

Brokers irked by new law

The HeraldNews

December 3, 2007

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Two years ago, mortgage brokers were the friendly fellows who could find you home financing when your bank said no. Today, they say they're being unfairly billed as predatory lenders.

In the throes of a foreclosure fiasco threatening to affect the nation's economy, mortgage brokers, who underwrite more than half the country's mortgages, are being cast as the fall guys, area brokers say.

Mortgage brokers are irked by a new state law that requires credit counseling for Cook County borrowers working through a mortgage broker. Senate Bill 1167 toughens standards that mortgage brokers must meet before completing loans for their customers.

Why do Will County brokers care about Cook County regulations? First of all, they write mortgages for a lot of Cook County clients. And they know that what originates in Cook so often spreads to Will.

The bill was sponsored by state Sen. Jacqueline Y. Collins, D-Chicago, and state Rep. Karen Yarbrough, D-Broadview, and signed into law by Gov. Rod Blagojevich last month. It also calls for state regulators to review financial documents like income statements from some loan applicants working with brokers.

This new legislation is a knee-jerk reaction to this year's credit crisis that singles out brokerage clients and unfairly favors banking customers, said Tim Brophy, president of Dow Mortgage Co. in Joliet.

"If credit counseling is a good idea, it's not just a good idea for some people getting loans from some places. It's a good idea for everyone," said Tom Mulvey, a partner at Dow Mortgage.

'Slippery slope'

"It's a slippery slope," Brophy said. "If they pass it in Cook County -- and that's a politically powerful county -- chances are it's likely to be widened to the whole state."

"Saying people getting their mortgage through a broker need counseling, and people getting one from a bank don't, is like saying people north of Plainfield Road need it, but those south don't," he said. "It doesn't make sense."

Bankers vs. brokers

Bill McNamee, with Pinnacle Home Mortgage of Lombard, is president of the Illinois Association of Mortgage Professionals. Banks may be behind some of the broker bashing that's filled headlines this year, McNamee said.

"We're not predatory lenders," McNamee said in a telephone interview with The Herald News. "We're getting slanted as the scapegoat in a scheme to put us out of business."

"What we suffer from is what all small businesses suffer. It's easy to pick on a smaller, weaker opponent," he said.

Brophy is on the same page.

"I think it partially comes from bankers trying to squeeze us out," he said. "It appears they're the beneficiary of these new laws."

If the banking industry is pulling a public relations ploy to forge a negative image of mortgage brokers, it doesn't play out on the local scene, one prominent local banker said.

"I am not aware of attempts by banks to lobby against mortgage brokers. In Joliet, banks have very good relationships with the many local mortgage brokers," said Steve Morrissette, president of First Community Bank in Joliet.

"Our bank has excellent relationships with local mortgage brokers," Morrissette said. "In some cases, banks and mortgage brokers do compete, but in our market the competition has always been professional."

No sympathy

But the Woodstock Institute, a Chicago think tank that promotes the financial interests of low-income consumers, actively backs the bill.

"I don't have a lot of sympathy for the broker industry," said Woodstock financial analyst Geoff Smith, who has testified before high-ranking authorities on predatory lending issues. Those authorities include the U.S. House Financial Services Committee, the Federal Reserve Board, and the Illinois Department of Financial and Professional Regulation.

"Sadly for the good mortgage brokers, there were some agents that perpetuated the worst abuses in the market," Smith said.

"A lot of them made a lot of profit by selling high-risk, high-cost loans to borrowers who could have qualified for a better product."

Yet Smith agrees that what is good for the golden goose is good for the lending gander.

"It's a whole food chain. The mortgage brokers are funded by the lenders, and the lenders are motivated by the investors," he said. "Brokers aren't the only one out there who should be held to accountability."