THE SECRET TO Hiring Good Originators

THE NO. 1 CHALLENGE FOR all sales managers is recruiting individuals who can be successful mortgage originators. Even with stakes as high as they are to make the right choice, more than 30 percent of new hires are terminated. This is due either to poor performance or voluntary resignations. Many times the hiring choice is doomed from the start because of misconceptions by hiring managers about what they should be looking for.

Four hiring misconceptions

The following four hiring misconceptions are at the center of poor selection decisions:

- what is needed is a "salesperson;"
- previous mortgage origination experience is extremely valuable;
- average performers—not potential top producers—should be recruited; and
- turnover is inevitable and the cost of a poor hiring decision is minimal.

Myth No. 1: What is needed is a "salesperson."

It is common in this industry for hiring managers to think they need a salesperson with a personality like the movie character Jerry Maguire—someone who is egocentric, transactional-oriented and money-driven. In the book I have written for the Mortgage Bankers Association of America (MBA), *Reaching the Top of Your Game: The Best Practices of the Top Mortgage Originators,* I interviewed the No. 1 originators at the top 100 mortgage banking companies. I found top producers' personality traits are much different from the brash Jerry Maguire. What really matters in mortgage sales are qualities that are not external or easily observable.

The characteristics that are important to origination success—and what top mortgage producers all possess—are empathy and ego drive. Having only one part of that equation or the wrong amounts of empathy and ego drive does not lead to sales success.

Empathy and ego drive involve more than just liking people and thinking you are the best salesperson. Empathy is *sensing the reactions of the customer and being able to adjust to his or her feedback.* By sensing what the customer is feeling, the empathetic person can change pace and make whatever modifications are necessary to focus on what the customer is really concerned about, and then close the sale.

Similarly, a strong ego drive is needed in sales because a salesperson will be rejected more often than he or she will succeed. So the individual must be able to use this

BY PATRICIA M. SHERLOCK

Bad hires are more costly than you think when it comes to mortgage originators. Poor producers who look good on paper can be avoided by employing the proper hiring techniques. Sales-assessment testing is part of the new science of hiring successful originators.

rejection as motivation. The ego drive involved in sales is of a particular type that sees the sale in a personal way. The sale is an opportunity to fulfill a need to achieve—to be the best at something. The need to achieve is a complex behavior pattern that is the core source of the high achiever's motivation. The sale is about more than just money—it is about self-identity.

MYTH NO. 2: PREVIOUS MORTGAGE ORIGINATION EXPERIENCE IS EXTREMELY VALUABLE.

A strategy that hiring managers frequently exercise is recruiting only originators with prior production experience. The dilemma, according to Tom Halley, divisional executive vice president, Central Region, for Calabasas, California–based Countrywide Home Loans, Inc., is that "the mortgage market makes it difficult to have the luxury of time in looking for originators . . . the business is so much more complicated today than when I started 22 years ago. In 1978, there were only three products; now the products are complex and the competition is fierce and the mortgage originator must cover their expenses within 90 days."

Experience alone does not guarantee that the experienced mortgage originator will be successful at his or her new company.

In spite of this commonly held belief, the truth is the recruitment of experienced originators is just as a risky as hiring new originators. The turnover rate for experienced originators is equivalent to the rate for new, inexperienced originators. Why?

It's because merely having sales experience is not the same as having the essential qualities needed to be successful in sales.

The qualities needed to be successful in sales are formed long before the person enters the work force. Just because a person has accumulated production work experience does not mean he or she is suited to the sales profession. Prior working experience tells a hiring manager only the length of time an individual has spent with a previous employer—it does not tell the whole story of the circumstances that contributed to the originator's previous success. Experience alone does not guarantee that the experienced mortgage originator will be successful at his or her new company.

"What I have found over the years in the mortgage business is that producers with previous experience who are looking to move to a new lender have a lot of excess baggage that they bring to the new job," says D.C. Aiken, senior vice president for Homebanc Mortgage Corporation, Atlanta.

