 By Mark L. Meyer

Looking for Mr. GoodPartner

"Friendly, available mortgage company seeks mutually satisfying relationship with willing and attractive partner."

While there is good reason for mortgage companies to pursue long-term referral source relationships through affiliated business arrangements (ABAs), carefully sizing up prospective partners (e.g., home builders, real estate brokers, community banks, certified public accountant [CPA] firms, financial planners, etc.) and evaluating their "marriage" potential can help avoid unproductive partnerships and disappointing breakups.

For those not yet initiated, the Department of Housing and Urban Development (HUD) allows ABAs a safe harbor from Section 8 of the Real Estate Settlement Procedures Act (RESPA), which prohibits the payment of fees or a thing of value in exchange for referrals. Technically speaking, an ABA is a situation in which a person or firm is in a position to refer purchasers of settlement services to a settlement-service provider that is owned, in whole or in part, by the referring party. Although the referring party (referral source) receives no direct payment for the referral, it benefits through the ownership interest in the settlement-service provider (ABA). ABAs may be attractive investments for mortgage companies, as these ABAs, jointly owned with a referral source, can broker or sell loans they originate to the mortgage company partner.

Personality, characteristics and chemistry

The following questions are important to consider in determining a referral source's fit and compatibility as an ABA partner.

■ Does the referral source create mortgage leads from its routine business transactions a high percentage of the time? Those that do are the best ABA partners. Builders and real estate brokers rank higher, while community banks, CPA firms and financial planners rank lower on this front.

■ Is it reasonable to assume that a single referral source partner can create an adequate number of leads for an exclusive ABA employee to make an attractive living from commissions? An adequate flow of leads is crucial to hiring a qualified originator for the ABA and avoiding disruptive turnover. Builders and larger real estate brokers rank higher, while community banks, CPA firms and financial planners rank lower on this front.

■ Are the salespeople and agents who will be doing the referring of business to the ABA also employees or are they independent agents of the referral source? Employees of a referral source can be paid by their employer for results from encouraging customers to use the ABA. A referral source may not pay 1099 agents or other non-employees for results from their efforts to bring business to the ABA. Builders, community banks, CPA firms and financial planners typically employ the people who do the referring and rank higher, while real estate brokers generally rank lower on this front.

■ Will the ABA be educating and developing referral relationships with a manageable number of people to obtain the volume of leads required to make the ABA work? Builders, community banks and real estate brokers rank higher, while CPA firms and financial planners rank lower on this front.

■ Does the referral source routinely offer incentives to its customers to sell their products or services, which can be tied to use of the ABA? Builders typically rank higher, while real estate brokers, community banks, CPA firms and financial planners rank lower on this front.

■ Are the financial characteristics of the referral sources' leads attractive? High loan amounts, a high percentage of fixed-rate loan products and borrowers with greater service sensitivity are all positive factors that favorably impact an ABA's profitability.

■ Does the mortgage company have a positive current relationship with the prospective referral source partner, and is the partner well-respected by its employees and agents? The prospective partner's reputation in the business, respect from employees or agents, overall financial stability and team orientation are prerequisites for proposing an ABA relationship. A positive track record with the referral source partner is probably the most meaningful factor in receiving a "yes" to your ABA proposal.

■ Are your competitors actively pursuing an ABA with the prospective referral source partner, and is the mortgage company at risk of losing current business and an attractive long-term opportunity to one of them? If so, then the mortgage company must seriously consider pursuing an ABA with this partner candidate to avoid being left at the altar and replaced by a more aggressive suitor. All's fair in love and war.

Alternative relationships

When an ABA isn't the answer or the timing is not yet right, a mortgage company may choose to pursue a "less intimate" relationship with a referral source in the form of services agreements (e.g., marketing, desk rental or mortgage origination agreements, etc.). Through these contractual agreements, referral sources perform legitimate services on behalf of the mortgage company for a market-rate fee. These arrangements are akin to "dating" prospects and getting to know them better before making a longer-term commitment.

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