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Birmingham Business Journal - June 11, 2007  
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## BIRMINGHAM BUSINESS JOURNAL

Friday, June 8, 2007

# Mortgage companies struggling

Subprime crisis hits area

Birmingham Business Journal - by [Lauren B. Cooper](#) Staff

The national crash of the subprime mortgage-lending industry has hit Birmingham hard, a recent study found.

More than half of the mortgage companies in Birmingham have closed as a result of the subprime mortgage-lending industry, revealed a study commissioned by Birmingham's **Henger Rast Mortgage Corp.** As of May 2007, 284 of the 522 mortgage companies that operated between 2005 and 2007 in Jefferson and Shelby counties have either closed, bankrupted or dissolved, with 153 of those closing in the last six months, the study showed.

Other findings from the study include:

- Between 2005 and 2007, 204 new mortgage companies opened in the area, joining the 318 that existed in 2005.
- Of the 204, 97 are still operating today.
- Only 197 of the 318 operating in 2005 are still in business, 29 of which are banks and 168 of which are independent local or national mortgage companies operating today in Jefferson and Shelby counties.

Rob Henger, president of Henger Rast, said he estimates the number of mortgage companies that closed represent roughly 1,300 people who have moved in and out of the mortgage business in the last 36 months.

"Most of those companies are small organizations," he said. "The thing that is most disappointing is that the barriers of entry into our industry are almost nil."

According to recent data from **FannieMae**, there were \$591 billion worth of subprime originations in 2006, compared to \$204 billion in 2002. In 2006, subprime mortgage debt outstanding was nearly \$1.2 trillion, compared to \$536 billion in 2002.

Henger said many companies added staff to handle refinance loans after the refinance boom in 2002 and 2003.

By 2004 and 2005, the boom began to dry up and many companies were faced with either letting people go or getting creative with loans.

"In 2006, competition got so intense they started making loans that made no sense whatsoever," he said.

The result was increasing defaults on loans, investor confidence plummeting and foreclosures skyrocketing.

In recent months, the BBJ has reported year-over-year percentage increases in the triple digits for foreclosures in the state and double digits around the country.

For example, in November 2006 state foreclosures increased by 466 percent over the same month in 2005, and in February 2007 foreclosures increased by 460 percent over the same month in 2006.

But those still in mortgage lending think the downfall is the wake-up call the industry needed.

Todd Cheney, senior vice president of capital markets at Birmingham's **Synovus Mortgage Corp.** and president of the **Mortgage Bankers Association of Alabama Inc.**, said he is not surprised by the findings in Henger Rast's study.

"2003 was the worst year, meaning it was the best year (for the number of loans originated)," he said.

"There were so many people that had gone into the business. It's got to have time to go through a cycle of cleansing. I think the subprime is the catalyst to start the cleansing."

Cheney said the industry will never be the same, but believes the subprime downfall will bring back the practice of prudent lending and underwriting.

While subprime loans were only about 5 percent of Henger's business, the company did experience a few repercussions and some inconvenience.

"We are very fortunate we are well capitalized and profitable," he said, citing a 30 to 40 percent increase in business over last year.

And equipping his employees with knowledge of the industry and good communication skills is more important than ever.

Henger said his philosophy is to hire young professionals and offer them a higher level of education in 400 hours of industry courses,

which he believes to be equivalent to three years of experience in the mortgage lending business.

"They come back, hopefully, at a level competitive to their superiors," he said. "It's affirmed that the business direction of hiring professional, young, energetic folks and giving them mortgage knowledge has been a better platform than hiring the experienced folks."

Cheney said educating the consumer can be just as important.

A new financial literacy initiative through the Mortgage Bankers Association of Alabama puts industry professionals in front of high school students, educating them on their credit scores and managing money.

"It's to help them understand they didn't win the lottery," he said.

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