"As a result, I think that it is better to recruit what I call rookies to the business. Rookies—if properly selected and given the right tools and training—can contribute quickly and are loyal employees. Last year, 75 of our rookies did a minimum of $12 million each in volume after graduating from our rookie training program."

Implicit in the strategy of hiring experienced originators is to recruit outside the company. There is no attempt to look internally because many managers feel that employees in nonsales positions do not have the requisite personality for origination sales. This is an incorrect assumption.

Being an extrovert is not what is important in relationship selling; what is critical is listening to customers' problems and needs and having the drive to resolve their problems. While many potentially successful originators are mired in nonsales positions, hiring managers often overlook these candidates because of preconceived notions about what a salesperson should be like.

The research conducted for *Reaching the Top of Your Game* supports the tenet that hiring managers should make an effort to recruit internally for originator candidates. Almost 50 percent of the No. 1 producers I interviewed came from operational positions such as underwriting and servicing. Sixty percent of the female top originators (who represented half of top producers) had operational backgrounds. An operational background was highly valued by top producers because they felt it provided them with credibility to advocate for their customer within the company. Also, it enhanced their reputation outside the mortgage company as a knowledgeable deal-maker who knows how to get transactions completed.

Another reason hiring managers should re-evaluate the importance being placed on prior production experience is that research shows a qualified sales professional will succeed quickly in his or her new position (within 18 to 36 months), regardless of prior work experience. While theoretically a proven originator should contribute more quickly than an inexperienced producer, the gap between the two is not as large as thought and the upside potential of a qualified salesperson far outweighs the difference.

"A good salesperson who has the qualities to sell can be taught the business and produce at a break-even point within three to six months," says Ron Sawzak, president of San Diego–based Homemakers, Inc., a mortgage banking firm. "By 12 months, they are able to contribute significantly to the company's sales. A prior experienced originator does not perform significantly faster. There is still an adjustment period for them, plus they have a higher likelihood of not staying at the firm."

MYTH NO. 3: AVERAGE PERFORMERS—NOT POTENTIAL TOP PRODUCERS—SHOULD BE RECRUITED.

Recruiting for individuals who have the internal qualities to be top originators should be the goal of all hiring managers. Surprisingly, many hiring managers actually believe their goal is to staff with candidates who have the potential to be, at best, average producers. These hiring managers have the opinion that high achievers are too difficult to manage, too demanding financially and too easily recruited by other employers. My research has uncovered the opposite findings—high achievers are self-directed and need minimal management; money is not their primary motivation; and they are loyal to their employers.

The data shows top producers offer mortgage companies a greater return on their investment because they provide a hedge against the volatile mortgage market. Top producers perform well *regardless of the real estate market and interest rate environment.* When the environment is positive for top producers, they are able to outperform their competition (often their results are better than twice as good as the next best producer's volume); when the environment is negative, they gain greater market share.

The adage that anyone can do well when interest rates are declining and real estate is hot is true; yet only the top producers do well when markets are unattractive.

The nonfinancial effects that high achievers have on a production department are also significant. My research finds that high achievers deliver extraordinary service to their customers that sets a model for other originators to follow. Their willingness to find and implement the best way to service their customer base is an important competitive advantage for their mortgage company. Ultimately, both the customer service that top producers deliver and their role as change agents have long-term financial benefits for the mortgage company.

Mortgage managers who set their sights on recruiting average performers or who think that hiring quantity instead of quality is a smart strategy are undermining their future production. My research reinforces the conclusion that the upside for spending the time and effort looking for potential high achievers pays off quickly and these producers performed consistently at levels that outdistanced their competitors.

Figure 1 What Are the Real Costs of Hiring the Wrong Person?

Cost to Company	
I Direct Cash Outlays	
A. Advertising, new-employee processing and background checks	$500
B. Salary or draw (during probation) and benefits	$12,600
C. Travel and entertainment expenses	$1,500
D. Cost of training and miscellaneous costs	$5,000
Subtotal	$19,600
II Soft Costs	
A. Dollar cost of time spent by managers to recruit and the volume lost while recruiting	$5,000
B. Dollar cost of time spent managing new originator	$9,000
C. Administrative expenses and concessions	$6,000
Subtotal	$20,000
III Lost Sales Opportunities	
A. Dollar loss of missing targets by underachieving originator	$60,000
B. *The real hidden costs are the future sales that are not made.*	$90,000
Subtotal	$150,000
Total Cost to Company	**$189,600**

Assumptions

I B. Salary for 90 days ($9,000) + $3,600 for nine months of benefits ($400 per month). Employee on payroll for nine months: six months of performing job + three months warning period for substandard performance.

