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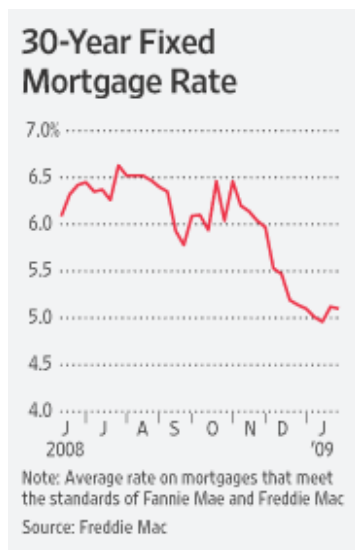
Mortgage Banks Push for Federal Support

While Financial Giants Get Help, Smaller Home Lenders Say They Are Being Starved of Credit

By JAMES R. HAGERTY and RUTH SIMON

Small mortgage lenders are pushing for a slice of the federal support that is propping up giants like [Bank of America Corp.](#) and [Citigroup Inc.](#)

These lenders, known as mortgage banks, say they are being starved of the credit they need to make home loans, reducing competition in a mortgage market increasingly dominated by a few giant banks, led by [Bank of America](#), [Wells Fargo & Co.](#), [J.P. Morgan Chase & Co.](#) and [Citigroup](#).



As mortgage banks close or face credit constraints, competition to offer the lowest rates and fees is becoming less intense. "If I can only make 10 more loans, do I really want to price them at the most aggressive rate I can to get the business?" asked Jay Brinkmann, chief economist of the Mortgage Bankers Association. Guy Cecala, publisher of *Inside Mortgage Finance*, a trade publication, estimated mortgage rates for consumers are 0.25 to 0.5 percentage point higher than they would be if the market were as competitive as it was a few years ago.

Mortgage banks often are small, family-owned companies. Unlike commercial banks or thrifts, they aren't licensed to take deposits and so don't have that source of money for their loans. Instead, they typically borrow money for the short term from so-called warehouse lenders. They use the short-term credit to provide loans to their customers and then pay back the warehouse lenders after selling the loans to bigger banks or to government-backed mortgage investors Fannie Mae and Freddie Mac.

During the housing boom, Wall Street investment banks and many large mortgage lenders were eager to provide these warehouse lines of credit because mortgages were seen as a safe, lucrative investment. Now that house prices are falling and defaults soaring, many of those big institutions have stopped making warehouse loans or have cut back on that business.

Warehouse Lending Project, a group of mortgage bankers seeking to revive the market, estimates overall money available for warehouse loans has dropped nearly 90% since 2006, to about \$25 billion.

Among banks and other financial firms still making warehouse loans are [Wells Fargo](#), [Bank of America's Countrywide unit](#), [SWS Group Inc.](#), [Colonial BancGroup Inc.](#) and [NattyMac LLC](#).

In testimony Tuesday before the House Financial Services Committee, the Mortgage Bankers Association asked

Congress for help maintaining existing sources of warehouse credit and creating new ones.

The trade group said one option would be to provide a federal guarantee of warehouse loans to make such lending less risky. Another possibility, the MBA said, would be to give Fannie and Freddie temporary authority to help provide funding for warehouse lines of credit.

John Courson, chief executive of the MBA, estimated a few hundred mortgage banks have gone out of business in the past few years and said the shortage of warehouse credit is hurting many of the survivors. Sunshine Mortgage, a mortgage bank based in Atlanta, abruptly closed down in January. Mark Milam, who was a sales manager at Sunshine, said he believed the closure was at least partly caused by "evaporating" warehouse lines. The owners of Sunshine couldn't be reached for comment.

"We have about 75% of the warehouse capability we want," said Bill Cosgrove, chief executive of Union National Mortgage Co. in Strongsville, Ohio, who is trying to obtain more. "It's your lifeline," he said. "Without the ability to close loans and temporarily fund them in your name as the lender, you are out of business."

Fairway Independent Mortgage Corp., Dallas, in January had to turn away as much as a third of its potential mortgage borrowers because of its inability to get enough credit from warehouse lenders, said Steve Jacobson, one of the company's owners.

He said warehouse lenders also have required the company to double its capital to about \$7 million. Mr. Jacobson said he had to sell personal investments to meet that minimum.

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