

**MBA's 97th ANNUAL
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2010

**The Next Generation
of the Independent Mortgage Banker:
Foundation and Framework for
Survival, Future Growth, and
Profitability**

Team **HOUSE**

- **H**-Hardy and Robust Centralized Business Management and Compliance
- **O**-Optimization of Operational Efficiencies
- **U**-Utilization of Industry Resources
- **S**-Sustainability of Originations Platform
- **E**-Evaluation and Evolution of your Business Model

Mission Statement

- The mission of the TEAM is to develop the overall foundation needed for preservation and continual success of the IMB by defining the IMB and identifying its key components. The TEAM supports the independent mortgage banker's multi-faceted importance in the real estate finance industry by allowing for competition, liquidity, and overall consumer protection and convalescence.

Introduction of Team Members

Bonnie Doty – VP Mortgage and RE Collection, SunTrust

Orlando, FL

Dawn Robinson – SVP National Production, Prime Lending

Dallas, TX

Dino Lack – VP Wells Fargo Home Mortgage Wholesale

Des Moines, IA

Jamie Korus – President Alliance Financial Resources

Phoenix, AZ

Jodie Morgan – Account Executive CitiMortgage Correspondent Lending

Dallas, TX

Ken Kummerer – VP SouthWest Securities

Chicago, IL

Kim Drake-Loy – Legal counsel for CoreLogic

Dallas, TX

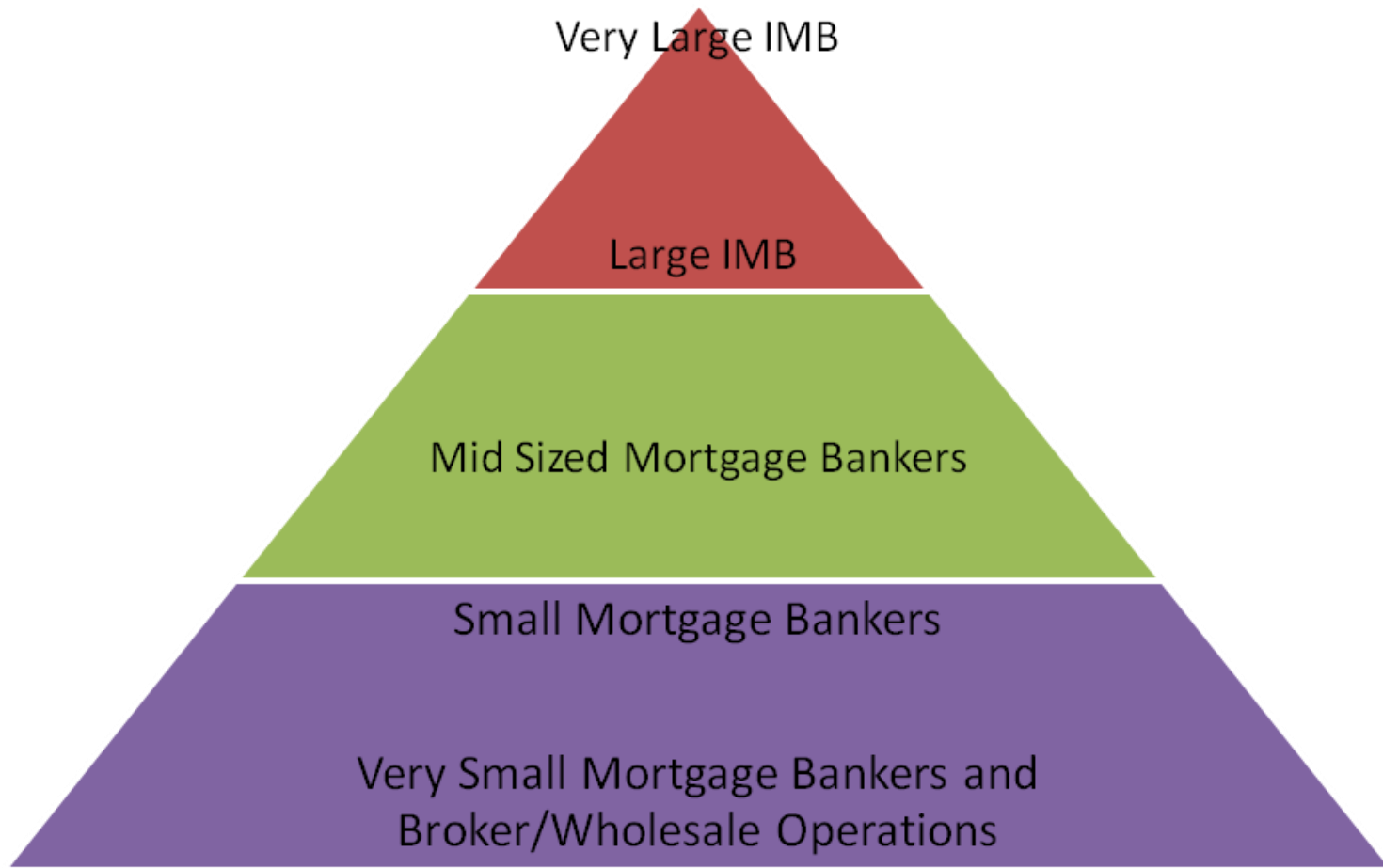
Definition of the IMB

- Correspondent Lender
 - ▣ Sells on Secondary Market
 - ▣ Predominant Retail Originations
 - ▣ Sophisticated Pricing
 - ▣ Product Diversity
- Possesses One or More Warehouse Facilities
- Strong Internal Structure
 - ▣ Internal Compliance and Risk Management
 - ▣ On Staff Underwriting and Processing

