From Broker-to-Banker:
Manage the Risk and Reap the Rewards

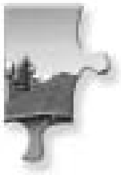
Solve the Broker-to-Banker Puzzle with a WarehouseOne Facility and Measure Your Success

Table of Contents

Take the next step…
but make it a SureStep™

WarehouseOne – Providing Solutions for Mortgage Brokers and Bankers

Broker to Banker: Manage the Risk and Reap the Rewards



If you are a mortgage broker, chances are that during the last year you have been considering becoming a correspondent lender or mortgage banker for a number of reasons. Whether it has been concern over proposed changes to regulations like RESPA, other regulatory changes like predatory lending laws, a desire to better control the lending process or just the desire to earn more revenue, there are a number of good reasons to consider making the transition. But becoming a banker also involves changing the way you conduct business and assuming risks that are not relevant when functioning as a broker. Let's look at some of the risks, rewards and requirements typically associated with mortgage banking.

Risks:

Additional Responsibilities – Underwriting, Document Preparation, Closing, Post-Closing, Quality Control and Interim Servicing.

Additional Expense – Labor and systems to perform the tasks identified above.

Cash Flow Timing – Your company will now receive a significant portion of your revenue when the investor purchases the loan versus when the loan closes. As a broker you were most often paid when the loan closed.

Chain of Title – Your company's name now appears on the note and you may have more legal exposure.

Repurchase Obligation – Your company will now be subject to a repurchase obligation upon the sale of loans to investors for processing.

Warehouse Line Obligation – Your company and, in most instances its principals, will be obligated to guarantee the warehouse line.

Rewards:

Better Pricing – Investors should pay more for closed loans versus loans that are brokered or table-funded.

More Pricing Options – Your company can take advantage of mandatory and small bulk sale pricing further increasing the premiums received from investors on the sale of loans.

No Disclosure of SRP – Loans warehoused by your company are treated differently under RESPA as to disclosure of premiums received by you from investors. Bankers do not disclose the SRP (Servicing Released Premium) paid to them by investors. Bankers not longer receive a YSP (Yield Spread Premium).

More Control – Your company will now originate and close loans in its own name. You will no longer have to wait for lenders to underwrite and document loans or to schedule closings. You now control that process and can provide your customers with more timely service.

Function as Principal – Your company now functions as a principal in the market and you own the loan until the loan is sold into the secondary market which means you earn interest on the loan until it is sold to an investor.

Rewards: (continued)

New Origination Channels – As a correspondent lender or mortgage banker, you can originate loans through retail and wholesale origination channels.

Ability to Compete – Functioning as a banker can help to make your company appear larger in size, making it easier to compete against traditional retail banking institutions, broadening its value in the market.

Requirements:

Net Worth – Investors, certain state banking departments and warehouse lenders will typically set minimum net worth requirements for correspondent lenders and mortgage bankers. These may range from $100,000 to $1,000,000 or more.

Licensing – Your company will have to be licensed as a correspondent lender or mortgage banker in the jurisdictions in which you expect to originate loans.

Errors & Omissions and Fidelity Insurance – Investors and warehouse lenders will typically require you to carry E&O and Fidelity insurance, a cost that you may not have incurred as a broker.

Back-office Experience – Investors and warehouse lenders will want to know how you plan to underwrite, document, close, post-close and quality control loans you originate. Both will require experienced personnel to be identified for these functions.

Our SureStep™ program makes the transition from broker to banker easy for you while eliminating much of the risk. Please read this booklet to learn more about becoming a SureStep™ banker. More information about SureStep™ can be found at www.SureStepBanker.com and www.broker-2-banker.com.

Making the Transition from Broker to Banker

Why do so many brokers perceive that making the transition from broker to correspondent lender or banker and funding whole loans using a warehouse line is so difficult? The biggest obstacle to making the transition to banking is making the decision to change the way your company operates. Funding your own loans is not a difficult process, it's just a change in the way you do business. After you make the decision to ***take the next step*** in mortgage banking, you can experience all the benefits of funding your own loans. WarehouseOne will work with you to help you understand how to use a WarehouseOne facility.

If you don't know what a warehouse facility is or how it works, please refer to Appendix A in this booklet.

How is banking different from brokering?

The primary differences between a company banking and brokering loans are the back-office functions of underwriting, documenting, closing, funding, post-closing and quality control that are integral to the operations of a banker. There are two ways to add these functions to your operation.

The first involves hiring experienced staff to adequately handle these functions. This may include hiring or contracting with underwriters, closers, funders and shippers. The second involves outsourcing some or all of these functions to third-party vendors.

Our SureStep™ program makes the transition as simple and easy as possible by combining all of the back-office functions with a warehouse facility, minimizing fixed overhead and the hassle of hiring additional staff while simplifying the warehouse process.

Why make the transition?
As previously stated, becoming a mortgage banker has the potential to broaden the foundation and value of your company. If successful, you will realize increased profits and the ability to compete more effectively with larger mortgage originators for business. You won't be dependent on wholesale lenders to provide quality service to your customers because you have gained control over the lending process and now function as the lender. In addition, you'll be able to close loans in your own name, without having to disclose to borrowers the premiums received from investors. In the face of increasing regulatory pressures, a warehouse line of credit may be the only way to avoid being negatively impacted by changes in disclosure rules. Companies with the ability to sell closed loans have a competitive advantage over those that cannot but bankers assume more risk than brokers.

What risks are there when banking a loan versus brokering a loan?
When closing a loan as a banker, you are making representations and warranties to the investor purchasing the loan that you have processed, underwritten, documented, closed and funded the loan in compliance with the requirements of the investor and those of the jurisdiction in which the loan was originated. If there were mistakes made in any of those functions, you may be required to repurchase the loan. You also appear in the chain of title and may be named in a legal action by the borrower if those functions were not handled properly. Further, you are responsible for the funds that have been advanced to close the loan and if the designated investor does not purchase the loan within the allotted time frame, you now own the loan and may be required to reimburse the warehouse line for the funds advanced. There may be certain other risks, such as interest rate and secondary market risks, that are discussed in more detail below.

In our SureStep™ program, we handle these functions for you in your name and provide a warranty that minimizes these risks.

How should I address loan pricing and interest-rate risk?
Interest-rate risk occurs as soon as the borrower chooses a product and locks in an interest rate, even if the loan has not yet funded. If interest rates increase and you have not locked in the rate with your investor, you may be required to fund and sell the loan at a loss, or at a premium less than you were expecting. WarehouseOne requires that all loans be locked with the investor prior to funding.

