

Mortgage
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Seeking out the value

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In recent months the issue of mortgage funding has been hard to miss. The crisis at Northern Rock and withdrawal of some 26,000 mortgage products, in addition to the numerous changes in products and criteria, have brought the role of the credit markets and the importance of mortgage funding to the fore.

Until recently, few distributors had given much thought to how mortgages were funded and the transition from a balance sheet funded model to the securitised model appeared to impact little on the broker. However, it was investors' appetites for higher yields which underpinned the growth in the non-conforming markets and it will be the demands of investors which determine the shape of mortgage funding in the future.

We are already seeing an increasing demand for information from all lenders with securitised portfolios. It was the near collapse of two Bear Sterns' hedge funds with exposure to the US non-conforming market which triggered the current credit

crunch and investors, now burned, are casting a wary eye over existing portfolios.

We believe that this demand for information will continue to grow. In the past, many lenders have waited until the point of securitisation before collating the required data, however, increasingly they will be looking to collate the data upfront.

In addition, lenders are likely to continue with tight underwriting criteria, to ensure, as much as is possible, that the mortgages contained in the book will behave in a similar and expected manner.

The close monitoring of information continues long after the mortgage has been sold. Investors are demanding up-to-date and detailed reporting on their portfolios in order to ensure that collection rates remain high. Rating agencies have also been stung by criticism and are requiring ever-greater detail to be provided frequently, alongside an increasing demand for trend analysis. They are also requiring lenders to adapt their processes to reflect these trends.

Lenders have responded by using the

data to ensure that their portfolios perform. Trend analysis regarding arrears is increasingly resulting in the identification and active management of similarly profiled cases and a focus on foreseeing and planning for likely defaults.

These trends are also likely to shape the products of the future. All parties are looking for certainty, and the intermediary banks providing the warehousing facility will want to be sure that they can sell on any mortgages on their books. We are consequently likely to see a return to tranche funding, alongside the aforementioned changes, and brokers, and their clients, will have to get used to the concept of limited product availability and the need for swift turnarounds.

The market has changed, but there is light at the end of the tunnel. The interest from both private equity and mortgage players in acquiring discounted books of business shows that there is now value to be found. If we can see the value, other investors will doubtless do so soon.