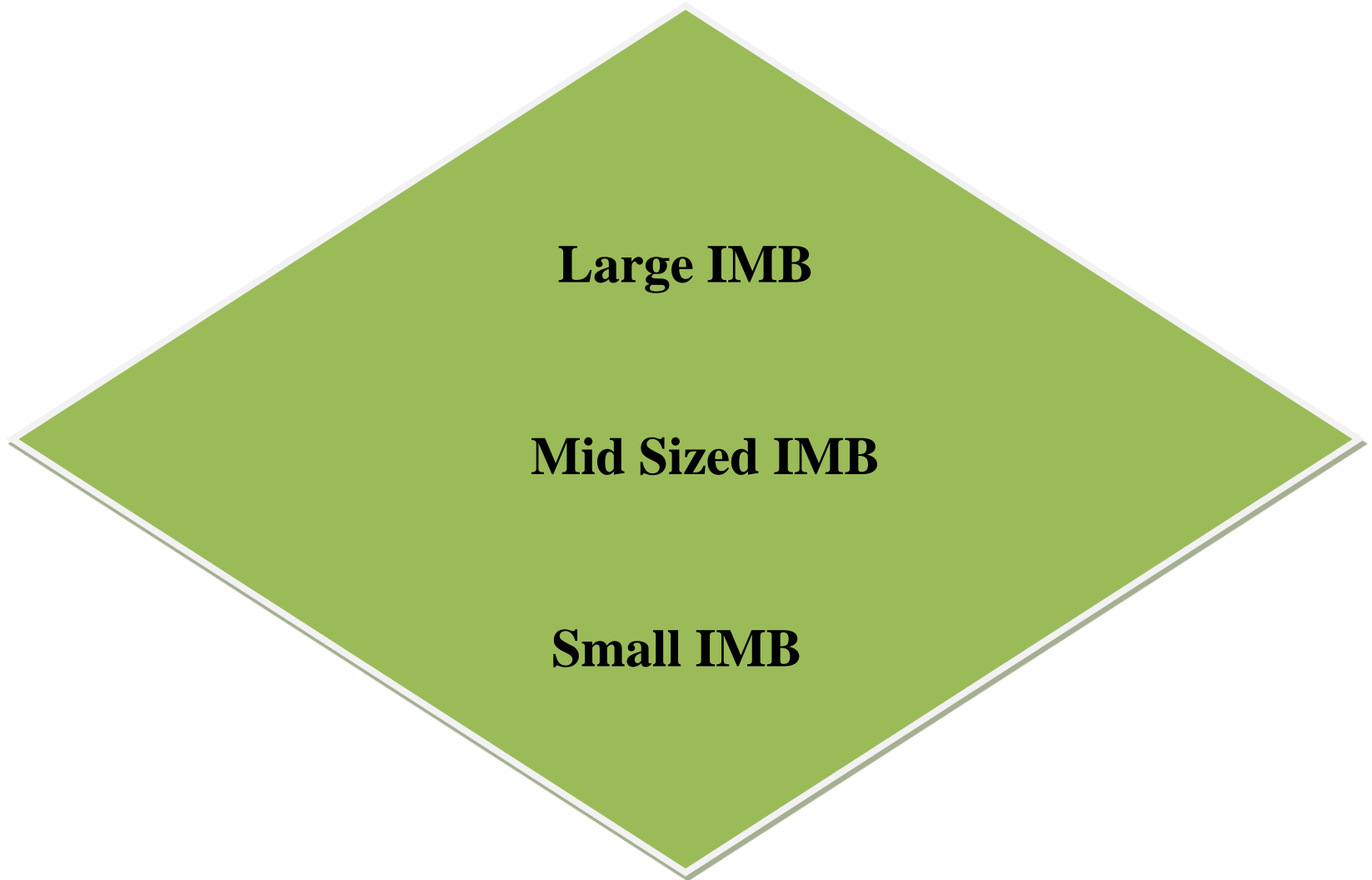
Capital Structure of the IMB

- Minimum Capital and Size Structure
 - ▣ Today's Standard
 - ▣ Lender Liquidity Requirements
- Balance Sheet and Cash Flow
 - ▣ Growth in Cash Position
 - ▣ Warehouse Capacity
 - ▣ Retained Earnings
- Financial Statements
 - ▣ Accurate and Timely Reporting
 - ▣ Loan Level Accounting

