

# 5 Things to Look for

## IN A RESIDENTIAL MORTGAGE WAREHOUSE LENDER

The residential mortgage market depends on independent mortgage bankers (IMBs), and they depend on mortgage warehouse lenders.

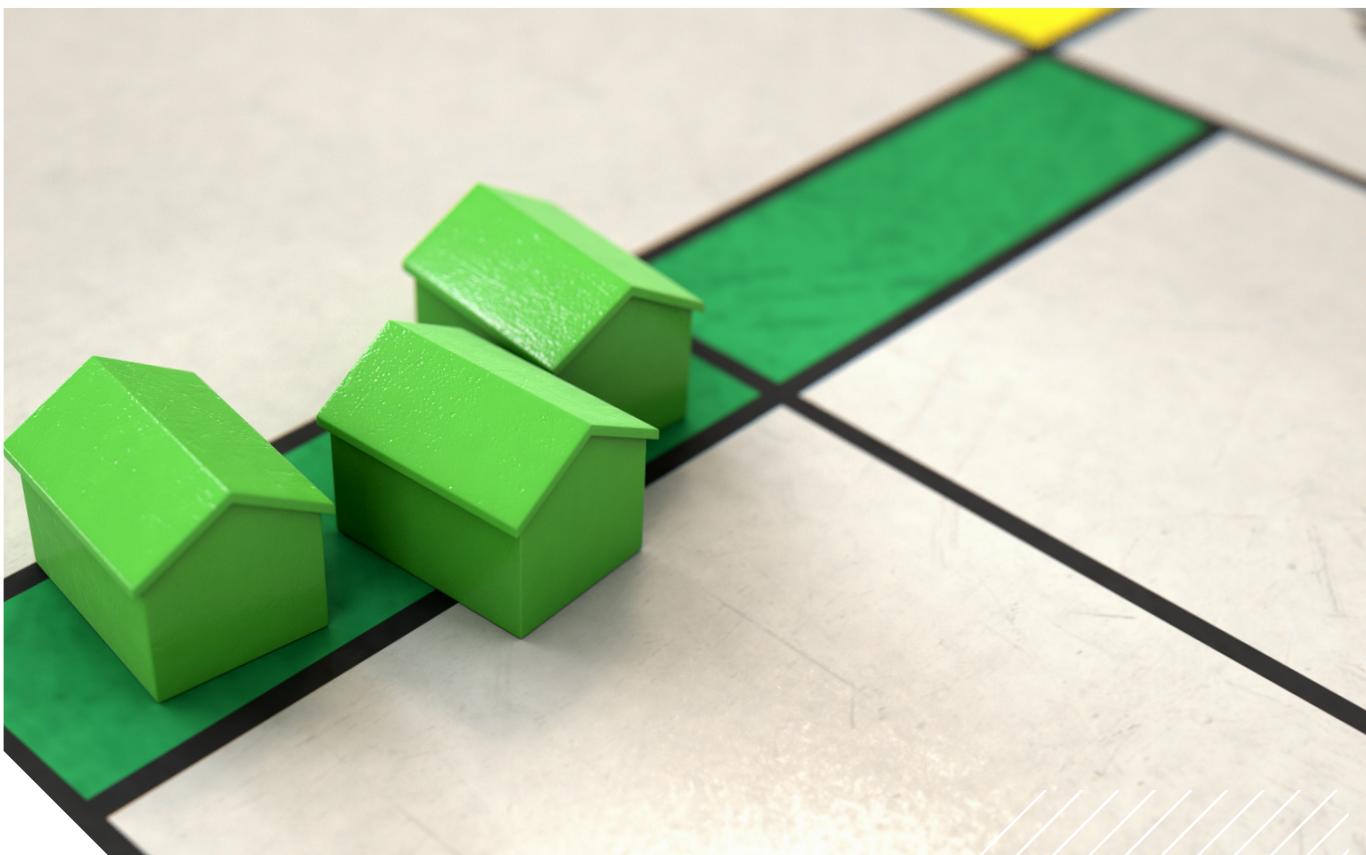
In the years since the financial crisis of 2008, Independent Mortgage Banks (IMBs) increased market share to 60%\* for the origination of 1–4 family residential loans to consumers. Residential mortgage production totaled \$1,643 trillion\* in 2018 and is expected to increase to \$1.675 trillion\* in 2019. Since IMBs are not like traditional banks that hold deposits, they use third-party financing to fund the loans to their mortgage customers. This type of financing is called warehouse financing.

Warehouse financing is a revolving credit facility with advances secured by the underlying residential mortgage. The warehouse lender wires proceeds to the closing agent, and a mortgage loan is executed with a consumer either buying a home or refinancing a current mortgage. The warehouse lender then takes possession of the collateral and ships it to an investor, designated by the IMB, for purchase. The investor then wires money to the warehouse lender, and the lender



The share of government-backed mortgage loans (Fannie Mae, Freddie Mac, FHA, and Ginnie Mae) originated by non-banks (IMBs) doubled from 30 percent in 2013 to 60 percent in 2017.

