

## **The Underwriter**

**By H. W. Moss**

“Let me run this by an underwriter.”

Innocuous on the surface, this statement was met with obvious concern on Kamilla’s part. Her face blanched visibly as if the blood suddenly drained. Ted turned to her and looked straight into her eyes. He put his hands on top of her fists clenched in her lap and tried to transfer to his wife the mortgage man’s reassurance and positive outlook.

“Oh, don’t worry. It’ll be fine,” the loan officer said as he stood and made a swinging-at-a-fly motion with one hand, uttered a hissing noise that sounded like “pshaw” which was meant to lighten the mood and convey a generally avuncular warmth and body language so personable he was instantly trusted to succeed in this worthy task. “Don’t worry,” he winked. “I’m on your side. I am.”

As he walked away, their apprehensive eyes followed.

To change the subject, Ted said, “Get a load of that suit. That’s an expensive Italian job. I was pricing them just the other day, hon. That’s way out of my league.”

Kamilla watched the mortgage man cross the room with their application and personal information in hand. He stood for a moment beside a desk where a clerk looked up quizzically as the folder was flopped down and opened in front of him. She held her breath as together they perused the documents. Kamilla’s fingers tightened around Ted’s.

Success was written on the loan officer’s face as he returned. “Told you it would fly. He signed off on it with one small proviso. It will cost another quarter point, that’s all

though. Works out to two thousand two hundred. But we can tack that on to the principle so you won't even notice. How's that sound?"

Kamilla looked at Ted, then together they turned their heads toward him. "You mean we got it?" she asked incredulously. She heard Ted exhale when they received a confirming nod.

"Well all righty, then. Just sign here, here and here. These are your copies. And it's a pleasure doing business with you."

Ted was formal in his handshake hoping his strong grip conveyed the gratitude he had for the loan officer. "Thank you so very much."

Kamilla held out her hand, but lurched forward in a sudden impulse and wrapped her arms around the man in a huge hug.

Together, arm in arm, the couple exited the bank with happy smiles.

Less than one minute after the door closed behind them, the underwriter approached. "What was that all about, Ben?" he asked when the loan officer took notice of him.

"Comfort talk. I needed to get the deal bumped up so I told them I'd talk to underwriting."

"Underwriting?" There was surprise and disbelief in the young man's response. "I don't know the first thing about underwriting. I deliver mail. You come up to me when I'm sorting letters on the only clean desk I could find and throw this folder in front of me and wave your arms and mutter and I had no idea what in the world you were doing."

“Calm down Donnie. Yah, well, I know it looked kinda like I was talking to air, and in a way I was. Just making a show of getting approval of a loan for that couple, that’s all.”

Donnie was aghast. “You mean to tell me you were faking it for them? And I was involved in the ruse? You told them I was an underwriter?”

Ben was noticeably put off by Donnie’s accusatory attitude. “Well, no, not exactly. I didn’t tell them you were anything. I simply said I’d talk to underwriting and looked around and there you were.” He waved his hand in a go-away gesture, picked up a pile of papers and tapped them on the desk to make them all align.

Donnie did not budge. “Why in the world would you do that?”

There was an audible sigh before Ben said, “The commish, kid, the commish. Now go away, I got work to do,” and this time he gave a strongly dismissive wave of his arm.

An hour later in the break room, Donnie approached Ben sipping coffee. He sat at the table and waited until the man looked up from the newspaper he was reading. “Yes? What’s doin’?”

Without preamble, Donnie said, “You earn a commission on the loans you make? I thought you were a salaried employee like me. How’s that possible?”

“Trade secret,” Ben replied with a conspiratorial wink. “We get a bonus for a bump.”

“Bump?”

“Kick. A boost. More than the face amount of the loan. Points, POC or fees. We get a piece of the action when we kick ’em upstairs.”

“Who? Kick who upstairs?”

“Not who. What.”

