Grow Your Business Where the Borrowers Are

Once an afterthought, non-agency lending is set for explosive growth

By Sean Marr

Today's mortgage market is becoming increasingly difficult, with lower margins, aggressive competition, a decreasing origination forecast and climbing interest rates. On top of that, certain key housing markets continue to experience serious inventory shortages.

One solution for mortgage professionals is to embrace non-agency products through correspondent lending. Non-agency is a term that refers to loans that are not purchased and securitized by the government-sponsored enterprises, which include Fannie Mae and Freddie Mac.

Many mortgage bankers and other lenders were unaware or uninterested in non-agency offerings not too long ago. That has changed dramatically this past year, and it is increasingly clear that originators strongly desire alternative mortgage options. Partnering with an investor as part of a correspondent-lending relationship can help to expand product offerings and is a prudent business consideration.

Correspondent lenders, which originate loans in their own name and then sell those loans to a sponsor lender, are increasing their own menu and appetite for higher-margin loan volume, which is resulting in more product options and providing a competitive edge in an ever-changing marketplace. The space is not just emerging anymore, but has arrived, well-positioned and generating significant volume.

Partner up

Correspondent lenders who have been on board for a while are experiencing a streamlined process and can meet customers where they want to be met through customized loan options and traditional underwriting. More and more correspondents are embracing non-agency lending to help replenish their business, retain and recruit loan officers and ensure profitability.

The education and refinement of the process has been occurring for years. Now, the mainstream has embraced non-agency offerings via correspondent lending and the growth curve is becoming steep. Those hesitating to add these products and who have not worked with an experienced industry-leading investor, are now rushing to become aligned.

The number of mergers and acquisitions are increasing in the marketplace. It is now more difficult to maintain business, and downsizing has occurred across the country. For those still standing at the train station, consider that your competitors likely have correspondent lending options or soon will.

There are benefits to your organization that will occur with correspondent lenders in the non-agency arena to offer ever-evolving new programs, jumbo loans, self-employed programs as well as other alternative-lending options. Mortgage companies should have delegated and nondelegated underwriting options available through a partner with years of experience understanding today's non-agency space.

Explosive growth

One of the Mortgage Bankers Association's top lender takeaways from their annual conference in Denver this past October was that nonqualified mortgage (non-QM) loan volume is expected to double in 2018, compared to 2017 levels. The MBA said industry participants are bullish on the non-QM sector across all channels, adding that the projected growth will be fueled by expanding correspondent-lending divisions.

The market is accepting non-agency lending more now than ever before. This has stemmed from a huge change and response to demand. Stricter guidelines, proven results and data indicating quality loan performance have caused the change and spurred the business to keep evolving. As such, non-agency businesses are expanding to handle the growth from an operational standpoint.

Stricter lending guidelines have put an end to previous concerns about subprime loans. Non-agency is performing so well now because borrowers are required to have sizable downpayments. Borrowers also are now required to present documentation validating their ability to repay. These are solid, performing loans.

Those with past credit problems see hope for the future to fulfill the dream of homeownership. They are in much better standing, bringing their own equity to the transaction and eager for an option through their

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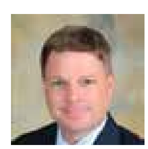

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mortgage banker who understands their situation. These borrowers, along with self-employed individuals who often seek jumbo-loan amounts, are some of the reasons correspondent lending divisions are expanding.

The inclusion of jumbo offerings is another reason why correspondent lending is doing so well. Most correspondent lenders have been clamoring for a well-executed prime product that can compete against the national banks and wealth managers.

The largest operators of non-agency lending have been able to launch their own prime jumbo products that few can compete with. Now the best jumbo loans do not just sit with large banks, causing smaller businesses to lose borrowers because they cannot compete with pricing and reach. It is a unique service that allows for non-agency alternative solutions as well as access to competitively priced prime jumbo products.

Lenders may be able to underwrite the loan themselves, making it a completely full-service process. Competence in non-agency underwriting, compliance and operations are details that should be trusted to industry players who are experienced at providing these services.

Some correspondent lenders will eventually adopt these functions internally and better control their borrowers' timelines for approval and closing. Until that point, they should work with investor partners that offer jumbo mortgages with consistently strong pricing and great service and also offer non-agency programs designed to reach an untapped market of borrowers.

What to learn

Interest rates are rising and home sales are falling. Where do you see the most potential gains for your business? Correspondent lenders are finding it with top-rated investor partners offering borrowers more options to close more loans than ever. As an originator, when considering a correspondent-lending arrangement, ask the potential investor partner these questions:

- **If dependent on a warehouse line** for capital, does your provider allow non-agency loans?
- **Is the investor partner** a lender that can make credit decisions where I operate my business?
- **Does the partner have** a product-eligibility and indicative-pricing tool?
- **Is the partner aligned** with any marketplace product and pricing engines?
- **What kind of compliance technology** does the partner employ?
- **Can the partner customize** underwriting initially and long-term regarding nondelegated and delegated needs?
- **How does the partner handle** loan-level underwriting exceptions?

Make sure to work with a partner who can easily answer these questions and also provide information on exceptions that occur with non-agency loans. In addition, make sure the partner is willing to invest in your loan-production expertise and your potential to grow in the space.

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Correspondent lending is no longer a wait-and-see opportunity. Originators who aren't offering these non-agency products are losing their competitive edge and will miss out on growth opportunities. To that end, mortgage companies need to increase their non-agency volume to keep their pipelines full. There is a significantly large number of creditworthy borrowers in the mortgage industry that are underserved and more important than ever to capture. ■