Types of Mortgage Lenders

When you are working with different lenders, it is helpful both in your conversation with them as well as gauging your success opportunity to know which type of lender they are. That said, I pulled this together for you with full credit to www.RealEstateABC.com who did a fine job in compiling it!

Portfolio lenders

An institution which is lending their own money and originating loans for itself is called a "portfolio lender." This is because they are lending for their own portfolio of loans and not worried about being able to immediately sell them on the secondary market. Because of this, they don't have to obey Fannie/Freddie guidelines and can create their own rules for determining credit worthiness. Usually these institutions are larger banks and savings & loans.

Quite often only a portion of their loan programs are "portfolio" product. If they are offering fixed-rate loans or government loans, they are certainly engaging in mortgage banking as well as portfolio lending.

Once a borrower has made the payments on a portfolio loan for over a year without any late payments, the loan is considered to be "seasoned." Once a loan has a track history of timely payments it becomes marketable, even if it does not meet Freddie/Fannie guidelines.

Selling these "seasoned" loans frees up more money for the "portfolio" lender to make more loans, which is another way that portfolio lenders engage in mortgage banking. If the loans are sold, they are packaged into pools and sold on the secondary market. <u>You will probably not even realize your loan is sold because, quite likely, you will still make your loan payments to the same lender, which has now become your "servicer."</u>

[[BOB NOTES: *If you end up dealing with the servicer, ask for a referral to the actual lender. And remember that not all loans are packaged-up into pools; some are sold on a one-off basis or in mini-bulk (small pools). Keep in mind, too, that Portfolio lenders took a little bigger risk and therefore, it stands to reason that they will have a higher default rate.***]]**

Direct Lenders

Lenders are considered to be direct lenders if they fund their own loans. A "direct lender" can range anywhere from the biggest lender to a very tiny one. Banks and savings & loans obviously have deposits they can use to fund loans with, but they usually use "warehouse lines of credit" from which they draw the money to fund the loans. Smaller institutions also have warehouse lines of credit from which they draw money to fund loans.

[[BOB NOTES: *Direct lenders need to sell their product to "unclog" their warehouse lines of credit and therefore, sell loans on a regular basis*.**]]**

Direct lenders usually fit into the category of mortgage bankers or portfolio lenders, but not always.

One way you used to be able to distinguish a direct lender was from the fact that the loan documents were drawn up in their name, but this is no longer the case. Even the tiniest mortgage broker can make arrangements to fund loans in their own name.

Correspondents

Correspondent is usually a term that refers to a company which originates and closes home loans in their own name, then instead of selling those loans in pools, they sell them individually to a larger lender, called a sponsor. The sponsor acts as the mortgage banker, re-selling the loan to Ginnie Mae, Fannie Mae, or Freddie Mac as part of a pool.

Mortgage brokers deal with lending institutions that have a wholesale loan department.

It is almost like being a mortgage broker, except that there is usually a very strong relationship between the correspondent and their sponsor.

[[BOB NOTES: *By the time that we real estate investors see the note, it has long since passed from the hands of the Correspondents and now resides with the lender. You are NOT looking for correspondent lenders, nor are you looking for mortgage brokers! They sold those loans long ago!***]]**

Banks and Savings & Loans

Banks and credit unions usually operate as portfolio lenders, mortgage bankers, or some combination of both.

[[BOB NOTES: *Mid-sized banks and Credit Unions are a GREAT source for notes, specifically because it is easier to find and talk with the decision maker. Most credit unions serve as correspondent lenders, however, and sell off their product as soon as it is originated. Some of the larger ones act as bankers and they, too, sell off their loans***]]**