Historical Representation of IMB Structure



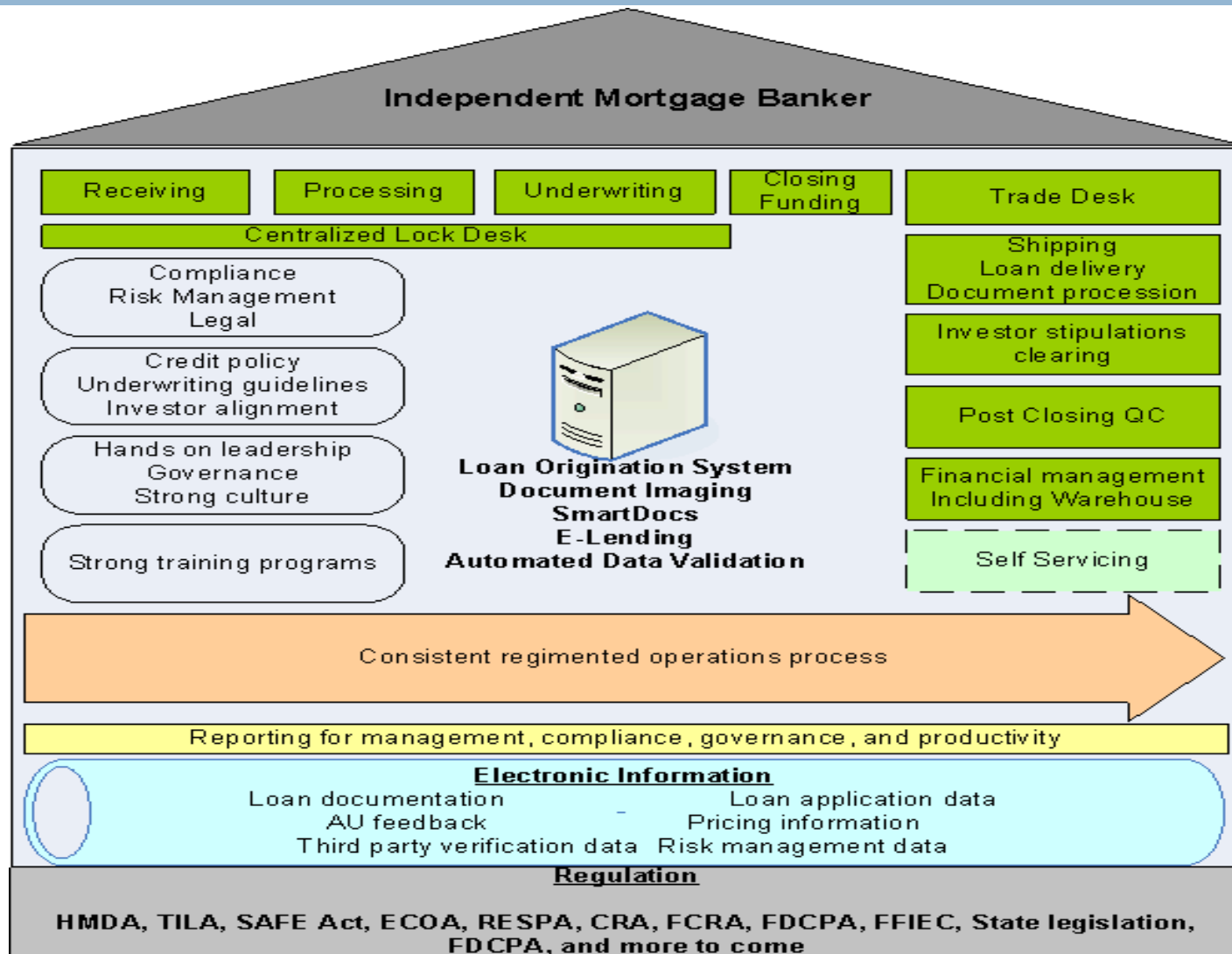
Current Representation of IMB Structure



Operations Process: Technology and Controls

- Initial Observations
 - Top 5 issues / challenges
 - Changing regulatory landscape
 - Business model facing mounting pressure

IMB Process Flow: House Model and Foundation



Operations Process: Technology and Controls

- Key Processes:
 - Operations Process (people, roles and tasks)
 - Loan Originations Process (loan manufacturing)
 - Portfolio Management Process (maximizing return)
 - Risk Management Process (managing risks throughout the process and organization)

Operations Process: Technology and Controls

- Corporate Governance
 - Reporting
 - Key Staff Meetings
 - Inspection
 - Corporate Initiatives Planning

Operations Process: Technology and Controls

- Loan Origination System Selection
 - ▣ Strategy
 - ▣ Solution Selection
 - ▣ Automated Data Validation
 - ▣ Information Security

Issues and Challenges: Present and Future

- ❑ Heavy reliance on Human Resources – Employees
 - ❑ -Hiring practices – Resource utilization
 - ❑ -Review practices - Quality and accountability
 - ❑ -Compensation
- ❑ Specialized focus on originations and client retention.
- ❑ Strict enforcement of centralized lock desk and compliance desk.
 - ❑ Pull through
 - ❑ placement of loans
 - ❑ negotiating power
