

Working With Preferred Lenders

By Jill Tunick

You can remove some of the risk from building and selling homes by working with a trusted lender to help your customers get loans or construction financing. After all, you and the lender are in the same boat. You both want to get customers into homes as efficiently as possible.

“The worst thing you can do is finish the house, get the certificate of occupancy, and then find out the lender is still trying to get the customer’s loan to close,” says Jack Haynes, executive vice president of [Countrywide Home Loans](#)’ national builder division.

To avoid that problem, many builders partner with a lender or maintain lists of lenders that they recommend to their customers. “Working with just two lenders allows us to communicate with them better,” says Phil Chamberlain, vice president of [Chamberlain & McCreery Homes](#) in Cordova, Tenn. “If we have 20 loans out, we don’t have to talk to 20 lenders.” Here are some additional benefits of working with preferred lenders:

- Consumers generally must get approved for mortgages before they can get construction financing. When you work with a preferred lender, the lender pre-qualifies prospects upfront. This lets you concentrate sales efforts on those who can afford your product.

“Customers don’t have to get loans from my lender,” says Vince Napolitano, president of [Napolitano Homes](#) in Virginia Beach, Va., which has a joint venture with a lender, “but they have to get qualified by my lender.”

- Customers enjoy a streamlined home buying and building process. Based on a survey research and consulting firm Weston Edwards & Associates conducted for the [Real Estate Services Providers Council](#), customers are likely to “strongly consider” one-stop shopping for a builder and a lender.
- Working with a preferred lender enhances communication between the builder, lender, and consumer, which helps keep paperwork moving smoothly and closings on schedule. This, in turn, can help builders sell more homes and increase their profits.

“We’ve had a relationship with our lender only for about six months, but it has definitely been one of the better partnerships we have entered into,” says Tom Woods, owner of [T.E. Woods Homes](#) in Blue Springs, Mo., which has a joint venture with a lender. “Our lender knows us and how we do things. This helps us retain more control of the total process, and gives the customer a better experience. We make more money in the process.”

- Offering an additional service adds value to your company and increases referrals. You don’t just build; you work with partners who help people buy your homes. “When our preferred lenders explain the financing process and options to our customers, they help us cement the deal by assuring the customers that they have chosen a reputable and qualified builder,” says Tom Stephani, president of [William Thomas Homes](#) in Crystal Lake, Ill.

Builder Options

Builders work with lenders in a variety of ways to control the customer mortgage finance process. Here are four of the most common arrangements:

Wholly owned lending division. All of the big, public builders have their own lending divisions. “As a production builder, I have seen a tremendous increase in the efficiency of our operations by having an in-house lender,” says J. Gary Hill, vice president of sales and marketing for [Westminster/Fortis Homes](#) in Greensboro, N.C. The company, which is owned by K. Hovnanian Homes, has had a wholly owned lending division for 10 years.

If you go this route, you get to enjoy all the profits. However, you also get all the management headaches. It’s hard to manage a mortgage company if you’re not used to it. The start-up isn’t easy, either. Forming a lending division takes a lot of time and capital away from a builder’s building and development business. Builders need considerable volume to absorb the costs of hiring additional employees to staff the lending division. Wholly owned lending divisions are not an option for small or even mid-sized builders.

Joint venture (or affiliated business arrangement). In a joint venture partnership, a builder and a lender form an entity to sell homes and write mortgages on them. Because the lender specializes in writing loans, the building company can potentially make more money on the loans than it would if it formed its own lending division. Another plus for the builder is that the lender takes care of licensing and handles the other compliance and regulatory issues associated with mortgage banking.

On the downside, the builder has to share profits with the lender. And both partners must put down equal, very substantial amounts of cash to get licensed and capitalized. “There must be adequate capitalization for RESPA [Real Estate Settlement Procedures Act] compliance,” explains Paul Fazzini, vice president of joint venture development for [American Home Bank](#). “The joint venture needs to ‘stand on its own’ in the eyes of the regulators.”

Desk rental agreement. Under this option, a lender pays a builder a fee to rent space in the builder’s office or model home. The lender typically pays the builder between \$500 and \$1,500 in monthly rent.

With this arrangement, the builder doesn’t have to lay out any cash. However, some customers, particularly those who are set on using their own lenders, view desk rentals as a vendor or “kickback” relationship. You can counter that viewpoint by pointing out the convenience to the consumer of having a lender’s representative in your office. “While they’re looking at options, they can apply for a loan,” says Haynes.

Desk rentals aren’t an option for smaller builders. According to *Professional Builder* contributing editor Stan Ehrlich, lenders generally rent desk space from builders with annual volumes of \$25 million and up.

