

MBA FUTURE LEADERS PROGRAM 2010

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Independent Mortgage Banker Survival Guide



The Future of the Independent Mortgage Banker

- Parallels of Historical and Current models
- Current Market Conditions
- Current Regulatory Reform Issues
- Vision for the Future
- Conclusions

*For purposes of this presentation, the Independent Mortgage Banker is defined as having a net worth between \$1.5MM and \$30MM



The Future of the Independent Mortgage Banker

“The entrepreneur always searches for change, responds to it, and exploits it as an opportunity.” - Peter Drucker

Historical Parallels

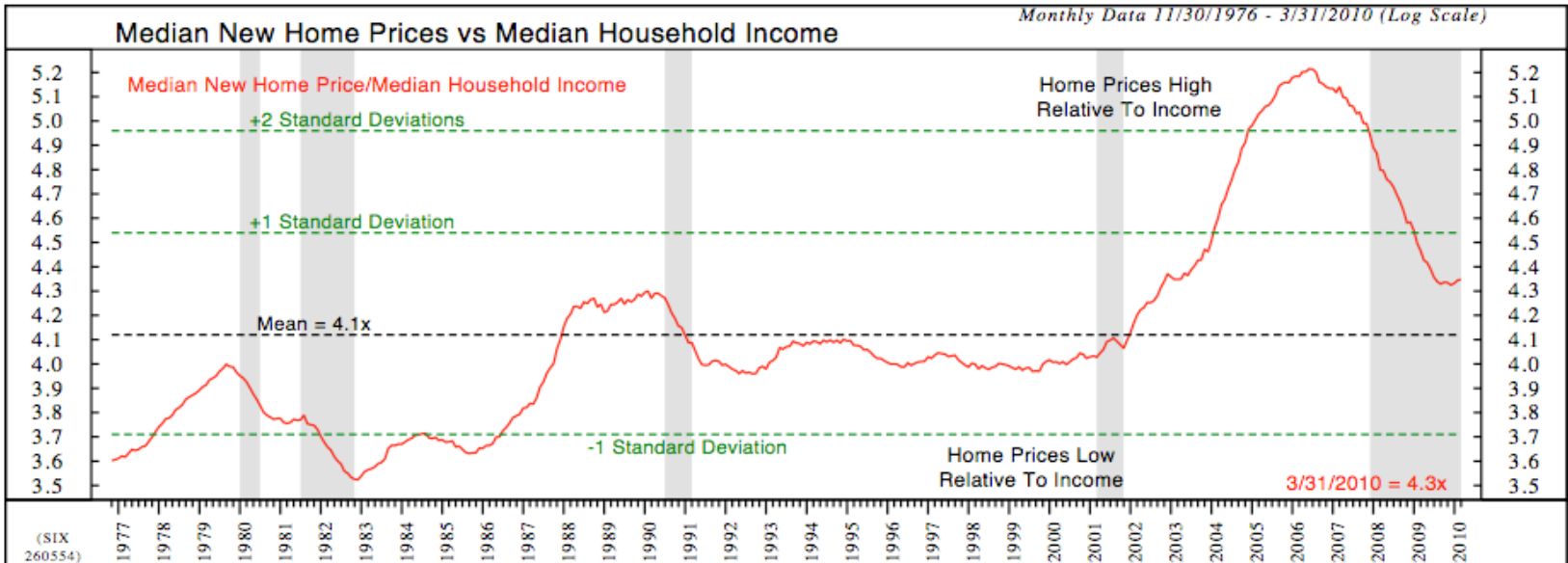
The Great Depression

Savings and Loan Crisis

Black Tuesday

- Although the current environment is in many ways unprecedented, there are many parallels to historical events:
 - Speculation
 - Lack of Regulation
 - Leverage
 - Bailout
 - Regulatory Oversight

Current Market Conditions



Source: <http://www.ritholtz.com/blog/2010/06/2nd-leg-down-in-housing/> (Charts from Ned Davis Research)

- Despite a large drop in home price values, compared to income these are still historically high levels

Current Market Conditions

- Economy has shown signs of stabilizing, but improvement could take several quarters

	2009				2010				2011				2012			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Unemployment	8.2	9.3	9.7	10.0	9.7	9.7	9.5	9.6	9.7	9.7	9.5	9.3	9.1	9.0	8.9	8.7
Housing Starts (Thousands)	530	537	586	565	617	601	511	545	585	635	685	750	830	900	1020	1140
Mortgage Originations (\$ Billion)	411	626	517	548	356	428	403	262	221	307	291	241	230	343	347	314

Source: MBA September 2010 Finance and Economic Forecast

- Unemployment does not improve below 9% until Q3 2012
- Mortgage Originations to drop by 27.8% in 2011 (year-over-year)
- Housing Starts is at low point

Current Challenges



WARNING!



