



## Independent Mortgage Bankers Find Liquidity in 'Net Worth'

### **Murray, Michael**

Some independent mortgage bankers employ prudent strategies to access capital for **non-conforming mortgages** in a market with scarce liquidity.

**Fairway Independent Mortgage Corp.**, Sun Prairie, Wis., grew to more than **\$2.55 billion** in loan volume by September this year, up **67 percent** from the same time last year.

The dwindling number of warehouse lenders now look at financial statements and net worth to finance mortgage bankers. After closing **\$1.97 billion** last year and more than **\$2.5 billion** this year, Fairway sold stock and retained capital to look more attractive to warehouse lenders.

**Steven Jacobson**, CEO at **Fairway**, retained **51 percent** ownership in the business. He said the company increased capacity and closed more loans.

"It's all about the money we keep in our business," Jacobson said. "Our net worth last year was in the **\$3.5 [million]** to **\$4 million** range. Now it's **\$12 [million]**. We just had to get more money to put into the business...we had to increase our net worth."

With nearly **\$300 million** in warehouse line capacity, Fairway projects **\$306 million** in October mortgage originations, funding nearly **85 percent** of that amount.

Jacobson attributed this year's growth to recent interest rate drops, lower home prices, the **\$8,000** first-time home buyer tax credit and a professional sales team.

"Our decisions to stay clear of risky loans when they were popular and to get early FHA approval helped pave the way," Jacobson said.

**Rick Seehausen**, CEO at **LenderLive**, Glendale, Colo., said the pendulum swung from overly loose credit criteria to an overtightened credit criteria in certain areas. However, LenderLive modified **200,000** loans in the past year, many under the **Home Affordable Modification Program**.

LenderLive primarily works with community banks and credit unions, originating mortgages on the front end with "rapidly growing market share" previously originated from mortgage brokers, but LenderLive also refinances mortgages to mitigate borrower losses on the back end.

"HAMP is the right kind of modification because it is re-qualifying the borrower," Seehausen said. "We are re-underwriting these loans now."

However, Seehausen said if borrower modifications affect investor confidence in the residential securitization market, it can translate into higher consumer costs.

"There does need to be a balance because if these borrowers we are modifying go into foreclosure, it would be even more damaging to our economy," he said. "We have to stem the tide of foreclosures because we have to get control

over the excess housing supply to stabilize home prices—that is a necessary thing to do—but we also need to be cautious about what we are saying to society and that when [borrowers] run into tough times, it is becoming easier to not make payments than to make payments.”

Jacobson said job stability, cash situation, credit and income needed to tell a story for underwriters in the 1980s and Fairway requires the same underwriting standards today.

“For me, now I’m back to the 1980s,” Jacobson said. “It’s not such a big deal. It is just a matter of making sure the loan officers get the changes.”

However, for larger non-depository institutions, broad credit spreads make competition on jumbo loans more difficult against larger depository institutions, said **Daniel Crockett**, president and CEO of **Franklin American Mortgage Co.**, Franklin, Tenn.

“Until we find some private capital, and there is liquidity in the market for it, it is going to be difficult for the independent [mortgage banker] to compete with the balance sheets of” larger depository institutions, Crockett said.

“We have been dependent on higher loan limits from the agencies,” said **Debra Still, CMB**, president and CEO of **Pulte Mortgage LLC**, Englewood, Colo. “We estimated, year-to-date, about **30 percent** of our business would be ineligible for the old loan limits so that’s our lifeline right now for the jumbo space.”