“What then? What do you kick upstairs?”

“The price of the loan, dummy.”

Donnie did not appear to take offense at the remark. He said “Sounds like cheating.”

“Like hell it does. It’s business, it’s commerce, it’s the American way.”

Donnie went straight to the heart of the matter. “So you earn extra cash by making more expensive loans?”

Benjamin put the paper aside, took a sip of coffee and appeared to make a decision. “You really don’t know anything, do you?”

“Not about banking,” Donnie was defensive but not testy. “I’d like to learn, though.”

Ben made the suggestion Donnie had been hoping to hear. “How about becoming an underwriter, then?”

“Don’t I need some sort of license to do that kind of work?”

Benjamin leaned forward as if to let his co-worker in on a secret. The expensive suit had its desired effect as Donnie moved forward across the table to receive the divine wisdom. “Nothing. Nada. Zero. Zip. You need nothing more than the desire to think and grow rich. Some motivational speaker said that once. It stuck. Think and grow rich.”

Donnie was suitably impressed by this knowledge. “Well, my MBA has an emphasis in finance.”

Ben sounded disgusted when he responded. “You don’t need any special training at all. Completely unregulated. Last bastion of free commerce in the industry. I’m not even

licensed by the DRE because I'm inside a bank. Staff appraisers have to be licensed and if I worked the mortgage industry on the outside, which can be lucrative believe me, then I'd have to be licensed. But other than that, nobody in banking is forced to get any special training. On the job. And underwriters who work with a loan arranger like me, well, together we can make a bundle."

Donnie said confidently. "I suppose I could pick it up in a few days. What was your emphasis?"

"Emphasis? What are you talking, emphasis? I don't have an MBA. You kidding. I barely got out of city college with a passing grade, C minus. There was no emphasis on anything except getting through an AA program." He looked straight at Donnie as if proud of this fact. Donnie did not pursue the subject.

"Ok, so what's in it for me? A pay raise?"

The mortgage man wrung his hands in a time immemorial fashion and said, "Money, money, money. You can earn lots of money. We work together and split the boost."

Donnie whispered, "What I gotta do to get this job?"

Assurance drifted like a fine dust from the loan officer's inordinately luxurious shoulders and settled around Donnie. He inhaled Pixie dust; he was intrigued. After all, there is anxiety and there is fear and both can get you killed. But money solves problems.

"One requirement: you must keep this secret. Your honor, your life depends on this simple rule. What I am going to teach you is never to be discussed with anyone else. Not the bank manager, your girlfriend -- you married?" Donnie shook his head no. "Thought not. Not your dog, nobody should ever learn. This is just our little secret. Got that?"

Donnie said, "Got it."

"Good. I am going to bring you into the fold and show you the tricks of the trade. I've had my eye on you for a while so it's not like I decided just this instant to tell you what will benefit you for the rest of your life. I mean, I seen you making your rounds in that outfit, a three piece with a vest no less. The last mail guy wore a tee shirt and shorts half the time. He got fired when he showed up one day in his underwear and started passing out the mail. Claimed he was mugged. An all night poker game you ask me. Anyway, you know the line? I can never remember. Is it: My Honor is Truth or Truth is My Honor?"

"Meine Ehre heisst Treue," Donnie said glibly. "Loyalty is my honor. Sometimes it's translated as my honor is called loyalty, but that sounds puffy."

Ben said, "Right. That's right. Should of got that. Loyalty. You gotta remember that, okay? Loyalty. You be loyal to me, I be loyal to you, we both get rich."

Donnie was persistence personified. "When do we get started?"

"No time like the present." Ben began to hum with an intonation that vaguely resembled a Gregorian chant, "Hhumm, ohmmmm," which gave way to partially syllablized words, "Ni spousum, pressum, brot or sistum tell. These the words of Brother William the First Underwriter."

"What's that from? What are you saying?"