Estimating and choosing the length of the lock is an important aspect of managing interest-rate risk. Investors typically offer locks for periods of 10, 15, 30, 45 or 60 days, with shorter locks representing better pricing to you but potentially more risk should you not be able to deliver the loan within the lock period. Be sure to allow plenty of time to close the loan and deliver it for purchase when choosing the rate-lock period. In contrast to table funding or brokering, your lock period typically must extend until the investor receives your closed loan package, rather than only to the point of closing.

In order to minimize interest-rate risk, we recommend that you lock all loans with the investor on a "best efforts" basis as soon as the borrower locks with you. Although "best efforts" pricing may not be as favorable as mandatory and bulk pricing, it represents less risk to you, since mortgage bankers are penalized for loans with mandatory locks that do not close (this is not the case for "best efforts" locks).

Through our SureStep™ program, pricing for loans sold to Sterling Eagle is often passed through at more favorable mandatory and bulk rates even though you are submitting loans on a best efforts basis. While we cannot always guarantee better secondary market execution through our SureStep™ program, we anticipate that Sterling Eagle's pricing will generally provide a competitive edge. For additional information on Sterling Eagle's products and rates, please click the link for Loan Products and Rates on the www.sterlingeagle.com homepage.

Where do I start?

Before you fund your first loan as a mortgage banker, you will have to do the following:

1. Review state licensing rules and requirements to ensure that you are properly licensed as a correspondent lender or mortgage banker in the jurisdictions in which you are going to originate loans. These requirements may include a minimum corporate net worth, errors & omissions and fidelity insurance and access to a warehouse line.

2. You will need to apply to become an approved correspondent with one or more investors. If you are planning to sell loans to one of your existing lenders, you will often find that your local wholesale account representative will no longer handle your business once you become a correspondent. Most investors have a wholesale division and a correspondent division that work independently. WarehouseOne maintains an approved investor list and you may sell loans to any investor on that list for which your company is an approved correspondent. We can help introduce you to the correspondent division of investors to whom you would like to sell loans.

   Through SureStep™, your company automatically qualifies as an approved correspondent for the Sterling Eagle mortgage purchase conduit.

3. Establish a relationship with a closing agent in your area of origination and consult with the agent about your new responsibilities.

   Our SureStep™ program incorporates thousands of eligible closing agents in all 48 contiguous states that are available right through our website.

4. Establish a relationship with a capable document preparation company. Check with your investors to determine which document preparation companies they accept.

   Several national document preparation companies have integrated their document preparation software with our SureStep™ program application. We can provide approved document sets for all major investors over the web, making documents immediately available.

5. Become familiar with your WarehouseOne facility by reviewing the WarehouseOne Operating Guide. It is important that you review this guide with your WarehouseOne Relationship Manager before you begin funding.

   WarehouseOne is integrated with SureStep™, providing seamless funding for loans that are processed through SureStep™. Warehouse funding occurs automatically and there is no document package to send.

6. Establish a relationship with at least one third party mortgage insurer that is on your investor's approved list. In addition to providing primary mortgage insurance, these insurers may be delegated as contract underwriters for some of your investors. If you desire to utilize contract underwriting, you'll need to check with your investor and contract for that service with your mortgage insurer.

   SureStep™ has established relationships with several MI companies for MI coverage and contract underwriting. SureStep™ can work with any MI company that you have established a relationship with.

7. Determine the loan products that you are going to offer and become familiar with investor pricing and all of the requirements of the investor to whom you plan to sell these closed loans.

   SureStep™ incorporates many different investor loan programs in its electronic library and manufactures loans that you originate to specific investor guidelines for these loan programs.

If you are participating in WarehouseOne's SureStep™ program, you will only have to address numbers 1 and 6 above. However, we recommend you become familiar with all aspects of banking and a establish relationship with more than one investor.

Back Office Functions

Underwriting

Most warehouse lenders, including WarehouseOne, requires prior written underwriting approval from the investor before funding the loan on your warehouse facility. Prior approval will either be in the form of an underwriting/purchase commitment or acceptable/eligible findings from an automated underwriting system (AUS). In some instances, investors offer delegated underwriting or allow for contract underwriting through an MI company.

Under our SureStep™ program, your loans are underwritten by our underwriters to your investor's guidelines for the product your customer selected. Underwriting is generally accomplished within 24 hours of loan submission and you receive an underwriting warranty that protects you from having to repurchase loans if an underwriting error was made. Recall that fast underwriting turnaround time will provide you with more control over the timing of closing, thus providing better service to your customers and lesser risk of missing a lock period. The SureStep™ underwriting warranty largely eliminates repurchase risk, the most significant obligation you incur when making the transition from broker to banker.

Preparing loan documents
In your new role as a mortgage banker, you are responsible for drawing or obtaining your own loan documents and ensuring their accuracy and compliance with all legal and regulatory requirements. Make sure that your investor has approved the documents you use. Not all investors use the same loan documents. Your investor should also approve any document preparation company you use. Therefore, using one of the nationally recognized document preparation companies is recommended. WarehouseOne does not recommend generating documents from your LOS. In today's sensitive and constantly changing compliance environment, you want to make certain that your documents comply with all legal, regulatory and investor requirements.

You are also responsible for closing loans, ensuring that mortgages and deeds of trust are recorded, and delivering the loan credit file and collateral documents to investors. Your document preparation company and closing agent may perform many of these functions for you.

Once the loan has been approved by the investor with all underwriting and funding conditions cleared, you must schedule the closing and prepare the loan documents for signature. After reviewing the loan documents and disclosures to ensure their accuracy and compliance with the law and the investor's requirements, you will then deliver them or instruct that they be delivered to the closing agent, where they are signed by the borrower.

Document preparation companies require that mortgage bankers communicate the terms of the loan on a worksheet, either manually or electronically. It is critical that you prepare these worksheets accurately because errors may result in loans that are unsaleable in the secondary market or that must be sold at a discount. For example, if there is an error in the borrower's favor (e.g., the rate on the note at closing is lower than the locked rate) and it is not discovered until after closing, the borrower may refuse to sign amended documents. This may result in a loan that must be sold at a loss or a loan that is unsaleable.

In some cases, investors will draw documents in your name for you. Recall that one of your primary goals in making the transition from broker to banker was to gain control over the loan manufacturing processes. Waiting for an investor to draw documents is not compatible with this goal. Some investors may provide documents that are available online through their website. This could be a viable document solution for that specific investor if the documents can be generated on demand but how will you prepare documents for other investors?