\*as of 4/18/19 from the Mortgage Bankers Association





The mortgage loan market is consolidating and experiencing margin compression as the same number of IMBs are competing for a smaller amount of production.

pays off the principal, interest, and fees and remits the remaining proceeds to the IMB. Since a warehouse line is a revolving facility, those funds are freed up for new mortgage loans. The time from advance to final payoff is typically completed in less than 30 days.

Mortgage originations have risen substantially since the depths of the financial crisis, but due to increasing interest rates, the current market is challenging.

"Since the recovery, we have had a stable banking environment, and that continues, but at the end of 2017, mortgage interest rates started to increase, and refinance production versus purchase mortgage production declined significantly," said Patricia Robins, Senior Vice President and Senior Managing Director, Warehouse Lending Group, for Sterling National Bank. "Because there is declining production for the same number of mortgage originators, we've seen consolidation in the industry, and many experienced compression on gains on sale of mortgage loans as competition among IMBs increased for that purchase market business."

The number of warehouse lenders in the industry increased with the increase in IMB market share, and—similar to the IMBs—competition is high for growing warehouse portfolios. In this latest challenging cycle, rather than looking for the lowest pricing on a line, IMBs should make sure they are working with the right partners for the short- and long-term strategy.

## **Here are five traits to look for in a residential mortgage warehouse lender.**

### **1. PROVIDER FINANCIAL STRENGTH**

- ➔ Look for a mortgage warehouse bank that has a strong financial profile and history and is supportive of the mortgage warehouse business.
- ➔ The financial crisis of 2008 caused many mortgage warehouse lenders to leave the market. Though that downturn was by far the largest in recent decades, mortgage banking is a cyclical business and affected by changes in the overall economy. Your provider should demonstrate that they understand the industry and have been a consistent lender through downturns.
- ➔ In addition, if your warehouse provider also originates or purchases loans, they may be your competitor that now has a window into your organization. Further, if you both borrow from and sell to your warehouse provider, issues that may arise on the investor side may leak over to the financing side, and vice versa.

### **2. EXPERIENCED MANAGEMENT TEAM**

- ➔ Depth of experience is especially important in this sector, as efficient operations is key. The quick pace of routine deal flow makes a strong management team vital.
- ➔ "IMBs want to know that they're dealing with a team that knows what they're talking about and understands their business," said Patti Robins, who manages Mortgage Warehouse Lending at Sterling. "It's also important because there has to be a strong understanding of the credit profile of the IMB and the collateral that's being originated so as not to cause fire drills if hiccups occur."

### **3. STRONG BACK OFFICE**

- ➔ An efficient, well organized back office is important. The IMB's customer experience is reliant partially on how efficiently the warehouse lenders funds to a closing. Furthermore, an inefficient warehouse lending platform likely results in unnecessary aging fees and extra IMB personnel time, the cost of which IMB management may not be aware. The speed and volume of routine deal flow can be high, so IMBs should place a premium on a streamlined and efficient warehouse lending platform. The mortgage warehouse lender's back office should be responsive and service-oriented.
- ➔ "The MWL team at Sterling has a unique structure in that Operations falls under the MWL umbrella. This is often not the case with our competitors, and I believe it is a big advantage to our customer base because it allows for better communication and efficiency," said Robins.

#### 4. ABILITY TO GROW WITH YOUR COMPANY

- ➔ Independent mortgage bankers should look for a warehouse lender with the ability to increase the lending facilities available as the IMB grows. This is essentially a matter of the lender's size. Larger lenders have more flexibility—and, ideally, willingness—to make more funds available over time.
- ➔ "As Sterling has grown over the years, Mortgage Warehouse Lending has been able to grow as well, which has been a big advantage to our client base," said Robins. "Our line maximum has grown exponentially, and that has allowed us to support our clients' success."

#### 5. PRODUCT FLEXIBILITY

- ➔ Warehouse lenders need to stay abreast of product offerings in the industry and allow for warehouse eligibility when it makes sense. This means that eligibility should be considered if underwriting guidelines are sound and multiple investors are willing to buy a product.
- ➔ "As a result of high competition given the current industry cycle, IMBs may be looking to expand their product offering to consumers. We are still in a market where 90% of product is agency, so sublimits for expanded product may make sense, depending on a company's overall business strategy," said Robins.



To learn more about residential mortgage warehouse financing with Sterling National Bank, please contact Patricia Robins, Senior Vice President and Senior Managing Director, Warehouse Lending Group, at (212) 273-5880.