

Mortgage Broker to Banker Road Map to Success

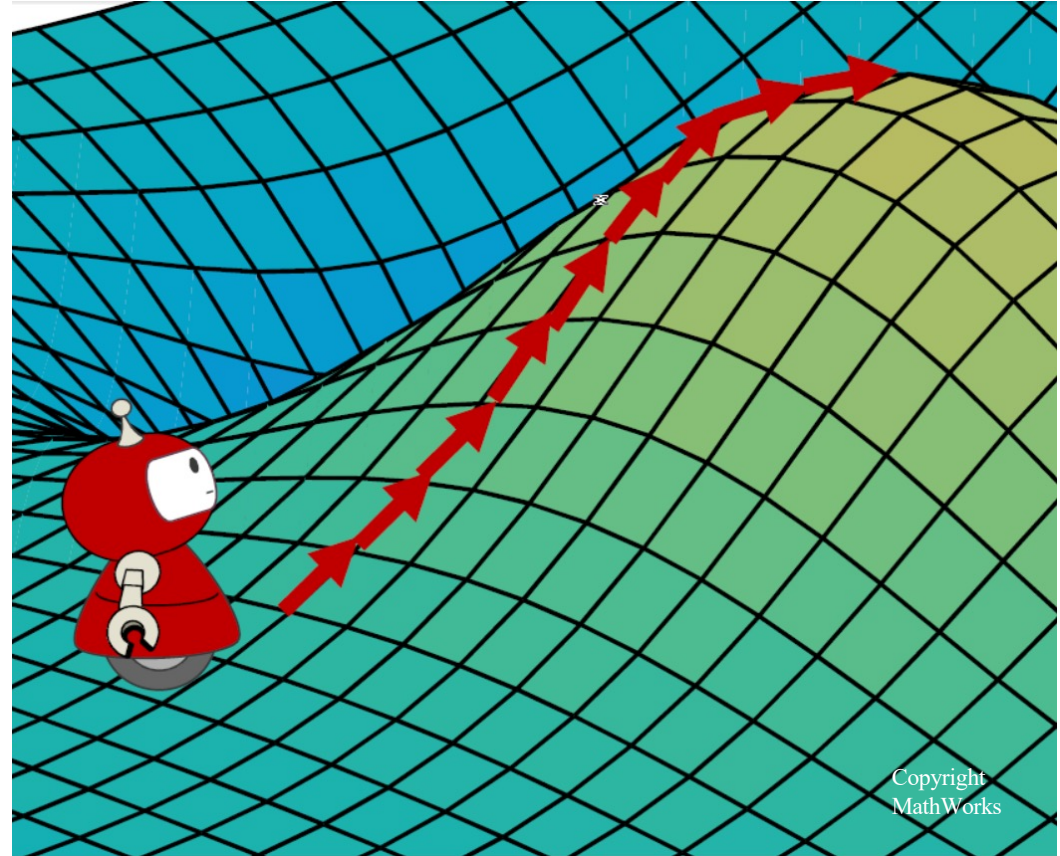
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Audience

This presentation is created to describe the steps from being a mortgage broker to becoming a mortgage banker with the intent to help mortgage brokers and mortgage originators appreciate the complexity associated with the journey.



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Mortgage Broker Tasks

Mortgage Broker (wholesale)

- Select LOS to support application activity
- Create regulatory compliance process
- Identify lead source channel
- Creates mechanism to interact with applicant
- Access loan pricing
- Receive an application
- Send application and customer data to Lender
- Receives Yield Spread Premium payment from Lender



A Mortgage Banker is a Loan Manufacturer

Mortgage Banking is 10X
more complex than
being a Mortgage Broker



Facts about being a Mortgage Bank CEO

The CEO of a Mortgage Banker must Coach, Lead, and Manage -
Plan, Organize, Delegate, Implement, and Measure

It is challenging for a great Mortgage Originator
to be a great Mortgage Company CEO

A superstar NFL wide receiver is rarely a great NFL Coach



Every Successful Company Has

Strategy

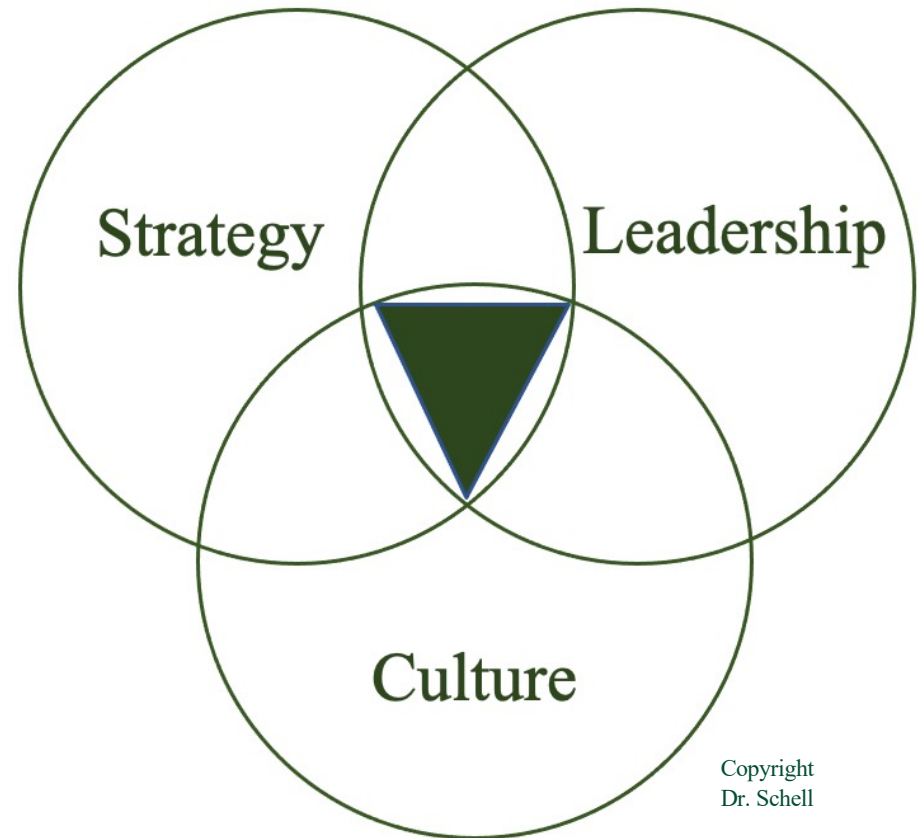
Mission, Vision, Values,
Self-assessment, Objectives

