Permanent warehouse financing presents worthy alternative

By David Ertel, CEO, Bayview Financial LP

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Mortgage bankers understand the importance of securing relationships with investors before loans are originated. Failure to do so can bring business cash flow to a screeching halt. It ties up warehouse lines and forces lenders to scramble for alternative investors or to secure alternative financing sources. Even with established relationships, experienced lenders know that at some point, they will find themselves with fallout loans tying up their warehouse lines and with no immediate investor in sight.

Portfolio lenders, on the other hand, consciously decide to keep the loans they originate. They opt for the steady income of a high-yielding mortgage portfolio instead of a one-time gain on sale. The challenge for many portfolio lenders is to secure sufficient financing, which will allow their portfolios to grow. Most banks have limits on how much they will lend to one company, even on a secured basis. Most specialty lenders often juggle numerous bank-warehouse relationships and private sources of capital. This highly fragmented financing structure can be a major distraction to management and limit potential portfolio growth.

However, a new source of funding is emerging, and it provides mortgage lenders with a competitive alternative to the traditional warehouse line. Permanent warehouse financing gives mortgage lenders a unique form of funding that guarantees an end investor and provides permanent financing for continuous loan origination.

Financing strongpoints

Permanent warehouse financing offers significant benefits to lenders over traditional warehouse lines. This kind of financing is:

- **Nonrecourse:** It requires no personal guarantees on the lender's part. This is especially beneficial for specialty lenders whose warehouse lines are tied directly to their personal assets.
- **Permanent:** The lender is not obligated to buy back loans. Loans originated in this program are intended to be converted into a securitization product. This provides a permanent end investor for all loans originated.
- **Less risky:** There will never be a margin call. Once the asset is funded, there is no additional mark-to-market and posting of collateral.
- **Unlimited:** Whether on- or off-balance sheet, permanent warehouse financing lets lenders originate an unlimited loan volume. In addition, having a secured funding source helps in budgeting projects and can stabilize business models.
- **Simple:** Generally, setting up this type of program is no more difficult than setting up a traditional warehouse line with a bank. In fact, with the right legal counsel, it can be set up in 30 days.

This program works by converting relatively small pools of loans ($10 million to $75 million) into securitization products. Lenders who engage in permanent warehouse financing can use traditional warehouse lines as interim funding or accumulation programs offered by the permanent warehouse. That serves to aggregate the volume of loans needed, which typically is $10 million.

Commonly asked questions

What lending guidelines are required in this program?

Specific lending guidelines will vary for different participants. Generally accepted collateral includes:

- **Stated-income, stated-asset and equity-based loans**
- **Fallout loans**
- **Subperforming loans**
- **Loans originated outside of investor guidelines**
- **Loans lacking mortgage insurance, Federal Housing Administration insurance or U.S. Veterans Administration guaranty**
- **Commercial loans**
- **Multifamily or mixed-use-property loans**
- **High loan-to-value loans**

Illustration: Keith Negley

- **Land loans, seasoned loans and private notes**
- **Nonperforming loans**

- **Real-estate-owned (REO) property**

What costs will my company incur? Will I be required to pay transaction costs?

The permanent warehouse program typically covers all transaction costs, leaving the mortgage company with only the cost of its legal counsel. In addition, using a legal counsel experienced in these transactions will expedite the process and allow most lenders to use the program in 30 days.

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Are there limits to the volume of loans originated under this program?

There are no limits to the volume of loans the lender can originate. As a program participant, the lender can fund for an unlimited loan volume, on- or off-balance sheet.

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Permanent warehouse financing can be effective as a supplemental or primary funding source for an origination program. In addition, because it enables lenders to originate an unlimited loan volume, permanent warehouse financing eliminates the need to manage multiple sources of capital. This helps lenders to focus on core business.

As with any financial strategy, the right decision demands careful consideration. For mortgage companies seeking to grow while stabilizing their business model or looking for better financing options, this approach could be just the solution they need.

David Ertel is CEO of Bayview Financial LP, an $8 billion finance company that offers permanent warehouse financing. Bayview specializes in purchasing residential- and commercial-real-estate loans, originating small-balance commercial-real-estate loans, investing in real-estate assets and providing 1031 exchange services. Bayview is now the second-largest financial institution headquartered in Florida, with more than 1,200 employees. For more information, visit the company's Web site at www.bayviewfinancial.com or call (866) BAY-VIEW (229-8439). This article does not constitute an offer or solicitation of an offer to purchase or sell securities.