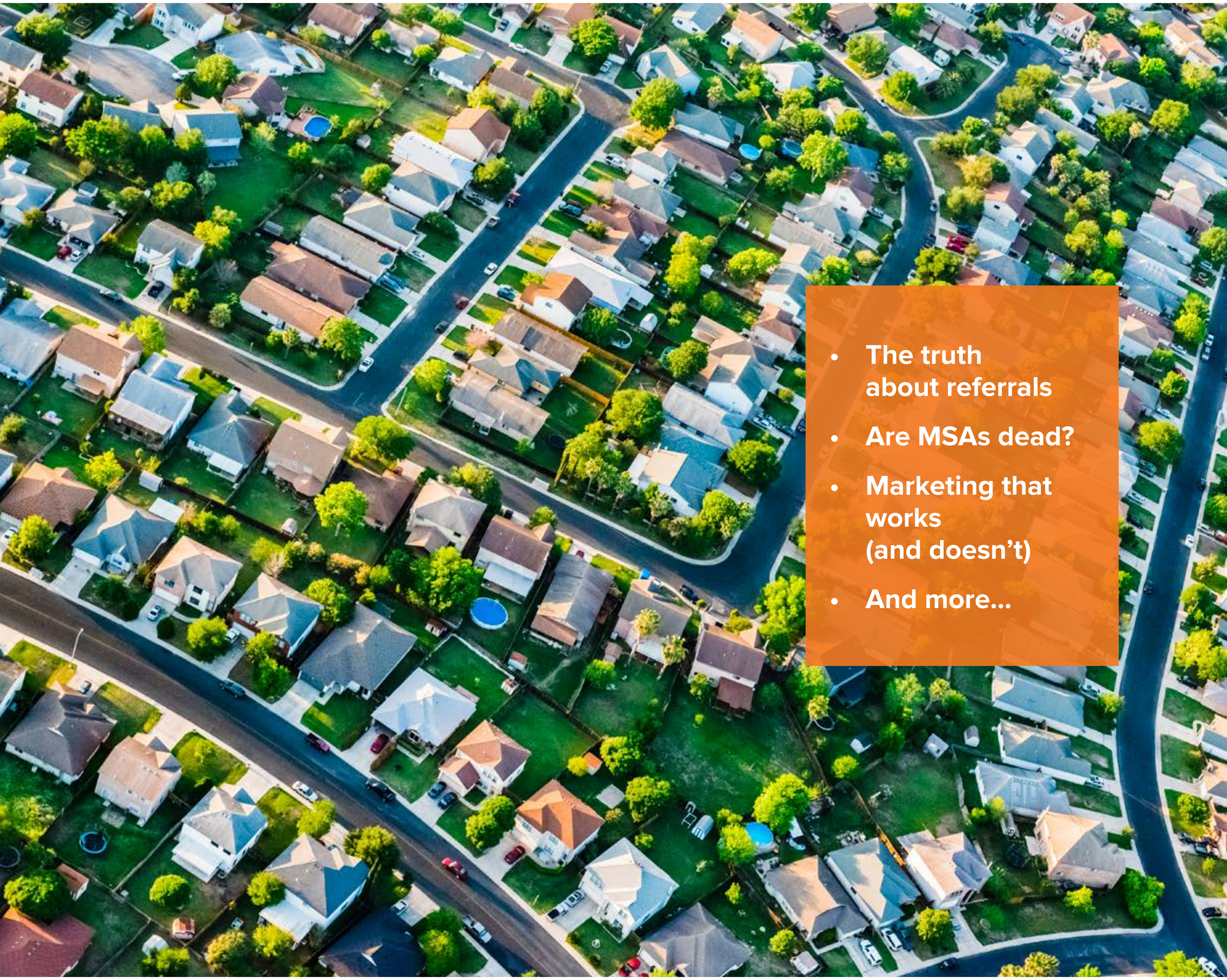
What real estate brokers and agents want from lenders

Winning referrals in a changing market



- The truth about referrals
- Are MSAs dead?
- Marketing that works (and doesn't)
- And more...

A special report produced by: inman 1000WATT

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About Inman

Real estate agents and brokers around the world turn to Inman first for accurate, innovative and timely information about the industry. Known for its award-winning journalism, cutting-edge technology coverage, in-depth educational opportunities, and forward-thinking events, Inman is the industry's leading source of real estate information.

Inman is based in Emeryville, Calif.

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About 1000watt

1000watt is the real estate industry's leading brand, marketing and strategy agency. The firm has helped hundreds of real estate franchisors, brokerages and technology companies out-innovate their competitors

1000watt provides message, marketing and product strategy, creative campaign ideation, visual design, copywriting, digital user experience and other services to clients throughout North America. 1000watt also provides qualitative market research, discovery and strategy services to companies seeking to enter the residential real estate industry.

1000watt is based in Portland, Ore., and Oakland, Calif.

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EXECUTIVE SUMMARY

The real estate and mortgage industries need each other more than ever.

Lenders riding the remains of the refi wave need a purchase strategy. Real estate brokerages strained by shrinking margins need new profit centers.

But complications abound. The CFPB is bearing down on both lenders and real estate brokers and agents. Major RESPA-TILA changes are looming. A major bank has exited real estate partnerships altogether.

“Compliance” - perhaps the most unexciting buzzword in the history of business - is the mantra of the day.

But yet… the old synergies remain. This study seeks to cast light upon them, to guide lenders seeking a gateway to the real estate industry with fresh insights.

What do real estate brokers and agents really want from a lending partner?

What marketing works (and does not work) in earning their referrals?

What partnership structures (ABA, MSA, etc.) are most desired?

Will regulatory changes have a chilling effect on real estate/mortgage partnerships?

What do real estate brokers and agents really want from lenders?

These are just some of the questions we have answered for you.

Key findings

Many real estate agents and brokers remain eager to work closely with banks, non-bank lenders and mortgage brokers, especially if the relationship is a good cultural fit and the partner has a diverse mortgage product offering.

Our survey revealed a lot of detail about the partnerships among lenders and real estate professionals.

- Cultural fit is top of mind for real estate brokers when selecting a mortgage partner, followed closely by access to a range of lending products. Most brokers are very much in tune with the effect that relationships have on the business and want to make sure first and foremost that a particular lending partner will be able to forge strong relationships with agents and clients.