 - ❑ GFE/TIL Disclosures

Issues and Challenges: Present and Future

- Continual investigation of counterparty risk.
- Economies of Scale
 - ▣ Determination of main “economic denominator”
- Leadership and Hierarchy
- Local and National Trade Associations

External Issues: Regulation

- A factor in the IMB's structure, success, and existence is the Government's role, its current administration, and the reform of the GSEs:
 - Dodd-Frank Bill
 - GSE Reform
 - SAFE Act
 - RESPA
 - TILA
 - Loan Officer Compensation

Other Important External Factors

- There are an abundance of non Federal Government external issues the IMB faces daily:
 - Investor Repurchase Exposure
 - Increasing Costs-Fixed and Variable
 - Warehouse Capacity
 - Maintenance of Investor Relations
 - Potential Decreased Margins
 - Varying State and Local Regulation

Impact Should IMB Not Survive

- The vital importance of the IMB is shadowed to the public by the lack of a tangible widget. Conversely the impact to the public of the failure of the IMB would be devastating:
 - Further Perpetuation of the “Too Big to Fail Model”.
 - Rates and fees driven up due to lack of competition and reduced liquidity.
 - Intolerable closing times.
 - Quality of loan originator would hamper the process and lower service standards.
 - Further impediment to the already depressed housing market.

