



Federal
Home Loan Bank
of New York

2008 Survey:

Opportunities for Members to Increase
Residential Loan Referrals from Real Estate Agents



Real Estate
Agents



Loan
Referral



New
Home

● ● ● Executive Overview

As the credit crisis has deepened and prolonged over the last year, many independent mortgage brokers and specialty mortgage companies have exited the market, potentially creating a void in residential mortgage originations that Member Lenders can fill. Realtors that dealt with these mortgage brokers and bankers may be seeking new sources for referring loans. The Federal Home Loan Bank of New York (“FHLBNY”) conducted a survey to test the proposition that there was an opportunity for Member Lenders to obtain additional mortgage referrals from realtors.

Survey results clearly indicate that there is an opportunity for traditional lenders to obtain a larger share of the real estate agent’s referrals – if they so desire. In fact, sixty percent (60%) of Member Lender respondents indicated that they want to do more business with real estate agents. Real estate agents offered suggestions for what Member Lenders need to do to enhance their opportunities for referrals.

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● ● ● Background

308 Survey Respondents from New York and New Jersey

101 FHLBNY Member Lenders | 207 “Experienced” Residential Real Estate Agents

In May 2008, the FHLBNY commissioned Calder LaTour Inc., a market research firm, to survey member institutions (savings banks, commercial banks and credit unions) and residential real estate agents in New York and New Jersey. The survey’s objective was two-fold:

- to determine if an opportunity exists for our Member Lenders to increase residential mortgage referrals from real estate agents; and
- to identify how Member Lenders can enhance their ability to obtain referrals, if they wish to do so.

The 308 geographically-dispersed respondents included senior loan officers from 101 Member Lender institutions (approximately 35% of the FHLBNY’s membership) and 207 “experienced” residential real estate agents. Respondents were first asked to compare “community lenders” to “competitors” (such as in-house mortgage brokers, independent mortgage brokers, specialty mortgage companies, etc.) on eight separate product/service dimensions. These dimensions (see Appendix) were identified, during a series of pre-survey qualitative interviews, as most significant to increasing referrals. Respondents were then asked to evaluate the importance of “improving” each dimension to increasing referrals. These perceptions form the basis for the survey findings.

Some Members Already Deal Successfully with Real Estate Agents

A substantial minority of our Member Lender respondents (11%) indicated that they currently receive 50% or more of their residential mortgage loans from real estate agent referrals. The Member Lenders in this “high referral group,” in addition to following the suggestions above, also dedicate loan officers solely to residential mortgages. And, major changes to compensation plans may not be needed. The “high referral group” compensates their residential originators much the same as do the other Member Lender respondents, with more than half of these lenders stating that they compensate lenders on full salary with no commissions.

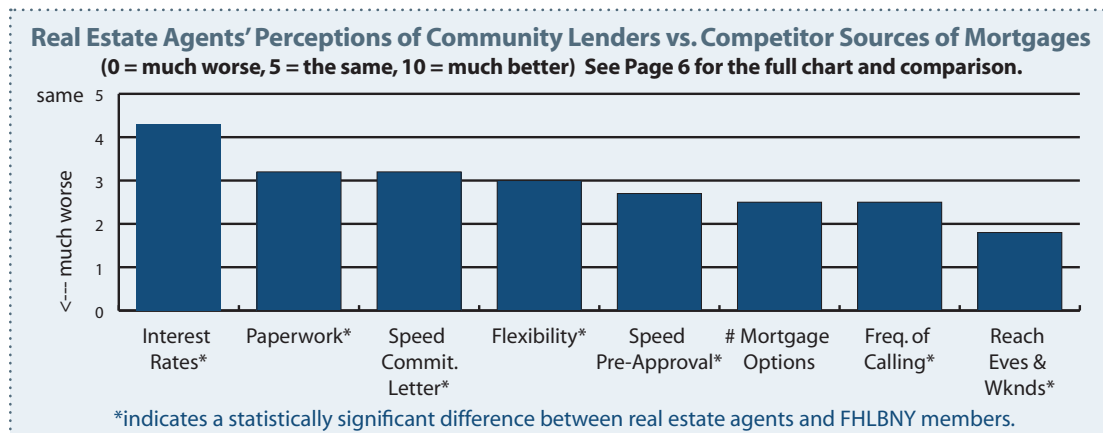
For more details about survey results/findings, including regional geographic responses, please refer to Appendix.

