

# Warehouse Lending and Making the Transition from Broker to banker

Presented by NovaStar Capital Warehouse  
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Warehouse Lending  
Making the Transition from Broker to Banker

Let's start with the Mortgage Banking  
"Circle of Life"

What makes the money go around?



# Mortgage Banking

## "Circle of Life"

**Borrower Applies**



**Loan submitted to Investor for approval**

Borrower submits doc for processing  
Loan file underwritten by Lender



**Loan processed and investor approval obtained**

Final U/W Approval (CTC) Obtained  
Warehouse info sent and wire set-up

**Loan Prepared for Closing:**

Fee sheet      Approval Confirmed  
Title reviewed      Appraisal Reviewed  
Lock Confirmed      Compliance Tests  
Proof HUD-1      Fraud Checks  
Docs drawn to investor guidelines  
Confirm warehouse advance ready

**Loan Closes and Funds**

Request \$\$ to table  
Collateral sent to warehouse  
Signed documents back to Post-closers

**Loan is prepared for delivery to investor**

Stacked to investor requirements  
Post-closing audit complete  
Shipping requested from warehouse  
Note Shipped with Baillee by Warehouse



**Company uses proceeds to get more loans**

Transaction reconciled on company books

**Net proceeds deposited into company's account**

Trailing Documents  
Goodbye letters & servicing transfers  
1098 & HMDA Reporting



**Purchase wire is sent to warehouse lender**



**Investor buys the loan from the seller (original lender)**

Clear investor stipulations  
Purchase Advice is reviewed



**Loan is reviewed by the investor & conditions to buy issued**



Warehouse Lender

## Warehouse Lending

### Making the Transition from Broker to Banker

#### What are Warehouse Lines? They are:

- a form of commercial asset-based lending.
- Short-term corporate credit facilities where each advance is secured by mortgage loans.
- Advances are paid back primarily by the sale of the collateral in the secondary market at a premium to funds borrowed.
- Secondary repayment source is other corporate assets after loan sold in Scratch & Dent market.
- Final repayment source is personal guarantor assets.



## Warehouse Lending

### Making the Transition from Broker to Banker

#### How do warehouse lines actually work?

1. Information sent to Warehouse lender to be sure the money will be made available
2. Warehouse lender approves collateral to borrow against
3. Warehouse lender wires money to the closing table to fund the loan upon request
4. Originating Lender packages the loan and sends to buyer for review. Originator also ensures Original Notes and other collateral docs are sent to Warehouse
5. Buyer reviews loan and agrees to purchase it
6. Buyer sends purchase wire to Warehouse Lender
7. Warehouse pays itself back principal advanced, plus its interest and fees
8. Originating Lender gets all remaining funds from Warehouse lender deposited



## Warehouse Lending

### Making the Transition from Broker to Banker

#### What type costs, etc might you have with a warehouse line?

- Application, Closing, Legal Fees to the line established and active
- Daily Rate on Borrowed funds tied to LIBOR or Prime Rate, plus a margin
- Per Loan Fees (e.g. funding, shipping, wire, same day wires, late delivery, aged/stale collateral, etc)
- Non-Usage Fees if balances aren't kept high enough
- Bank Account Charges (can usually be offset by balances)
- Increased Cost of E&O and/or Fidelity Bonds
- Additional Internal Staff Expenses and Outside Expertise Costs (Legal, Acct)
- Financial Statement Audit (in most cases)

## Warehouse Lending

### Making the Transition from Broker to Banker

# What are a lender's roles and responsibilities to maintain their warehouse line?

1. Pay back each advance before it gets aged or it causes a default of your line.
2. Don't break the Circle of Life . If your loans aren't selling smoothly- FIX IT or STOP!
3. Be proactive. Don't make us find out things from the street or have to chase you.
4. Maintain your compliance covenants, and ensure they are kept and not violated.
5. Use the line enough to satisfy the expectations of your lender.

*Remember - A good relationship with your warehouse lender can take you a long way!!*

*The Flip Side - A lender without funding capabilities is either back to being a broker or is simply out of business.*



## Warehouse Lending

### Making the Transition from Broker to Banker

#### A warehouse lender's perspective. What do I worry about and look for?

- Virtually Anything that interrupts the Circle of Life from happening 99% of the time.
- Real Operational Know-how and Expertise in the shop
- The Banker's Three C's. Collateral, Capacity, Character
- Track record, preparation evident, realistic plans
- Financial statements sufficient for the needs with cushion
- Controlled operational and growth evidence

*Logan's Life lesson applies:*

***"Just because you can, don't mean you should!"***

SME Article in Jan 2006 covers this subject in more detail



## Warehouse Lending

### Making the Transition from Broker to Banker

# What are some of the ways to cover the required operational requirements?

#### 1. Do it yourself.

Hire experienced core staff in underwriting (depending on level of play), closing, post-closing/shipping). Full control in-house. Full costs too.