Through our SureStep™ program, documents are prepared for you by document preparation companies that are integrated with our systems. This assures you that the documents will have been approved by your investor and comply with all current regulations. Should any changes be required at closing, the documents can be changed and printed out by the closing agent without delay. This also means that you are accessing the documents at a very reasonable cost. These documents are received digitally and are maintained as images always available for viewing or printing over the web prior to closing.

Funding
Many states require "good funds" to be available to the closing agent before the borrower may sign loan documents. These are sometimes referred to as "wet" closings. In other states, borrowers sign the closing documents before funds have been sent to the closing agent. Closings in these

states are referred to as “dry” closings. WarehouseOne wires funds for “wet” or “dry” closings to the closing agent based on an agreed-upon “Advance Rate.” This is the warehouse amount or maximum amount that WarehouseOne is willing to advance on behalf of the mortgage banker.

The “haircut” is the difference between the principal amount of the loan or the purchase price for the loan, whichever is less, and the warehouse amount. WarehouseOne’s typical haircut is 2%, meaning that WarehouseOne’s advance rate is 98% of the lesser of (i) the principal amount of the loan (par) and (ii) the investor’s takeout purchase commitment. In many cases, subject to your business model, a 98% advance rate is sufficient to close the loan when combined with cash due from the borrower at closing. WarehouseOne will maintain a cash management account on your behalf into which you will deposit funds to cover your haircuts if more than 98% of the loan amount is required to close the loan. These funds can automatically be pulled from that account by WarehouseOne and included in the wire to the closing agent. Residual proceeds from your loan sales can also be deposited into this account to replenish the funds for future loan funding. See Appendix A for more information on advance amounts and haircuts.

Loan closing

Loan closing, or settlement, is the legal phase of the lending process which involves the execution of loan documents by the borrower. As a mortgage banker, you are responsible for scheduling the closing and ensuring that the loan is closed in an accurate and proper manner. For example, the borrower’s name cannot appear on the note as “John D. Smith” and appear on the mortgage or deed of trust as “John David Smith.” Also, the closing and payment dates and other loan terms must be uniform throughout all documents.

Loans may be closed by title insurance companies, title insurance agencies, escrow companies or attorneys, depending on the jurisdiction in which the loan is closed. WarehouseOne maintains an approved list of settlement agents and requires escrow companies and attorneys to carry a minimum amount of errors & omissions and fidelity insurance coverage.

When closing loans through a closing agent you should request and obtain a “Closing Protection Letter” from the title insurance company. A Closing Protection Letter is required when using your WarehouseOne facility, except where such letters are prohibited by applicable state law. These letters serve as evidence that the closing agent is working as an agent of the title insurance company and that the title insurance company will provide protection against closing agent fraud or the closing agent’s failure to follow specific closing instructions.

Shipping and delivery

In states where wet closings are required, the mortgage banker must ensure that original signed notes are delivered directly to WarehouseOne from the closing agent in a timely manner. WarehouseOne requires that “wet” notes be delivered within 48 hours of loan closing.

In states with dry closings, WarehouseOne prefers that original notes be delivered prior to the wire being sent. To ensure that closings take place as scheduled, you should schedule the closing well enough in advance to deliver the signed original note and assignment to WarehouseOne prior to the date you request the wire be sent.

Once WarehouseOne has received the original note and assignment, we review the documents and send them for safekeeping to our custodian. Upon receipt of your delivery instructions which may accompany the note, we will have the custodian send the original note to your investor under our bailee letter. The bailee letter is the notification to the investor of WarehouseOne's security interest in the loan and provides that the security interest will be released upon payment by the investor to WarehouseOne or its custodian for the loan. The bailee letter also provides the investor with WarehouseOne's wire/payment instructions. A sample copy of WarehouseOne's bailee letter can be found in WarehouseOne's Operating Guide.

One of the most important components of a successful mortgage banker's business is a well-run shipping department. An effective shipping department increases profits and cash flow significantly by expediting the receipt of purchase proceeds from investors. It also enables the mortgage banker to execute shorter-term locks, which provide better pricing. Failure to meet an investor's delivery deadlines may result in costly extensions of locks or pair-off fees and a compromised relationship with the investor. Inefficiencies in the shipping department may also force you to provide interim servicing for mortgage payments. For example, if an investor is unable to purchase a loan in a timely manner due to missing documents or conditions in your loan file that have not been cleared, you may be required to collect one or more of the borrower's payments, remit any related insurance payments or tax amounts to the applicable payees and reimburse the warehouse amount advanced.

Shipping loans for purchase by an investor includes the following activities:

- Checking loan files for completeness and accuracy.
- Checking original documents for conformity and original signatures.
- Preparing loan files for delivery to the investor according to the investor's requirements.
- Delivering loan files before the expiration of rate locks.
- Ensuring that incomplete files are completed and inaccurate documents corrected so that the investor can purchase the loan within the term of the rate lock.

Mortgage bankers are usually required to execute a loss payee endorsement for all hazard, flood and mortgage insurance policies. These endorsements are generally included in each funding package delivered to an investor. If you use documentation preparation company, you can request that they prepare these forms for you.

SureStep™ notifies you when loan documents are ready for shipping and manages the closing and funding process to deliver loan packages to investors prior to rate lock expiration. Each investor's document, form and stacking requirements have been incorporated into SureStep's rules-based services. SureStep™ also provides for a 100% electronic file which simplifies the delivery of either an electronic or hard-copy credit file to the investor. The file is stored indefinitely for the mortgage banker which makes quality control and audit processes very straightforward. Electronic files can be accessed by those with permission from any location through the Internet.

Post-Closing Responsibilities – recording and trailing documents

Mortgage bankers are also required to follow up on all open items post closing. This may involve trailing documents, "welcome" and "goodbye" servicing letters and the recording of the mortgage. The final step in the closing process is ensuring that loan documents are properly recorded. The recording of the mortgage or deed of trust is critical because it ensures a valid lien against the property. The closing agent is usually responsible for delivering the mortgage or deed of trust for recording but the mortgage banker remains primarily responsible for the recording and the delivery of recorded documents to the investor.

Mortgage bankers are generally required to obtain and deliver follow-up documents to the investor, including recorded mortgages or deeds of trust, intervening assignments, and final title policies. You will have to instruct your document preparation company to indicate on loan documents that recorded mortgages or deeds of trust be delivered directly to your investor's document custody department address. You should have closing instructions specify that the final title policy be delivered directly to the same address.

SureStep™ maintains a national database of all recording offices, fees and charges to ensure that loans are recorded quickly and accurately. SureStep™ bankers have recordings performed for them and all trailing documents are accounted for and delivered to the appropriate investor. These loan documents, along with a schedule of open items and dates when the open items should be cleared, and all other loan documents are available for viewing at any time over the Internet.

