless requirements for documentation and process that the regulators have imposed. I believe that both Fannie Mae and Freddie Mac will — and should — survive as federally-overseen enterprises. As long as we can maintain a prudent underwriting standard that recognizes our past mistakes but doesn’t chain us to them, the industry should be ok.

9. Have we changed the system enough or do we need to look at more fundamentals?

Change is the only thing we can count on. Sometimes, though, that change just swings us back to where we were, and we all know that history has a tendency to repeat itself. Markets over-react to economic occurrences and have to backtrack. For example, the Fed has a history of raising interest rates to defend against inflation and then lowering them too quickly in order to recover from recession. Honestly, unless we take politics out of economic policy, we won’t have made any serious, lasting change.

10. What are the three most important pieces of advice you can give to a client seeking to purchase — or refinance — a home in the current market?

First, get a commitment from a bank — not a broker. The environment for brokers stinks right now. They are at the whim of lenders, so are often in the really awkward position of not being able to keep their commitments. and they are at the whim of lenders. I spent my career as a broker and I really feel for them, but it’s safest for borrowers to go directly to the lenders at this point.

Second, allow three months to do a deal. It’s taking double the amount of time to get anything done these days. I’ve seen a lot of people stuck between homes — or with two homes — because the timing was off on one side of the deal or the other. People need to plan accordingly.

Finally, work only with professionals who have been around for awhile. This is no time to be working with amateurs. Someone who has had a history with the various products and institutions is always going to be a better guide than someone who hasn’t.

About Robert B. Withers

RBW CAPITAL

Unlike a lot of people who made — and lost — money in the mortgage lending industry over the past few years, Robert B. Withers has made it a lifelong career. He started working as a loan processor in 1982 and went on to form — and sell several successful mortgage brokerage firms. Robert understands that mortgages are at the center of the American Dream, and therefore an important part of many people’s senses of well-being. He has also seen some of the abuses at first hand, starting with lenders who talk borrowers into bigger loans than they can afford to repay or loans they don’t understand. In a system that tends to emphasize fast profits and put the broker’s immediate earnings over longer-term stability for borrowers, Robert has consistently worked on his clients’ behalf. Robert is currently a Private Mortgage Banker with Wells Fargo. He also maintains his own business, RBW Capital/American Realty Workouts., a consulting and advisory business. Over the years, Robert has been active in the New York Association of Mortgage Brokers, where he served as a member of the Board of Directors, the National Association of Mortgage Brokers, the Empire State Mortgage Banking Association and the CMPS Institute. Having done the “big-dream-house-with-lovely-grounds” thing, Robert, his wife Paola and their two beautiful children] happily make their home in an apartment in White Plains.