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VIEW IN BROWSER

MBA Proposes Backstop for Warehouse Lines

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A rash of **warehouse lenders** exiting the mortgage industry could challenge the **Obama** administration's **Homeowner Affordability and Stability Plan** plan to assist first-time homebuyers and borrowers wanting to refinance mortgages.

Analysts say since 2005, the number of financial institutions offering warehouse lines of credit to independent mortgage bankers declined from nearly 115 at its peak to now less than 30. Last month, **JP Morgan Chase**, New York, shuttered its warehouse lending business acquired through its purchase of **Washington Mutual**.

Warehouse lenders add liquidity for independent mortgage bankers by allowing them to temporarily fund mortgages at the closing table rather than a slow, lengthy process of shipping loans to investors, including **Fannie Mae**, **Freddie Mac**, **FHA** and **VA** loans.

In September, warehouse lenders started to feel the effects of tightening credit from earlier last year, but it hit a crisis point during the fourth quarter, said **John Johnson, CMB**, president of **MortgageAmerica Inc.**, an independent mortgage banker in Birmingham, Ala., and head of the **Mortgage Bankers Association's** warehouse lending committee.

"It totally stops the lending process because there is no way to fund the mortgage at the closing table," Johnson said.

MBA President and CEO **John Courson** sent a letter to membership last month detailing steps to address the crisis.

"At this time, MBA is advocating for federal regulators and the administration to take steps to help maintain existing lines of warehouse credit and create new warehouse lending by providing a short-term federal guarantee of warehouse lines that are collateralized by Fannie Mae, Freddie Mac, FHA, VA and **RHS [Rural Housing Services]**-eligible mortgages," Courson said.

Now, after a change in administrations, new mortgage proposals and phase one of the **Troubled Asset Loan Facility** scheduled to release government funds on asset-backed securities this month, a window of opportunity exists for warehouse lenders and independent mortgage bankers.

"There is already distress in the system because volume has picked up," Johnson said.

Johnson and MBA staff met with the **Treasury Department** last Thursday to propose a **$30 billion** backstop to guarantee warehouse lines of credit and "liquefy the business that existing warehouse lenders are doing." TALF could be used in that source of funds to assist in liquefying the market, he said. On Friday, Johnson and MBA met with **Federal Reserve** staff.

Johnson said federal government funds would not provide warehouse lenders with a "bailout" but instead would create an interim mechanism to begin manufacturing liquidity back into the mortgage market.

"This would make it a government-guaranteed security. It would liquefy and bring new participants to the market and free up capital for the existing warehouse lender," Johnson said.

Under MBA's proposal, the warehouse lender would pay the guarantee fee; the guarantee would go to anyone invested in the warehouse line of credit. A warehouse LOC could include participations with Fannie Mae, Freddie Mac or the Federal Home Loan Banks investing in issued bonds as they provide funds on the warehouse line.

"The principal and interest guarantee is not only for the warehouse lender but for those investors," said **Josh Denney**, associate vice president of public policy at MBA. "The real objective is to attract capital."

"We can fund with Fannie Mae and Freddie Mac, but we need funds at the closing table—our own funds or warehouse funds," Johnson said. "It is absolutely vital for us to tap into warehouse lenders and that's not unique to [MortgageAmerica Inc.]. It's for any independent mortgage banker."

Borrowers benefit because warehouse lending creates liquidity to purchase a home and competition between mortgage lenders that could lower interest rates, MBA said.

MBA proposes **$30 billion** of mortgage principal in warehouse lines of credit "at any given time," Denney said. "Warehouse lines turn over all the time but, with that amount, it should fill the current gap."

Johnson said $30 billion translates to **$600 billion** in mortgages for borrowers to purchase a home or refinance, particularly at a time when large institutions continue tightening.

"Without some relief, there will be $500 billion to $600 billion less credit available to the marketplace," Johnson said.

Independent mortgage bankers originate **25 percent** of mortgages in the United States, but some analysts say it could go higher than **40 percent** of originations.

"Financing homes for citizens in this country concentrated in the hands of six, maybe 10 players is not a good thing for the borrower," Johnson said. "The objective is not to take care of the existing warehouse lender. It's to get capital moving again through the system."