Managing loans on your warehouse facility

Mortgage bankers must manage their warehouse line to ensure that loans funded on the line are purchased in a timely manner. As a general rule, investors should purchase loans within 15 to 20 days of funding on the warehouse line. Some warehouse lenders charge penalties or require additional collateral or a "buy-down" on loans that remain warehoused too long. WarehouseOne typically provides up to 45 days for loans to be purchased off the line but expects loans to be purchased more quickly, on average. While penalties may be imposed for loans that age beyond 45 days, the real penalty may be the loss of the warehouse line in the form of a suspension until the aged loans have been purchased by an investor or repurchased by the mortgage banker. If the loan has aged on the warehouse line beyond the maximum dwell time, the warehouse lender may require a buy-down of 10% of the warehouse amount as an advance payment until the balance of the warehouse amount is paid in full. Buy-downs represent an additional "haircut" and may be obtained by retaining purchase proceeds from other loans that were purchased or requiring an additional deposit from the mortgage banker.

Another significant consequence of aged loans on the warehouse line is that you may run out of available credit for funding other loans. We recommend that you monitor warehoused loans closely to ensure the investor purchases them in a timely manner. You can do this by using the on-line reports supplied by WarehouseOne. These reports are an excellent tool to properly manage your warehouse facility. Management should review these reports on a regular basis, and loans that remain warehoused for over 20 days should be investigated and removed from the line by working with the investor to determine and correct the cause of the delay. Once approved, you will be given a logon and password to access this online reporting system.

Investor purchase of the loan

When the investor purchases the loan, purchase proceeds will be sent to WarehouseOne's collection account according to the wire instructions provided in our bailee letter. The investor will notify you of the purchase by providing you with a Loan Purchase Advice or Funding Advice. This advice details the terms of the purchase, including any purchase premium, the accrued interest earned, the fees charged, and the principal balance purchased. You will be required to provide the purchase advice to WarehouseOne as quickly as possible so that the purchase proceeds can be identified and your facility can be paid down accordingly. The net proceeds can be credited to your company's cash management account or remitted to you.

Developing a Quality Control Program

Most investors who purchase closed loans require mortgage bankers to establish and maintain a post-closing quality control program. Such a program consists of re-verifying certain loan documents after the loan has been closed and sold to the investor. Most investors require this function to be completed by someone outside of the production and underwriting departments. If you plan to sell closed loans to an investor with such a requirement, we recommend that you consider contracting an independent quality-control firm to prepare the QC plan to meet investor guidelines and then perform the QC. The QC firm will prepare reports that management can use to identify procedures that require change.

SureStep™ makes this QC process very simple and cost effective because the entire file is available in electronic form. If your company needs assistance in preparing or implementing a QC plan, we can recommend companies that provide those services and are integrated with our SureStep™ program. SureStep™ performs its own QC procedures on all closed loans.

Interim loan servicing

In most cases, loans will be purchased by investors within 45 days of closing. Typically first payments are not due from borrowers until 45-60 days post closing because the first payment or some partial amount was collected at closing. Occasionally, loans do not sell within the expected time frame due to closing conditions that were not cleared or missing or inaccurate documents that need to be cured. In these cases, you should be prepared to collect and process payments from your customers and will have to coordinate with your warehouse lender and investor to apply the funds correctly. It is imperative that you maintain an accounting of what you have received and what you did with the funds. The funds should not be deposited directly into your operating account but rather should be deposited into a trust account. Many LOS applications have rudimentary servicing capabilities and can account for payments collected. However, the best preparation for interim servicing is to eliminate mistakes and errors during the loan manufacturing process in order that the loan can be sold on a timely basis.

Participation in our SureStep™ program will largely eliminate the need for interim servicing. Because the SureStep™ program has so many checks and controls built into its systems, SureStep™ significantly reduces the potential for mistakes and errors. SureStep™ does provide for interim servicing trust accounting should collection of a payment from a borrower become necessary.

Loan servicing

Some larger mortgage brokers become mortgage bankers in order to build a servicing portfolio in an effort to retain customer contact and generate more consistent earnings. During periods of high prevailing interest rates, when refinance volume is slower, a servicing portfolio can provide a continuing source of income. However, the opposite may result during periods of high refinance activity.

Building a servicing portfolio significantly changes mortgage banking cash flows because loans sold “servicing retained” do not include a servicing released premium (SRP) from the investor. Most smaller mortgage bankers rely on this SRP to maintain cash flow within their operations. In addition, mortgage bankers who service loans are usually required to advance interest to the investor for delinquent loans on a monthly basis. These timing issues negatively impact cash flow.

Because loan servicing requires economies of scale, special expertise and imposes certain cash flow restrictions on the mortgage banker, we recommend that you start by selling all loans on a servicing-released basis. Many investors will not purchase loans on a servicing retained basis unless the mortgage banker has been qualified to service loans and maintains substantial net worth. When your origination volume is large enough to consider retaining servicing, you may consider retaining servicing by contracting with an experienced servicer who will subservice your loans for a fee.

Are you ready to *“take the next step”*?

When faced with increasing competition, consolidation among investors, Internet-based loan origination, changing regulations and other external pressures and factors affecting your business, a WarehouseOne facility provides a great opportunity to meet these challenges. By assuming control over the closing function, you will become less reliant on wholesale lenders to provide outstanding customer service to your borrowers. For some, warehouse lending is the logical next step in the evolution of their business. For others, it represents the foundation for greater control and profitability.

Our SureStep™ program provides one of the most efficient and low risk means of making the transition from broker to banker. Many brokers express a goal of establishing their own back office and bringing banking expertise in-house but this takes time, is often costly and is not without risk. While SureStep™ could be considered as a first step in making this transition, many of our existing banker clients have discovered significant benefits in using SureStep™ to compliment or replace their existing back office operations. SureStep™ is far more than a first step and can assist your company, as a mortgage banker, in achieving operating efficiencies, growth and profitability goals while reducing risk.

Whatever your needs may be, we hope this booklet has answered some of your questions and given you an overview of the benefits and responsibilities of becoming a mortgage banker. If you have additional questions or need assistance, please call WarehouseOne at (888) 508-1800 or visit our website at www.warehouse1.com.

To learn more about becoming a SureStep™ Banker, please visit www.SureStepBanker.com.

To learn more about Sterling Eagle’s mortgage purchase conduit or becoming an approved correspondent, please call Sterling Eagle at 609-671-0500 or visit www.sterlingeagle.com

Warehouse Facility and Program Descriptions

The following facilities and programs are available to qualified originators through WarehouseOne. Your WarehouseOne representative can help you determine which program is right for you.