What Can Our Member Lenders Do?

Real estate agents say that Member Lenders who wish to increase residential loan referrals need to “improve” in several areas.

- **Increase flexibility in mortgage offerings.** Have a diverse product menu as well as the ability to work with the borrower to find a mutually acceptable mortgage solution. Of course, members will need to do so within their established credit/underwriting and risk management guidelines.
- **Increase speed of pre-approvals/commitments.** Implement organizational changes that lead to faster communication back to buyers and their real estate agents.
- **Increase availability in the evening and on weekends.** Employ loan originators who are available to assist agents and borrowers during non-business hours improves communication at a time when agents and borrowers are most likely to be searching for a home.
- **Communicate change and value to real estate agents.** Use onsite visits and other educational tools, especially after organizational improvements or changes have been made.

Lowering interest rates and having an in-house resource were not cited as an important factor by real estate agents. Real estate agents view “community lenders” and “competitor” sources of mortgage loans as fairly comparable in interest rates. As long as a Member Lender is competitively priced on a consistent basis, real estate agents are willing to recommend them to their customers. Furthermore, only half of the real estate agents reported having an in-house funding source; of these respondents, only half referred their customers to that resource. From the real estate agents’ perspective, having an in-house resource is not a barrier to increasing referrals to “community lenders.”



Detailed Results

of Respondents by Region

Geographic Region	Members' Senior Loan Officers	Real Estate Agents
NY Upstate West	15	32
NY Upstate East	18	40
NY Metro/L.I.	25	54
Total New York	58	126
NJ North	27	52
NJ South	16	29
Total New Jersey	43	81
GRAND TOTAL	101	207

Survey Participants: To ensure regional distribution, the states of New York and New Jersey were divided into five geographic regions. Total Member Lender respondents represent approximately 35% of actual FHLB NY membership at March 31, 2008. Respondents by Region are noted on the left.

Distribution of Respondents by Member Lender Type and Asset Size within each region is captured in the tables below. There is a statistically significant difference in the distribution of type of institution participating in this study between the states of New York and New Jersey ($p < .04$). Participants in New York State are slightly less likely to be savings banks or credit unions than those in New Jersey, while participants in New Jersey are slightly more likely to be savings banks. There are no statistically significant differences in the assets of participating institutions in New York vs. New Jersey or among the five different regions.

Respondents by Member Lender Type

Type of Institution	Combined (101)	New York				New Jersey		
		All NY (58)	Western NY (15)	Eastern NY (18)	Metro NY (25)	All NJ (43)	Northern NJ (27)	Southern NJ (16)
Savings bank	55.4%	46.6%	33.3%	55.6%	48.0%	67.4%	63.0%	75.0%
Commercial bank	36.6%	43.1%	46.7%	33.3%	48.0%	27.9%	29.6%	25.0%
Credit union	7.9%	10.3%	20.0%	11.1%	4.0%	4.7%	7.4%	0.0%

Respondents by Member Lender Asset Size

Self-Reported Assets	Combined (101)	New York				New Jersey		
		All NY (58)	Western NY (15)	Eastern NY (18)	Metro NY (25)	All NJ (43)	Northern NJ (27)	Southern NJ (16)
<100 million	13.9%	15.5%	20.0%	11.1%	16.0%	11.6%	14.8%	6.3%
100 - 250 million	25.7%	24.1%	13.3%	44.0%	16.0%	27.9%	14.8%	50.0%
250 - 500 million	21.8%	19.0%	40.0%	16.7%	8.0%	25.6%	25.9%	25.0%
500 million - 1 billion	17.8%	20.7%	13.3%	22.2%	24.0%	14.0%	18.5%	6.3%
1 - 10 billion	20.8%	20.7%	13.3%	5.6%	36.0%	20.9%	25.9%	12.5%

Primary Referral Sources for Residential Mortgages as Reported by Real Estate Agents:

Real estate agents were asked to identify the referral source from which their clients are most likely to obtain a residential mortgage.

The table below reflects the percent identifying each source, broken out by geographic region.