Leadership

Coach, Manager, Leader
Inspire, Direct, Measure

Culture

From Strategy & Leadership
Behaviorally reinforced



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Mortgage Manufacturing Factory

Every mortgage lender must implement the following
Policies, Procedures, and Systems
before closing the first loan as a Lender:

NMLS reporting, CFPB CMS
Fidelity, E&O, State License
Fair Lending, AML/SAR
OFAC, AIR (Appraiser)
Red Flags, Compliance,
Disclosures, Electronic Disclosures,
HMDA, ECOA, RESPA, TILA
Customer protection,
Telephone Protection,
Patriot Act,
Segregated Escrow Deposit
Accounting for each Loan
Training & Audits
UW Guidelines even if selling
UW Exception Policy

Secondary Lock Desk
Fraud, Detection
Prefunding & Post funding QC
FCRA/FACTA, RMLA/FC
QM & ATR, HPML, HOEPA
LO Compensation
Know before you Owe
Adverse Action, WD, SOD,
Advertising, Marketing,
Social Media and Compliance
Privacy Policy, SAFE Act
UDAP, Lobby/Branch Posting
POS, LOS, PPE, CRM
System design and configuration
System updates and testing

Servicing Policy (interim)
Interim Servicing system
Consumer Complaints
Anti-Predatory
IT – Security
IT - Cyber Security Incident Response
IT – Change Management
IT – DR BCP
IT – Risk Assessment
Vendor Management
Record Retention
Accounting System for each Loan
FDCPA
First Payments & 1098
QWR



Foundation for Mini-Correspondent

Every Mini Correspondent that closes a loan in their name must have a loan level accounting system or face regulatory violations for fiduciary funds fraud

- Investor underwrites the loan: non-delegated
- Warehouse line funds loan in Broker's name
- Escrow funds from the customer must be segregated
- Loan Held for Sale is a closed but not sold loan (LHFS)
- HMDA usually not required
- Collection of a first payment is subject to FDCPA



Banker Stage 1 – Non-Delegated

Stage 1 - Beginning Banker - Capital \$500K

- Don't run out of money – Must create a Financial Forecast
- Don't add staff until revenue supports additional expense
- One captive warehouse line and outsourced funding/closing/trailing
- Use Non-delegated underwriting to save money
- Add Conventional only underwriting: no underwriting employee
- If HUD, hire DE underwriter and apply for approval
- All loans are Servicing Released
- QuickBooks Accounting and CFPB required CMS
- Volume of approximately \$60 to \$300 million per year
- Advisory support from a mortgage accountant



Banker Stage 2 – increased control & cost

Stage 2 – Competent Lender – Capital \$2 million

- Multiple warehouse line with few restrictions
- Delegated underwriting to multiple investors
- Underwriting employee for FHA loans and conventional
- Processing, Closing & Post closing function become in-house
- Servicing released
- Advisory support from mortgage accounting using QuickBooks
- Confirm CFPB CMS
- Volume of approximately \$300 to \$600 million per year
- Pre-tax profit above 30 bp on volume –
 - lowest profitability until growth increases



Banker Stage 3

Stage 3 – Hedging Begins – Capital \$5 million

- Same as 2
- Start Hedging and Mandatory Delivery
- Add 4 or 5 broker dealer trade lines
- Warehouse banks approve hedging
- Accounting is more sophisticated – need access to CFO
- Internal reporting is more sophisticated
- QuickBooks Accounting or better; CMS
- Volume of approximately \$900 million per year



Banker Stage 4 & 5

Stage 4 – Hedging Competency

- Same as 3
- Achieved Hedging Competency

Stage 5 – Servicing Retained Begins – Capital \$10 million

- Same as 4
- Add Servicing Capability with Agency delivery
- Ability to support cash-flow impact of retaining servicing
- Accounting is more sophisticated
- Internal reporting is more sophisticated
- Volume of approximately \$2 billion per year



Banker Stage 6 & 7

Stage 6 – Servicing Competency

- Same as 5
- Achieve Servicing Competency

Stage 7 – Agency Securitization – Capital \$20 million

- Same as 6
- Add custodial relationship and MBS approval
- Has well run servicing platform
- Volume of approximately \$4 billion per year



Banker Stage 8 & 9

Stage 8 – Securitization Competency

- Same as 7
- Competency in Securitization

Stage 9 – REMIC & REIT & Private Label –

- Same as 8
- Increase Capital \$50 million
- Add top tier capital markets presence



Banker Stage 10

Stage 10 – As Good As it Gets

- Profitable
- Stable
- Efficient
- Compliant in all areas

- May or may not include Stage 9
- Volume of \$8+ billion



Road Map to Success

Dr. Schell and the MBS team will examine
your ability to be a Mortgage CEO
and then help you create your
Road Map to Success to
Achieve any Stage of Mortgage Banking

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