SureStep™ Banker
SureStep™ represents the simplest and lowest risk means of transitioning from broker to correspondent lender or banker. SureStep™ functions as an extension of your back office to underwrite, document, close, fund and post close loans in your company's name. You function as mortgage banker and may sell loans to any eligible secondary market investor for whom your company is approved as a correspondent. SureStep™ provides your company with access to web-based technology that even many of the largest lenders do not have. SureStep™ also eliminates the single largest risk you have in making the transition from broker to banker: the repurchase obligation you have when selling loans to investors. SureStep™ provides an underwriting warranty that covers your obligation to repurchase loans sold to investors for underwriting errors. SureStep™ makes your back office a variable-cost, as opposed to a fixed-cost operation, meaning that you pay on a per loan basis at a fraction of the industry's average cost for processing a loan. In addition, as a SureStep™ banker, your company will become an approved correspondent for a large mortgage purchase conduit named Sterling Eagle. This means that you may have access to loan programs offered by some of the largest mortgage conduits and investors, through Sterling Eagle, to whom you may not be able to qualify as a correspondent lender directly.

Emerging Banker
This WarehouseOne program provides warehouse financing to smaller net worth customers who have no prior experience with a warehouse facility but have provided for all of the back-office functionality that is required of a banker. It is designed to be a "starter" line that introduces the concept of mortgage banking to mortgage brokers. Loans funded for Emerging Bankers must receive underwriting approval and a "clear to close" from the investor. Documents should be drawn from the investor's website or in conjunction with an approved document preparation company. Applicants are not required to provide audited financial statements but they are required to maintain a minimum tangible net worth of $100,000 and E&O and fidelity insurance.

Traditional Line
WarehouseOne provides warehouse financing to experienced and larger net worth mortgage brokers and bankers. Applicants are required to maintain a minimum tangible net worth of $100,000 and maintain E&O and fidelity insurance. Applicants must be an approved correspondent or eligible to be approved as a correspondent with one or more institutional secondary market investors. Applicants must also be able to demonstrate adequate underwriting, documenting, closing, post-closing functions and have established a quality control plan for closed and funded loans.

Frequently Asked Questions About Mortgage Banking and WarehouseOne Facilities

Will I make more money as a mortgage banker?

In general, you should get paid a higher premium for selling closed loans as a correspondent lender than as a broker. When selling loans, you will receive a purchase price for the loan plus a servicing released premium (SRP) instead of a yield-spread premium (YSP). You will also retain all fee income and you will no longer pay wholesaler junk fees. There may still be some incremental fees charged by your investors and you will pay fees for using your warehouse line, but your savings in real dollars should exceed any of those fees. You will also earn the note rate on loans you close from the day of closing and pay the warehouse rate for the same number of days. If the note rate is higher than the warehouse rate, you will earn the net spread income too.

Will investors pay more for closed loans than for brokered loans or table-funded loans?

Investors should pay more for closed loans. You have performed many of the functions that they would have had to perform if they were lender; you eliminated their having to advance funds and any risk of the loan rescinding. You are also providing representations and warranties and a repurchase provision if there is a breach of those representations and warranties on the quality of the loan. You also appear in the chain of title because the mortgage is recorded in your name. You should be paid more for closed loans or we would suggest you are working with the wrong investor!

How Do I Maximize My Profits?

You can maximize profits by working closely with a few strategic investors with whom you can negotiate the best pricing given your loan volume. Getting these investors to purchase loans off your warehouse line in a timely manner is also crucial to maximizing your profitability. The optimal way to get investors to purchase loans off your warehouse line quickly is to send investors only complete and fundable loan packages.

When selling closed loans funded by my warehouse lender, are there any buy-back or repurchase requirements from my investors? Will investors ask me to buy back loans if the borrower misses their first payment?

Your agreement with each investor is unique but most investor agreements have buy-back or repurchase requirements for loans that do not meet their underwriting criteria or were not originated in compliance with state or local laws. Before deciding to obtain a warehouse line, you should inquire with potential investors about their policies.

Will investors ask me to reimburse premiums paid on loans that refinance within six months or a year?

Much like the answer in the question above, you must ask investors about their policies on premium recapture. One of the representations that you will generally make on loans that you sell is that you will not solicit those borrowers again for some specified period of time. Even so, you may have to reimburse investors for some of the premium they paid you if one of your loans refinances too quickly.

What is the process of closing a loan with a WarehouseOne facility?
There are five basic steps in the process:

- *Deliver the underwriting package to your investor or contract underwriter for approval or maintain delegated underwriting status with the investor.*
- *Clear all underwriting conditions.*
- *Schedule loan for closing and order loan documents.*
- *Deliver the funding package to WarehouseOne.*
- *Close the loan and deliver the credit file to your investor for purchase.*

More detailed information about the process is available in the WarehouseOne Operation Guide or on our website at www.warehouse1.com.

The closing and funding processes are far simpler with SureStep™. More information about the SureStep™ program is available on our website at www.SureStepBanker.com.

I want to start taking in loans from third parties, (i.e., other brokers). Can I fund these loans on my WarehouseOne facility?
We do allow the funding of third party loans under some of our warehouse programs. However, there is a significant amount of risk operating as a wholesale lender and this is not something that you should do if you do not have experience. We require extensive broker approval procedures as well as quality control procedures. If you want to fund third party loans on a WarehouseOne facility, please contact your WarehouseOne Relationship Manager about our minimum requirements.

You can experience being a wholesale lender if you participate in our SureStep™ program. SureStep™ takes much of the risk out of third-party origination and wholesale lending and provides you with online information to manage this process.

What type of loans can be put on my WarehouseOne facility?
WarehouseOne will fund all first mortgages (including subprime loans and jumbo loans) and home equity and second mortgages where the combined loan to value is less than 100% (loans over $650,000 will have a lower advance rate). High CLTV second mortgages, commercial mortgages, and manufactured home loans where there is no deed of trust or standard mortgage are not eligible for our warehouse lines. Super jumbo loans over $650,000 must be approved by WarehouseOne prior to funding and are allowed on an exception basis. Investors purchasing super jumbo loans often have additional requirements that must be met before funding. This may involve a second appraisal or a specific clear to close from the investor. WarehouseOne will typically fund super jumbo loans up to a warehouse amount of $2,000,000.