Most Common Mortgage Source by Geographic Region

Mortgage Source	Combined	New York				New Jersey		
		All NY	Western NY	Eastern NY	Metro NY	All NJ	Northern NJ	Southern NJ
Highlighted cells show the most common source within a region	(207)	(126)	(32)	(40)	(54)	(81)	(52)	(29)
A specialty mortgage lender (e.g., Countrywide)	14.5%	12.7%	15.6%	15.0%	9.3%	17.3%	13.5%	24.1%
Your in-house mortgage company or broker	29.0%	23.0%	9.4%	17.5%	35.2%	38.3%	48.1%	20.7%
A mortgage broker	30.9%	31.7%	28.1%	40.0%	27.8%	29.6%	28.8%	31.0%
A national bank	7.2%	11.1%	9.4%	5.0%	16.7%	1.2%	0.0%	3.4%
A community lender+	18.4%	21.4%	37.5%	22.5%	11.1	13.6%	9.6%	20.7%

+Real estate agents choosing this response were asked the second-most common source of mortgages for their buyers in order to have a competitor to rate community lenders against in the next section of the survey.

In most regions, independent mortgage brokers and in-house brokers are the primary mortgage source. Exceptions include:

- Western NY where community lenders are most common (37.5%).
- Northern NJ where there is heavy use of in-house brokers (48.1%), compared to the average of 29% for the whole sample.

In-house Brokers Given Preferential Status?: Real estate agents who have access to in-house brokers (about 55%) were asked if they give preference to them or if they are simply one of many options.

	Combined	New York				New Jersey		
		All NY	Western NY	Eastern NY	Metro NY	All NJ	Northern NJ	Southern NJ
	(115)	(65)	(13)	(17)	(35)	(50)	(38)	(12)
One of many options	53.0%	60.0%	69.2%	58.8%	57.1%	44.0%	44.7%	41.7%
Preference given	47.0%	40.0%	30.8%	41.2%	42.9%	56.0%	55.3%	47.0%

- Roughly 47% of real estate agents who have in-house brokers give preference to them.

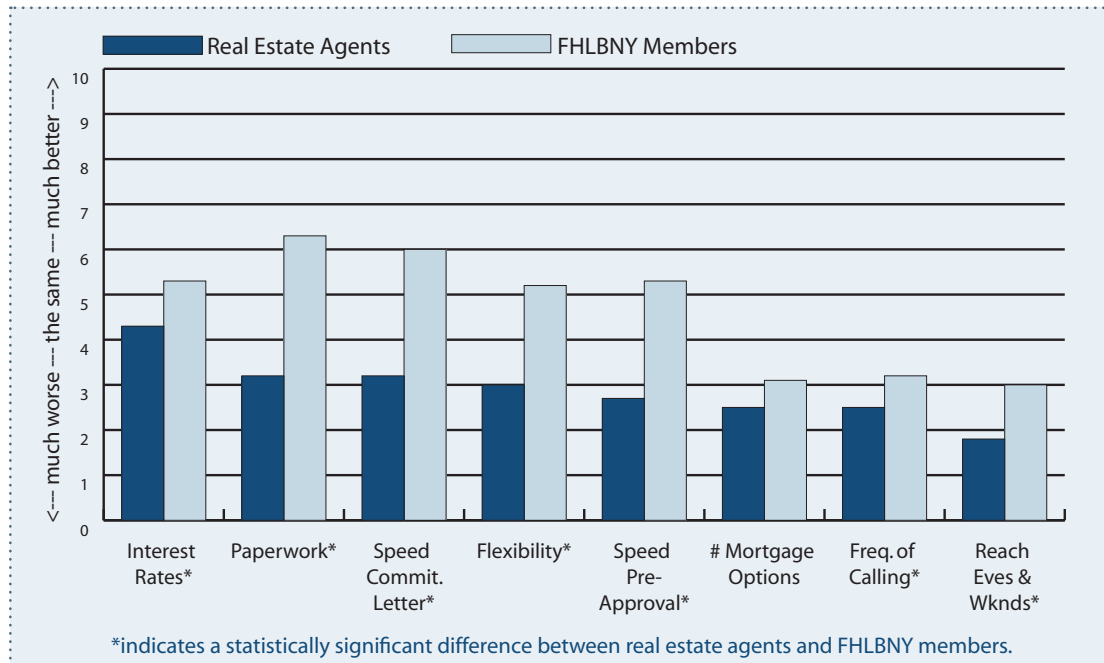
Therefore, overall, if approximately 50% of real estate agents give preference to their in-house brokers approximately 50% of the time, roughly 3 of 4 referrals go elsewhere than to the in-house broker! However, there appears to be a heavier weighting toward in-house brokers in Northern New Jersey and Metro New York.