“Dodd-Frank is a massive piece of legislation. No one can understand all of the implications at this time.”

Jim Milano, Weiner Brodsky Sidman Kider PC

Current Regulatory Reform

- Dodd-Frank Wall Street Reform and Consumer Protection Act (July 21, 2010)
 - Consumer Financial Protection Act
 - Wall Street Transparency and Accountability Act
 - (Section 1414) Additional Standards and Requirements
 - Credit Risk Retention
 - Loan Originator Compensation

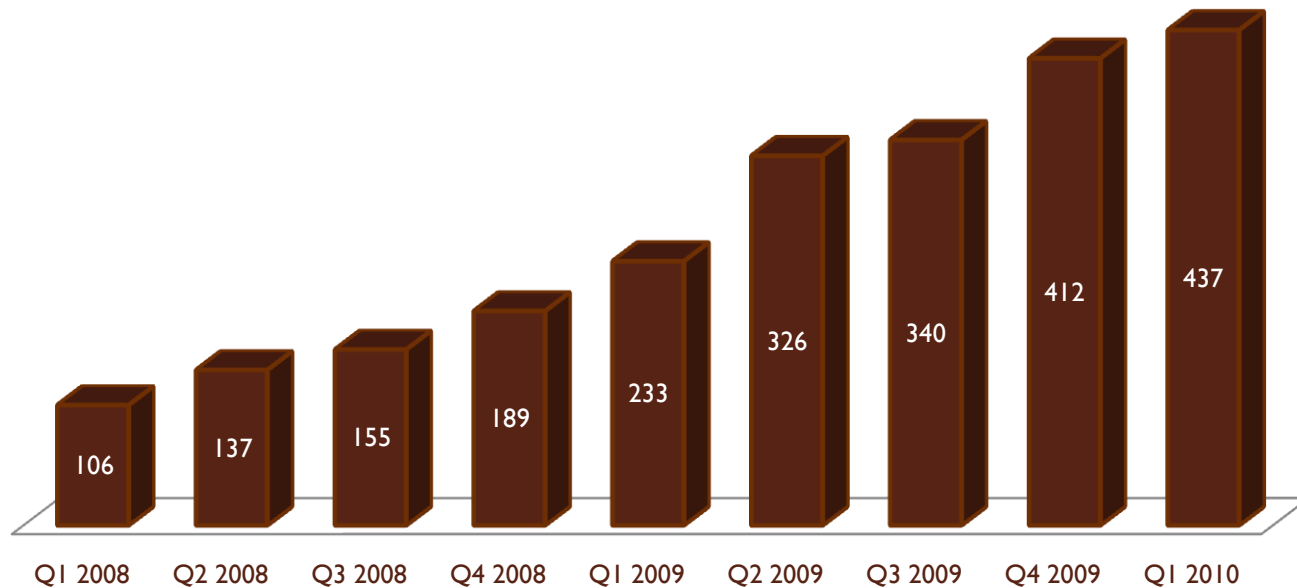
Current Regulatory Reform

- The Fate of Fannie Mae & Freddie Mac
- Secure and Fair Enforcement of Licensing Act of 2008 (S.A.F.E.)
- Regulation X – RESPA Reform
- Home Valuation Code of Conduct (HVCC)

Current Regulatory Reform

- Regulation, regulation, regulation
 - This time they mean it!

Regulatory Actions By Quarter



Source MortgageDaily.com

Vision for the Future Highlights

- Opportunities
- Financial Goals
- Business Plan Model
- Operational Model

Vision for the Future

Opportunities

- Market Cleansing
 - Abundance of knowledge and experience available
- New “Organic” ventures
 - No legacy liability
 - Non-Mortgage affiliated companies
- Servicing Option
 - Long term versus Short term
 - Cost
 - Subservicing Option

Vision for the Future

Financial Structure

- Minimum \$1.5 million Net Worth with plans to increase to \$3 million by 2012.
- Liquid (cash) Assets of at least \$1 million
- How to grow?

