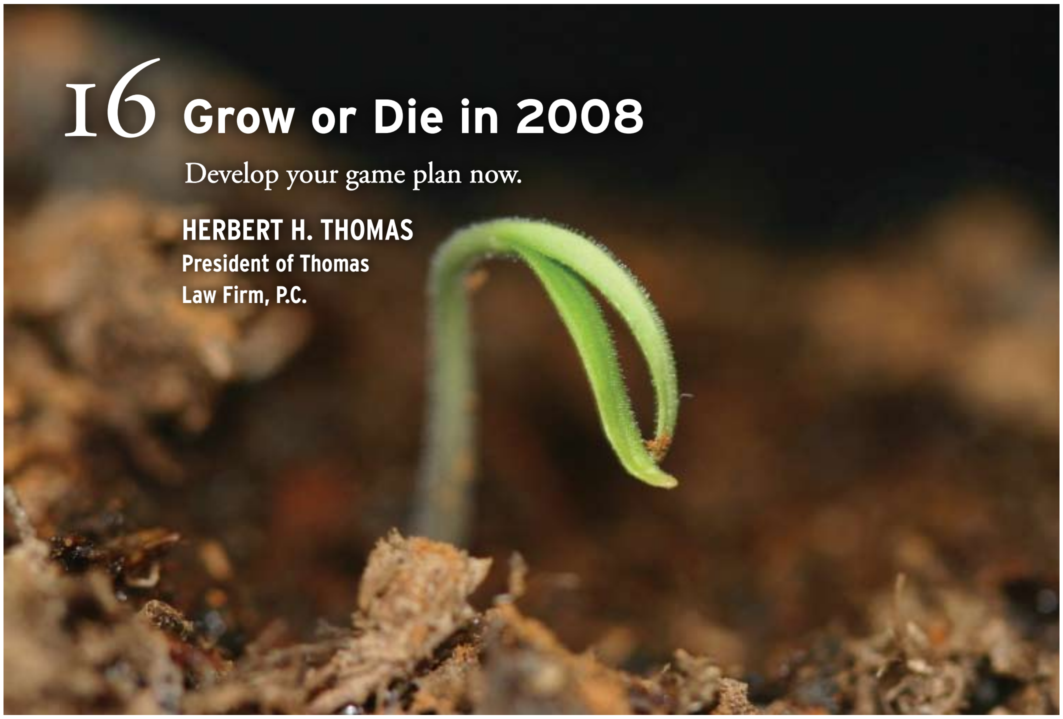
Issue 009
March 2008
TheNicheReport.com

The Niche Report

CONTENTS

Issue 009 March 2008



DEPARTMENTS

NICHE REPORTS

The*Niche*Report

FOUNDER & PRESIDENT
Robert Pegg
robert@nichereportonline.com

CO-FOUNDER & PRESIDENT
David Pegg
david@nichereportonline.com

EDITORIAL/CONTENT MANAGER
Kristen Moser
kristen@nichereportonline.com

ACCOUNTING MANAGER
Shawna Ingram
shawna@nichereportonline.com

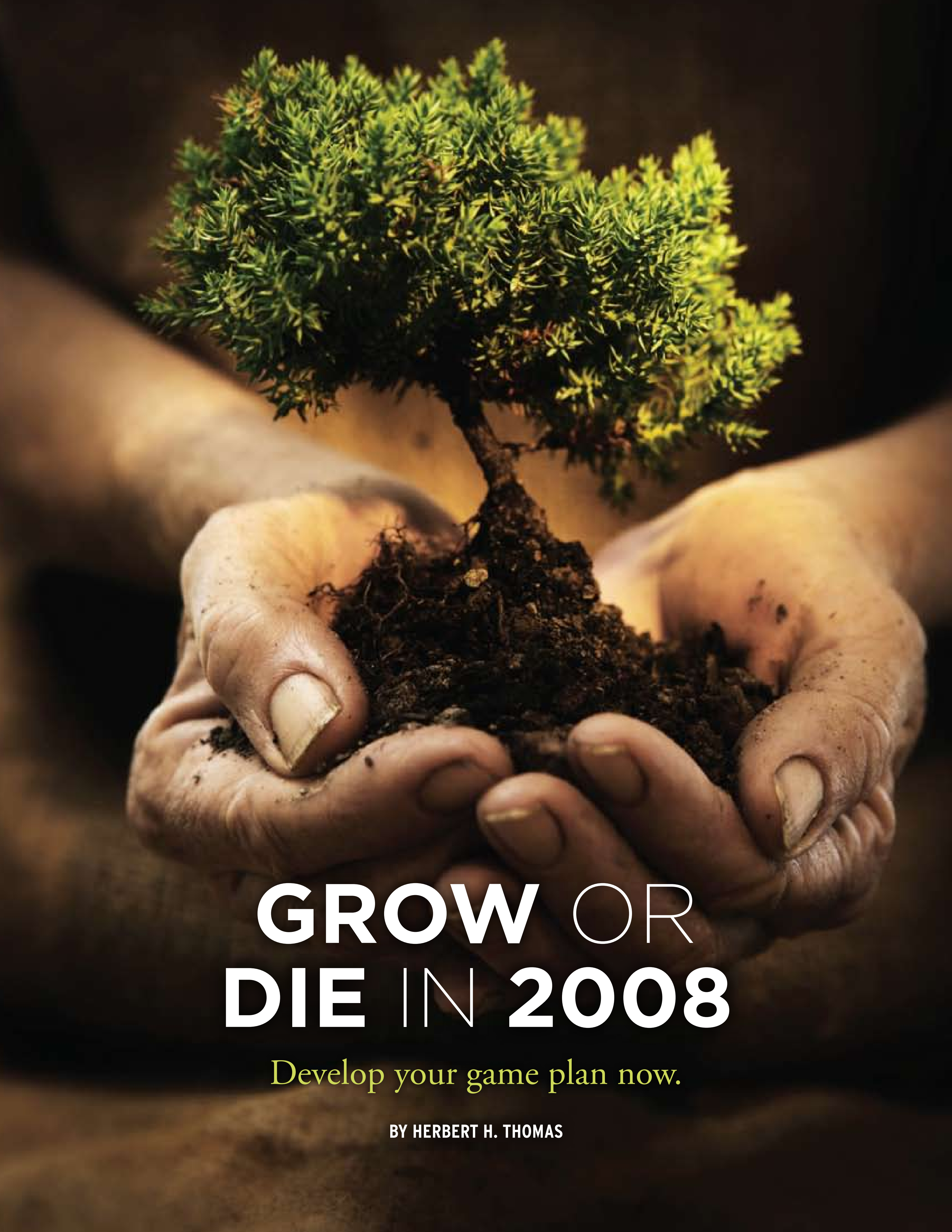
SALES MANAGERS
Jason T. Buff
jason@nichereportonline.com

Kim Campos
kimcampos@nichereportonline.com

DESIGN
Plumbline Studios, Inc.
Eric Ball

PRINTER / CIRCULATION MANAGER
The Ovid Bell Press, Inc.

CONTRIBUTING AUTHORS
Stewart Mednick
Leslie Petersen
Herbert H. Thomas
Glen H. Weinberg
Marcus White



GROW OR DIE IN 2008

Develop your game plan now.

BY HERBERT H. THOMAS

The information contained in this article is general business advice and should not be construed as legal advice or legal opinion.

The Sub-prime Meltdown has imploded more than 200 of the largest mortgage companies and there is no end in sight. As foreclosures mount, there have been the inevitable industry shake-ups and chaoses resulting in consolidations and layoffs as mortgage lenders are unable to fund repurchase demands by the secondary market. Liquidity has dried up as warehouse lenders and secondary market investors employ very restrictive underwriting criteria. Do you view this turmoil as a time for survival or opportunity? My advice is to survive by viewing this turmoil as an opportunity to thrive. Fear of failure will become a self-fulfilling prophesy. Doing nothing is an action plan by default and results in downsizing. This is a formula for disaster and eventual death. Taking advantage of the new dynamics of the mortgage industry is the action plan that is needed for ultimately surviving and thriving. I