- Real estate brokerage executives and agents work with a variety of lender partners, with mortgage brokers being the preferred choice (47%), followed closely by banks (31%) and non-bank lenders (22%).
- Despite real estate agents' and broker executives' overall interest in pursuing lending partnerships, more than 40% of our survey respondents said they are less likely to pursue a mortgage partnership in light of current regulatory changes.
- A majority of respondents, or 77%, said they only have *one* lender partner to which they refer clients.
- Lender marketing efforts directed at real estate professionals mean nothing if the lenders cannot back up their advertised claims. Real estate professionals only want to work with lending partners with a proven track record whom they can trust to help clients get what they need to close on time.
- Speed ranked as the highest factor that determines whether an agent will recommend a lender to a client, with 59% of respondents citing it as the most important. After speed, agents look for partners who have access to a variety of products, a credible reputation and who are easy to communicate with.
- 79% of agent respondents said they currently do not receive business leads from a lender, but of those, about 74% said they'd like to receive leads – but only from lenders they know and trust.
- Of those who said they would *not* want to receive leads from lenders, most cited concern over RESPA and feeling obligated to return the favor.
- Despite growing regulatory heat over MSAs, survey findings revealed that of those agents who have established relationships with lender partners, most favor an MSA (24%).

ABOUT THE SURVEY

Respondents were mostly real estate agents (74%), while 26% of respondents identified as real estate brokers. More than half of respondents (60%) are independent and unaffiliated with a particular real estate franchise. The remaining 40% are affiliated with top firms such as Keller Williams, RE/MAX, Century 21, ERA, Coldwell Banker, and Better Homes and Gardens Real Estate.

In addition to the survey, we conducted individual phone interviews with real estate brokerage executives running companies with over 500 agents each.

SURVEY FINDINGS

Agent and broker priorities

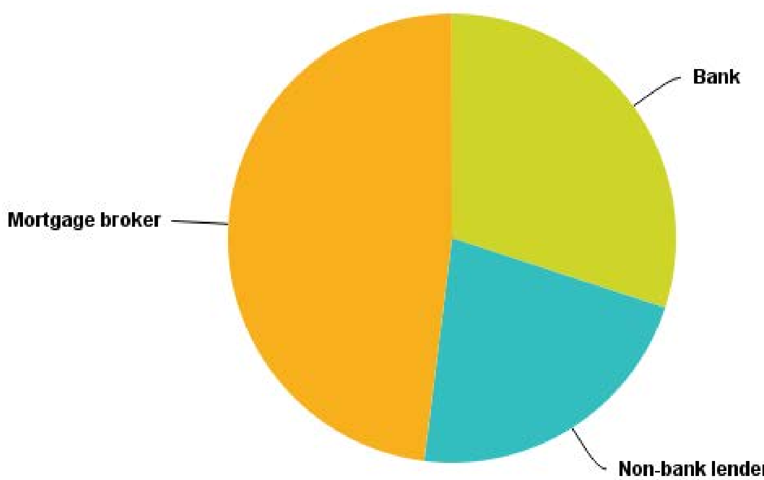
When it comes to selecting a mortgage partner, what type of partner are real estate professionals looking for, and what qualities are most important to them?

A majority of respondents, or nearly 47%, said their preferred lender partners are mortgage brokers, as they find them easy to work with, flexible and more personal. *"I don't want to affiliate myself with any one bank or institution, and a mortgage broker deals with multiple lenders and can find the right fit for each client,"* one respondent said.

Ranking closely behind mortgage brokers were banks, which 31% of respondents favored as a lender partner. *"Banks have the ability to close faster,"* one respondent said, while another said, *"Banks have many more options on financing."*

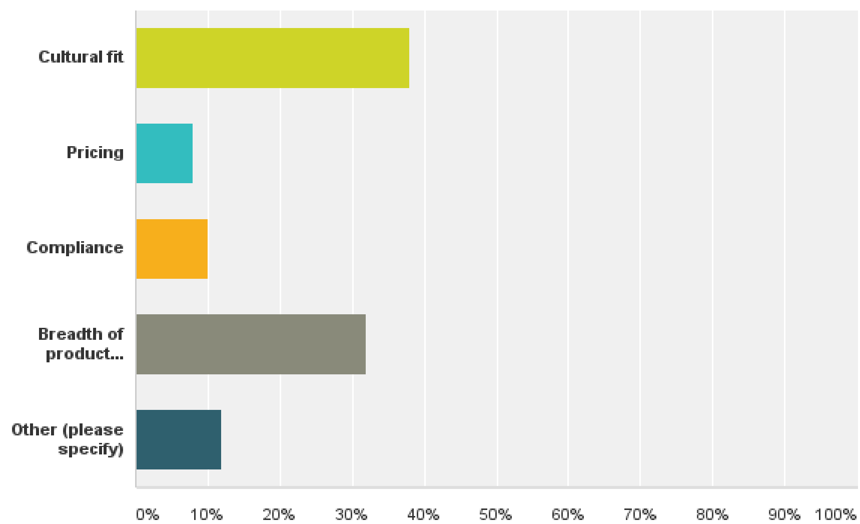
The remaining 22% of respondents favor working with non-bank lenders, which are perceived as more competitive in terms of rates and fees in some communities. "I prefer our locally owned savings and loan. I have all my accounts there, and I know the management," said one respondent.

Which do you prefer as a partner?



When selecting a mortgage partner, real estate professionals first weigh whether the partnership is a good cultural fit. Next, they are drawn to the breadth of products offered by that partner. Other, lower-ranked considerations include emphasis on regulatory compliance and pricing.

What was or would be the most important to you when selecting a mortgage partner

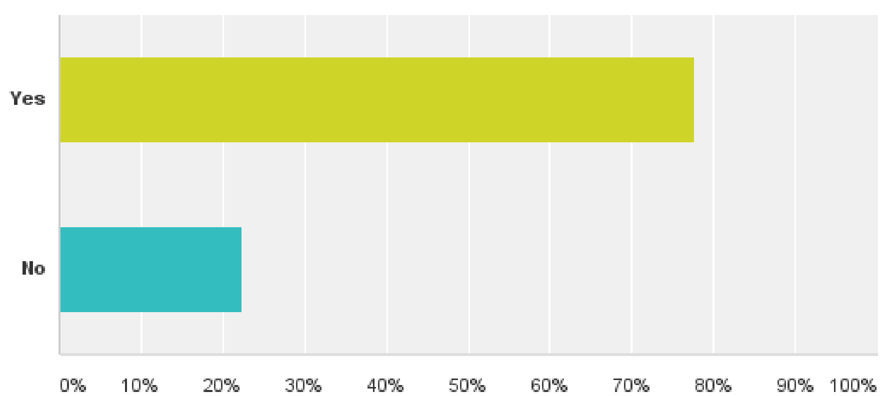


Why referrals happen (or don't)

What kind of lender partners do most real estate agents actually work with at the present time, and to whom do they refer their clients?

