The secrets to two wholesale lenders' success today

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To paraphrase a common saying, opportunity is a by-product of chaos. To some participants in the growing wholesale channel, the turmoil in the mortgage business is leading to strong business prospects.

Take for example, Plaza Home Mortgage, which added some additional volume because of the spring home buying season, but also got more business merely from new people joining the company. The company is predominantly a Ginnie Mae shop, participating in the government lending programs that feed that secondary market outlet. It focuses on first-time home buyers and renovation loans.

"Some of it is the result of us on the wholesale side in particular, picking up some additional sales reps," said Mike Fontaine, co-president and chief operating officer. Plaza "picked up some good talent as others left that sector."

Several competitors had issues with the economics of the wholesale business, as tight margins got even tighter between rising rates and pricing pressures.

"Prices have been kind of all over the map on any given day, there's always somebody that's sticking out," Fontaine said. "It seems like we've tried to be consistent on our pricing and fair, and it's still challenging in this market."

Plaza is looking to tap into the growing mortgage broker industry with improved technology that has made it easier for them to work with the company, Fontaine noted.

"I think people will keep becoming brokers for a couple of different reasons and one would be the opportunity to have additional products available to you that you don't have if you're a retail loan officer," he said. "The other is that a lot of people that are brokers want to be their own boss, they're entrepreneurial in nature."

The technology investment needed to start a brokerage is lower than in the past because of improvements in software and hardware, as well as workflow. Meanwhile Plaza offers a lot of training free of charge, Fontaine said.

Another wholesaler, Constructive Capital, is a Chicago-area lender with a national footprint that only does business with residential property investors.

The company made its first loan in January 2018, but company president Ben Fertig has been in the mortgage business since September 1996 and exclusively on the residential investor side since 2012.

It originates debt service coverage ratio as well as short-term fix-and-flip bridge loans, primarily on one-to-four unit properties; it does some lending on 5-to-40 unit buildings as well. It's a business model that is good in all markets, but especially now at a time when conventional and government production is hard to come by, Fertig said.

A large percentage of Constructive Capital's volume comes from mortgage brokers who focus on the investor market, but it sees opportunity in the broader sector that works with conventional and/or government-guaranteed owner-occupied lending.

These brokers "really need to explore these asset classes, to get engaged because it provides the diversification of revenue stream; it provides value when it comes to recruiting and retaining loan officers just due to the product diversification," Fertig said. "While these products are not price or rate agnostic, they're much less sensitive to them."

Constructive Capital's business grew 60% between 2021 and 2022. "And we are on pace to grow another 25% through 2022 to 2023 through the first five months of the year," Fertig said.

And it has done so profitably, unlike some other wholesalers, the company's warehouse lenders have told Fertig.

"We kept our cost to originate extremely low," he said. "So it's not uncommon for us to do 700 loans with 110 employees."

Another reason for its financial success is that Constructive Capital diversified its funding sources. Traditionally, DSCR lenders have had to turn to the private-label securitization market as a secondary market exit strategy.

Instead, Constructive Capital created direct relationships with life insurance companies.

Because of their need for long duration assets, life insurance companies have invested in mortgages, primarily commercial but also residential.

Thus it can be a more stable outlet than securitization in these environments, Fertig noted.

"When everybody else back in 2021 was selling to securitizers, we made a little less on those loans," he said. "But we established forward commitments that have carried us from 2021 through now, which has given us more consistency and reliability when it comes to price than you would otherwise get in the securitization market."

Reputation is another differentiator among wholesalers. At the time the bottom dropped out of the market because of COVID, Constructive Capital was running a contest for its brokers. But while it was able to fund some of its pipeline, other loans did not close.

Some of those involved lost earnest money, Constructive Capital covered that, costing it a half a million dollars.

"But when the market normalized in the third and fourth quarter of 2020 a lot of people remembered that," Fertig said.

And that, along with its niche, will help the company keep going strong in the future, he added.

"We're spending a lot of time and we're going to convince the broker base that these products should be a long term focus, regardless of the cycle," Fertig declared.

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