nerej
EST. 1963 CELEBRATING 55 YEARS

Passing the buck is no answer to industry problems

September 12, 2007 - Financial Digest

Over the past 24 months several dozen of the biggest sub-prime mortgage lenders in the world have gone bottoms up. They have either declared bankruptcy, run for the hills or they have sold out to the nearest high bidder. The changes have been horrific and they have had resounding effects, not only in the industry, but also causing deep concern in the halls of Congress.

While this has been happening other industries have also been hit very hard. Our own industry, real estate brokerage, has had its own share of potholes, which we have had to negotiate. In consultations with three or four of the largest companies in America, as well as several top line people in the franchise circuit, it seems that sales volume recently is off anywhere between 10% in the luckier areas, to 40 or 45% in the areas hit the hardest by the recent frenzy, over-pricing and in many cases, unjustified buyer enthusiasm.

In our own case, we have not been immune to this fall off in sales. Here it is, mid-June of 2007 and it was my prediction a year ago that we would be well out of the quagmire and heading up the hill to renewed success by this time. Well this has not happened, or at least in most cases it has not happened. The whole Conway organization of 45 sales offices has had its own share of what John Reardon used to call, "moans and groans." Some of our offices are off - way off, but a few of them have bucked the trend and are running ahead of prior figures. In trying to identify the reason why some offices are running ahead and some are falling behind, there are several factors to consider.

With the local economic conditions, there is a feeling of despair on the part of some of our managers and sales associates who are feeling the pains of lower production and lower income and there is a buyer lethargy that insists that "let's wait a while and see what happens."

Some of the people who do the heavy research predict that we have bottomed out, we are headed back and that by the spring of 2008 we should be on firm ground. That is a good prediction, but these are the same people who said that a year ago. Perhaps their timing was off then, and let's hope they are on target this time around.

The builders are the most affected, because they are tied into heavy commitments to lenders, greatly increased material pricing and all this with less buyer demand.

In our brokerage industry we can pull back, cut our advertising, close a few branches, tighten the belt a little bit and survive a downturn much easier than a builder, who can lose thousands and in some cases millions of dollars in a short period of time.

There is a tendency now to look for some people to blame. It is true that sub-prime lenders have caused some of the problem. Some originators on the street took the words coming down from the higher levels of command and put people into houses with mortgage terms that were impossible for them to handle. The result, of course, is foreclosures.

Now, society is blaming it on the mortgage originator on the street when it is in fact not them that have caused the problem. They are like anybody else, people who have to feed their families, make goals, make car payments, pay their own mortgages, and if they are given a product to sell they are interested in making the deal work, selling the product that is offered to them.

I noticed this the other day in quotes from a speech by Mortgage Bankers Association's president elect, Kieran Quinn. He said this: "People who only care about commission and who made loans without regard for the borrowers ability to pay are the real culprits."

Part two will run in the October 12, 2007 Financial Digest section of the New England Real Estate Journal.

Jack Conway is founder of Jack Conway & Co. Realty, Norwell, Mass.