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- Wholesale Lending - Capitalizing on Emerging Broker to Banker Trends

October 24, 2006
3:15 p.m.-4:30 p.m.

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Panel Introduction

I. Tim Anschutz (Vice President of Guardian Mortgage Documents - GMD)

■ Wholesale Lending: Capitalizing on Emerging Broker to Banker Trends

■ **Panel Description:** This session provides knowledge to wholesale investors desiring to capitalize on the emerging broker-to-banker trend and to brokers considering the transition. With declining originations, eroding margins and the proposed legal rulings, learn how wholesalers are providing superior service powered by highly-efficient operations while brokers look for assistance in the transition.

■ **Areas of Interest: Review key trends in each area of interest and how wholesale investors can capitalize.**

- Creating value: broker vs. net branch vs. banker/lender
- Organizational structures
- Warehouse lines: how to apply and operate
- Investor selection, pricing and locking strategy
- Back office: in-house vs. outsourcing



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Panel Member	Subject	Time
I. Tim Anschutz Vice President of Marketing, GMD	Panel introduction	5 Min
II. David Lykken CEO, Mortgage Banking Services Direct (MBSD Group)	From a consultant's perspective: <input type="checkbox"/> Largest key trends in the five areas of interest <input type="checkbox"/> How wholesale can capitalize on trend or minimize impact?	10 Min
III. Ken Logan EVP/COO, WarehouseUSA Capital Corp. (fka Novastar Capital, Inc.)	From a warehouse line perspective: <input type="checkbox"/> Largest warehouse trend for WarehouseUSA Capital? <input type="checkbox"/> How wholesale can capitalize on trend or minimize impact?	5 Min
IV. Bob Garrett Senior Vice President (Capital Markets Group), FTN Financial, Mortgage Warehouse Lending	From a warehouse line perspective: <input type="checkbox"/> Largest warehouse trend for FTN Financial? <input type="checkbox"/> How wholesale can capitalize on trend or minimize impact?	5 Min
V. Mary Kladde Vice President, Guardian Mortgage Services (GMS)	From a back office outsource provider perspective: <input type="checkbox"/> Largest key trends in the five areas of Interest <input type="checkbox"/> How wholesale can capitalize on trend or minimize impact?	10 Min
VI. Open Discussion	Open discussion of key trends and how to capitalize on them	40 Min



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II. David Lykken: CEO, MBSD Group

- From a consultant's perspective, what is the largest key trend in each of the five areas of interest – and – how wholesale can capitalize on them?

1. Creating Value: broker vs. net branch vs. banker/lender

- **Key Trend:** In light of the shifting regulatory landscape, we as an industry are witnessing a growing trend amongst mortgage brokers. They are growing increasingly concerned about their continued long term viability of remaining as a broker and as such are exploring options to better position themselves to more effectively compete in the marketplace.
- **How wholesale can capitalize on trend or minimize impact:** Given the fact that 68+% of all residential loans today are originated by mortgage brokers, the #1 way wholesalers can capitalize on this trend is by paying attention to it. Some wholesalers are proactively setting up plans that offer viable alternatives...more than poorly thought out veneers that don't offer real solutions to the brokers concerns.



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II. David Lykken: CEO, MBSD Group

- From a consultant's perspective, what is the largest key trend in each of the five areas of interest – and – how wholesale can capitalize on them?

2. Organizational Structures

- **Key Trend:** For those brokers that qualify, making the broker-to-banker transition is one option. For those brokers who don't qualify or don't want to make that transition, they are exploring options like net branching or 'selling' (more like merging) their operation up into a larger entity where there is a perception of more security.
- **How wholesale can capitalize on trend or minimize impact:**
Wholesalers would be well advised to make a concentrated effort to exploit this trend with a well thought out plan and not settle for some 'half baked' compromise that will result in frustrating their existing wholesale channel and not meeting the opportunity in front of them.



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II. David Lykken: CEO, MBSD Group

- From a consultant's perspective, what is the largest key trend in each of the five areas of interest – and – how wholesale can capitalize on them?

3. Warehouse Lines: How to apply and operate

- **Key Trend:** An increasing number of mortgage brokers are applying for a warehouse line but doing so poorly...