Marketing services agreement. In this arrangement, a lender pays a builder a fee (generally between \$500 and \$5,000 a month) to market to the builder’s customers. The lender usually gives the builder a list of marketing options to choose from. These may involve letting the lender’s representatives attend the builders’ sales meetings and leaving brochures behind, as well as producing print ads, TV commercials, and/or signage. The builder gets a huge break on advertising costs. Unlike the previous three options, builders can have marketing services

agreements with multiple lenders.

Customer Incentives

“We tell our customers that they can go to anyone for their loans, but we urge them to work with our recommended lenders because of our success with them in the past,” says Tom Stephani.

To sweeten the deal, builders often offer their customers incentives to encourage them to use their preferred lenders and the builders’ closing services.

Napolitano Homes offers customers \$2,000 off their closing costs if they use the builder’s joint-venture lender. Likewise, [Deanhardt & Davis](#), a builder in Wilson, N.C., tries to funnel as much loan business as it can to its in-house lender. It does so by offering customers \$1,500 off their closing costs if they use the lender and the builder’s staff attorney.

T.E. Woods Homes gets creative by giving customers extra brick on their homes, a whirlpool tub, and a free fireplace if they get loans from its joint-venture lender. Chamberlain & McCreery maintains control of the mortgage process by giving its customers a \$5,000 credit toward closing costs, amenities, or a reduction in price if they use one of the builder’s preferred lenders, use their closing terms, and also use the builder’s title company.

How to Pick a Lender

Fazzini urges builders to do due diligence on any lender they are considering working with. Builders should check references and investigate a lender’s data, history, and culture. The best way to do this is to visit the lender’s home office. “Take a tour of the facility and talk to the employees,” Fazzini says. “They should be professional and focused on customer service. The lender should track customer satisfaction levels (ask to see them), and should give you access to a decision-maker (the president of the bank, for example) if an issue needs to be resolved quickly.”

A potential preferred lender will do due diligence on your company, too. “We consider the builder’s reputation,” says Haynes. “The home building company must have the resources and ability to deliver the product it sells. We want to make sure our customers get what they bargained for from the builder. It’s a two-way street.”

“If you’re thinking of doing a joint venture with a lender, ask the lender, ‘Where will we take this company?’ ” Fazzini suggests. It’s important that the builder and the lender have a shared vision for a joint venture. Beforehand, “Determine whether or not the lender can build capacity so that your closings happen on schedule,” recommends Jeff Hansell, owner of [Hansell Mitzel Homes](#) in Mt. Vernon, Wash. “The lender must be able to handle volume.”

In addition, find one who thoroughly understands the construction process and will work with your draw schedule. “Some lenders would like to think that they control draw schedules and funding amounts,” says Stephani, “but it is our attitude that if they want our business, they have to meet our needs—as long as they are reasonable.”

Other important lender attributes include:

Flexibility. So many things can throw a closing off track. Quite often, a missing document needs

to be tracked down or signed at the 11th hour. What is the lender willing to do to keep a closing on schedule? “Describe a scenario to them and see what they’d do,” Hill suggests.

Stellar service. Interest rates are generally pretty comparable among lenders. But what the customer remembers is the kind of service he or she received from the lender upfront and through the closing. A lender should be able to match a builder’s level of communication with the builder’s customers. Personality is important, too. “When you’re trying to attract a large group of customers, you don’t want to have [a lender’s representative] who does the hard sell or rubs people the wrong way,” says Hill. “You want one who will treat the customer right.”

A preferred lender should provide the builder with good service and communication regarding the status of a customer’s loan, fund disbursement, etc. “I want one person who will act as a point person for us to take care of the financing. I do not want to deal with a variety of people,” says Stephani. “I don’t want to hear about the problems; I want to be able to concentrate on building the home.”

Loan product variety. Buyers are increasingly knowledgeable about home building these days, and about loan products, too. Some want certain loan products; interest-only loans, for example, fixed-rate loans, adjustable rate loans, or construction-to-permanent loans (also known as “one close” loans), which convert to a mortgage loan after the certificate of occupancy is issued.

Be sure that a lender offers a full range of loan products to suit any home buyer’s needs and financial situation.

Bottom Line

Don’t just sign up with any lender who approaches you. Put all prospects to the test and make sure they know the construction industry and understand the way you do business.

“I can’t stress enough the importance of working with a lender who is mutually aligned with the builder’s culture,” says Fazzini. “It’s the only way to grow successfully.”

Jill Tunick is communications manager for NAHB’s Business Management Department.

Additional Resources

- Read the *PRO Builder Business Plan Guide* to get your business in top shape. It provides proven methods for establishing goals, developing strategies, setting priorities, and evaluating results. The publication includes an electronic spreadsheet for developing the financial section of your business plan. Call 800-223-2665 or go to www.builderbooks.com to order it.
- Business of Building e/source (<http://www.nahb.org/BoB>) gives you the business management news and analysis you need to stay competitive and profitable. NAHB members, get this e-newsletter for free.