

Players in the Mortgage Industry and the Mortgages Food Chain

There are a variety of channels through which mortgage loans are traditionally made, the distinctions of which are more-or-less transparent to the consumer. To begin with, there are the large commercial banks such as Chase, Countrywide, Wells Fargo, etc.

The second tier of lenders includes the likes of GMAC, IndyMac, National City Mortgage, Wachovia, and ABN Amro.

Commercial banks typically divide their mortgage lending activities broadly into three separate channels: retail, wholesale, and correspondent. The retail channel encompasses the set of loans made under the company's own banner, whether sourced over the internet, through standard "brick-and-mortar" storefronts, realtor networks, etc. Through their wholesale channels, commercial banks buy loans directly from the hundreds (perhaps thousands) of small mortgage brokers and mortgage banks throughout the country. A rough distinction between a mortgage banker and a mortgage broker is that the former has the ability to fund their own loans whereas the latter relies on a larger institution to provide funding. Finally, the correspondent channel is similar to the wholesale channel, except that the mortgage brokers which supply the loans do business under the umbrella and according to the underwriting and product standards of the commercial bank which is buying the loans.

Once a loan is acquired, it can take several paths. It can be held "in portfolio"; it can be placed in a pool, securitized and sold to investors; it can be sold to another lender; or, depending upon its size it may be sold to one of the GSEs (Government Sponsored Entities). In many cases, the servicing rights may be sold separately so that the holder of the collateral and the company which actually services it are two separate entities. Along the way, everyone involved takes a small cut of the monthly cash flows emanating from the borrower's monthly payment. The mortgage broker, for instance, might collect an initial fee based upon the note rate they were able to negotiate with the borrower. The servicer typically collects a monthly fee of 25 basis points, or thereabouts, on the unpaid principal balance (UPB) for servicing the collateral. If the loan becomes a part of a security then, typically, either the securitizing agent, one of the GSEs, a bond insurer, or a mortgage insurer, might charge another 16 to 20 basis points, depending on the structure of the security, to cover the costs of absorbing all or a portion of the credit risk. What's left of the monthly principal and interest go either to the owner of the collateral in the case of a whole loan which is placed in portfolio, or to each investor in a mortgage backed security according to the structure of the security.