

# The Relationship Product

## *Why Community Banks and HECMs are a good fit*

By Mark Olshaker

**THERE ARE CERTAIN TRADITIONS, OBJECTS AND** institutions that are so engrained in the national psyche that they have come to be classified under the general heading of Americana. The unifying theme of such images as the bandstand in the park, the state fair, sandlot baseball, the drive-in movie and picnics on the beach is that they represent a simpler, bygone age that has great emotional appeal, even though many people have little or no experience with them.

One of these is the community bank, and we need look no further for validation than the beloved Christmas-time classic “It’s a Wonderful Life” and the savings and loan run by everyman-hero James Stewart, to grasp the symbolism of the local and homegrown financial institution.

But in this age of digital communication, rigorous regulation requirements, mega-merger consolidation and nationwide banks with proprietary credit cards and huge marketing campaigns, is there still a place for the community bank? And if so, does the reverse mortgage fit into its business plan?

The answer to both questions turns out to be a resounding Yes.

Dallas Riddick, Assistant Vice President for Lending at Champion Bank in Parker, Colorado, admits that the administrative burdens for a small bank these days can place a strain on human resources. “We’re always preparing for the next compliance audit,” he says. But local banks have advantages the huge institutions cannot effectively duplicate. “The community likes being able to walk into a bank and have somebody know your name. There is a sense of comfort.”

Debbi Royer, a branch manager who also oversees residential lending at American Federal Savings Bank in Bozeman, Montana, explains, “In order to best reflect our local roots and positive outlook for customers, we will change from a federal charter to a state commercial bank charter and change our name to Opportunity Bank of Montana in the fall of 2014. We believe this charter and name change will better enable us to continue our mission of serving the individuals and small businesses in our communities.”



In the HECM sphere, significantly, some of the drivers that got the largest banks and institutions out of the reverse mortgage business are the very factors that are drawing the smaller and community-based banks into the market.

For one thing, a number of these large banks, in a focused effort to maximize profits, have liquidated what they consider all nonessential lines of business. If the volume in

*Community Banks continued on page 23*



a particular division does not justify the resources, the business quickly becomes “nonessential.” As an example, one national institution went into HECMs with the idea of developing them as a growth industry over a multi-year period, with “visions of getting into the retirement business,” declared one former executive. With this in mind, the bank’s board was willing to subsidize that division until the volume became great enough to make it a profit center. Yet when the volume did not materialize according to expectations, and in some years retreated, these same decision-makers did not see the sense of competing against the large, dedicated reverse mortgage companies.

“There was not a good fit,” states a senior official at one of America’s largest banks who, personally, very much believes in the HECM product. “We were thinking long-range like traditional bankers, and the reverse-mortgage generating companies were thinking more like mortgage bankers, living year-to-year and even quarter-to-quarter. The challenge we faced was scale, and it was going the wrong way. Ultimately,

the long-range business just wasn’t there for us.”

Then there is the perception of the product itself, an issue NRMLA is addressing directly with its New Reverse Mortgage campaign. Institutional messaging experts refer to this as “reputational risk.” “During the subprime crisis of 2008,” another high ranking executive explains, “foreclosure became a dirty word to our country. Now, it happens that foreclosure is one of several natural exits from a reverse mortgage. But people started equating foreclosure with eviction of seniors. And frankly, we couldn’t afford the institutional damage of the misperception that we were throwing ‘Widow Brown’ out of her home.”

Finally, after the challenges of volume and reputation, there was the issue of complexity. “This is a truly unique and meticulously engineered product,” says one industry insider. “But that is good for planner and accountants, not for seniors. For many seniors it is highly complicated to understand. The big banks are not set up to handle a loan that involves counseling and has to be explained every step of the way.”

Community Banks continued on page 24



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But these liabilities are often a community bank's strengths. They don't need huge volumes to justify their business model; they stand on their own integrity and long-cultivated individual reputations; and they are prepared to deal with each customer on a face-to-face and one-on-one basis.

Gary Ardeson, Senior Vice President with Mohave State Bank in Lake Havasu City, Arizona, reflects an approach typical of community bank leaders: understanding and serving a specific clientele. "We offer every type of mortgage product there is," he comments. "Our market area is a focal point for retirement. One of the reasons I came is that I intend to retire here. And our customer base is looking for complete retirement solutions. Our attitude is: We look to do whatever is best for the customer. We'll sit down with him or her, listen to their situation, and then lay out whatever we have to offer. We'll say, 'Here's one product; here's another.' We want the long-term relationship, so we can't afford to be in the town newspaper as a bad guy."



He admits that as a community bank, he is in competition with the big one-product reverse mortgage lenders but notes, "We're local. We can create more of a relationship."

That is the single word that comes up most often in conversation with community bankers. As Debbi Royer says, "We value the relationship we have with our customers and consider reverse mortgages to be a 'relationship' product."

American Federal Savings Bank just began its reverse mortgage program on August 1 after more than a year of planning and due diligence. "I am fortunate that the bank's board of directors and our president, Pete Johnson, see value in the reverse mortgage product," Royer observes. "Montana is a beautiful state that attracts many retirees. We also have an older population in many of our cities. We want to be there to serve that need."

Dallas Riddick at Champion Bank states, "I have been



in mortgages for fourteen years. Nine years ago, a client asked me about a HECM. I had to refer her to an FHA lender. But when I came to this bank, I brought a reverse mortgage business with me. I thoroughly believe in the product. I've seen firsthand how it helps in so many ways, and how well it complements [assets] that clients already had."

Gary Ardeson, who has been in the loan business since 1971, agrees. "It is a worthwhile business to be in. When I was 40, I didn't understand why anyone would need one. I'm from small communities, where you go to your kids or family first if you need something. But as I got older, it started making more sense to me. And as a financial planning tool, I think all of the recent HUD changes have been positive. In fact, I just did a reverse mortgage for a financial planner who moved here."

Interestingly, most community banks do not get most of their HECM business directly from regular customers as one might expect. Ardeson says that Mohave advertises "pretty heavily" in local papers and magazines, on radio and in coupon circulars, all of which provide a good return.

Royer reports, "As a community bank, we also have relationships with our local financial planners, accountants, attorneys and realtors. Working together, locally, to serve our clients, makes sense to us."

And Riddick says, "For the most part, we go outside the pool of bank customers. We deal with financial advisors and we're constantly talking to people. I've been putting myself out in the community for years and years."

That is what relationships are all about, and if Debbi Royer is right about the reverse mortgage being a "relationship product," then the community bank is well positioned to serve that market. **RM**