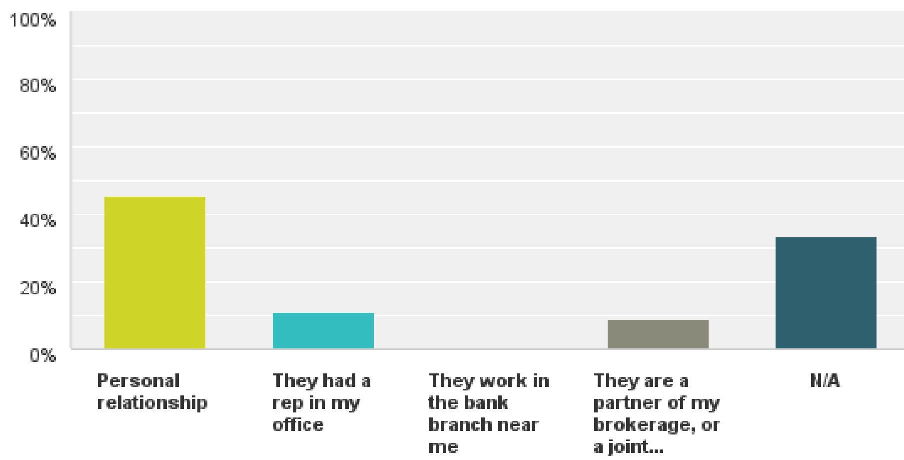
A majority of respondents, or 77%, said they only have one lender partner or mortgage broker to which they refer clients.

Do you have one lender or mortgage broker you refer clients to most often?



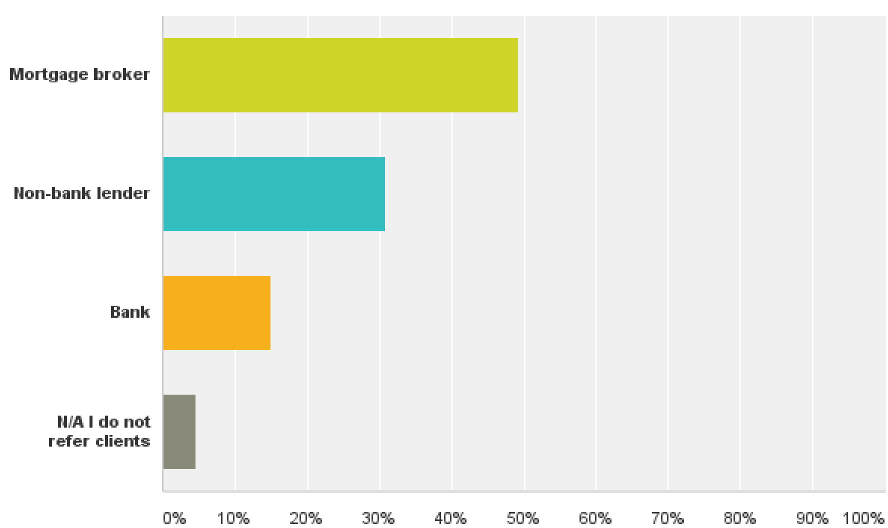
Real estate agents said they tend to refer clients to that single lender partner because of established personal relationships, the physical presence of a lender representative in their office space or an established partnership/joint venture with their brokerage.

Why did you start referring clients to the mortgage lender or broker you use most often?



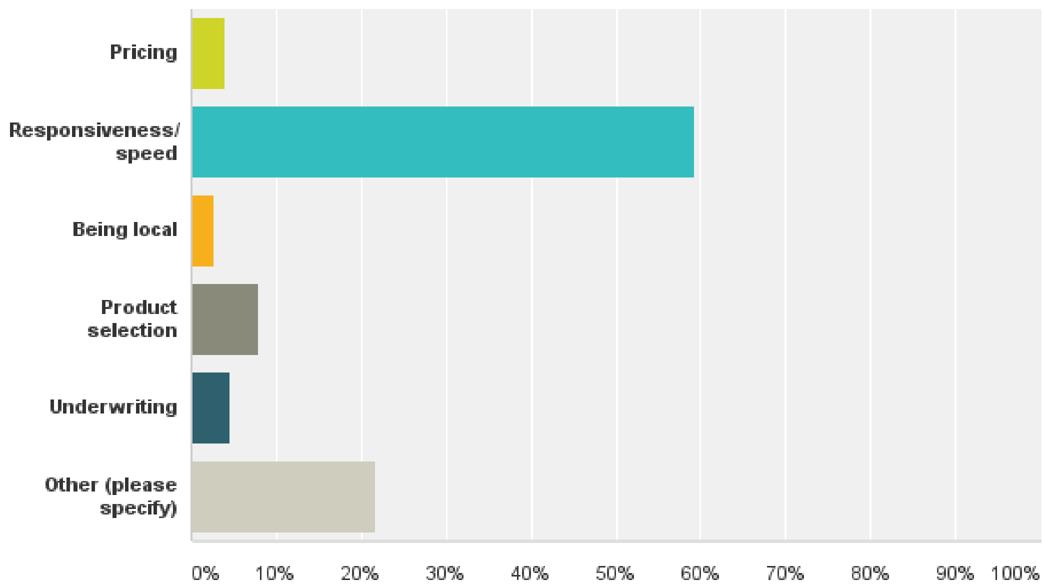
Again, a majority of real estate agents are most likely to refer clients to a mortgage broker (nearly 50%). Notably, while real estate agents said they prefer to partner with banks over non-banks, nearly 31% of respondents said they are more likely to actually refer clients to non-banks, while nearly 15% said they are likely to refer clients to banks. When referring any of these partners to clients, respondents said they have success with this on about 50 to 75% of transactions.

Generally speaking, are you more likely to refer clients to a mortgage broker, non-bank lender or bank?



When deciding whether to refer any of these lender partners to a client, responsiveness and communication speed ranked highest (59%) among respondents, who also listed underwriting, product selection and pricing as lesser but still important considerations. Respondents listed additional factors, including good communication, customer service, honesty, ability to meet deadlines, knowledge — and even simple, good old-fashioned "likability."

