Growing Your Business, Despite Decreasing Inventory

Warehouse correspondents find new ways to thrive as market conditions shift

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Amid the turmoil of the pandemic, the housing market experienced its own unique set of challenges. Historically low interest rates spurred several homeowners to refinance their mortgages or make a move to a new home; however, those same low interest rates contributed to escalating home prices as buyers snapped up homes in an ever-dwindling market.

Now that interest rates are inching back up toward pre-pandemic levels, the frenetic pace of the past year is giving way to a new window of opportunity for warehouse correspondents (and mortgage professionals hoping to become one). Savvy warehouse lenders will seize this opportunity to pause, refocus, and take steps to grow their business — adjusting to a decrease in market volume to level up their revenue opportunities in both the near- and long-term future.

Banking On Your Future

A warehouse line of credit can be an effective way to grow your business within the mortgage industry. Warehouse lines provide entrepreneurial originators with access to capital to fund their own loans — to become a lender. For one thing, being a lender and funding your own loans provides more flexibility in compensation. As a lender you are no longer restricted to the maximum 3 percent compensation that applies to originators who only broker loans for lenders.

The capability to earn more money comes with more responsibility, however. As a broker, your responsibilities are fairly straightforward: Take the application, ensure the application is submitted within regulatory compliance guidelines and stay on top of your three-day disclosure requirements.

That process gets a bit more involved when you become the lender. When you're the lender, you become responsible for all of the initial, interim and final disclosures; quality control to make sure the loan complies with state and federal regulations; and, of course, selling the loan to an investor to repay your warehouse line, among other things.

Finding new ways to accomplish the final step — selling the loan — can be the key to growing your business as the hot home and refi markets of the pandemic begin to cool.

Planning for Growth

Whether you're a new or established correspondent, it's important to consider how a warehouse lender can serve you on both ends of the transaction in order to take your business to the next level.

Just like borrowers, warehouse banks come in all sizes and their lending capabilities can vary, so it is important to know their limits.

When you're just starting out with a warehouse line, you may find a better fit with a smaller bank that has experience helping originators become lenders, or helping smaller lenders grow their companies.

Now is also an ideal time to review rates, fees and everything in between. Homebuyers often shop for the best interest rates and the lowest fees, so you should too. You should expect to pay prime rate, or rates based on a common benchmark like LIBOR, plus a margin on the line of credit. Transaction fees also will apply. If you have successfully grown your business over the past year, these terms can likely be renegotiated. Lenders recognize the value of reliable correspondents. By revisiting the details of your lending relationship, you could unearth new opportunities to increase your revenue — even if you're writing fewer loans than you were at this time last year.

It's also important to remember that not all warehouse banks are created equal, especially when it comes to non-agency lending, so it is imperative to seek a qualified partner if part of your growth strategy includes diversifying your product offerings. Many warehouse banks prefer to limit underwriting to agency products (qualified mortgages, or QM loans, through Fannie Mae and Freddie Mac). If you're hoping to originate non-QM or jumbo loans on a warehouse line, it may be worth exploring alternative options if your current bank doesn't allow it.

Another way to continue growing your business in a decreasing inventory market is to seek a bank that provides end-to-end support, allowing you the option to sell the loan after it closes. This arrangement can offer stability over the life of the line, because mortgages have a clear path from origination to final sale. This arrangement may not allow as much room for negotiation in the sales price, though it does provide efficiency for all involved parties; paperwork completed during the underwriting phase can be immediately accessed to streamline the final sale.

Selling loans to investors other than your warehouse bank can also provide new ways to increase your profits. If you have preferred investors outside of your warehouse bank, inquire about how to get them approved as a takeout investor on the line. The investor will likely have to supply proof of financial stability and performance, and the bank also may request product guidelines for review. Once the investor is approved, your warehouse bank may require a copy of the investor's loan approval and/or lock for each transaction you put on the line. Selecting a warehouse bank with a wide variety of approved takeout investors will increase your ability to maximize your profitability, although extra work may be required to ensure the warehouse bank approves of the investors you plan to work with as you originate mortgages on your warehouse line.

These strategies, if approached in a collaborative spirit, have the potential to dramatically offset any flattening of your revenue — reinforcing the power over your earning potential that motivates so many mortgage professionals to make the switch from an originator to a correspondent lender.

Revolving Revenue

A warehouse line creates a "revolving door" of credit on which to write mortgages. Although the speed at which that door revolves may be lower in today's market, industrious correspondents will recognize the opportunity to work smarter and increase their earning potential by approaching their business with fresh eyes.

Relationships have always been the foundation on which the real estate market thrives. A decreasing market doesn't have to mean a decrease in opportunity. By checking in with your warehouse bank, negotiating mutually beneficial terms, and expanding your relationships with investors, correspondents at every level can achieve success.

Partnering with the right bank that understands your business model and is willing to work closely with you through the process is critical. If you're ready to more fully explore the full range of opportunities that come with managing a warehouse line, then you will find that the revolving door of opportunity is turning at precisely the right pace.

Jacqueline Ring is the managing director of warehouse operations for Florida Capital Bank Mortgage. Over the course of her 25-plus year career in the mortgage industry, including more than a decade with her current company, Ring has acquired deep and nuanced expertise in analytics, policies, procedures and regulatory compliance. She excels in managing complex projects, products and teams, while continuing to provide exemplary customer service. Reach her at jring@flcb.com.