"How I learned, just like you, from this guy Williams. So I made up this gobbledegook chant to remind me there's no ancient history and certainly no Latin. It's baby talk to remind me of Bill Williams. Really. There was this guy named Bill Williams working in a bank and I met him when I was about your age. Real clever his parents.

Named him William Williams. So he gets a job as a teller and works his way up until one day he turns around and he's the one the mortgage guys are coming to. They're saying, does so-and-so's income make the cut? How about two incomes? Can we make the deal fly we factor in her potential income? She just started making mouse dolls, cute little things she sells at craft fairs and flea markets. No? Well that's too bad. Let's try this instead. You get me, Donnie? We try and make the deal fly. The customer's love you when you win a fight for them."

Ben stood and stretched and wriggled in his suit coat like a cat getting comfortable. "C'mon. Break's over. Let's get to work."

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"What was your last job?" Ben asked nonchalantly as he stood over Donnie's desk and pointed at the bank logo on the stationery. He made small talk while waiting out the time it took to give the customer the idea he was really working hard. He wanted them to appreciate his efforts on their behalf.

"Would you like fries with your order, sir?"

"No kidding. How'd you land at the bank?"

"I couldn't find anything after I graduated. Too many of us. Nobody wants to hire anyone with more education than them. So my sister married this guy who went to college with the son of a guy whose father owned the bank before it was bought by a national chain. The old man holds a lot of shares and plays golf in Scotland with the CEO."

"Well, I've stood here long enough. They watching us? Thought so. Good. Why don't you shake my hand? There, that ought to make them feel good."

Apparently their tête-à-tête worked. Donnie ambled over to Don's desk after the folder was placed in the out box. "How much did we make?"

Ben was not annoyed, but resigned. "Yep, that's what I did first day Williams and I cooked up a commission." He retrieved the folder. "Okay. Let me show you how it works. I get paid to make a loan, that's one level. But I get paid more the higher the rate or points and fees I charge. Still, I gotta be competitive, but everyone's doing it, so it works to my benefit when the borrower comes in after hearing two or three other quotes. They tell me what rate they want and I see if I can get it for them."

"Is that what happened just now? You gave them the going rate?"

Ben drew Don down by his necktie. "Not quite, but yes. So we made nothing as of yet. Today's Friday. That couple just locked."

"Locked?"

"Locked the loan rate, said they want the loan. No money required, I just put in a confirm order and they get that rate. But. I think rates are going to drop over the weekend, so I'm not putting that order in until Monday. If rates drop and I lock at their agreed to price, I get the difference. See how that works? It's called betting against the bank."

"But what if rates go up? Can you still give them the rate they requested?"

"I turn to my manager, tell him I put this in on Friday when the rates were lower and he signs off on it. Sometimes you win, sometimes you lose."

Donnie seemed disappointed. "So we won't know until Monday?"

"Well, for that one, yes. For this, one, no. See?" Ben opened a second folder and his index finger moved to a box that identified the loan as adjustable. "See, I got this loan

two points over LIBOR which is one of the most volatile indexes you can peg a loan to. Now, the lender is going to go nuts over this because the rate changes faster. Faster means a higher . . .”

“Present value,” Donnie finished the sentence for his mentor. “I love it! Playing with the PV.”

A puzzled look crossed Ben’s face. “Is that what you call it? I always thought it was faster, longer, harder deeper. A chant. Faster, harder, longer, deeper. Lenders like it like that.”

“Well, great. So how much did we make?”

“Not so quick. And then there’s the P O C.”

Donnie was measurably pleased with the new terms he was learning. “And you are going to tell me that stands for what?”

“Sure thing. Paid Outside Closing. Shows up on the closing papers as a fee but it isn’t specified how much, who paid it or who gets the money. Now, it might be something innocuous like that’s the appraisal fee. Appraiser gets paid outside closing, typically by the lender out of the borrower’s funds. So it’s charged to the borrower. But POC can also mean the lender paid me, us, a bonus for selling a certain type of loan. Could be they’re pushing five year adjustables that month, you keep up with their incentive programs. On each transaction you can push the borrower in some direction that gets you another piece of the action.”

