Mortgage Origination and Home Sales, 2001-14

Source: HMDA and NAR
Insufficient Deposits for Mortgage Originations

Source: Flow of Funds
Pre-Crisis Mortgage Market Inter-firm Linkages
Current and Pre-Crisis Mortgage Origination Funding Structures

Funding Time: 30 Day GSE; 60 Day Private-Label Prime; 90 Day Private-Label Sub-prime

1. Collateral: Mort. Note/Lien
   - FHLB (if eligible FHLB member)
   - REPO Counterparty
   - REPO Funding

2. HFS: Mort.
   - Asset Receivables

3. Off-Balance Sheet MRAs
   - ABCP/ABS Funding

4. Deposits (if depository)

BHC Lender: Master Repurchase Agreements
   - Forward Commitments
   - FHLB Advances

Mortgage Originator

Borrower

Mortgage
Pre-crisis New Century Committed MRAs (December 2005)

- **Warehouse Lenders (MRAs) -- TOTAL $14.35B**
  - Bank of America, N.A. - $3B
  - Barclays Bank, PLC - $1B
  - Bear Stearns Mortgage Capital - $800M
  - Citigroup Global Markets Reality Corporation - $1.2B
  - Credit Suisse First Boston Capital, LLC - $1.5B
  - Deutsche Bank - $1B
  - IXIS Real Estate Capital, Inc - $850M
  - Morgan Stanley Mortgage Capital Inc. - $3B
  - UBS Real Estate Securities Inc. - $2B

- **Off-Balance Sheet Borrowing -- TOTAL $2B**
  - Von Karman Funding Trust - $2B

Source: New Century 10K filing.
Pre-crisis Countrywide Mortgage Funding (December 2007)

- Deposits -- $60B
- MRAs -- $12.5B
- Off Balance Sheet Lines -- $11.5B
- FHLB Advances – $47.675B
- TOTAL -- $131.675B

Source: Countrywide 10K filing.
Current Mortgage Origination Funding by PHH Mortgage (December 2015)

• Fifth largest purchase mortgage originator
• Sixth largest refinance mortgage originator
• Committed MRA Facilities -- $1.95B
  • Credit Suisse First Boston Mortgage Capital, LLC -- $575M
  • Fannie Mae -- $500M
  • Bank of America, N.A. -- $400M
  • Wells Fargo Bank, N.A. -- $350M
  • Royal Bank of Scotland -- $150M
• Uncommitted facilities -- $2.5B
  • Fannie Mae – $2.5B
• Off Balance Sheet Lines -- $250M
• TOTAL -- $4.725B

Source: PHH Mortgage 10K filing.
Collapse of Off-Balance Sheet Funding (MRA/ABCP)

Source: Moody’s Investment Services
Conclusions: Origination Funding Structure is Unrelated to Contract Types

- U.S. Mortgage pipeline funding structure is **fragile:**
  - Pre-crisis mortgage origination funding structures are still dominant – especially master repurchase agreements (MRAs) with 30 day maturities.
  - MRA funding structures are vulnerable to: 1) securitization speeds; 2) roll-over risk; 3) many other debt covenants (especially accounting triggers) -- this was a very important pre-crisis problem leading to the collapse of lending infrastructure and many firm bankruptcies.
  - MRAs have repo status so they are exempt from automatic stay -- lenders will rush to be first to cancel.
  - Pipeline “borrowers” have no capital, but they bear the put-back risk – not a sensible set-up.
  - Put back exposure has led all lenders to add risk “overlays” to underwriting criteria – recent GSE limits on future seasoned put-backs may reduce problem.
  - Currently, 30 day securitization speeds from the pipeline is assured by the dominance of GSE securitization and the liquidity provision of the conservatorship – without GSEs we are back to pre-crisis runs.