For example, quickly throwing some financials together and thinking they'll be approved as if it were some casual wholesale funding source. The brokers taking this approach don't realize that they are making a commercial loan application that needs more thought than most wholesale funding applications. Also, they don't do their homework. "Not all warehouse lines are created equal" is an understatement. Selecting the right warehouse line can either make the difference between success and failure in making the transition.

- **How wholesale can capitalize on trend or minimize impact:** Many wholesalers are providing brokers with third party assistance...

Most wholesalers are too busy or are not set up to do the 'hand-holding' often necessary to help a mortgage broker successfully make the transition. An increasing number are directing their brokers to consulting firms that help the broker through the process as well as training the broker where needed thus insuring a higher probability of success.



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II. David Lykken: CEO, MBSD Group

- From a consultant's perspective, what is the largest key trend in each of the five areas of interest – and – how wholesale can capitalize on them?

4. Investor selection, pricing and locking strategy

- **Key Trend:** Brokers who successfully make the broker-to-banker transition are often disappointed by the relatively small/incremental gains made as bankers.
- **How wholesale can capitalize on trend or minimize impact:**
Wholesalers would do well to carefully manage expectations without totally discouraging brokers. There are compelling reasons to make the transition, but price may not be one of them.



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II. David Lykken: CEO, MBSD Group

- From a consultant's perspective, what is the largest key trend in each of the five areas of interest – and – how wholesale can capitalize on them?

5. Back office: in-house vs. outsourcing

- **Key Trend:** Outsourcing back office functions to well established third party fulfillment companies with operations on US soil is a relatively new trend that has recently found favor with investors & warehouse lenders...especially those catering to those brokers making the broker-to-banker transition. Even some larger companies are turning to third party outsource fulfillment companies to better manage the cost of their back office operations.
- **How wholesale can capitalize on trend or minimize impact:** It is a given that most brokers will consistently go to the funding source that offers the best price combined with the most expeditious “hassle free” service. For this reason, wholesalers that want to capitalize on the broker-to-banker trend will be well served to establish several relationships with established third party “back office” fulfillment outsource firms to refer their brokers to so the brokers can stay focused on what they do best...originating loans and not get entangled in setting up and managing back office operations.



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III. Ken Logan: EVP/COO, WarehouseUSA Capital Corporation (fna Novastar Capital, Inc.)

■ From a warehouse line perspective, what is the largest trend for WarehouseUSA Capital Corporation - and - how wholesale can capitalize?

■ Largest warehouse trend for WarehouseUSA Capital?

1. Many are looking to move up to the lender level due to reasons already highlighted plus the opportunity to make more revenue on exact same loan.
2. Many existing lenders are pushing further into Alt-A and non-prime credit loans.

■ How wholesale can capitalize on trend or minimize impact:

1. Wholesalers can develop small correspondent programs in conjunction with warehouse lenders who will recognize independent or investor based handling of some or most of the “lender functions”.
2. Investors can continue to offer CTC underwriting and have all their docs available through major providers to ensure clean loans are closed and submitted for purchase.
3. Broker-to-banker conversions need help learning the steps, responsibilities and realities of the mortgage banking “circle of life” to ensure each is well covered and understood. This is a key to being a successful lender, regardless of size.



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IV. Bob Garrett: Senior Vice President (Capital Markets Group), FTN Financial, Mortgage Warehouse Lending

- **From a warehouse line perspective, what is the largest trend for FTN Financial - and - how can wholesale capitalize?**
 - **Largest warehouse trend for FTN Financial?** Investor demand from the correspondent channel has diminished due to:
 - 1) Flattened / inverted yield curve
 - 2) Less need to replace servicing runoff
 - **How wholesale can capitalize on trend or minimize impact:** Due to a desire to be perceived as the “lender” in a new mortgage transaction and the desire to avoid certain revenue disclosure requirements, broker/ bankers still desire to sell closed loans rather than table funded loans. Wholesalers can purchase closed loans through the wholesale channel...this gives the wholesaler control over loan quality, lowers the broker/banker’s operating costs, and still allows the broker/ banker to be the “lender” and avoid RESPA-required fee disclosures.



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V. Mary Kladde: Vice President, Guardian Mortgage Services (GMS)

- From a back office outsource provider perspective, what is the largest key trend in each of the five areas of interest – and – how wholesale can capitalize on them?