In fact, members in Northern New Jersey report the lowest percentage of mortgages resulting from real estate referrals – 6% versus 15-19% in the other regions.

Respondent Perceptions of Community Lenders vs. Competitor Sources of Mortgages:

All respondents were asked to rank “community lenders” on eight dimensions, such as interest rates, paperwork, flexibility, etc. The ranking compares a “community lender” to a “competitor” source (such as an independent mortgage broker, specialty lender, in-house broker, etc.). Ranking is on a scale of 0 – 10, where 0 is “much worse”, 10 is “much better”, and 5 is “the same”.

- Responses indicate a “disconnect” between each group’s perceptions of a “community lender” as compared to a mortgage broker/specialty lender.
- Real estate agents perceive “community lenders” on average to be worse than mortgage brokers/specialty lenders on all eight dimensions; however, “community lenders” were perceived to be only slightly worse on *Interest Rates*, but much worse on *Reach Evenings and Weekends*.
- Senior loan officers described themselves as slightly better than “competitive” sources on two dimensions (*Paperwork* and *Speed of Commitment Letter*), about the same on three (*Interest Rates*, *Flexibility* and *Speed of Pre-approval*) and worse on the remaining three (*# of Mortgage Options*, *Frequency of Calling* and *Reach Evenings and Weekends*.)

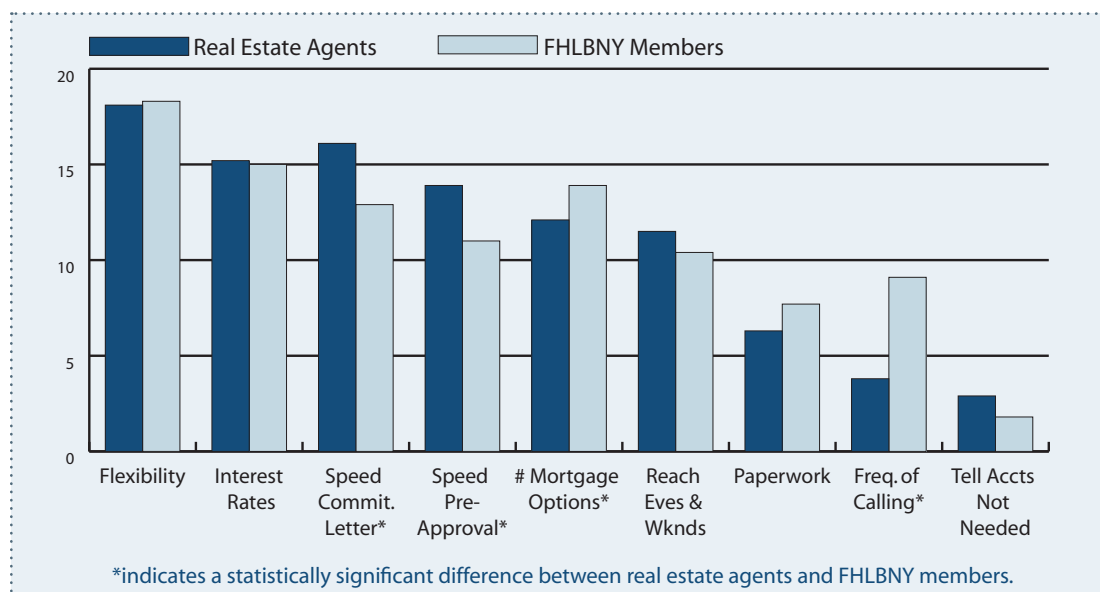


An examination of the relationships between respondent characteristics and their evaluation of Community Lenders suggest that there are two underlying attributes or factors on which real estate agents evaluate mortgage sources: (1) Mortgage Product Features and (2) Mortgage Service.