Considerations for Framework of Continued Success

- Centralized Operations
 - ▣ Maintenance of Process Controls, Risk Mitigation, and Compliance Initiatives
 - ▣ Corporate/Management Accountability
- Geographical Diversity
 - ▣ Growth to new regions
 - ▣ Stable economic areas with no housing depreciation
 - ▣ High employment Areas/New Industry Areas
- Hedging-3 Types
 1. Outsourced Hedging
 2. Hosted Hedging
 3. Internal Hedging

Considerations for Framework of Continued Success

□ Partnerships

- ▣ Who you partner with is a direct extension of your company integrity.
- ▣ Potential Depository Partnerships = Opportunities to offer Investment and other Banking Products.
- ▣ Partnerships with Realtors, Builders: Propagates the Sustainable Business Model.

□ Branding

- ▣ Create a Brand Transcendent of Generational, Economical, and Geographical Gaps.
- ▣ Denotes Accountability, Integrity, and Affordability to Customer.
- ▣ Automatic Recall of Product, Service, and Price.

Branding



CHEVROLET

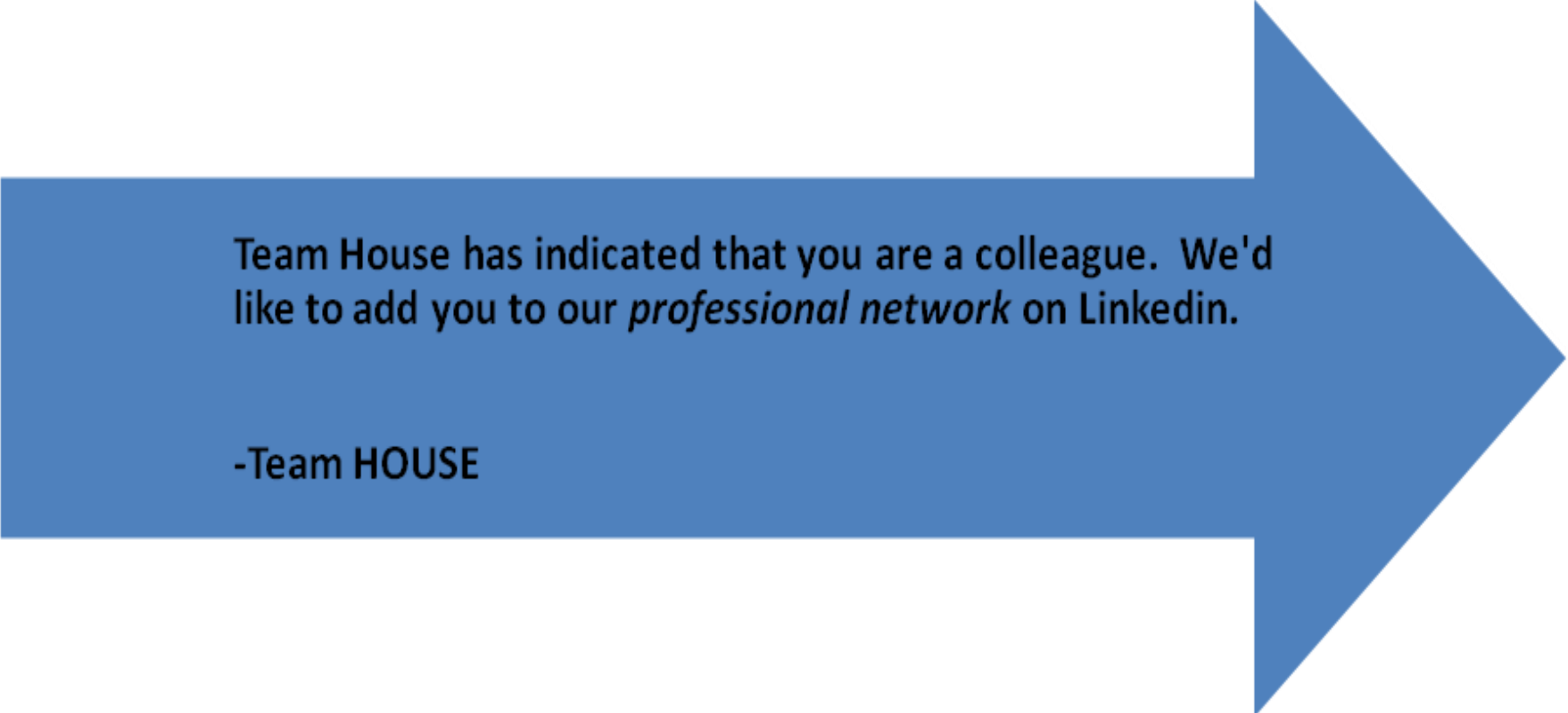
Considerations for Framework of Continued Success