What is the most important consideration when referring a client to a lender of mortgage broker?



Also noteworthy related to real estate agents' marketing efforts was the observation of one respondent who said he or she doesn't have as much opportunity to refer clients to local lenders these days as in the past. *"A lot of buyers have already explored their mortgage options before they begin looking for a home,"* this respondent pointed out, indicating that buyers are becoming more savvy about and involved in the home-buying process.

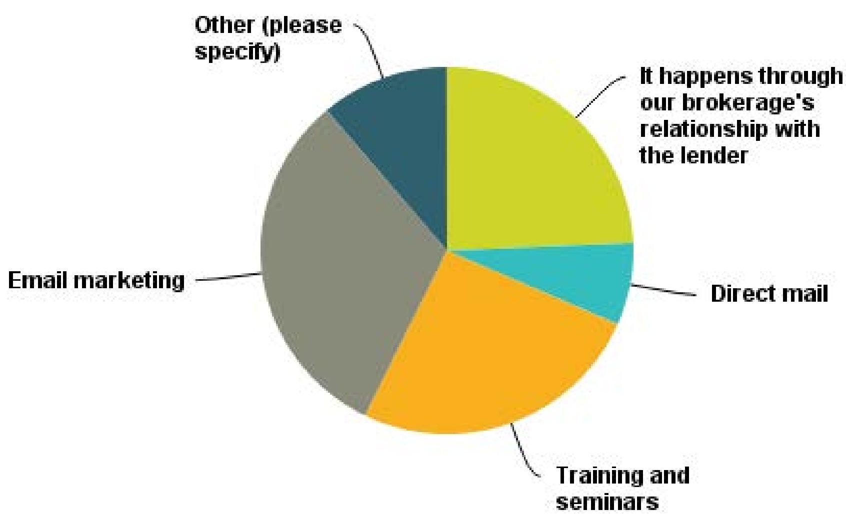
"A lot of buyers have already explored their mortgage options before they begin looking for a home."

Does lender marketing make the grade?

On the flip side, when it comes to lenders' efforts to market their products and services to real estate agents, respondents had plenty to say about how effective those efforts are.

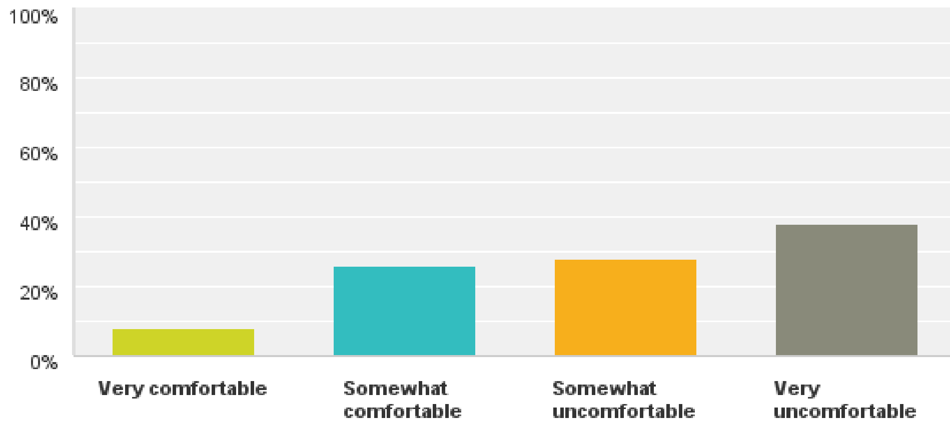
Lender marketing efforts to real estate agents take many forms. According to the survey's results, email marketing is most popular, followed closely by training and seminars, direct mail, open houses, office visits, networking or trade group functions, phone calls, social media promotion and catered lunches.

What kinds of lender marketing towards agents is most common in your market?



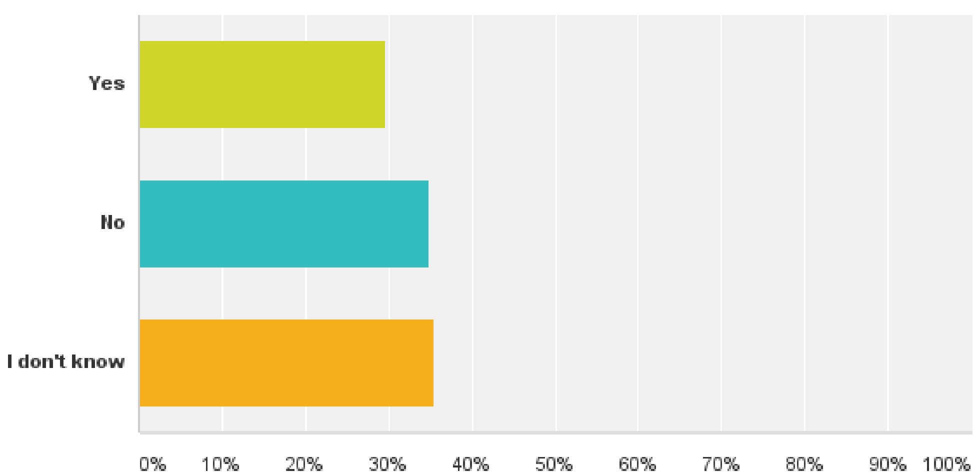
When asked if they are comfortable with lenders promoting listings apps such as Chase's MyNewHome mobile app or Nationstar Mortgage's HomeSearch.com, nearly 38% of respondents indicated they are "very uncomfortable" with this notion; between 25 and 30% of respondents said they are "somewhat uncomfortable" or "somewhat comfortable;" and just under 9% said they feel "comfortable." Some respondents weren't familiar with these kinds of marketing efforts, but others said they consider this practice to be a conflict of interest or find them to be skewed in favor of the big industry players.

Are you comfortable with lenders promoting listings apps (e.g., Chase's MyNewHome mobile app or HomeSearch.com, which is operated by Nationstar Mortgage?)



Respondents were almost evenly split when asked if they find any of these lenders' marketing efforts effective.

Do you think lenders' marketing efforts toward agents are effective in your market?



Those who feel they are effective praised some lenders' level of outreach to real estate professionals and their strong involvement and visibility in local communities. Some respondents indicated confidence in lenders' dedication to helping buyers find the best mortgage product for the best price, and said these lenders' advertising of this commitment often lives up its promises.

