In Mortgages, Consolidation Takes on a Very New Shape

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An Article Written By Harry Terris

Terry Wakefield, the chief executive of Wakefield Co., a Grafton, Wis., mortgage consulting firm, was also skeptical about the prospects for a full-blown market recovery.

"How many of these loans that were produced, let's say from 2003 to 2007, were based on fraudulent information?" Mr. Wakefield asked. "If these people want to refinance, and they were not honest about their income back then, their income situation probably has not improved. And this time around, lenders are going to have to verify income."

The only solution to the housing crisis, he said, may be "the passage of time. Until this foreclosure bulge is through our economy and until there is a sufficient number of qualified buyers to come in and buy real estate, we're going to be in a depressed market."

Mr. Wakefield said that without a secondary market for nonagency loans, mortgage lending as practiced by many local and regional banking companies has emerged as "the winning business model out of this crisis."

Such companies "are doing a lot of mortgage lending, putting the loans on their balance sheet," he said. "These guys who know how to block and tackle and underwrite good-quality loans … and have a strong deposit base" can "do quite well."

But "balance sheet capacity is always limited," Mr. Wakefield said, and efficiency is crucial for agency mortgages.

"The market's going to be dominated by products that have less profit margin," he said. At the same time, "the operational infrastructure of the industry continues to be very outdated, and, as a result, … its ability to produce a commodity product at a profit is very limited. It's not going to be a great year."

900 Cheyenne Avenue, Suite 100 | PO Box 210 | Grafton, WI 53024
262.375.8000, ext. 6640 | 262.375.2835 f | 414.313.2803 c
twakefield@twcllc.com

www.thewakefieldcompany.com