1. Creating value: broker vs. net branch vs. banker/lender

- **Key Trend:** Many brokers are considering and investigating the transition from broker to banker. Key reasons include:
 1. YSP disclosure
 2. Credibility – closing in own name
 3. Control
- **How wholesale investors can capitalize on trend or minimize impact:** Wholesale investors can capitalize on trend (and minimize impact) by helping their customer base investigate and make the transition. They can offer a line through mini-correspondent relationships; maintain underwriting services, maintain or allow the outsourcing of back office resources including closing, escrow review, funding, and post-closing.



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V. Mary Kladde: Vice President, Guardian Mortgage Services (GMS)

- From a back office outsource provider perspective, what is the largest key trend in each of the five areas of interest – and – how wholesale can capitalize on them?

2. Organizational structures

- **Key Trend:** There is no particular structure emerging as the ideal among wholesale investors for helping their customer make the transition.
- **How wholesale investors can capitalize on trend or minimize impact:** Flexibility and profiling an individual broker's resources to help ensure a smooth transition is critical to maintaining the customer base. In addition, customer loyalty is tied closely to the ease of use and general customer service attitude of the wholesale investor.



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V. Mary Kladde: Vice President, Guardian Mortgage Services (GMS)

- From a back office outsource provider perspective, what is the largest key trend in each of the five areas of interest – and – how wholesale can capitalize on them?

3. Warehouse lines: How to apply and operate

- **Key Trend:** More brokers with less banking experience or process knowledge are obtaining warehouse lines.
- **How wholesale investors can capitalize on trend or minimize impact:**
 1. Assist and help review in-house operational staff to measure the experience and skill sets needed to ensure success in transition.
 2. Reference or require the use of a third party outsource vendor with demonstrated experience in closing, documents, funding, and post-closing.



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V. Mary Kladde: Vice President, Guardian Mortgage Services (GMS)

- From a back office outsource provider perspective, what is the largest key trend in each of the five areas of interest – and – how wholesale can capitalize on them?

4. Investor selection, pricing and locking strategy

- **Key Trend:** Many investors are building in a delivery cushion on locks instead of requiring a “hard” expiration date.
- **How wholesale investors can capitalize on trend or minimize impact:**
A delivery cushion helps new bankers with limited experience to more easily manage lock expiration dates. Many investors stop the lock expiration timeline upon receipt of signed documents then allow 5 to 10 days to clear if a purchase pend is issued.



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V. Mary Kladde: Vice President, Guardian Mortgage Services (GMS)

- From a back office outsource provider perspective, what is the largest key trend in each of the five areas of interest – and – how wholesale can capitalize on them?

5. Back-office: In-house vs. outsourcing

- **Key Trend: Risk and Cost Mitigation**
- **How wholesale investors can capitalize on trend or minimize impact:**
 1. Risk:
 - a. In-House: 100% liable for any/all mistakes.
 - b. Outsource: Risk becomes variable based on services provided.
 2. Cost:
 - a. In-House: 100% hard and soft costs – regardless of volume.
 - b. Outsource: 100% variable cost – regardless of volume.



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VI. Open discussion of key broker to banker trends and how wholesale (and brokers) can capitalize on them.

- In addition to panel discussion and FAQ's, panel members will also make themselves available immediately following this session for any remaining questions.
- FAQ's
 1. **David:** How much more money will I make?
 2. **David:** How long will it take?
 3. **Ken:** Explain how the interest income is handled as a lender? How does this work?
 4. **Ken:** What about personal guarantees? How long is there exposure?
 5. **Ken:** What additional risks and rewards are being taken as a lender versus a broker?
 6. **Bob:** Will I make more money as a banker? If so, how?
 7. **Bob:** What happens if I fund a loan and the investor decides not to buy it?
 8. **Bob:** What new back-office functions will I have to perform to be a banker?
 9. **Mary:** What's a haircut?
 10. **Mary:** What's an operating account and why do I need one?
 11. **Mary:** As a banker, when and how do I get paid?

- Thank you for your time -



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For copies of this presentation and additional inquires:

1. This presentation is available in electronic format via the MBA website. For more information, visit www.mbaa.org (Conferences & Events, Presentations from Past Conferences and Events).
2. If you have additional questions that were not covered during the panel discussion, please feel free to contact any of the panel members directly.
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