FHLBNY Advantage

FEDERAL HOME LOAN BANK OF NEW YORK MAY 2014

It's 2014 – Do You Know Who Your Local Real Estate Agents Are?

Since the refinance boom came to an abrupt halt last summer with a rapid rise in long-term fixed-rate mortgage rates, our members have found it to be increasingly difficult to generate mortgage production. Adding to the dilemma is the possibility that this situation may persist for the foreseeable future as homeowners who locked in mortgages at historically low rates are more likely to stay in their homes for many years to come. The lack of home turnover and the marked decline in refinancing activity, in addition to intense pressure for mortgage deals, makes it all the more important for our members to achieve an "edge" in obtaining mortgage production.

A few years back, the FHLBNY conducted a survey of members and realtors to discern whether collaboration could improve between lenders and real estate agents to generate more referral business. The survey included 308 geographically-dispersed respondents, comprised of senior loan officers from 101 member institutions and 207 residential real estate agents. Survey results were revealing at the time and the following insights are still relevant today. A September 27, 2013 article on Forbes.com entitled "Realtors Drive the Mortgage Bus" noted that the most influential people in the mortgage business are realtors — "The coveted referral is reward for established performance or long standing positioning in the marketplace."[1]

Member/Realtor Survey Findings

Approximately 11% of our member respondents stated that they received 50% or more of their mortgage originations from real estate agent referrals. The members in this "high referral group" generally had loan officers dedicated solely to the generation of residential mortgages. Interestingly, this "high referral group" compensated their loan officers much the same as the other member respondents, with more than half indicating that their dedicated originators were compensated on a full salary basis (no commissions).

Another noteworthy finding from the survey was that having very low rates was not cited as an important factor by real estate agents. As long as a member was competitively priced on a consistent basis, real estate agents were willing to recommend them to their customers. Furthermore, only half of the real estate agents reported having an in-house funding source; of these respondents, only half referred their customers to that resource. From the real estate agents' perspective, having an in-house resource was not a barrier to increasing referrals to local community lenders.

Tips to Gain Realtor Referral Business

Real estate agents recommended improvement in several areas to help increase their loan referrals:

» **Increase flexibility in mortgage offerings.** Have a diverse product suite, as well as the ability to work with the borrower to find a mutually-acceptable mortgage solution. Of course, members will need to do so within their established credit/underwriting and risk management guidelines.

» **Improve speed of pre-approvals/commitments.** Implement organizational changes that lead to faster communication back to buyers and their real estate agents.

» **Add availability in the evenings and on weekends.** Employ loan originators who are available to assist agents and borrowers during non-business hours — times when agents and borrowers are most likely to be searching for a home.

» **Communicate change and value to real estate agents.** Use on-site visits and other educational tools to inform potential customers about your mortgage options, especially after organizational improvements or changes have been made.

Mortgage Production Observations and Opportunities to Mitigate Risk

Portfolio lenders who have succeeded in aligning themselves with the top realtors in their markets can rely on the FHLBNY to fund and hedge their mortgage production. One credit union member in upstate New York who has become well connected with local realtors and has benefitted from good referral business says: *"through our strong alliances with local real estate agents, we have been successful in obtaining a nice share of the new purchase mortgage business in our market, and have been able to bolster our mortgage portfolio as our refinance business has come to a halt."*

The sharp rise in mortgage rates experienced in the summer of 2013 has caused some members to portfolio a portion of their long-term fixed-rate mortgage production to fend off margin compression and grow their balance sheets. To fund this activity and mitigate the interest rate risk associated with holding long-term mortgages, our members have utilized a wide variety of our long-term advances, including traditional fixed and amortizing advances, in addition to structured advances, such as the Callable Advance, Fixed-Rate Advance with a LIBOR Cap (Fixed-Rate with Cap), or floating rate advances with embedded caps.