How long can a loan stay on a WarehouseOne facility pending purchase by the investor?
WarehouseOne typically would like to see the loan purchased within 30 days. The maximum dwell time limit on WarehouseOne facilities is generally 45 days. However, it has been our experience that most of the loans placed on our warehouse lines are purchased within 10 to 15 days from the day they were funded.

How long does it take to become an approved WarehouseOne customer?
Approvals take approximately two weeks from the time a completed application package is received.

What is the maximum WarehouseOne facility I can qualify for?
It depends on a several factors. If you request and qualify for the Traditional Line of Credit, your line is based on a multiple of your tangible adjusted audited net worth and your production volume. Please consult with your Relationship Manager to discuss which WarehouseOne facility is best suited for your needs.

WarehouseOne will typically consider a debt to net worth ratio as high as 15 to 1 when approving the amount of your warehouse line. The amount of your warehouse line will depend on the financial strength and track record of your company and of the principals (combined corporate and personal net worth is used to determine the maximum facility amount). For example, if a company has financial statements that illustrate an audited net worth of $150,000 and the principals have $100,000 in personal net worth, the maximum warehouse line considered by WarehouseOne would be $3,750,000. Higher multiples are generally available through our SureStep™ program.

What fees and rates are charged on a WarehouseOne facility?
*The application fee for a WarehouseOne facility is **$500.00** that is to be sent with the application and **$500.00** upon approval. If you are not approved, any fees paid are refunded. WarehouseOne does not have an annual warehouse line renewal fee or a non-usage fee. If you do not use your warehouse facility, once approved, the facility size will either be decreased or you will lose it entirely.*

There is a transaction fee charged for every loan funded through the warehouse facility. Other fees may include a pass through of wire transfer and shipping charges.

*The rate charged on a WarehouseOne warehouse line is typically: **30-day LIBOR Rate plus a spread** that is determined by reviewing the applicants net worth, the type of loans being funded and the volume of loans being funded.*

Does WarehouseOne charge a non-usage fee?
No, WarehouseOne does not charge a non-use fee but we require some minimal level of usage or we will decrease or close your warehouse facility. With WarehouseOne you will either use your warehouse facility or lose it.

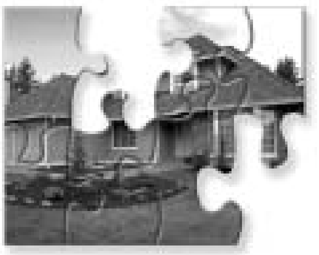
Who can apply for a WarehouseOne facility?
WarehouseOne will consider applicants who require a warehouse line of $1 million or more. WarehouseOne will require your company to provide financial statements (audited statements are preferred but not required) to demonstrate the minimum net worth required for the line size requested. An applicant must be able to demonstrate a minimum tangible net worth of $100,000 to apply for a traditional line of $1 million.

What size WarehouseOne facility will I need?
The size of a warehouse line is determined by volume of loan originations, when the loans close and how quickly they are purchased off the facility by investors. As a general rule, you should expect to establish a line that can accommodate 1.5 times the principal amount of the loans that you are going to fund during the course of any 30-day period. You should also work with investors to negotiate quick purchases of the loans from your facility. It is not unusual for some of our most efficient banker clients to turn their line 2 or 3 times per month.

What penalties are there if loans are not purchased off my warehouse facility in a timely manner?
If a loan is left on your WarehouseOne facility for more than 45 days (or the maximum dwell time for your facility), rates and fees are subject to change as outlined below:

INTEREST	*your warehouse interest rate will increase by 2.00%*
FEES	*you may incur a penalty fee of up to $500.00*
BUY-DOWN	*you may be asked to buy-down the balance of the warehouse advance for the loan by 10%*
BUY- BACK	*You may be asked to purchase the loan off the line*

More importantly, no other requests for funds may be accepted until the loan is cleared



Frequently Asked Questions About SureStep™

What is required to become an approved SureStep™ banker?
The only requirements associated with our SureStep™ program are:

1. *You must be licensed (or eligible to be licensed) as a correspondent lender or mortgage banker in each jurisdiction in which you will be originating loans;*
2. *you should be eligible to be approved as a correspondent with at least one recognized secondary market investor;*
3. *you need to meet any criteria established by investors that you have selected to sell loans to; and*
4. *you will need access to the Internet.*

How quickly can I become an approved SureStep™ banker?
The approval process generally occurs within two weeks. There is also an implementation process to set up technology and the back office processes for your company with the guidelines of the investors and products that you anticipate that you will write loans to. This implementation process may take 30-60 days depending on which investors and products you have selected.

Do I have access to a WarehouseOne facility through SureStep™?
Yes, a WarehouseOne facility is part of the approval process. Moreover, your company can grow faster as a SureStep™ banker because the warehouse facility is designed to grow with you.

Is SureStep™ a net branch operation?
No! SureStep™ permits you to operate as an independent mortgage banker. You control all aspects of your operation but use SureStep's™ fulfillment services to underwrite, document, close and post-close loans.

Is SureStep™ a "captive" program where I have to sell my loans to only one investor?
No! You may sell loans to any eligible investor for whom you are an approved correspondent. SureStep™ does not compete with you in the primary market because we do not originate any loans. Similarly, we do not compete with your investors in the secondary market because we do not portfolio any loans except during the period of time the loan is on the warehouse line.

Do I still have any risk if I become a SureStep™ banker?
Yes. You will still have the same risks that you incurred as a mortgage broker or banker to the extent of the functions you are performing. For those functions that SureStep™ is performing, you are not generally subject to any additional risk. SureStep™ does not indemnify your company from fraudulent acts of your employees, vendors or borrowers. You will incur some other risks associated with functioning as a mortgage banker, such as the legal risk of being in the chain of title, interest rate risk if you miss lock periods or did not lock the loan with your investor and secondary market risk if your investor changes programs or pricing without warning.

How does SureStep™ underwrite loans to my investors guidelines?
SureStep™ utilizes rules-based application software that incorporates investor products and program guidelines in its decision engine. Our systems also integrate digitally with many of the industry's vendors to incorporate credit, appraisal, title and other data elements along with images. The data then automatically populates our application software and in many cases updates progress with respect to these vendor services as additional information becomes available. Some of this data access may also be underwriting findings from various AUS engines used in the industry. The application software is a tool used by our knowledgeable, experienced staff.

Does SureStep™ perform all of these functions on a private label basis?
Yes. All communications with any customer or third-party are accomplished in your company's name and all documents and forms are produced in your company's name. Your company will also be provided with an 800 number answered in your company's name. SureStep™ can even provide private-label websites for retail or wholesale origination activity that is integrated with our SureStep™ program.