call the action plan "Grow or Die in 2008". Identify the growth opportunity segments of the mortgage industry and pursue one or more of them. We have the solutions: grow your territory, grow your profit margin and control, grow your market share, grow your product lines and grow your profit centers. He who hesitates is lost.

THE SUB-PRIME MELTDOWN

The sub-prime meltdown can be described as [1] over 200 major mortgage companies imploding–mainly lenders who were required to repurchase faulty loans by investors and did not have the funds to repurchase them; [2] the secondary market stopped buying sub-prime loans so there was no liquidity; [3] warehouse lenders began pulling their lines of credit so lenders had no source of funding; [4] credit underwriting criteria tightened to eliminate the sub-prime market and severely restricted the Alt-A market; and [5] mortgage pool ratings and values dropped, inhibiting new mortgage pools to be securitized and sold as bonds on Wall Street. The sub-prime meltdown cannot be blamed on any one group. It was caused by the "perfect storm": while real estate prices increased rapidly and interest rates dropped to historic lows, borrowers made poor choices of loan programs in order to pay the least monthly rate with the least cash upfront to get the most house available. When inflated real estate values reached their limit, they started dropping which caused interest rates to rise when Adjustable Rate Mortgage indices reset to much higher interest rates. When foreclosures started occurring on Wall Street, secondary market and warehouse lenders withheld liquidity by halting new loan purchases and demanded repurchases of existing loans. The sub-prime meltdown eliminated the weak mortgage companies, yet the current mortgage industry offers tremendous opportunities for strong, well financed companies to grow and thrive.