Fixed-Rate and Amortizing Advances

Many of our members "ladder" Fixed-Rate Advances to match-fund the attributes of their mortgage production. A traditional "barbell" strategy is often used where shorter-term fixed-rate advances are used to fund a portion of the mortgage pool and longer-term borrowings are used to help guard against the extension risk associated with mortgages remaining on the books past their estimated average life. Amortizing Advances can be structured to mimic the attributes of the mortgage pool as well, and pay down according to the anticipated life of the pool. Match-funding with these advances is a common strategy deployed by our members, and heightened concern regarding interest rate risk is increasing the volume of these long-term advance bookings.

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[1] Mark Greene, "Realtors Drive The Mortgage Bus," Forbes, Web. 27 Sept. 2013. <http://www.forbes.com/sites/moneybuilder/2013/09/27/realtors-drive-the-mortgage-bus/>

Mortgage Production Observations and Opportunities to Mitigate Risk *(continued)*

Structured Advances

Structured advances are valuable tools with embedded options that can assist in mitigating risks present when holding mortgages in portfolio.

» **Callable Advance:** this advance gives members the option to extinguish the advance, in whole or in part, after a predetermined period (on a quarterly basis). The Callable Advance serves to "lengthen" liabilities to preserve spread earned on mortgages, and also allows a member to partially extinguish the borrowing in the event the funding is no longer needed due to rapid prepayments. If the interest rate environment changes and the advance becomes "out of the money," a member may extinguish and rebook at lower rates.

» **Fixed-Rate with Cap:** this advance allows a member to add long-term, fixed-rate funding to preserve spread on a mortgage pool, with the added benefit that the rate could re-price downward in the event 3-month LIBOR rises and surpasses a pre-determined strike threshold. As rates rise and the expense on deposits and other floating rate liabilities increases, the Fixed-Rate with Cap could re-price downward (on a quarterly basis) and become less costly (this advance has a "floor" of zero).

» **Long-term Adjustable Rate Advance with an embedded cap:** this is a floating rate advance that is tied to 1-month or 3-month LIBOR, with an embedded cap. The advance floats initially and turns fixed should the associated floating rate index surpass a pre-determined "strike" threshold. It acts as a float-to-fixed structure in the event rates rise and remain above the cap or "strike." If rates fall below the strike during the life of the advance, the rate re-prices downward. The Adjustable Rate Advance with an embedded cap helps preserve spread on a mortgage pool in a rising rate environment, but could re-price downward and remain lower costing should rates remain low.

For more information on the funding strategies discussed, or for a copy of the survey mentioned in this article, contact a Calling Officer at **(212) 441-6700**.

Take Advantage of the FHLBNY's Member-Director Education Program

We invite you to capitalize on our Member-Director Education Program, specifically created for directors and managers of member institutions.

The topics discussed are wide-ranging but generally are comprised of issues commonly faced by most community lenders. The following is a list of some past topics the FHLBNY has been asked to discuss. However, our executive team will work directly with yours to custom-tailor a program for your specific needs and concerns, and to ensure your team receives the maximum value for their time.

There's no cost to your institution — it's a benefit of your membership. Contact your Calling Officer at **(212) 441-6700** to schedule your program today.

Education Topics Include *(but are not exclusive to)*:

» FHLBank System overview, earnings, and financial highlights
- FHLBank Debt Issuances and System Capital Initiative

» FHLBNY Membership Benefits and Trends
- What is the FHLBNY and what makes our partnership "unique"?

» FHLBNY Products, Services, and Programs
- Advance Product Offerings/Trends
- Letters of Credit
- Community Lending and Housing Programs
- Mortgage Partnership Finance (MPF®) Program (secondary market outlet)
- Correspondent Services
- Credit Monitoring and Collateral Management
- Capital Stock Requirements and Dividends
- Collateral Opportunities

» Strategic Planning/Balance Sheet Considerations
- Liquidity Planning and Industry Trends
- Deposit Pricing Practices
- Branch Funding Strategies

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