Projected Boom in Mortgage Originations Threatens to Overwhelm Credit Facilities

$630 billion shortfall forecast for 2009

Washington, D.C. March 26, 2009 – Based upon revised projections for 2009 loan originations of $2.8 trillion,[1] the Warehouse Lending Project (WLP) warned today that upwards of $630 billion in home mortgage loan demand may not be met due to a shortage of short-term bank credit known as warehouse lines of credit.

Warehouse lending is a critical link in the housing finance chain, providing short-term funding for loans that are eventually sold into the secondary market to Fannie Mae, Freddie Mac and Ginnie Mae. Unfortunately, one of the casualties of the financial crisis has been a sharp decline in the availability of warehouse credit facilities for mortgage bankers. Estimates are that 85-90% of the warehouse lending capacity has exited the market over the past two years. Mortgage bankers that utilize warehouse lines account for approximately 41% of all residential mortgage loans in the U.S., and nearly 55% of popular FHA loans. However, just in the past few weeks three more major providers of warehouse credit have told their customers they plan to exit the market over the coming months.

" Since March 1st three major warehouse lenders have told their customers they plan to exit the market over the coming months," said Glen Corso, spokesperson for WLP. "The timing could not be worse, as recent efforts by the Fed to lower rates and the just-enacted homebuyer tax credits appear to be working, putting a floor in the home purchase market and providing new opportunities for borrowers to refinance into the lowest fixed rates in several decades," Corso noted.

Without quick action by federal policymakers, this shortage of warehouse credit will translate directly into higher mortgage costs for consumers, longer loan processing times and other delays.

"Mortgage bankers have few options available to manage their loan application pipelines, other than to dramatically extend loan processing times or raise pricing in order to discourage a flood of applications. It's a classic demand-supply imbalance," said Corso. "We think it's a temporary problem, but one that needs a solution quickly in order to ensure that the efforts to support the housing market and lay the foundation for a broader economic recovery are not undermined."

The WLP has conducted a concerted effort over the past three months to educate policymakers on the shortfall and the potential impacts, and to work with trade associations, warehouse bankers, and federal agencies to develop

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[1] Mortgage Bankers Association Press Release, "MBA Boosts Originations Forecast By Over $800 Billion," March 24, 2009.

and recommend potential solutions. The WLP believes that existing federal liquidity facilities or loan guarantees could be utilized to provide a temporary backstop to existing warehouse providers and encourage new capital to enter the business. Any solution should be temporary until private warehouse capital returns, but it needs to be done quickly while interest rates are low in order to stimulate the housing recovery.

"Policymakers in Washington have grasped the importance of the issue and the need to address the shortage, but no single agency, or group of agencies has stepped forward to take ownership of the problem and its solution," said Corso. "We hope with this new projection that situation will change in the near future."

Estimated Warehouse Lending Gap

1. Estimated 2009 Home Mortgage Originations	$2.8 trillion
2. Mortgage Banker Market Share	41%
3. Total mortgage banker originations (line 1* line 2)	$1.15 trillion
4. Estimated current WH lines from major lenders	$25 billion
5. Average sustainable long-term line usage @ 70% (.7 * line 4)	$18 billion
6. Estimated maximum funding capacity from existing warehouse lines (line 5 * 20)	$360 billion
7. Estimated funding gap due to reduced warehouse line capacity (line 3 - line 6)	$788 billion
8. Adjusted funding gap (.8* line 6)†	$630 billion
9. Estimated shortfall in warehouse lending capacity (line 8/20)†	$32 billion

† This is a baseline estimate of the additional warehouse line capacity (line 9) that would be needed to accommodate projected funding gap in 2009 (line 8). Higher loan origination volume in 2009 and/or increased mortgage banker market share as a result of increased use of FHA loans would produce a larger gap/need.

Sources/Derivation of Estimates:

1. Most recent published estimate: MBA forecasts $2.8T in home mortgage originations for 2009 (rev. 03-23-2009).

2. Based on 2007 HMDA data LARs submitted by non-federally supervised lenders. This estimate excludes from the mortgage banker market share ALL RETAIL originations reported on the Countrywide Home Loans (non-bank) LAR.

4. Unofficial estimate from Reynolds Consulting.

5. This is an estimate of the average sustainable line usage over a full year. Lenders cannot maintain a line in 100% drawdown. Line usage must accommodate peaks and

troughs through monthly and seasonal funding cycles. Based on historical experience, a 70% average would represent heavy usage over a one-year period.
6. Assumes typical loan stays in warehouse facility for 18 days, and lines can be turned over 20 times in one year.
8. Assumes banks and thrifts will be able to absorb 20% of mortgage banker volume in 2009.

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The Warehouse Lending Project is a coalition of independent mortgage bankers that depend upon warehouse lines from commercial banks to fund their residential mortgage loan originations. More information regarding The Warehouse Lending Project is located at www.warehouselendingproject.com. Emails can be sent to: team@warehouselendingproject.com