But those who said lenders aren't doing a very good job of marketing to real estate professionals cited a plethora of reasons for their dissatisfaction. Thirty-two percent of respondents said lender marketing isn't even needed, as *"everyone seems to have their own lenders they like and don't refer their clients to others."* Some respondents feel hassled by some lenders' marketing efforts, particularly if they feel inundated by mail or email: "Those efforts often are just one more thing that we don't have time to pay attention to," one respondent commented.

Others suggested that lender marketing efforts mean nothing if the lenders cannot back up their advertised claims. *"Everyone has shiny posters and says the right things. Performance is what wins,"* one respondent said. Another commented, *"Market all you want, but if you can close my transaction, it is simply a free lunch, dinner, etc., as I work with those who make a difference to my clients and to my business."*

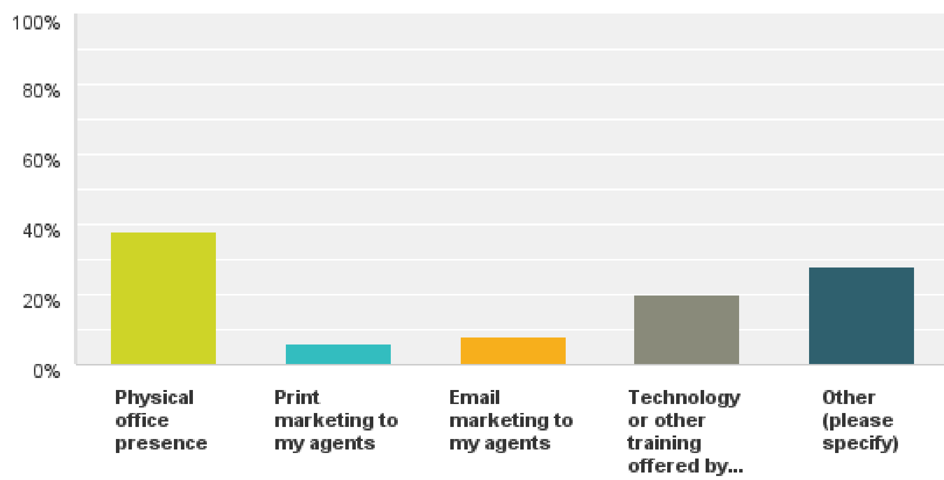
Some respondents had very negative perceptions of lender marketing. As one respondent summarized his discontent, *"Nothing they do or say to us has any merit. The only thing that matters is what goes on in the underwriting process, and whether it is sensible and fair."*

"The only thing that matters is what goes on in the underwriting process, and whether it is sensible and fair."

Other respondents characterized lender marketing to real estate professionals as "non-existent." Agreeing that in his or her experience, lenders typically do not market to real estate professionals, one respondent said, *"Relationships are typically formed if the client already has a lender that I work with on a transaction."* And one respondent rejected the notion of lenders marketing to real estate professionals at all, quipping, *"Great lenders don't need to market."*

Real estate brokers with in-house lenders indicated satisfaction with the marketing potential offered by the physical office presence of a lender partner, as well as technology and other training offered by these partners. Conversely, these brokers said they do not find print or email marketing efforts from in-house lenders to be very effective marketing tools.

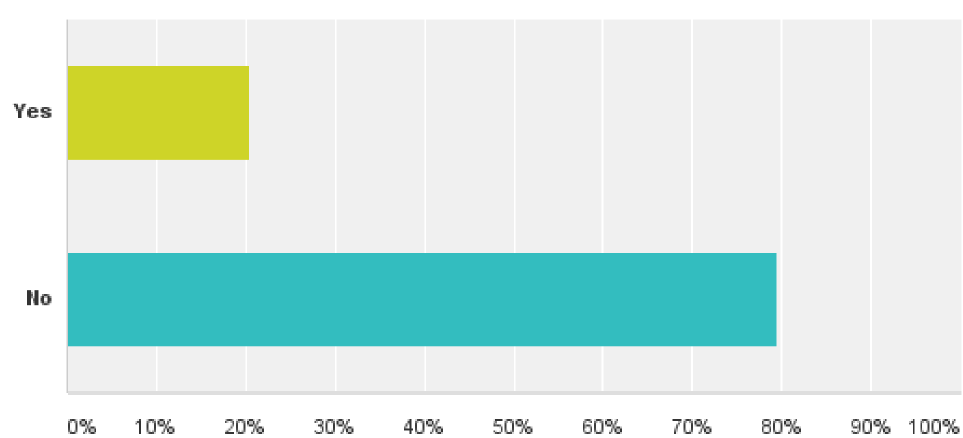
Which forms of marketing have been the most effective in increasing capture rates for your in-house lender?



Leads not in play

A whopping 79% of respondents said they do not receive leads from lenders, even as many lenders offer programs aimed at positioning real estate professionals in front of buyers or sellers.

Do you currently receive leads from a lender or mortgage broker?



Even those respondents who said they do receive leads from lenders' marketing efforts estimated that they only receive five or fewer leads per month. Less than 2% said they receive 11 to 15 leads per month.

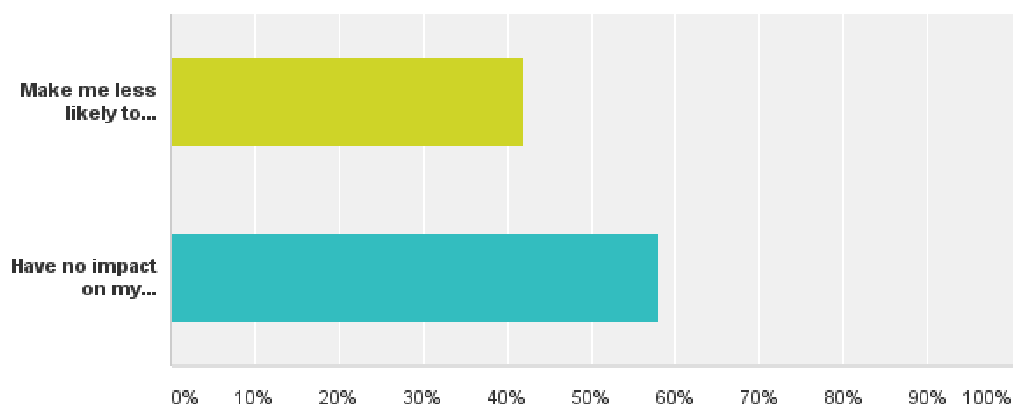
Of those respondents who said they don't see many leads from lenders' marketing, a clear majority, or about 74%, of respondents said they would like to receive more leads — with some reservations. Many respondents said they would like to receive leads only if the leads are offered by specific lenders they know, trust and have properly vetted.

