JAMES A. GRAASKAMP COLLECTION OF TEACHING MATERIALS

V. INDUSTRY SEMINARS AND SPEECHES - SHORT TERM

I. Other Presentations In Which Either The Date And / Or Sponsoring Organization Is Missing

6. Real Estate Finance/Mortgage Banking/Mortgage Guaranty Insurance

p. "Mortgage Banking", no date

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Mortgage Banking

I. The mortgage banking function is to find institutions with surplus capital which wish to accept mortgage loans, and typically the institutions are located at some distances from location of the mortgaged property.

   A. The mortgage banker searches and originates loans in his own name for sale to a known investor or unknown class of investor.

   B. The mortgage banker with an established relationship, sometimes a quota, with an investor is considered the correspondent of that investor. A correspondent is something less than an agent as typically he does not have power to bind. Because the correspondent takes title to the loan and warehouses it for some brief period of time, he is not considered a broker.

   C. Most mortgage bankers also service the loan, collecting monthly payments, allocating to various escrow accounts, and depositing net with the investor. Servicing includes collection of delinquencies, property inspection, and day to day contact with borrowers.

   D. Origination fees of one or 2% are often less than origination costs including commissions to loan officers; may be offset by annual servicing fees but profit margins in servicing have shrunk.

   E. Mortgage bankers also have profit centers in land development, construction lending, insurance, property management, or as advisors of captive portfolios such as collateral trusts and real estate trusts.

II. Mortgage banking has depended heavily on life insurance funds and life insurance companies invested heavily in mortgages from 1947 to 1965. However, this major patron of mortgage banking is becoming less significant for a variety of reasons.

   A. Major life insurance companies have tended to withdraw from penny ante accounting of residential mortgages in favor of fewer loans of much larger amounts on commercial property.

   B. Mortgage bankers are salesman rather than analysts on a commission at a time when analysis desired by insurance companies becomes more sophisticated. Life insurance companies have been disenchanted and many have replaced all or some of their correspondents.

   C. Many mortgage bankers originate and warehouse loans in excess of established investor quotas and were forced to retrench or go out of business due to losses when interest rates rose, eroding resale value of mortgage portfolios.

   D. Mortgage bankers are the prime source of FHA mortgages but as the volume of FHA mortgages fell, the mortgage bankers lost out. Mutual banks still prefer FHA.

   E. Sophisticated developers bypassed the mortgage banker and deal directly with lenders on deals of more than 1 or 2 million.

   F. To counteract loss of both customers and potential investor volumes mortgage bankers have attempted to create alternative captive buyers of their services, including:

1. Collateral trusts
2. Real estate mortgage trusts
3. Pension fund
4. Government investment pools
5. Private investment funds
6. Savings and Loan associations, state banks, credit unions, or others with funds but without the expertise or the opportunity

G. Mortgage banking tends to flourish in growth areas such as the south and west where there is more real estate development than local savings in intermediaries with which to finance mortgages. These areas also tend to be strong politically in terms of senate and congressional representation. As a result the Mortgage Bankers Association of America probably carries more weight in government mortgage policies than its members or market position might suggest