GAME PLAN BY DEFAULT

If you have no game plan for handling this crisis, your plan by default is: Forced Downsizing. It is both painful and disappointing as the business that you have built shrinks until it fails. Downsizing has not worked well in any industry market reduction or contraction; just ask real estate, banking, oil and gas and dotcom survivors.

5 ACTIONS TO SURVIVE AND THRIVE: EITHER GROW OR DIE IN 2008

Make a game plan and TAKE ACTION NOW! You can survive if you develop and implement a strategy now. To survive, you must expand (or grow) in one or all of 5 areas that have unlimited upside:

1. Mortgage Licenses: Grow the Number of States so you can market nationally or regionally.

Survival is a numbers game. You must increase your opportunity to expand mortgage loan leads without expanding costs. The best, most cost effective way to increase your opportunities is to become licensed as a mortgage broker or lender in additional states. You must have a valid mortgage license in an additional state in order to receive compensation from closed loans in that state. Your expansion should target high-growth, high-population states, especially the Sunbelt. With a central call center in one location, you can close loans in 30-40 states at local title company's offices without a physical office in those states. That makes the cost to expand into additional states extremely affordable. By outsourcing the expansion into additional states to licensing professionals, the licensing process can take as little as 2-4 months, so begin your expansion project today.

2. Broker to Banker: Grow Your Profit Margin and Control over Each Loan.

If you are a mortgage broker, upgrade your operations and become a retail lender (banker). As a mortgage banker with a warehouse line of credit, you can [1] guarantee that your loans will close in an expedited manner (as a broker, your loan closings can be delayed or denied for lack of available warehouse credit by your wholesale lenders); [2] obtain larger profits on original closings with additional profit upon the sale of loans on secondary market (you have greater risks but greater rewards); [3] avoid the prejudice against brokers via predatory lending laws and disclosure of Yield Spread Premium; and [4] you will have dual capacity and flexibility to act either as a broker or a mortgage banker as the case merits. As a mortgage banker, you will increase your control and profitability on each loan funded. It is advisable to analyze your current licenses because many of them may already grant lender capability to you and you don't realize it.

3. Mergers & Acquisitions: Grow Your Market Share by acquiring distressed mortgage companies at discount bargain prices.

There are many distressed mortgage companies that are cash poor and close to shutting down their operations. These failing mortgage companies need a "white knight" to purchase them at discount bargain prices before shutting their doors and losing their entire investment. An asset purchase is preferable to a stock purchase because it avoids acquiring the liabilities and hidden problems and the costs of the mortgage licenses. In an asset purchase, mortgage licenses are not transferable so do not allocate any part of the purchase price to mortgage licenses. Prior to executing your asset purchases of distressed mortgage companies, expand your mortgage licenses nationally so you will not need to acquire these companies' licenses. In a stock purchase, the mortgage licenses can be preserved only if the change of control or ownership is approved by each state prior to the purchase. A stock purchase requires proper structuring and timing to prevent license terminations and loan pipeline shutdowns.

4. FHA Loans and Reverse Mortgages: Grow Your Product Lines by adding the hot products to replace sub-prime loans and 2nd mortgage loans.

Diversify, diversify, diversify. Consider expanding your product lines to include FHA loans to replace your sub-prime loans and reverse mortgages to replace your 2nd mortgage loans. FHA loans are a very popular replacement for subprime loans. Both FHA loans and reverse mortgages are both popular viable products because their purchases are both supported by a secondary market which provides the liquidity that subprime loans no longer have. Investment in the costs of audited financials or a surety bond [if approved by Congress] would be wise in order to qualify for FHA lender approval. These areas can provide the added volume you will need as the subprime loans and second mortgage loans disappear.

5. Mortgage Servicing: Grow New Profit Centers.

Mortgage lenders can add an additional profit center by retaining its servicing rights when it sells its loans and obtain cash revenue from servicing loans [i.e., collection of mortgage payments]. In addition to servicing your own loans, you can service third party loans in a mortgage pool or portfolio as the master servicer, primary servicer, sub servicer or special servicer and engage in foreclosure, short sales, loss mitigation through loan modification and refinancing. Of course, to engage in servicing of your own or third party loans, you must have mortgage servicer and collection agency licenses.

CONCLUSION

It is not too late, but time is running out. Develop and start your game plan now. To survive the sub-prime meltdown, you must expand (or grow) in one or all of the following five areas above. The best prepared generally survive industry shake-outs.

Herbert H. Thomas is President of Thomas Law Firm, P.C., Dallas, Texas, a company providing automated online mortgage licensing technology and services for mortgage brokers and lenders in all 50 states. For more information see http://www.thomas-law.com. Mr. Thomas is a Juris Doctor and member of the State Bar of Texas. He has over 17 years of state and federal mortgage licensing experience as well as 35 years of tax, corporate and real estate law experience. He may be reached by telephone at 214-692-7611 and by email at hthomas@thomaslaw.com. Thomas Law Firm, P.C. is the premier mortgage licensing firm on state mortgage licensing.