- Agency Direct Selling
 - ▣ Larger Net Worth Requirement
 - ▣ Direct to Fannie/Freddie
 - ▣ Need for Servicing
- Servicing and Sub-Servicing
 - ▣ Option 1: Sell Servicing Released-Collect SRP
 - ▣ Option 2: Retain loan on Proprietary Internal Servicing System
 - ▣ Option 3: Sub-Servicing
 - ▣ Option 4: Short Term Servicing then Mini-Bulk

Considerations for Framework of Continued Success

- Social Networking
 - ▣ Get Connected by creating a user profile. (Most common sites)
 1. Classmates.com: Est. users: 50 million
 2. Facebook: Est. users: 500 million
 3. LinkedIn: Est. users: 75 million
 4. My Space: Est. users: 130 million
 5. Twitter: Est. users: 75 million
 - ▣ Access to an average of 166 Million people every day, in most cases totally free.
- Create your own BLOG (aka Web Log)
 - ▣ Include Testimonials and Recent Successes.
 - ▣ Eliminates need to maintain profiles on all sites.
 - ▣ Eliminates need to re-create profiles should a new network site develop.

Social Networking-The New Way to Connect



Team House has indicated that you are a colleague. We'd like to add you to our *professional network* on LinkedIn.

-Team HOUSE

What are the Real Questions?

- ❑ **NOT** -“Can the Independent Mortgage Banker survive?”
- ❑ The Independent Mortgage Banker **MUST** survive. It cannot be allowed to meet extinction.
- ❑ The question, more accurately, is Who Will Survive?
- ❑ Will new independent companies develop?
- ❑ Is there a sure formula for success?

$$X + Y = Z$$

The Guaranteed Formula for IMB Survival!

The NEW Generation IMB:

Overall Conclusions

- There is no guarantee for success, but there are steps the IMB can take to secure future longevity.
- Newest incarnation of Darwin's survival of the fittest.
- Strong Risk Culture:
 - ▣ Common objectives and attitudes towards risk
 - ▣ Strong governance regarding the level of lending
 - ▣ Plan for Intangibles

The NEW Generation IMB:

Overall Conclusions

- What will new companies look like?
 - ▣ Knowledge of New Companies Forming.
 - ▣ Learn from Predecessors Mistakes/Issues.
 - ▣ Use of Experience and Knowledge to guarantee manufacture of quality business.
 - ▣ Luxury of Clean Slates without Tarnished Reputations.
 - ▣ Must have proper structure, capital, and achievement of partner requirements-Will be given fair chance in Marketplace.

Reiteration of 5 Tenets to IMB Survival

- **H**-Hardy...
- **O**-Optimization...
- **U**-Utilization...
- **S**-Sustainability...
- **E**-Evaluation...

Adaptability is the Key to Survival

Areas of Expertise for Q and A Reference

- **Bonnie Doty**
 - Servicing and Sub-Servicing, Default Management
- **Dawn Robinson**
 - Potential Impact of the fail of IMB, Production, Organization
- **Dino Lack**
 - Technology and Processes, Internal Controls
- **Jamie Korus**
 - Internal issues, Potential Impact of the fail of the IMB, the Current State and Future of the IMB
- **Jodie Morgan**
 - Secondary and Capital Markets, Social Networking, Branding, Future Considerations
- **Ken Kummerer**
 - Capitalization and Warehouse Opportunities, Financial Strength and Balance Sheets
- **Kim Drake-Loy**
 - Regulation, Legal Reform, Frank-Dodd, TILA, RESPA, etc.