IMB FACT SHEET

The Resurgent Role of the Independent Mortgage Bank

Independent mortgage banks (IMBs) are non-depository institutions that typically focus exclusively on mortgage lending. Mortgage bankers have originated and serviced loans since the 1870s, and independent mortgage bankers have been an important component of the mortgage market for more than a century.

According to Home Mortgage Disclosure Act (HMDA) data, there were 838 independent mortgage bankers in 2016, with these lenders operating across all 50 states. Independent mortgage bankers are a diverse market segment, and can range in production volume from $10 million to almost $100 billion annually. Companies can have fewer than 100 employees or several thousand. The increasing importance of the independent mortgage banker strengthens the industry through the market diversity, competition and innovation that these firms can foster.

THE FACTS ABOUT IMBs

- Mortgage Banking Is a Time-Tested Business Model. The independent mortgage banking model has existed for more than 100 years, and provides important market diversification.

- IMBs Have Skin in the Game. Most independent mortgage banks are private companies that are owned by a single or small number of owners who are personally responsible for and financially tied to the success of the company.

- IMB's Serve Critical Borrower Segments in their Local Markets. Independent mortgage bankers focus on the purchase market, and on government-insured or -guaranteed loans that target first-time and low- and moderate-income homebuyers.

- IMBs Are Well-Regulated at Both the State and Federal Levels. Independent mortgage bankers are regulated and monitored by the states and the federal government. IMBs are the only lenders in the market whose loan officers are required to be individually licensed and tested. Additionally, other entities, such as FHA, also provide oversight, establish minimum financial standards and require regular financial reporting.

- Independent Mortgage Bankers Support Communities, Consumers and the American Economy. There are more than 800 IMBs active in the market today, the vast majority of which are locally owned institutions serving their communities by bringing mortgage funds from Wall Street to Main Street.

THE INDEPENDENT MORTGAGE BANKERS BUSINESS MODEL

- Independent mortgage bankers are non-depository institutions and typically borrow from various warehouse lenders to finance loans prior to their sale in the secondary market.

- The mortgage banking business model serves as an “importer” of capital to local communities, moving investment dollars from the capital markets on Wall Street to make home mortgages available on Main Street.

- Independent mortgage bankers are typically “monoline” companies, focused exclusively on providing home mortgage financing, mortgage servicing and other closely related services. They operate across all delivery channels — with retail branches, through wholesale brokers, and consumer-direct call centers.

- Most IMBs are privately held companies, owned and operated by a single individual or small number of owners whose personal net worth is fully invested in the company. If the company fails, the owner may be financially wiped out, providing substantial “skin in the game” and strong incentives to manage the business for the long term.

EVOLVING MARKET DYNAMICS — IMBs DOMINATE PURCHASE MARKET IN RECENT YEARS

- As noted, IMBs have been around for more than a century. In recent years, the independent mortgage bankers’ share of reporting companies has remained steady, accounting for 14 percent of all HMDA reporting entities since 2008.

- However, independent mortgage banks heavily dominate the origination of home-purchase mortgages. The IMB share of that segment is far larger than their overall size in the market, and has increased from 25 percent in 2008 to 50 percent in 2016.

- Independent mortgage bankers focus their lending on government-insured or -guaranteed loans — FHA, VA and Rural Housing Service mortgages.

- These government-backed programs predominantly serve low- and moderate-income families and first-time home buyers.

- As of 2016, 40 percent” of IMB originations were comprised of FHA, VA and RHS loans, compared to less than 16 percent for federally insured depositories.

- While IMBs accounted for 14 percent of HMDA reporting institutions in 2016, they originated three-fourths of all government-insured or -guaranteed purchase mortgages.

- IMBs also tend to serve borrowers needing lower-balance loans. The average purchase loan amount in 2016 for IMBs was $234,000, compared to $276,000 for federally insured depositories.

REGULATORY FRAMEWORK AND OVERSIGHT

- Independent mortgage banks are subject to state supervision in every state they do business, and they are also regulated at the federal level, where the Consumer Financial Protection Bureau (CFPB) has supervisory, investigative and enforcement authority over them. Each year, the typical IMB will have numerous financial solvency reviews from state and federal regulatory agencies.

- Independent mortgage banks are the only mortgage lending business model where all individual loan originators employed by the company are required to be licensed in each state in which they operate.

- To become licensed, every IMB loan officer must take verified pre-licensing education courses, pass a licensing exam and complete mandatory continuing education each year to maintain their license. Licensed IMB loan officers must also undergo an FBI criminal background check and a review of their financial background by the state regulator in each state in which they are licensed.

- Testing of loan officers ensures that borrowers working with an independent mortgage bank have the confidence that they are being served by a person who has met verified standards of education that include ethics, fair lending and relevant state and federal laws and regulations.

- Independent mortgage banks, like other lenders, must submit quarterly financial reports to their regulators, as well as reports on their origination and servicing activities in each state.

- Fannie Mae, Freddie Mac, Ginnie Mae and the Federal Housing Administration (FHA) have minimum net worth and liquidity requirements for all approved lenders, and routinely monitor their performance.

- Warehouse lenders closely monitor independent mortgage bankers for counterparty risk, as they will look to the independent mortgage banker and the underlying collateral to get paid back in the event of a default.