Statistical factor analyses were then conducted to see if there are relationships between any of the respondent characteristics and evaluation of community lenders. These analyses yield only substantive results:

- As the percentage of a Member Lender’s loans that come from real estate agent referrals increases, members generally perceive that they are providing increasing levels of service relative to competitors.
- Member Lenders with more than 75% of their loans in residential mortgages believe they offer both a better mortgage product and a higher level of service than institutions for which residential mortgages are a smaller percent of the institution’s loan portfolio.
- Member Lenders that compensate their loan originators fully on a commission basis perceive themselves as offering a higher level of service than institutions with loan originators on salary.
- Members generally report increasing levels of service relative to competitors as the reported percentage of their loans from real estate agents increases.

Respondent Perceptions of the Importance of Making Changes on Various Dimensions in order to Increase Mortgage Referrals: All respondents were asked to rank the importance of making improvements to each dimension. It is important to note, however, that responses indicate that there are five or six areas that are considered important for improvement and that both parties agree on which they are. There are not just one or two dimensions that have very high scores with the rest being substantially lower.



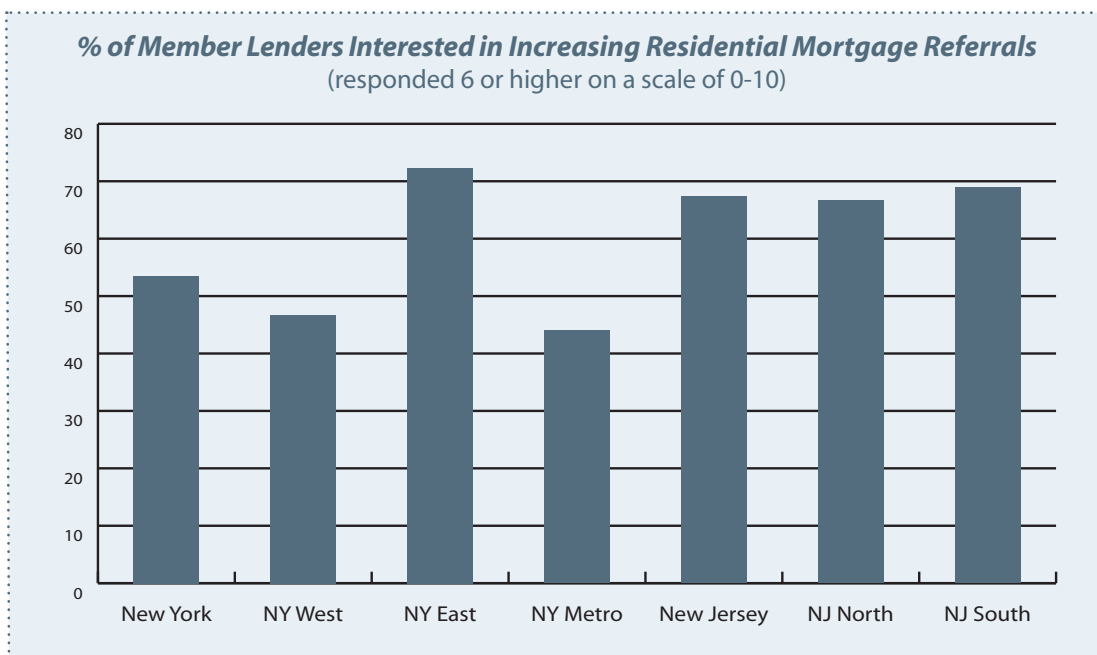
- Member Lenders identified *Flexibility*, *Interest Rates* and *# of Mortgage Options* as their top three areas of importance. While they may be thinking about increasing the number of their mortgage product options based on their perceptions of how important this is to attracting referrals, this needs to be positioned for real estate agents as an increase in “*Flexibility*”. Members also perceive *Frequency of Calling* as quite important.

Respondent Perceptions of the Importance of Making Changes on Various Dimensions in order to Increase Mortgage Referrals (continued):

- Real Estate Agents also chose *Flexibility* and *Interest Rates*, but ranked *Speed of Commitment Letter* and *Speed of Pre-Approval* significantly higher than Member Lenders. The ability to reach a Loan Officer on *Evenings and Weekends* was also rated important.
- While Member Lenders attach more importance to *Frequency of Calling* than real estate agents, even among loan officers this is perceived as one of the least important aspects of the mortgage business to improve. The message, from the real estate agents is clear -- there is no point to visiting unless improvements have been made in the most important product and service areas.
- Less important areas of improvement include *Paperwork* and *Communicating to Agents that Account Relationships are Not Needed*, particularly in the case of credit unions where the perception is greater that such a relationship is required to obtain a loan. It is important to remember that while these are the least important, they are the least important among the most important issues identified in the qualitative research. Thus they should not be ignored. For example, calling upon real estate agents may be necessary to let them know about improvements in the most important areas, once they have been made.

