



It's time to rethink portfolio lending

By Ari Miller, vice president, Gelt Financial Corp.

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Forget everything you know about the mortgage business. Put away your debt-ratio and loan-to-value calculations. Put away your charts and desktop underwriting. And most importantly, ignore FICO scores.

Let's go back to a time when we didn't approve a loan only because it fit into a chart or matrix. We approved it because we believed that the borrower would pay the loan back. Unfortunately, the mortgage-banking community has changed so much that for many of us, "paying us back" has lost priority when we look at clients. Technology and our desire to make our industry systematic and cookie-cutter have led our industry down a bad road — one where all that many people care about is what can get approved or get sold. All some of us care about now is fee income, yield spread and volume.

The fact is that if these lending practices do not stop and we keep lending and brokering deals to people who may not be able to pay us back, the mortgage industry is headed for disaster. When delinquencies increase and the industry is stuck with a bunch of 95-percent loan-to-value, no-docs and 80/20 stated loans, look out. There won't be a rock big enough for everyone to crawl under.

There's a fundamental truth to lending money that many of us have somehow forgotten: A bank or mortgage company lends money, and the borrower pays it back.

Things have become so convoluted because several mortgage companies

never hold the loans long enough to see them get paid back. Their money is made by gain on the sale of an individual or a pool of mortgages. These mortgage companies have no stake in the repayment of the loan.

Many commercial- and investment-property lenders are taking part in a new — or old, depending on how you look at it — trend and becoming "true" portfolio lenders. There are no sales element and no securitization. Money is made when the loan is paid back, and that's it.

There are several advantages to portfolio lending:

1. **No FICO scores:** Underwriting decisions can be made the old-fashioned way. They are not just based on what some computer "thinks."
2. **No docs:** How many self-employed people or investors don't have a ton of write-offs?
3. **Seasoning of property on purchases:** Since when has it become a crime to buy a property as cheaply as possible and sell it quickly for as much as possible?
4. **Seasoning of property on refinances:** Same thing as above — a borrower can pick up a property for \$5,000 that's worth \$100,000.
5. **Property-condition lenience:** Any property condition is OK.
6. **Blanket-mortgage treatment:** Blanket mortgages are OK.
7. **Loans in corporate names:** These loans also are OK.
8. **Appraisal use:** Why can't we lend off of the appraised value if it's higher than the purchase price? It's been years, and this one still boggles the minds of several mortgage professionals. Weren't most real-estate fortunes made by finding great

deals and buying low? In the world of portfolio lending, lending off the appraised value is only way.

The key is that the deal makes sense. If a deal can't get approved anywhere, but your intuition tells you it is good, make the loan, if you have the money. The bad news is that a portfolio lender won't make a loan that only looks good on paper if the underwriter does not believe it will be paid back. It is subjective. All borrowers and loans should be viewed on their individual merits, and that's how a lending decision should be made.

So now that you understand a little more about the advantages of portfolio lending, where do you find the deals? Try these prospects:

1. **Self-employed individuals:** Small-business owners usually get themselves into some interesting situations that make them perfect candidates for a portfolio loan.
2. **Investors:** Investors tend to do great with portfolio loans because of the appraisal and seasoning requirements (or lack thereof).
3. **Accountants:** They have access to self-employed individuals and investors.

The next time a crazy deal comes across your desk, start thinking outside the box and consider a return to portfolio lending.

Ari Miller is vice president of Gelt Financial Corp., a private portfolio lender in Pennsylvania. Gelt lends in Pennsylvania, New Jersey, Delaware and Maryland. You can contact Ari at (215) 357-4955, ext. 275, or AriMiller@GeltFinancial.com. To learn more about Gelt Financial, visit its Web site, www.GeltFinancial.com. ❗