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Home lenders undergoing consolidation

East Bay Business Times - by [Jessica Saunders](#)

Changes in government-backed loan limits are driving consolidation in the mortgage industry, including the rapid expansion of **BWC Mortgage Services** of San Ramon, which has added 12 affiliates in the past 14 months.

BWC affiliates, the latest of which include **Stonecastle Land & Home Financial Inc.** of Danville and Paragon Mortgage Bankers of Alamo, will be able to originate FHA loans through a license held by BWC.

Under the recently approved economic stimulus package, more California borrowers will qualify for low-rate, government-backed loans, including FHA mortgages. Mortgage companies need a special license to broker FHA loans and maintaining the licenses is expensive.

Because the previous loan limit was \$362,790, well under the typical California home price, most mortgage companies didn't think the licensing was worth the cost. Now, for an 18-month period, loans up to \$729,750 qualify for lower rates and can be resold to the government.

The median price of a Bay Area home was \$550,000 in January, according to **DataQuick Information Systems Inc.**

With the additional locations, BWC increases its annual loan origination volume to a projected \$2 billion in 2008 and its presence to 21 outlets with more than 200 loan agents. BWC has both company-owned branches and affiliates that operate under its license. The company funds about 50 percent of its volume through its in-house bank and brokers the other half to wholesale lenders, BWC President and CEO Scott Simonich said.

"We are able to provide aggressive pricing through our lending partners that sometimes they wouldn't be able to facilitate through their wholesale partners," he said. In return, BWC earns a percentage of the affiliate's loan origination fees, and gets a larger pipeline to sell on the secondary market.

California mortgage industry leaders have pushed for increases in loans backed by the U.S. Department of Housing and Urban Development (FHA) and by government-sponsored entities **Fannie Mae** and **Freddie Mac** for years, but the effort gained momentum last year during



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Richard Fahey of Stonecastle Land & Home Financial and Scott Simonich with BWC Mortgage Services.

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the credit crunch. The changes, which are not yet in effect, will allow borrowers to take out mortgages up to the program's limit - \$729,750 for all three programs - at lower conforming rates, rather than so-called jumbo rates.

Mortgage originators are waiting for implementation guidelines from HUD, Fannie Mae and Freddie Mac, expected in about 30 days. Simonich said his company is watching the changes closely, but "we are not counting on that to save the world."

"It is one necessary advantage we need right now," Simonich said. "It is a huge step in bringing liquidity back to the market."

In addition to Stonecastle and Paragon, new affiliates announced Feb. 22 include the former Concord branch of **All California Mortgage Inc.** and **Bay Area Funding Group** of Danville. Stonecastle, Paragon and Bay Area Funding Group are affiliates operating under their own names, while the Concord location is company-owned.

The ability to do FHA loans and access to BWC's bank were among the attractions for Stonecastle to affiliate with BWC, said President and CEO Rich Fahey, who has known Simonich since elementary school.

Stonecastle has branches in Danville and Carmel.

Most mortgage companies in the Bay Area have found the estimated \$8,000 annual audit required to hold an FHA license too expensive, especially when the loan limit was so far below the area's median home price, said Michael Tacconi, San Ramon branch manager for **CMG Mortgage Services**.

But after the housing bubble popped last year and sales slumped, prompting fears of a recession, lawmakers looked at raising loan limits with an eye to stimulating the housing market, as part of a broader economic package. That made expansion easier for FHA-licensed mortgage originators.

All but one of the 12 new BWC affiliates have joined since August, when credit tightened significantly as Wall Street investors in mortgage-backed securities uncovered more losses.

The new loan limits will be good for loans made from July 31, 2007, to Dec. 31, 2008, under the stimulus bill signed Feb. 15. Other legislation is pending that would make the changes permanent, Tacconi said.

BWC funded \$1.2 billion in loans in 2007, down from \$1.4 billion in 2006, but Simonich said company leaders didn't foresee loan production "falling off a cliff" in the second half of 2007.

Stonecastle originated "a little less than \$550 million" in loans in 2007, Fahey said, down from "a little over" \$850 million in 2006.

With BWC, Stonecastle has "an opportunity to take what we do best and keep the best strengths, and blend them in and take it to the market," Fahey said.

Affiliate branches have access to BWC loan products, including its in-house bank's 5/1 adjustable-rate interest-only program at around 5 percent, and a 95 percent loan-to-value second at up to \$300,000, Simonich said. In addition, they can utilize a proprietary product and price search engine, and customer-relations management program, as well as BWC marketing tools. Affiliates pay between 10 percent and 20 percent of their loan origination fees to BWC, with the amount varying based on factors including branch origination volume and resources used, Simonich said.

BWC Mortgage Services was founded in 1994 as a joint venture between Bank of Walnut Creek and **Simonich Corp.** In May 2006, Simonich bought out the 51 percent interest in BWC it didn't already own, making the company private.

New BWC locations

Alameda (former **American Home Mortgage** branch)
Concord (former All California Mortgage branch)
Santa Cruz (former Santa Cruz Mortgage branch)
Watsonville (former Santa Cruz Mortgage branch)
Walnut Creek (former First Blackhawk Financial)
Danville (Bay Area Funding Group*)
Alamo (Paragon Mortgage Bankers*)
Danville (Stonecastle Land & Home Financial,* three offices)
San Mateo (former **Residential Pacific Mortgage** branch)
Mountain View (former RPM branch)

*BWC affiliates

Source: BWC Mortgage Services

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