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Warehouse Illiquidity a Challenge

By Brad Finkelstein

DENVER-There is another factor that is holding back mortgage lending, some experts say, and it has nothing to do with credit or equity. It is a lack of warehouse capacity for mortgage bankers.

The number of warehouse lenders has shrunk in the past two years, creating a supply-and-demand imbalance that is particularly affecting the small and midsize mortgage banker, said a pair of executives from mortgage outsourcing firm Titan Lenders Corp. here.

It is a lack of capacity that has affected the wholesale and reverse mortgage operations of firms like James B. Nutter & Co., Kansas City, Mo.

So, said the Titan executives, it is time for the government to stop concentrating on the secondary mortgage market and instead help the primary mortgage market. Specifically, they call on the government to create a nationally subsidized mortgage warehouse provider, with funding coming from the Troubled Asset Relief Program.

Mary Kladde, the founder and president of Titan, said the government should be spending TARP money on things that benefit the liquidity of the mortgage market. The company's clients, mostly the small and midsized players, are getting pushed out of business because their lines are being reduced or eliminated altogether.

She and Ruth Lee, Titan's vice president, sales, told the story of one client who had 15 refinance loans closed and in the recession period when the warehouse provider told the client it wouldn't fund the loans.

That could have created a legal liability for the lender. Fortunately some well-placed phone calls got the situation resolved and the loans funded.

Ms. Lee noted that the industry had gone from 111 warehouse lenders at the warehouse lending forum at the Mortgage Bankers Association's annual convention in 2007, down to 33 last year, and a fair amount of those few have now closed up.

And those that remain in the warehouse side do not have the capacity to meet the demand. Using TARP funds for warehouse lending is a moneymaking proposition for the government, Ms. Kladde said.

It would make money collecting the fees and interest that the traditional warehouse lenders charge. The risk is minimal, given that most loans are sold into the secondary market in between 15 and 30 days and the line is repaid. Ms. Kladde said it is "common sense" to use the TARP money to make money for the government.

They see this as a "short-term solution," but one that would provide liquidity relief to the entire mortgage industry.

With all the noise about lending or the lack thereof from the banks since the beginning of the TARP program, very little attention has been paid to the warehouse capacity problem.

"We're trying to create a little awareness" about the situation, Ms. Lee said. Ms. Kladde added that since she started this campaign (which includes a blog posting), they have found out there has been some discussions "behind closed doors." The discussion needs to be moved more into the open.

MBA president and chief executive John Courson did bring up the warehouse liquidity issue in his recent appearance before the House Financial Services Committee.

In his speech, Mr. Courson said, "Congress and the administration should take steps to maintain existing lines of warehouse credit and create new lines of warehouse lending by providing a short-term federal guarantee of warehouse lines that are collateralized by FHA, VA, GSE and RHS-eligible residential mortgages that are held for sale by mortgage lenders."

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