Member Lenders’ Interest in Increasing Referrals from Real Estate Agents: Member Lenders were asked to indicate their institution’s degree of interest in increasing residential mortgage referrals on a scale from 0 “not at all” to 10 “very much.”

The percentage of FHLB NY institutions replying with a response of 6 or more (i.e., indicating a meaningful commitment to increasing residential mortgages) is shown in the graph below.



- In total, 59% of Member Lenders interviewed expressed moderate or higher interest in increasing residential mortgage referrals.
- There are some slight regional differences, with 53% of Member Lenders expressing moderate or higher interest in NY vs. 67% in NJ.
- A smaller percentage of Member Lenders express meaningful interest in increasing residential mortgages in Metro NY and Western NY than in Eastern NY; however, in general these respondents have a very strong interest in doing so.
- Though not statistically significant, Member Lenders who reported having Loan Originators compensated on a commission basis, as well as those that reported having a higher percent of current mortgage loans as a result of referrals, generally responded as having greater interest in increasing referral from real estate agents.
- The table below reflects the distribution of Member Lenders who reported they currently receive referrals from real estate agents. Participants that currently do not have such referrals are omitted from this table. Those Lenders with referrals are highest in Southern NJ (19.6%), but lowest in Northern NJ (6.2%).

Residential Mortgage Loans from Real Estate Agent Referral

Percentage of Loans:	Combined (99)	New York				New Jersey		
		All NY (56)	Western NY (15)	Eastern NY (18)	Metro NY (23)	All NJ (43)	Northern NJ (27)	Southern NJ (16)
0%	21.2%	23.2%	13.3%	16.7%	34.8%	18.6%	22.2%	12.5%
1 – 5%	31.3%	21.5%	33.4%	11.1%	21.7%	44.2%	55.5%	25.1%
6 – 10%	16.2%	21.4%	20.0%	27.8%	17.4%	9.3%	11.1%	6.3%
11 – 49%	20.1%	21.5%	26.8%	33.4%	8.7%	18.8%	11.1%	31.3%
50% or More	11.1%	12.5%	6.7%	11.1%	17.3%	9.3%	0.0%	25.0%
Mean+	13.9%	16.0%	16.1%	16.9%	15.1%	11.2%	6.2%	19.6%

+Averaging the region percentages will not give the mean percent shown in the summary columns. Means in summary columns are weighted to reflect the distribution of participants.

- Members Lenders were asked what their current plans are with regard to their 1-4 family residential loan portfolios. Less than 10% indicated that they planned to reduce this asset class, although a higher percent of Members in NJ selected this choice – particularly in Northern NJ.

Members Lenders Current Plans for Their 1-4 Family Residential Loan Portfolios

Plan to:	Combined (93)	New York				New Jersey		
		All NY (53)	Western NY (14)	Eastern NY (16)	Metro NY (23)	All NJ (40)	Northern NJ (25)	Southern NJ (15)
Increase	36.6%	39.6%	42.9%	37.5%	39.1%	32.5%	40.0%	20.0%
Stay the same	53.8%	56.6%	50.0%	62.5%	56.5%	50.0%	40.0%	66.7%
Decrease	9.7%	3.8%	7.1%	0.0%	4.3%	17.5%	20.0%	13.3%

Once improvements have been made it would also be valuable to conduct seminars for real estate agents at the real estate offices with respect to flexibility in mortgage products and trends in the mortgage market. We know from the qualitative interviews that a number of real estate agents are hungry for information. Conducting seminars is an excellent way to establish expertise and develop relationships with real estate agents. However, product and service offerings have to meet the competition before such marketing efforts can be successful.

If you have any questions or comments regarding the survey, please contact Maria Lopes, Business Research and Development Officer, at maria.lopes@fhlbny.com or (212) 441-6788.



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