

Are Standards Tightening for Mortgage Broker Education?

Each state currently sets the education standards for loan brokers and loan officers, and these standards can vary widely. For instance, in California loan officers are required to get a real estate license before they can solicit business. The licensing process includes going through a criminal background check and passing no fewer than three college courses. It also requires loan officers to complete an additional 45 hours of class room training every four years. Then again, in Connecticut loan officers have no educational requirement whatsoever. But with the meltdown in the home mortgage market, there are now calls to set educational standards at a national level. And where those calls are coming from may surprise you but there appear to be ulterior motives.

The standards, or lack thereof, for training independent loan officers who work for mortgage brokers are currently set the by the states. But the truth of the matter is that many states have no standards at all; allowing virtually anyone to solicit home loans with little or no training. The chances are that this situation will change in the near future.

At the beginning of this year, there were more than 50,000 loan brokers in the United States. By the end of this year, only 20,000 are expected to remain standing. This weeding out process is a direct result of the recent melt-down in the secondary mortgage market, and it will likely be good for both the remaining brokers and for consumers. Many of the brokers currently exiting the lending industry were nothing more than opportunists. Those who remain will be in it for the long haul.

Even so, many of those remaining in business lack formal training. In fact, there is no training standard for those offering home mortgages that is similar to the training that stock brokers receive. This means that unless states begin implementing strict standards soon, eventually the industry will attract the opportunists again.

Realizing this, some law makers are beginning to call for tougher standards. Sen. Chuck Schumer (D-NY) has introduced legislation that would give loan brokers a fiduciary duty to their clients. This would mean that brokers would have to put consumers into the best loan possible for the consumer, not necessarily the most profitable loan for the broker. It may also mean that the legal standards followed by stock brokers may be forced upon loan brokers.

As an example, stock brokers have to "know their customer". This means that they can't steer a customer into a risky investment that is not appropriate for them. If they do, and the customer loses money, the broker can be fined and may even face jail time. This type of change within the lending industry would put an end to the practice of steering little old ladies into risky home loans and forcing them to face the prospect of foreclosure.

Consumer groups have been calling for SEC (Securities and Exchange Commission) like standards of the lending industry for some time. And apparently Kerry Killinger, Chief Executive Officer for Washington Mutual is calling for the same thing. The key word here is "apparently".

Although Killinger is calling for regulating loan brokers, he has not said if he would favor applying the higher standards he's calling for to employees of his bank. Currently bank employees don't have any licensing requirements. By leaving banks out of the mix, it appears that all Killinger is doing is trying to reduce the number of competitors he has in the market.

Any standards that are set should apply both brokers and lenders. And those standards should require that lenders place consumers into loans that properly suit them. This particular idea has been less than well received by the lending industry. Angelo Mozilo, chairman of No. 1 mortgage lender Countrywide Financial Corp., recently said in an interview that such a standard was a "terrible idea . . . horribly un-American, intrusive and insulting." He followed up with a "Chicken Little" scenario, claiming that any such standard would slow the lending process to a near halt, cause home sales to slump, and essentially hurt the economy.

Frankly, Mozilo's "end of days" scenario is laughable on its face. The SEC has been able to insure that stock trades are able to take place regularly and on short notice. A requirement for lenders to know their customers, their tolerance for risk, and to explain the finer points of a home loan to consumers is simply a matter of asking them to do their jobs. Had these regulations been in place over the past ten years, it is highly unlikely that the secondary mortgage market would be in its current shambles. More importantly, it is doubtful that more than 2 million Americans would be facing foreclosure between now and the end of this year.

by Jim Malmberg

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