



December 18, 2008

The Honorable Henry M. Paulson  
Secretary of the Treasury  
1500 Pennsylvania Avenue, NW  
Washington, DC 20220

Dear Secretary Paulson:

Thank you for your efforts to instill confidence in the markets and bring capital and liquidity to America's financial institutions, particularly mortgage lenders. We appreciate the responsiveness and leadership of the U.S. Department of the Treasury (Treasury) in addressing critical issues to America's financial system, especially as the makeup of the financial services industry and the mortgage industry has been transforming at a rapid pace.

Recently, the Mortgage Bankers Association (MBA) has identified a growing threat to a source of capital for many mortgage lenders – warehouse lenders going out of business, terminating, or adding restrictions to their warehouse lines of credit causing independent (non-depository) mortgage lenders to struggle to maintain their ability to lend. Warehouse lenders serve as crucial short-term lenders for mortgage bankers, specifically those that are non-depository institutions. According to *National Mortgage News*, in 2007 there were approximately 90 warehouse lenders; today there are approximately 40 warehouse lenders.

As you know, warehouse lending is a line of credit provided to a mortgage banking company to fund the closing of mortgages. It is a short-term, revolving credit facility that funds a lender's pipeline from the closing table to sale in the secondary market. The mortgage note is used as collateral for interim financing until the mortgage is sold and delivered to the permanent investor. Mortgage bankers draw upon the line of credit to fund a mortgage at closing or to purchase a closed loan from another originator. The line of credit is paid down when the loan is sold to the permanent investor.

The decline in warehouse lending capacity has outpaced the decline in overall mortgage originations. The 2008 estimated residential mortgage originations of \$1.8 trillion are 20.9 percent, or \$483 billion, less than in 2007. For the warehouse lenders, the capacity of the warehouse lines to serve non-depository mortgage originators is declining at a much faster rate – from over \$200 billion in 2007 to approximately \$20 to \$25 billion in 2008, a decline exceeding 85 percent. For an originator that depends solely on warehouse lines of credit, this reduction could extinguish its lending business and impact the consumers in their market.

Recently, several commercial banks have purchased other institutions that are active in the warehouse lending business. While it is uncertain what the future of institutions' engagement in warehouse lending will be, many banks have pulled-back on warehouse lines, ceasing to issue new lines or increase existing lines, or have closed down lines altogether. These actions have left many non-depository lenders without adequate and viable sources of capital.

Notably, several such purchasers of warehouse lenders have been recipients of federal loans through the provisions of the Emergency Economic Stabilization Act of 2008 (EESA). We believe there is a need for Treasury to encourage warehouse lending to continue, even after a warehouse lender is purchased by a financial institution that does not currently participate in warehouse lending, so the good of consumers as well as the market may be met.

Other warehouse lenders may not continue to extend credit to lenders because of the perceived risk, headline risk or otherwise, of products associated with mortgages, despite the fact that underwriting is extremely rigorous today. Mortgage bankers that rely on warehouse lines of credit will be unable to maintain their businesses and cannot serve their local communities if their sources of warehouse lines are not maintained. MBA believes Treasury could be helpful in a variety of ways in keeping these lines of credit available and functioning effectively.

MBA would welcome an opportunity to further discuss with Treasury officials and staff our concerns about the availability of warehouse lines in this environment and the possibilities of using the authorities in the EESA to encourage institutions to continue, in fact expand, warehouse credit availability. In the meantime, should you have any questions, please contact Tamara King, Director of Loan Production, at (202) 557-2758 or [tking@mortgagebankers.org](mailto:tking@mortgagebankers.org).

Once again, thank you for your efforts to help stabilize the markets and thank you for your attention to this very important matter.

Sincerely,

A handwritten signature in black ink that reads "John A. Courson". The signature is written in a cursive, flowing style.

John A. Courson  
Chief Operating Officer

CC: The Honorable Neel Kashkari, Interim Assistant Secretary for Financial Stability