How do I monitor loans submitted through SureStep™? I am concerned that I won't have enough information to service my customers.
Through SureStep™, you, or any one you permit, will have access to more real time information than you have now from your own operation. Because SureStep™ creates a 100% electronic file as the loan is manufactured, you have access to all of the loan file information, including all document images, notes to the file, underwriting conditions and clearances, vendor information and much, much more right over the Internet in real time. If you would like to see how SureStep™ works right from your own office, just ask your WarehouseOne Relationship Manager for an invitation to participate in a SureStep™ demonstration.

What services can SureStep™ provide?
SureStep™ is capable of providing an end-to-end solution, meaning from call center right through post-closing. However, you do not have to use all of SureStep™'s services. Most SureStep™ bankers will either enter the process at 1) the application stage: having SureStep™ process, underwrite, document, close, fund and post-close the loan; or 2) the "full package" stage when

the loan package has been prepared for underwriting. SureStep™ will then underwrite, document, close, fund and post-close the loan.

What costs are associated with SureStep™?

SureStep™ charges an implementation fee that is based on the services selected and a per loan fee for each loan processed through the SureStep™ program. An implementation fee is charged to offset the cost of setting a new client up on its systems, publish private-label client websites and phone numbers and correlate investor and product guidelines. Loan-by-loan costs associated with SureStep™ are conditioned on where you enter the SureStep™ process flow. You will have to speak with our Implementation Team to determine precise costs but you should expect to pay around $450 for each loan submitted at the "full package" or underwriting stage and about twice that if SureStep™ is assisting with the application and processing the loan. Please refer to How It Works or Fulfillment Pricing links on the www.SureStepBanker.com home page for an approximate breakdown of those prices.

Some of the benefits of the SureStep™ program are objective and can be measured in terms of lower costs or higher revenue and some more subjective. The SureStep™ program creates a variable-cost back office infrastructure, makes available technology that many of the largest lenders do not have and provides a warranty that eliminates most of the repurchase risk associated with operating as a correspondent lender or banker. How valuable is the access to technology and elimination of risks covered by the warranty? More importantly, how valuable is a program that can help you provide superior and efficient service to your customers that translates into repeat and referral business.

APPENDIX A – Warehouse Facilities

What Is A Warehouse Facility?
A warehouse facility is like a large credit card for mortgage bankers on which they can charge only mortgage loans. It is a revolving credit line that is secured by mortgage loans and the related collateral packages from the time the loans is funded at closing until the loan is sold into the secondary market. A **collateral package** consists of four primary documents:

1. The original executed Mortgage Note

2. A certified true copy of the Mortgage/Deed of Trust

3. An original Assignment of Mortgage

4. A purchase commitment from an eligible secondary market investor.

A common misunderstanding is that a warehouse line is an unsecured line of credit that a mortgage company can access by simply writing a check. Actually, before funds are advanced through a WarehouseOne facility, we must receive and review a number of documents, including those previously listed above that make up the collateral package. These may be executed documents associated with a refinance loan or loans originated in "dry" states or unexecuted documents associated with a purchase in "wet" funding states.

How Are Funds Advanced To Close A Loan?
WarehouseOne advances funds by fed wire transfer. When you fund loans through a WarehouseOne facility, as with most warehouse lines, you will receive the lesser of 98% of the note amount and the purchase commitment amount. The purchase commitment amount is the note amount times the purchase price. You will be responsible for requesting that a wire be sent to the settlement agent and verifying there are enough funds to settle the loan. You will be asked to establish a maintenance account with WarehouseOne to provide an account to pull funds from if the amount to be wired is greater than the funds we will advance. 98% is usually enough to settle the loan unless you are paying a broker at the closing or there are no fees or funds being collected from the borrower.

What Is A Haircut?
When you use a WarehouseOne facility, we will advance up to 98% of the lesser of the (i) note and (ii) the purchase commitment amount. The 2% that WarehouseOne does not advance is called a haircut. A 98% advance is usually sufficient to fund most loans without your having to send more funds to the closing agent. When you fund your own loans using a warehouse line, you will be funding the settlement agent the amount of the note, less any tax escrows/impounds, origination fees, discount points, document preparation fees, underwriting fees, tax service fees, flood certification fees, interest adjustments and any other fees you charge the borrower(s). Since the borrower is responsible for these fees at closing, you will be netting these fees and costs out of your wire. These fees most often equal or exceed the 2% haircut.

If more than a 98% advance is required, we will withdraw any additional funds required from the cash management account that you maintain with WarehouseOne, combine that with our warehouse amount and send one wire to the settlement agent in the amount you requested.

When your investor purchases the loan, we will subtract the principal amount advanced, interest and all fees due WarehouseOne from the purchase proceeds. We will then transfer the remaining proceeds of the loan purchase to your cash management account, replenishing the funds available for future fundings.

Why Do Warehouse Lenders Require A Haircut?
A warehouse lender incurs a significant amount of risk when it funds loans for clients and requires the haircut to offset some of that risk. Investors may not purchase loans that are not underwritten, priced or documented properly and you may not have enough liquidity to purchase the loan back off of the warehouse line. Loans with impairments that cannot easily be cured generally sell at a discount in the market. The haircut helps to offset some of the risk that a warehouse lender assumes when funding your loans.

How Do Warehouse Lines Work?
A warehouse line works much like a credit card account on which you can only finance closed mortgage loans. The process works, as follows: You submit a pre-funding package to us. Once the package is approved, the funds are wired directly to the settlement agent. When the mortgage loan is closed, the settlement agent sends us the original mortgage note, endorsed in blank, a copy of the HUD-1 and a certified copy of the mortgage. The balance of the package is sent to you. You post-close the mortgage loan and prepare it for delivery to the investor. When you ship the credit package, you send us delivery instructions for the note. We complete the endorsement and ship the note to the investor in accordance with your instructions, accompanied by our bailee letter. The investor wires the purchase proceeds to our collection account. We subtract the warehouse facility principal, interest and loan transaction fees due us. The balance, your profit, is transferred to your bank account. We make available a complete report showing all receipts, deductions and transfers on a loan-by-loan basis by fax, email or over the web. The warehouse facility principal is now available for you to fund other mortgage loans.

Time... How Long Will It Take Investors To Purchase My Loan?
Is there an average length of time it takes for a loan to go from closing/disbursement to being cleared off the warehouse line? Yes! While it is almost solely dependent on what you have arranged with your investors and the volume of loan closings in the market, it should take no more than an average of 10 days to move a conforming loan from the closing table to loan purchase and no more than an average of 25 days for non-conforming loans when you send a complete and fundable loan package to your investor. The amount of time it will take to purchase your loan will be dependent on the timing of your delivery and quality of your package. If any required documentation is missing or there is any problem with a file, the funding time frame will be extended. Please keep in mind that your investor must receive both your closing and collateral packages before your file is reviewed for purchase. Please consider that weekends and holidays will extend the amount of time it takes to fund a loan.

