

# **MBA Residential Loan Production Conference**

## **Broker to Banker Risk vs. Reward**

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# Broker or Banker?

## Identify Risks

- Repurchase
- Premium Recapture (EPO/EPD)
- Additional expense (overhead)

## Quantify Rewards

- Control of transaction
- Increased revenues

# Broker or Banker?

## Perceived Benefits of being a Banker

- Pricing
- Control
- RESPA
- Expanded Products & Programs
- Commitment Mechanisms
- Technology
- Other services – Warehouse, REO, etc.

# What Is Your Core Competency

## What do you do well?

Marketing?

Origination?

Underwriting?

Secondary Marketing?

Quality Control?

Accounting?

Investor Delivery?

Managing a warehouse line?

**If it is not a Core Competency.....**

## **Out Source it!**

- Contract Underwriting
- Secondary Marketing
- Document Preparation
- Independent QC Company
- Investor Delivery

## But What Else Do You Need to Know?

- Do you have liquid reserves to buy back a loan?
- Do you have “Scratch and Dent” relationships you could utilize in case you have a buy back?
- Do you have the systems and controls in place to prevent losses from fraud?
- Can you control your expenses since you have to add overhead, be it fixed or variable?

## What Does It Take To Get Approved?

- Net Worth
  - Delegated - \$250,000 to \$500,000
  - Prior Approved - may go as low as \$25,000!
- Proper State Licensing
- QC Plan Reports with Responses
  - In-house
  - Signed Outsourced Contract
- Minimum Insurance coverage
  - \$300,000 E&O
  - Fidelity
- May require personal guaranties and credit reports
- Investor Report Cards/References
- Resumes of principals and head underwriter
- Experience in delivering closed loans

# Investor Considerations

- Financials
  - Does the seller understand how to do business profitably?
- Risk Management
  - Does the seller have adequate insurance, quality control and risk safeguards in place?
- Public Records
  - Red Flags include issues with RESPA, HMDA Reporting, Licensing Renewal Fees.
- References
  - Who else does business with the seller?

## What Do You Need to Evaluate?

- Relationship Management & Internal Support
- Investor Flexibility
- Guide & Exhibits
- Purchase Agreement
- Communications
- Repurchase/ Loan Issue Resolution
- Performance Feedback

## What about the Reward??

Better Control

You drive what happens!

Yield Spread Disclosure

YSP Disclosure is waived

Improved pricing

- From Wholesale to Delegated +.250 to .625
- From Prior Approved to Delegated: +.125 to .375

## Is it Worth It??

Yes it is!

You just have to understand the risks and how to control them!

# Any Questions?

# Thank you!

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