Vision for the Future

Successful Business Development Plan

- Product Mix
 - 40% Refinance; 60% Purchase
 - 70% Conventional; 30% Government
- Placement
 - Business Channel Distribution
 - 80% Retail; 20% TPO (Correspondent & Broker)
- Pricing Strategy
 - 50% Mandatory; 50% Best Efforts
- Promotion
 - Purchase Driven Strategy
 - Relationship Based Strategy
 - Internet Marketing
 - Affiliate Marketing



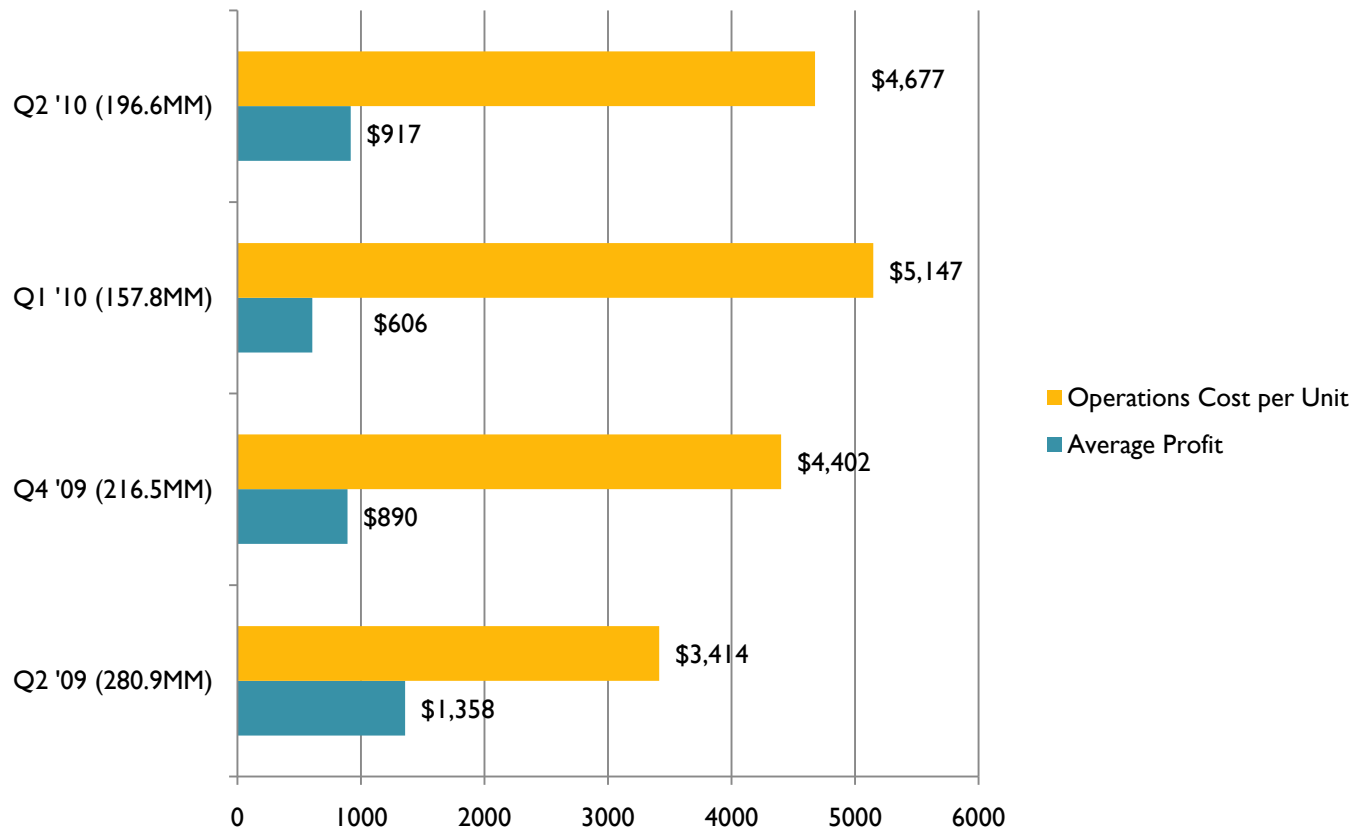
Vision for the Future

Operations Model

- Cost Containment
- Scalability
- Strategic Relationships

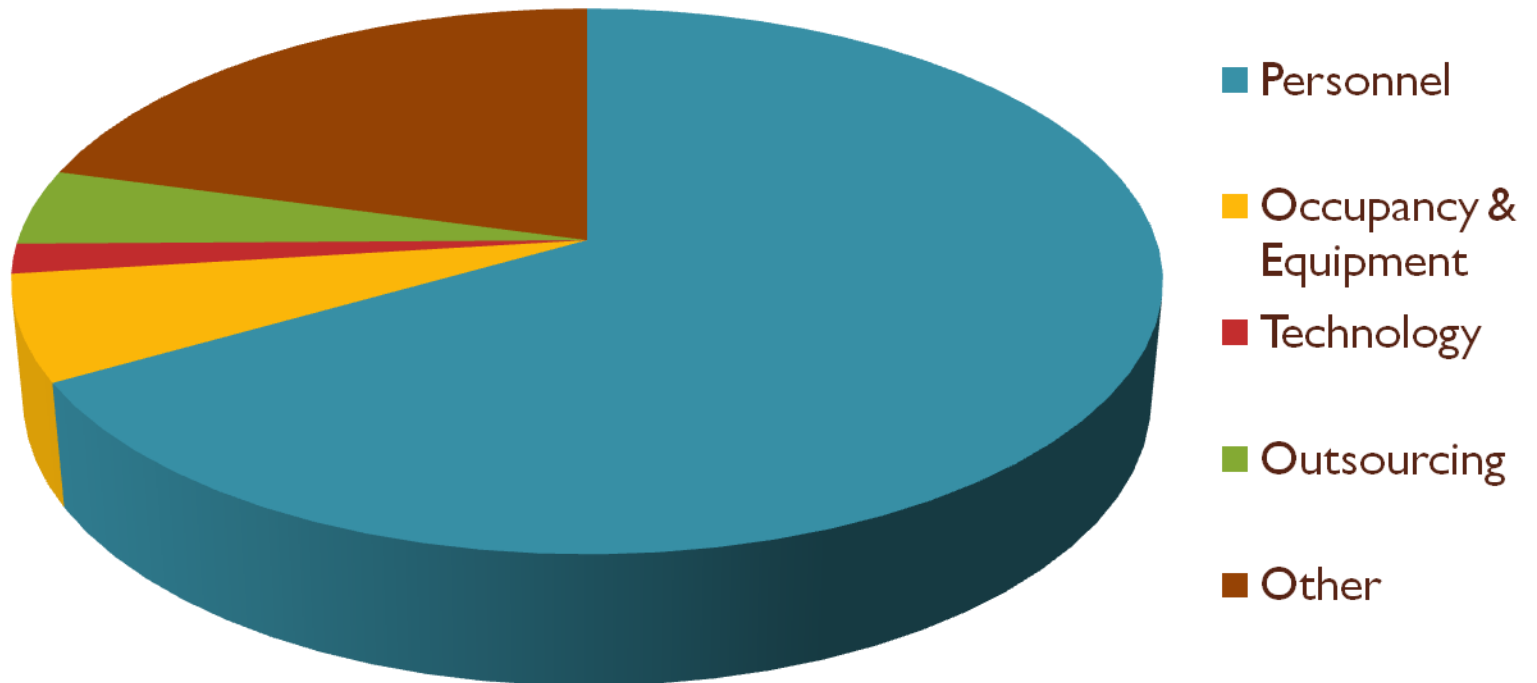
“Remind people that profit is the difference between revenue and expense. This makes you look smart.”

-Scott Adams, American Cartoonist



2010 Q2 Loan Production Expenses

(Expressed in Basis Points per Loan)