The remaining respondents who said they would not like to receive leads from lenders' marketing efforts at all shared that they are very concerned about the legalities and ethics of such relationships. *"I'm always concerned about this one-way street,"* one respondent said. Others said they consider such arrangements to be kickbacks or violations of the Real Estate Settlement Procedures Act (RESPA). *"I don't want to feel obligated to refer people to them as well,"* another respondent noted.

Regulatory environment

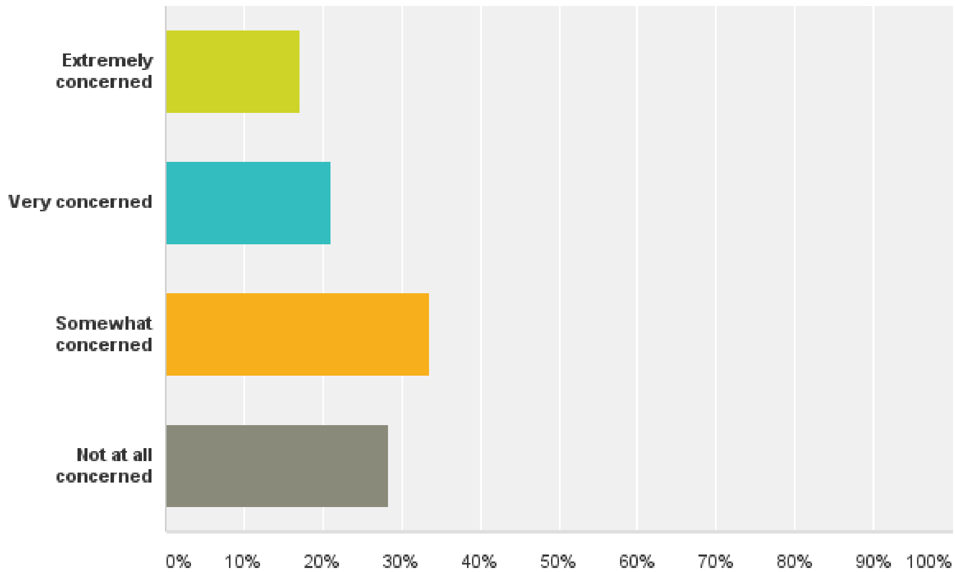
While slightly more than half, or 57%, of respondents said the current regulatory environment will have no impact on their likelihood of pursuing or continuing a mortgage partnership, 42% admitted they may be less likely to engage in such an arrangement due to increased regulatory oversight.

The current regulatory environment will:



And speaking of RESPA, a majority of respondents said they are either "somewhat concerned" or "very concerned" about complying with this particular federal statute in the course of their dealings with lender partners.

How concerned are you about RESPA in your dealings with lenders?



While some respondents said there is no need to worry about RESPA if you are knowledgeable about and comply with its provisions — and choose partners with the same compliance culture — some of their responses suggest ignorance about key portions of the statute. One respondent said he or she was concerned that receiving leads as the result of lender marketing efforts is a RESPA violation. But RESPA permits lead sharing, as long as providers neither give nor receive a "thing of value" (such as money, gifts, rental space, marketing services, etc.) in exchange for the referral of business. Another respondent said his or her lender partner terminated their relationship *"because 90% of my deals were not done with them."* But under RESPA, promotional activities and materials cannot be tied to referrals or a specific number of transactions.

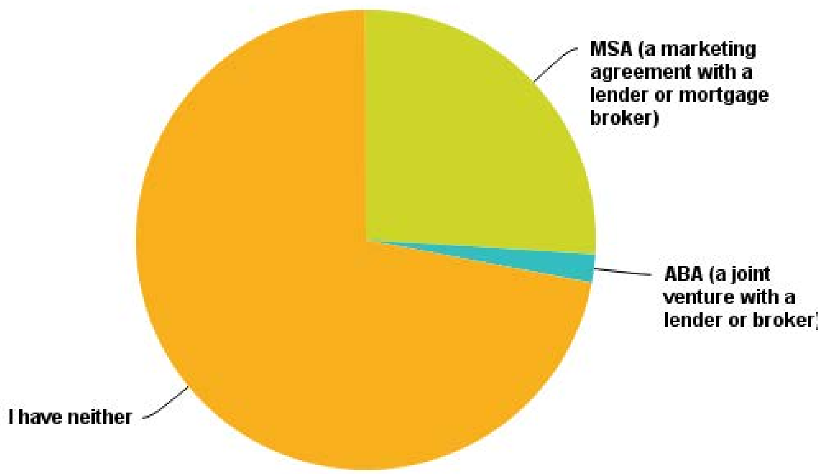
Other respondents may have inadvertently exposed their non-compliance with RESPA. One respondent, for example, said, *"I have a preferred providers list, and keep my top lenders at the top of the list, and give this sheet to buyers."* Unless that respondent stresses to buyers that the list is only a suggestion and they are free to shop around for their own providers, he or she could be in hot water with the RESPA police — the CFPB, which, by the way, looks down with great contempt on the phrase "preferred provider."

It will come as a surprise to no one that real estate brokers ranked marketing service agreements (MSAs), affiliated business arrangements (ABAs) and joint ventures (JVs) as the greatest source of RESPA compliance stress. These relationships, defined and addressed somewhat ambiguously and controversially under RESPA, are under the regulatory microscope now more than ever, and no one wants to end up a casualty of one of the CFPB's investigations.

Seventy-three percent said they are not involved in any such arrangement. Only a small number of respondents (2%) said they are in an ABA or JV agreement with a lender partner.

One of the most interesting revelations from our survey was that of those real estate brokers who have established relationships with lender partners, most favor an MSA (24%).