II A. 10 hours of interviewing x $250/hour (dollar value of manager's time) = $2,500 + value of volume lost while interviewing = $2,500. Total = $5,000.

II B. 1 hour per week x 36 weeks x $250 revenue loss per hour = $9,000.

III A. $6 million volume target at 1 point profit = $60,000 (loans valued as sold servicing-released).

III B. Takes 18 months (middle point, according to top producers) to get referral agents back x $6 million per year target = $90,000 revenue loss.

SOURCE: QFS CONSULTING

MYTH NO. 4: TURNOVER IS INEVITABLE AND THE COST OF A POOR HIRING DECISION IS MINIMAL.

Because a minimum of three out of 10 mortgage originator hires are terminated, hiring a new originator is viewed as the proverbial shot in the dark—an inevitable consequence of the production business.

Research conducted for my book indicates that the cost of mortgage originator turnover is substantial and is an expense item that should be reviewed, controlled and managed. The initial step to managing the cost of turnover is identifying what the components of originator turnover are and placing dollar values on the expense items (see Figure 1).

Figure 1 outlines a pro forma analysis of costs involved with making a poor originator hiring decision: (1) direct cash investment, (2) soft costs and (3) lost sales opportunities. Often, hiring managers minimize the financial impact with the argument that the terminated originators were on commission during most of their tenure with the company. But this rationalization does not hold water when reviewing the pro forma. The fault lies in the managers not assigning any value to their time, the damage done to referral sources and lost sales opportunities.

Direct cash outlays are any expenses paid for the hiring and maintaining of the new originator. These costs include all advertising, processing and background checks for the new employee. Many companies pay the employee a draw or a salary during the first 90 days. Benefits would also be included in the salary expense. Travel and entertainment expenses include any costs for sales training and company overview programs.

Soft costs are the value of time for the manager to recruit and train the new employee. Even if the new employee had prior experience in origination, he or she needs a company orientation by the manager because no two companies handle their paperwork exactly the same. Administrative expenses and concessions are added to the soft costs as expenses that the company must absorb when the new employee makes mistakes on loans in his or her pipeline.

Lost sales opportunities have the largest impact on the cost of turnover calculation. Not only is the lost volume that the originator failed to produce a key part of the calculation, but the damage done to the referral sources has a cumulative effect on business that would have been originated in future years. My research shows that the top producers believe that a botched relationship with a referral source has a loss impact on production volume for anywhere from six to 36 months. They feel that once referral sources have a poor experience with a mortgage company's originator, the referral sources are hesitant to make that lender a priority or do any business with the producer again.

"A damaged relationship with a real estate agent can be a permanent loss that has far-reaching effects, because the injured referral source will make a point of telling eight to 10 of their friends about the negative experience they had and [they] will then go and tell another eight to 10 more people. It is the same reason that people watch the news—people like to hear bad news and not good news," says Mike Moffitt, national seminar leader for Firstar Home Mortgage Corporation, Minneapolis. "It is much easier to sell to a new referral source than to try to recapture a relationship that has been mishandled. A new account does not have a poor track record against the lender."

Whether one agrees that the lingering effect of a damaged relationship with a referral source lasts six or 36 months, all managers would recognize that there are some present and future negative repercussions that result in lost volume.

After all the valuation factors are considered, the cost of originator turnover is great. If the lost sales opportunities are calculated at 18 months (an arbitrary selected halfway point) as shown in Figure 1, the loss generated is approximately $200,000 per terminated origination employee. Under a more conservative scenario of nine months to recapture the lost business, the financial loss is at least $100,000.