What Does WarehouseOne Do With The Collateral Package Once The Loan Has Been Funded?
WarehouseOne receives the collateral package directly from the settlement agent after the loan closes and sends the collateral package to a custodian for safekeeping. The collateral package is reviewed to determine that all collateral documents are in order. Upon receipt of delivery instructions from you requesting that we deliver your collateral package to your designated investor, WarehouseOne will send the collateral package along with a bailee letter to the investor. The bailee letter identifies the security interest that WarehouseOne maintains in your loan until the investor has paid for the loan. The investor purchasing the loan is required to send/wire the funds to a collection account set up with WarehouseOne to clear the warehouse line.

What Is A Bailee Letter?
A bailee letter is evidence of WarehouseOne's security interest in the loan that is sent with the collateral package (Original Note, certified true copy of the Mortgage/Deed of Trust, certified true copy of the Assignment) notifying the investor that WarehouseOne has a security interest in the collateral. If that investor accepts the note for purchase, they are to immediately wire transfer the funds to WarehouseOne. After WarehouseOne receives this wire, we will pay down your warehouse line and relinquish our security interest in the collateral. You will find a sample bailee letter on WarehouseOne's website, www.warehouse1.com under Sample Forms and Documents page.

Do I Need Special Software?
You will need a good, current, loan originator software ("LOS") application. There are a number of good off-the-shelf LOS applications available in the market today. Systems like Calyx, Byte, Contour and others have been around for years, are widely used, are available to run on PC workstations or laptop computers and often incorporate other software to prepare documents or links to order vendor items. This software must be updated regularly by purchasing upgrades on disk or CD from the software developer to incorporate all of the changes that occur in the mortgage market from a compliance perspective or to add new functionality to the application. Other LOS applications like ECLoanpro and Encompass are available as web-based applications, making them accessible by anyone with Internet access. Web-based applications are updated by the software developer online and provide similar and sometimes more functionality than do their workstation counterparts. Some LOS applications are available as both workstation and web-based forms. Regardless of the type of LOS you purchase, make certain that it can perform all of the functions you need it to and that it will produce loan packages that are compliant with investor requirements and federal, state and local regulations. Depending on your current computer system, you will probably need to pick a software program that will assist you in providing a 1098 form for your borrowers at year-end so that you can report origination fees, points and mortgage interest you receive from a borrower.

How does turning my warehouse line quickly benefit me?
Selling your loans quickly will free up your line for new loan closings and will improve your cash flow. To demonstrate the importance of a quick turn of your warehouse line, let's use the following example: borrower closing on a 30 year adjustable rate loan with an initial rate of 3.5%, with a note amount of $100,000 and a warehouse line cost of 6.00% (Prime plus 1.5% if Prime is 4.50%).

> **Day 0 –** The loan is prepared for closing in your name on Day 1 and you have requested that WarehouseOne wire funds to the closing.

Day 1 – WarehouseOne wires funds in the amount of $98,000 (recall there is a 2% “haircut”) to the settlement agent. For now, assume the other $2,000 comes from fees and escrows and vendor payments due from the borrower at closing. The loan closes and you start earning interest on the loan at the note rate (3.5%).

Day 2 – WarehouseOne receives the Collateral package sent overnight delivery from the closing by the title company/settlement agent, reviews the package and sends it on to our custodian. Since you are charged warehouse interest from the day we advance funds, WarehouseOne will start charging interest on your warehouse line today, at 6.00%.

Day 10 – The designated investor purchases your loan by wiring purchase proceeds (purchase price plus SRP of 101.50%) to WarehouseOne’s collection account and the funds arrive at 4:00PM.

Day 11 – WarehouseOne applies the funds to your account to pay down the warehouse line. Funds were applied today because funds were received after 12:00PM on Day 10.

Here is a Breakdown of the Interest Charges:
Note Amount of $100,000 at 3.5% producing per diem note interest revenue of $9.72 ($100,000*.055/360). Warehouse amount is $98,000 at 6.0% (See explanation of a “Haircut”). Per diem warehouse interest expense would be $16.33 ($98,000 *.06/360). If this loan is left on the line for an extended period of time, the cost of the warehouse interest will begin to erode the benefit of improved correspondent pricing and any servicing released premiums you may earn. You can ensure that this does not happen by verifying that both closing and collateral packages are complete before you deliver them to your investor and that you work with investors that purchase loans promptly when delivered.

Does It Make Sense to Warehouse a Loan Like This?
Typically, yes. Although you need to look at the all-in revenue and all-in cost associated with originating, closing and selling the loan. In most cases, you will be earning a note rate that is approximately equal to or higher than the cost of the warehouse line, meaning that there will be little interest cost or perhaps some positive spread using the warehouse line.

How Much Would It Really Cost Me To Warehouse This Loan?
You should consider the “all-in” cost associated with warehousing loans and compare that to the “all-in” revenue associated with originated the loan. The cost of your warehouse line really depends on four things:

1. The interest rate spread between the interest charged on the warehouse line and the rate you are receiving on the loans to your borrowers;
2. The length of time it takes to purchase your loan;
3. The transaction fee charged per loan file; and
4. Any other related costs like wire transfer fees, shipping costs and the portion of fixed or variable costs associated with underwriting, documenting, closing, funding and delivering loans for purchase (labor and other fixed costs that you may not have incurred as a broker).

In the example above, the true cost of the warehouse interest expense would be approximately $6.61 per day ($16.33-$9.72). You are receiving interest income of 3.50% for a $100,000 mortgage amount and paying 6.00% on a warehouse advance of $98,000. You might want to look at the transaction in terms of paying 6.00% and receiving 3.50%. This calculation would place your net interest cost of funds at 2.50%. Don't forget that you are only borrowing 98% of the note or commitment amount (whichever is less) and receiving 100% of the note amount. You would also be charged a transaction fee of $125 when the loan is purchased and let's assume there were $25 in shipping and wire transfer costs. The total cost of warehousing the loan would be $216.10 ($6.61*10 days + $150).

Become a SureStep™ Banker…

let us show you how!

WarehouseOne, LLC
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Fulfillment centers located in:
Horsham, PA • Dallas, TX • Denver, CO

WAREHOUSEONE, LLC.
THE INDEPENDENT WAREHOUSE LENDER

SURESTEP