“Yah, so how much did we make on this deal?”

“Just hold onto your horses there, mister money bags. You made a lot. Trust me.”

“You mean there’s more?” Donnie was astonished how the pile just seemed to keep on growing.

“Points. Every time you get another point you get a piece. I got this borrower to buy down the loan, thereby hitting him with one and a half points. On top of the one point I charged him in the first place. We get a piece of two and a half points.”

“Wow. And that comes to how much give or take?”

“Wait. There’s more. The bank doesn’t keep these loans. We’re not a portfolio lender. We sell them as soon as they close. And three sort of government agencies make that possible: Fannie Mae, Freddie Mac and the FHA.”

“Funny names.”

“Yah, well they call them that to be able to remember. They’re not federal, but that’s what the F stands for in all of them. Federal this, federal that. Fannie Mae, Freddie Mac. But they’re not federal. They are private corporations traded on the stock exchange. We call them something you don’t have to remember the full name like the Office of Federal Housing Enterprise Oversight. Now that’s a funny name. Bogus. Totally bogus organization. Oversight. Hah! There’s no oversight for underwriters. There. That’s a funny line: oversight for underwriters.”

Donnie was not amused. He tried to tally his extra take home pay but couldn’t do it in his head. “What’s that got to do with this deal?”

“Well, all three make it possible to take the risk out of making a loan if we follow their guidelines. But there is no rule says we have to follow their guidelines. In fact, we often don’t. For example all three call an owner occupied building of four units or less with ground floor commercial space a residential property. It qualifies for residential loan

rates which can be for 30 years with no points and lower fees. That's a lot less than commercial loan rates which are short, maybe five or ten years, adjustable not fixed, at least two percent higher interest over a residential loan and, get this: We can punch them up with points and up front fees you can't do with residential. So we call that type of property commercial when it's not really."

"Are all banks doing this?"

"All of 'em. Banks, ess and ells, mortgage brokers, everyone has agreed not to follow Fannie Mae guidelines on this type of buildings. And that's what this guy came in with. He's been living in an apartment over a travel agency for thirty years and when he goes to refinance to paint the place and put in a new kitchen, we tell him it's a commercial building even though it's not! Isn't that great? We offer him a high priced loan and that's why a good loan officer needs a friendly underwriter to take his troubles to. I flag the customer, you pump up the mortgage, we split the proceeds. Get me?"

"But how much in total do you think we made today?"

The conspiracy was becoming a game. Ben took a scrap of paper, wrote on it, folded the paper and put his hand over it. "I'm gonna show you a number. And this number is your share. You ready?"

Donnie was breathless. "Oh, yes. I'm ready."

With the clandestine motion of a three card Monte huckster, Ben opened the scrap and showed it to Donnie who whistled appreciatively.

"And that's not all," Ben added. "All the commissions and bonuses you make over and above your salary are not subject to withholding. They're commissions. I earn a salary, but the extras sometimes triple my paycheck. And, everything's deductible. See

this suit? You don't think I'd wear something like this if the government didn't pay me to? Hand made in Milan. Most expensive I could find and I can write it off in three years. See these shoes?"

Ben pulled a foot out from under the desk and swiveled it around in the air. Several people nearby looked in their direction but no one commented.

"All this comes out in a Schedule C."

Ben got Donnie even more excited when he added, "And that's the tenth deal you and I partnered on today. So now what do you say, Mister Underwriter?"

Donnie stood open mouthed for a few seconds considering his new found wealth. Finally, he said, "Ben, what's a Schedule C?"

Now it was Ben's turn to stare with his jaw dropped. "You really don't know anything, do you?"

And that was the beginning of a lucrative career.

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