In a mortgage company with 100 originators that experiences a turnover of one-third of its new hires, the impact (lost business from alienated referral sources) is almost $6 million on an annualized basis. When considering how many loans it takes to generate $6 million in profits, it becomes clear that turnover is an enormous expense. The numbers become even more significant when considering the profit potential lost when a poor producer is hired instead of a top producer.

Making the right hiring choice

Hiring managers should recognize that external impressions such as where an individual went to college, what course of study he or she pursued and even one's previous experience is not evidence of future sales success. These are external details that do not provide the internal evaluation needed to determine whether an individual has the personality characteristics and motivation to be a successful originator.

My research shows that an internal evaluation is more meaningful because it tells the bigger story of an individual's work habits, motivation and affiliation needs. It is these factors that are indicative of an individual's potential mortgage sales success.

How do you ascertain the internal characteristics of an origination candidate? There are two ways: asking probing, open-ended questions that elicit personality-driven answers; and using sales-assessment testing that measures the multi-dimensional qualities of an individual's personality.

The combination of these two approaches provides the hiring manager with the best chance to be successful in selecting a qualified originator. The information gathered in both approaches elevates the hiring process to a decision based on evidence instead of a gut feeling or external impressions of the candidate.

The following are some examples of open-ended questions specifically framed to provide insight into the indicators of the candidate's likelihood to succeed:

- Describe a typical workweek and how you set priorities and use your time.
- How do you react when you fail at something?
- Describe an activity in which you had to be persistent to achieve your goal.
- What types of activities are you involved in outside of your employment?
- Describe the types of situations in which you have experienced change—and what was your reaction to them?

The other tool that hiring managers should use is sales-assessment testing. For almost half a century, psychologists have been working in the area of testing. Almost every area of human behavior has been analyzed. The most widely known test is the IQ test. Other areas have had a more spotty record, but sales-assessment testing has gained a level of sophistication that justifies its use.

Similar to the advances that have been made with credit scoring in projecting loan losses, sales-assessment testing has progressed significantly in the last decade. While there

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are valid arguments that credit scoring is not always accurate or does not paint the entire picture of a borrower, there is sufficient data that supports the validity of using credit scoring. Likewise, sales-assessment testing, when used with probing questions, projects a picture that is accurate most of the time and makes the hiring process an analytical rather than subjective activity.

In his critique on sales-assessment testing, Mark Friedman, president of Princeton, New Jersey–based PSR Group and a 35-year veteran of real estate sales testing, wrote in the July/August 1989 issue of *The Real Estate Professional,* "Successful testing for true sales abilities must focus on central qualities rather than traits. This approach has produced what I believe to be a positive method for predicting sales success that is advanced beyond other testing methods. Rather than starting with the question of how salespeople collectively answer certain questions, the more effective sales testing begins with the question of what makes a really fine salesperson and how can these human characteristics be discovered?"

A good sales test identifies the qualities needed to be successful (the already mentioned empathy and ego drive), and provides the hiring manager with the tools to direct the questions that should be explored in the personal interview to evaluate the candidate.

Final thoughts

The hiring managers who can select the right individuals to be mortgage originators will be those who understand and recognize that the way to improve hiring results is by making the selection process an unbiased analysis. The first step to achieving a better hiring success ratio is to look for the internal qualities of a successful salesperson—his or her motivations and character. The originator's ability to feel as the borrower and referral source does and to use the feedback to solve the client's problems is crucial to be successful. But it isn't enough to be able to relate to the customer and referral source; the originator must have a personal need to make the sale.

Success in recruiting individuals with the potential to be top producers is a search that is dependent on asking probing character questions and using a more objective criterion, such as sales-assessment testing programs.

Reliance on external impressions such as appearance, education, previous experience and the oft-cited gut feeling is to base hiring decisions on techniques with a poor track record. Hiring decisions are simply too important for mortgage companies not to use a more analytical approach.

Finally, no amount of technology will ever completely eliminate the need for relationship experts in the mortgage process. While customers who need expert assistance have and will continue to change, there will always be a sizable segment of the population that needs assistance in obtaining financing for housing. The recruiting of future successful mortgage originators will continue to be a crucial component to the success of mortgage companies. MB

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