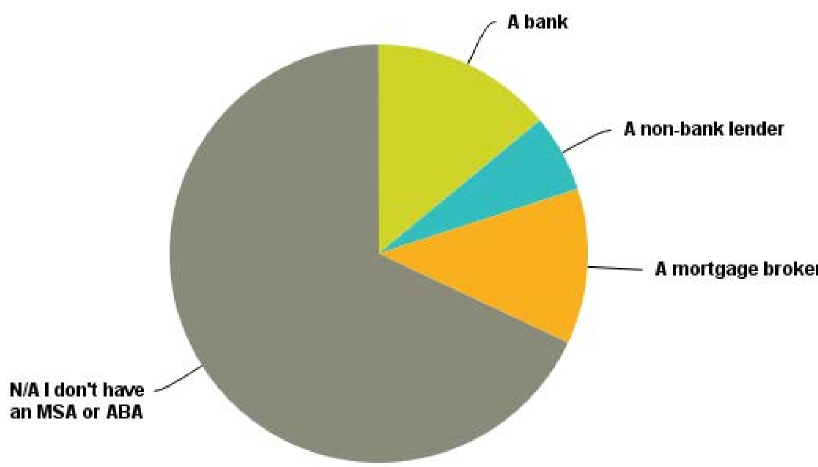
Do you currently have an:



MSAs have been a source of intense industry debate since Sept. 30, 2014, when the CFPB announced a consent order and $200,000 penalty against Michigan title insurance company Lighthouse Title Inc. for entering into what the bureau called "illegal *quid pro quo* referral agreements" with real estate brokers and others. According to the CFPB, Lighthouse Title provided marketing and advertising services to their partners "with the agreement or understanding that in return, the counterparties would refer closings and title insurance business" to the title company. The CFPB was particularly concerned that Lighthouse Title's MSAs were tied to a specific number of referrals or revenues generated by those referrals. The bureau's enforcement action was considered to have an immediate chilling effect on MSAs nationwide, and in the months since, attorneys who have issued compliance advice via webinars, newsletters and other educational efforts have publicly said that many of their clients are either revamping their MSA contracts or exiting such agreements altogether.

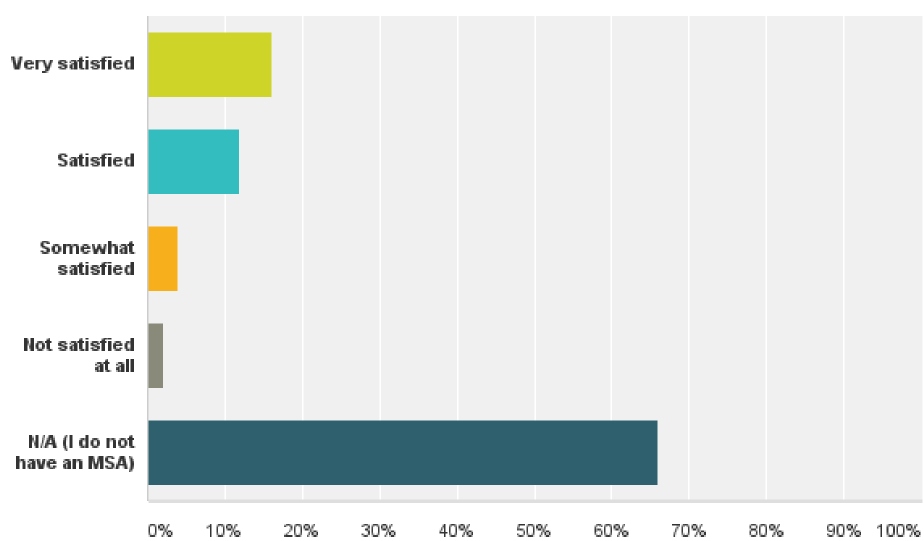
The survey didn't show as strong a reluctance to enter into an MSA, however. Of those companies that have such a relationship with a lender partner, most involve banks or mortgage brokers. A small number involve non-bank lenders. "We rent space to three lenders," said one respondent. Others said they are contemplating entering into an MSA with a lender partner, but have not yet explored all of the legalities and requirements.

If you do have an MSA or ABA, is this with:



Most of these respondents indicated they are "very satisfied" with their MSA partner. Only a handful said they are "not satisfied at all" with their MSA.

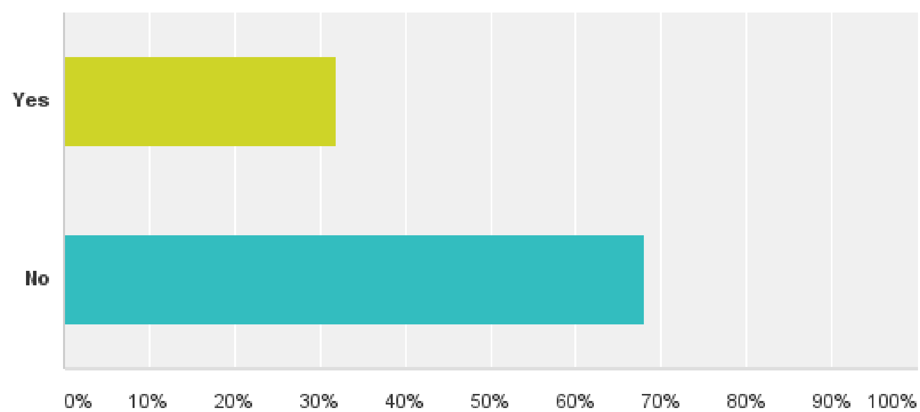
How satisfied are you with your current MSA?



Still, some respondents expressed hesitance on the topic of MSAs. Of those who do not engage in MSAs, respondents said MSAs are inconsistent with their company culture, or present too many complications or legal exposure. *"It is illegal,"* proclaimed one respondent. (Not true under RESPA). *"I don't want to feel obligated to use a certain lender, and I don't want my clients paying higher fees so I can get a kickback,"* said another. (That would definitely be a RESPA violation, but only a compliance-ignorant MSA would engage in that conduct.)

More than 31% of respondents said they have terminated an MSA, ABA or JV with a lender partner, with poor performance and communication cited as major factors leading to that decision.

Have you ever had to terminate a mortgage marketing or joint venture relationship?



A final word

Clearly, there are many considerations and concerns a real estate agent or broker must weigh when initiating or maintaining relationships with lender partners. These considerations and relationships are likely to morph with the changing times.

Real estate agents and brokers remain interested in partnerships with banks, mortgage brokers and non-bank lending institutions. At the same time, lenders could be doing a better job holding up their end of the deal, and everyone involved in a formal relationship like an MSA, ABA or JV should most definitely consult with legal counsel to make sure all Ts are crossed and Is are dotted.

This survey captures a point in time at which lenders stand at a crossroads. The focus on refinance business that has prevailed in recent years seems to be coming to an end (despite recent upticks). At the same time real estate brokers and agents - a traditional channel for reaching purchase money customers - exhibit shifting, sometimes conflicting attitudes toward lenders. Regulatory change and intensity rounds out the mix.