#### 2. Hire someone to do it for you that knows what they're doing via out-sourcing CSP services.

- Variable Cost. Pay for play method saves you money.
- Better Expertise than you may be able to hire right now.
- Allows quicker conversion to banker, or gains new capacity if established lender.

*Caution: Don't blindly trust they'll do everything for you. You're still the lender and still responsible (not to mention liable). Understand the benefits and responsibilities.*



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**Mortgage Banking Economics.**

**Let's follow the money with a sample loan.**

*Get your eyes ready!*



# Mortgage Banking and Warehouse Math Worksheet from www.NovastarCapital.com



Loan Information		Costs, Escrows and Interest from HUD-1 paid to Lender or Investor/Buyer		
Borrower Name	Smith	Origination Fee due	Ace Funding	\$ 1,800.00
Lender Name	Ace Funding	Discount Points due	Ace Funding	\$ 500.00
Loan amount	\$ 100,000	Doc Prep Fee due	Ace Funding	\$ 75.00
Closing Date	10/20/2004	Processing Fee due	Ace Funding	\$ 350.00
Warehouse Settlement Date	11/3/2004	Funding/ Underwriting Fee due	Ace Funding	\$ 695.00
Investor Purchase Date	11/1/2004	Total Closing Costs Paid to	Ace Funding	\$ 3,420.00
Investor/Buyer	XYZ Investor	Fees collected by Investor/Buyer	XYZ Investor (s/b negative #)	\$ (495.00)
Borrower Rate	8.150%	Days of prepaid interest collected at closing by	11	\$ 245.62
Premium on Sale	2.00%			
Warehouse Rate (L+m)	6.750%	Ace Funding Per Diem	\$ 22.33	
Warehouse Fee	\$ 125	Escrows		\$ 1,638.00

Enter these amounts only if you want to net them from your warehouse advance

INPUT AREAS

## Getting the Loan Funded

Warehouse Funds Amount Borrowed (Borrowing may be up to max of 98-100% of Note Amount)	
\$ 100,000.00	Loan Amount
\$ (245.62)	Prepaid interest collected at closing
\$ (3,420.00)	Total Closing Costs Paid to Lender
\$ (1,638.00)	Escrows
\$ 94,696.38	NCI Net Funding Wire Amount to Closing (this should match the wire request form)

## Getting the loan Sold to an Investor/Buyer

Investor Purchase Price (example only, info will vary by investor)	
\$ 100,000.00	Loan Amount
\$ 22.33	Interest adjustment when purchased Flood Certificate, Tax Svc, recording fee, etc
\$ (495.00)	Commitment/Review Fee charged by investor
\$ (1,638.00)	Escrow
\$ 2,000.00	Premium paid by investor/buyer (SRP, etc)
\$ 99,889.33	Purchase price wired to NCI <b>(this should match purchase advice/worksheet provided to you by the investor/buyer)</b>

## Paying off your Warehouse Lender

NCI Payoff	
\$ 94,696.38	Warehouse Funding Amount
\$ 248.58	Interest cost to NCI
\$ 125	NCI Transaction Fee
\$ 95,069.96	Payoff Amount
<b>Total Interest Due NCI as Warehouse lender</b>	
Days of interest charged by NCI	14 <b>\$ 17.76</b> = <b>\$ 248.58</b>

## Settling the interest between the lender and investor

Interest earned by original lender for time owned	
12	= \$ 22.33 \$ 267.95
Amount Collected from Borrower on HUD-1	\$ (245.62)
Additional amount due to Lender from investor	\$ 22.33
<b>Assumes that Investor gets next payment due on 1st of the next mo.</b>	
<b>If this total is more than borrower paid on HUD-1, the investor will withhold the difference from your wire if you take the next payment due, or pay you for the extra days you owned the loan if they take next pmt.</b>	

## How much did interest make you or cost you?

Interest Spread - NCI vs. Borrower Rate	
\$ 267.95	Interest collected by seller for period owned (Prepaid interest collected at closing + or - Interest adjustment when purchased)
\$ (248.58)	NCI Interest Rate Cost
\$ 19.37	Positive/Negative Interest Rate Spread

## How much did you make (net) on the loan?

Transaction Summary	
<b>\$ 99,889.33</b>	<b>Purchase price wired to NCI</b>
<b>\$ 95,069.96</b>	<b>Warehouse Lender Payoff Amount</b>
<b>\$ 4,819.37</b>	<b>Net proceeds to Lender (corr. seller)</b> (this will match Funding Reference Detail Report from NCI)

Assumptions: 1. The shaded areas are user input fields based on their own choice of values to be used. 2. Cost of funds uses a 360 day basis for per diem interest. 3. Customer per diem interest collected at closing uses a 365 day basis. 4. No representation as to the accuracy of this model, nor to the expectation that other parties' calculations will match this model. For illustrative purposes only. Certain restrictions may apply. © Copyright NovaStar Capital, Inc. 2005.

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## Question and Answer Session

# Thank You!

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