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Daniel Jacobs: Regulations Have Made Retail Mortgage Business 'Far More Stable'

By Patrick Barnard

PERSON OF THE WEEK: Daniel Jacobs is executive vice president and managing director of retail for MiMutual Mortgage, a privately held retail and wholesale non-depository mortgage lender headquartered in Port Huron, Mich. The company is licensed in 30-plus states and is growing rapidly.

Daniel Jacobs

MiMutual Mortgage is a Federal Housing Administration-approved "Full-Eagle" lender and is also a Fannie Mae, Freddie Mac and Ginnie Mae direct lender.

MortgageOrb recently interviewed Jacobs to learn more about what makes retail mortgage lending different today compared with five years ago, as well as how new regulations are impacting origination volume.

Q: What makes retail branching different today than it was five years ago?

Jacobs: Five years ago, we saw a wave of broker-to-banker, as well as the consolidation of small mortgage bankers. April marked the five-year anniversary of the Federal Reserve loan originator compensation rule – the mirror-image precursor of the Consumer Financial Protection Bureau (CFPB) loan originator comp rules. The industry was convinced that the new rules and imminent rising rates would cause a Grand Canyon-sized hole of mid-size mortgage bankers as the industry moved to the huge and the tiny players. Companies were entering or exiting the retail space with gusto in a race to demonstrate their Darwinian prowess of survival of the fittest.

Today, the business is far more stable. Each time rates seem to have bottomed out, we play the limbo game again and see how much lower they can go. Surprisingly, the market is graced with the Olympian gold medal-winning level of gymnastic flexibility. The retail space is now dominated by mid-size mortgage bankers that have more sophisticated secondary market strategies, stronger balance sheets and more traditionally structured retail platforms. Ever since Dodd-Frank and the implementation of the CFPB, we have seen a far more balanced business model than before.

We used to see franchise-like net-branch organizations in stark contrast to traditional mortgage bankers and banks with retail platforms that had an utter lack of entrepreneurism. Today, we have seen most retail operations move toward a far more balanced – almost a hybrid of the two models. I think it's a good evolution for the industry, and it's ultimately better for consumers. We have better controls and more accountability while leveraging the relationship-savvy originators in today's Realtor-driven purchase market.

Q: What is the most important factor that affects originations today – regulations or product diversity?

Jacobs: Although we continue to see the non-qualified mortgage (non-QM) space expand, it's doing so at a snail's pace. There is very little product diversity like we had 10 years ago. Anyone claiming to have niche products has likely been in a very long hibernation and does not realize the environment he or she has woken up to.

Originators, processors and underwriters know far more today about regulations in this business. The level of technical knowledge of regulations has likely surpassed that of products and guidelines. No one can survive – much less thrive – in today's environment without paralegal-level expertise of mortgage laws and regulations.

Simply put, the regulatory knowledge required – and draconian consequences of not focusing on regulations over products in this environment – is daunting. One could argue it creates a higher level of professionalism in the industry, which is good for both business and consumers, but one could also argue it overshadows the goal of helping consumers achieve the American Dream. However, just as today's retail environment is so different from that of five years ago, due to the greater balance and stability of the industry, one can hope that five years from now, we can discuss how a balance of the regulator and product focus has come to fruition.

Q: How has the increased regulatory climate affected originations?

Jacobs: The cost to originate a loan has gone up dramatically. Underwriters used to be able to underwrite three times the number of loans than they can today. Entire departments of layered quality assurance, quality control, credit risk and other required activities did not exist in many companies 10 years ago. The guidelines have changed from an investor standpoint to address the risky business that caused the meltdown, but many former business risk items the market drove or eschewed in past markets are now decided for us via regulation. This means that as market conditions change, the private market cannot meet the newest market needs. Some of this control is probably keeping us out of trouble, but some of it is depressing the market. Imagine if we had rates as low as they are today 10 years ago. Most of us would have done so much business we could have retired. Yet we are celebrating a great market that is really operating at less than 40% of the gross volume of the pre-meltdown peak.

Q: What would you say makes a successful retail operation?

Jacobs: An obsessive focus on both the consumer and employee experience. Knowing who you are as a company and what your core values are, communicating those to both your employees and consumers, and ensuring they absolutely love their experience are essential for success.

Today's consumers and employees are used to sharing information and ratings of every experience on social media and with online review sites. Companies can no longer get by with slick marketing and spreading propaganda about the experience they want people to buy into. In today's environment, there is extraordinary transparency of the feelings people have at every step of a relationship and interaction.

Maya Angelou once said that people will not remember what you did or what you said, but they will always remember how you made them feel. Companies that focus on that concept first and approach the operational and sales processes with the goal of achieving that feeling with consumers and employees are the most successful ones, as they should be.

Q: When do you think we will see any major changes in the market? Interest hike? New entrants?

Jacobs: At some point, we're going to see rates finally rise. At this point, I've been wrong about the timing of that for too many years to want to predict when anymore. But it's going to happen at some point.

Interestingly, a slowly rising rate environment (versus rapid upward jolt to rates) may spur home buying activity and be good for business. After all, we are again experiencing refinance fatigue with the fairly level rate environment we have had this year.

I think we're going to see during the next three years a rise in non-QM market share. First, we'll have enough time behind us without extraordinary instances of negative risk consequences of the product. And secondly, we are likely to see the rate spread between agency loans and non-QM loans narrow, which will spur much more consumer interest and activity in this space.

In terms of new entrants, I think we are not likely to see the money fund players continue to enter the market chasing mortgage servicing rights plays like we have over the last few years. That model has not been as profitable as expected with the perennial refinance boomlets that have eroded the expected return on investment. We are likely to see the business return more to banks and independent mortgage bankers as outsiders divest their interest in our space. This is probably a good thing for the employee and consumer experience.