Opportunities for real estate partnerships remain to those willing and able to proceed with commitment and diligence.

FOCUS GROUP FINDINGS

Up close with real estate brokerage executives

In addition to our online survey of real estate brokers and agents, we spoke with real estate brokerage executives to get detailed comments on the real estate-mortgage relationship.

These executives' lending arrangements ranged from having *no relationship* with a lender or bank to *owning* the in-house lender. Most were in the middle, operating joint ventures (JVs), affiliated business arrangements (ABAs) or marketing service agreements (MSAs).

Some of our high-level findings from these discussions:

- Managed well, real estate brokerages should expect to see about a 20% capture rate for their affiliated mortgage business. This will vary, obviously, but this is the number brokers say they would want to reach to consider the relationship successful and worth the effort.

- A "perfect" lending partner - regardless of the specific business arrangement - is one with a proven track record, access to the best lending products, and the ability to fund quickly.

- The success of the brokerage-lender relationship heavily depends on the individuals involved. How much influence the brokerage has on its agents, office culture, and the loan officer or mortgage broker's track record are each significant factors.

- Real estate office managers and agents will not recommend a lender or mortgage broker if they do not believe in the service or person. There's too much at stake for them if the person or company they align themselves with does not perform.

- No amount of marketing or incentives will make an agent recommend a specific lender if they have had a bad experience with them or lack confidence in their ability to perform. *"The only thing that carries any weight is experience."*

"The only thing that carries any weight is experience."

Physical presence ideal

The executive who reported the highest capture rate for his company's mortgage partner - nearly 50% - has a loan office set up physically inside the brokerage.

The loan officers are very much ingrained in the brokerage's culture. They are present to answer questions. They show up to help agents at open houses and open previews to prequalify buyers.

They are not strangers trying to sell a product. They are very much part of the team working together to close a real estate transaction.

Because of this level of engagement they don't seem intrusive.

"They're here for the long run - not just to write a loan and be gone."

"If you have an official lending partnership, they must have an office within your brokerage, not just visit offices periodically. My (real estate) broker friends who do not set up their lending relationships this way tend to see their capture rate plateau at around 15% and they can't figure out how to increase it."

"We do the same thing with our escrow company - set them up in-house - and the capture rate on that business is 65-70%."

Local matters

Home financing situations vary greatly across cities and states.

A market in Alabama may have a high number of VA and FHA loans, while a market in Florida may finance a greater number of second homes, and a market in California may lean more heavily on jumbo products. These are just a few situations that can define some local markets while being non-existent in others.

"In our California markets, we see a lot of all-cash buyers, which means the buyers we work with who are financing need a lender who can get them through the process quickly. Without this, they can't compete with other offers."

Bottom line: agents don't want to work with lenders they don't believe understand local or regional nuances.

Experience trumps marketing

Personal experience matters a lot when agents recommend a lender to a client. More than any incentive brought to the table, agents need to feel confident, which can come either from experience or word of mouth among trusted peers.

"What works best in terms of marketing a lending solution to agents is simple word of mouth. If an agent hears the loan officer or broker did a good job for their colleague and their clients and they got what they bargained for, closed on time and the rates were competitive, they'll make the referral."

Without that experience or seal of approval it's difficult to influence most agents. Even within a brokerage partnership, winning agent confidence is key.

A relationship business

The real estate business has always revolved around strong relationships. Whether it's agents' relationships with their clients driving their referral business, or a broker's relationships with their agents that drives their brand and market share - there's no doubt that this is a people-based industry.

"The main ingredient for success is having a loan officer who can cultivate relationships with agents. Just like brokerage, it's a sales-driven process."

The broker and agent approach to the lending side and affiliated business is no different.

"The loan officer has to be the agent's go-to person; they have to understand what's important to the agent - closing on time and managing and exceeding client expectations. They have to be great at communicating and build that trust that's needed for it to really work."

No amount of marketing or incentives will drive the agent's adoption of the broker's preferred lending partner more than relationships or experience.

"The main ingredient for success is having a loan officer who can cultivate relationships with agents. Just like brokerage, it's a sales-driven process."

Incentives that work

The clearest incentive for an agent or broker to work with a lender is a strong service experience, but product availability is equally as important.

An agent has to know the lender will be able to serve referred clients, which means having access to a variety of loan products with competitive pricing.

A few executives also mentioned a guarantee of on-time closing as an effective incentive for their agents to use their lending partner. For instance, “close on time or we’ll give you 1% cash back.”

Independence

Among the executives who did not have an MSA or joint venture, one noted that branding played a big role in the decision. He’s always maintained full control over the purity of his brand and does not want to give up anything under a marketing agreement with a mortgage partner.

In addition, culture was an important factor for these brokers in deciding not to establish a formal lending arrangement. Some brokerages foster very independent cultures and trying to influence agents in one direction or another is something the brokers simply won’t do.

“Our agents, in many cases, already operate their own very strong relationships - and have for years. They wouldn’t work with anyone else no matter the incentive.”

Regulations

Many of the brokerage executives we spoke with said that joint ventures are likely to be more desirable than MSAs going forward because of tighter regulations associated with MSAs. This was in contrast with the broader survey finding that more brokerage executives currently still favor MSAs.

Among the larger brokers, many said they were adding people to their team who will be focused solely on compliance to ensure all i’s are dotted and t’s crossed in the new regulatory environment.

Among the brokers who did not have formal lending arrangements, regulations play a role in their decision, but are not the only reason (see section, “Independence”).

“All of it adds complexity to the process - added expenses, more to manage with compliance.”

Regulations can have a chilling effect on lending in general, not just the broker-lender relationship, making access to products and proven ability to write loans even more critical when choosing a partner.

Lenders must bring a strong compliance regimen to their real estate partnerships.

Further downstream

Several brokers mentioned a noticeable change in consumer behavior over the past few years which has almost half of all their buyers - by some accounts - coming to the agent with a lender or mortgage broker already in place.

Much more time passes now from when a buyer first starts looking at property listings and researching online to when they talk with an agent. In that time, more buyers are going directly to lenders to get prequalified.

“This means the ability to drive capture rates on mortgage business is going down for most brokers.”

One broker said the old days of brokers treating the mortgage relationship as a “tack on” business are soon over. Now, brokers need to rethink how and where in the home search process their affiliated mortgage business sits with consumers.

Lenders seeking strong real estate partnerships will need to be more attuned to their brokerage partners’ businesses - and their local market dynamics - than ever before.

FOR MORE

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