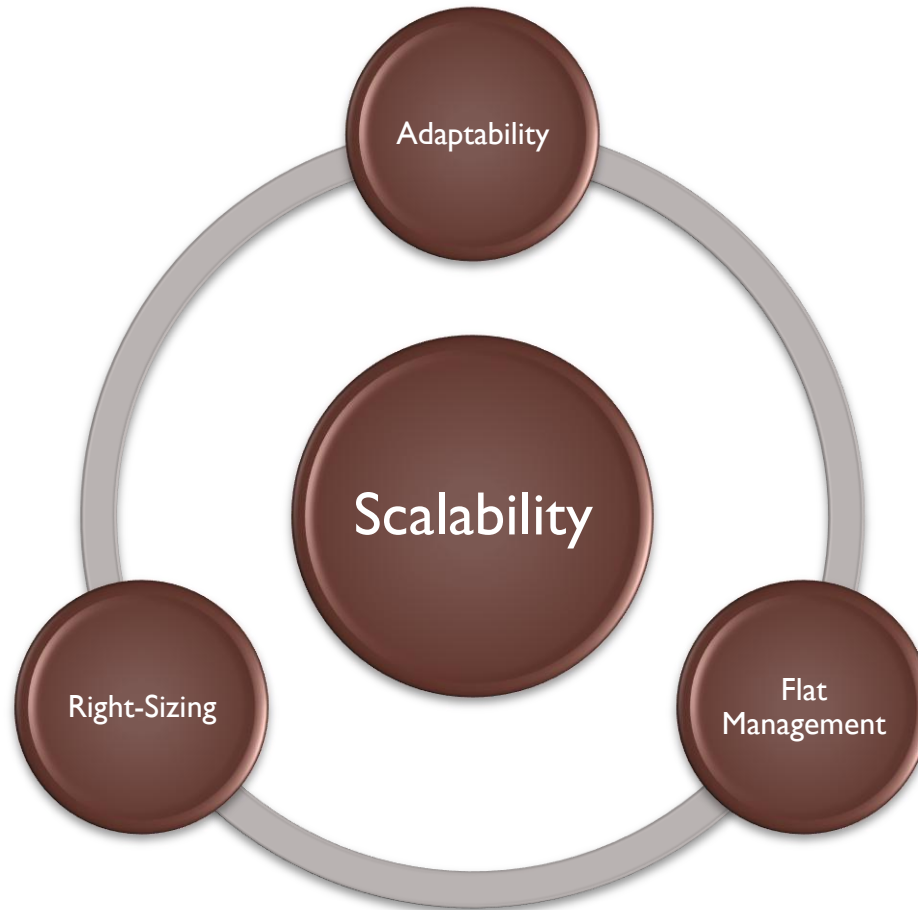
Vision for the Future

Cost Containment

- Outsourcing
 - Immediate scalability to accommodate volume increases
 - Long term continuity of the relationship to provide support for key business initiatives
 - A thorough analysis of vendor statistics for benchmarking purposes
 - Deciding what functions to outsource

It is not the strongest of the species that survives, nor the most intelligent. It is the one that is the most adaptable to change.

-Charles Darwin



Vision for the Future

- **Strategic Partnerships**
 - Warehouse capacity
 - Investor relationships
 - Industry trade associations

Recommendations Summary

- Net worth: Minimum \$1.5MM moving to \$3MM
- Liquid (Cash) of at least \$1M
- Product Mix:
 - 40% Refinance; 60% purchase
 - 70% Conventional; 30% government
- Business Channel Distribution
 - 80% Retail; 20% TPO (Correspondent & Broker)
- Pricing Strategy
 - 50% Mandatory; 50% Best Efforts

Recommendations Summary

- **Business Development Plan**
 - **Growth**
 - Merger with Like Company
 - Community Involvement
 - Expansion (with caution)
 - **Promotion**
 - Excellent Customer Experience

Recommendations Summary

- **Operations Model**
 - **Cost Containment & Profit Maximization**
 - Minimum \$10MM monthly volume
 - Maximum 200bps net loan production expense
 - Effectively managed outsourced relationships
 - **Scalability**
 - Adaptable infrastructure
 - Flat management structure
 - **Strategic Relationships**
 - Minimum of two warehouse lines with competitive rates
 - Minimum of three top tier investor outlets

In Conclusion...

- We believe
 - Effective collaborations and consolidations within the industry are inevitable and indeed opportunities for the well-positioned IMB.
 - A viable and sustainable product, pricing and marketing strategy is critical to success.
 - A focus on efficient operations and a relentless pursuit to exceed customer expectations will sustain the company through the economic cycle ups and downs, and
 - Even in the face of much dramatic change, the well-managed and well-capitalized IMB will not only survive, but thrive.



SURVIVAL

When you are in deep trouble,
say nothing, and try to look like
you know what you're doing.