Growing the Mortgage Portfolio

Today is the third in a series of* Weekly Comments (Comments) *about loan growth (or the lack of it). On July 15, Rachael Leamon discussed the fact many mortgage portfolios are experiencing flat to negative growth due to accelerated prepayment speeds and the high concentration of new loans being refinances. In the July 22* Comments, *Mitchell Redd discussed the importance of knowing your loan growth rate and how FHN Financial Capital Assets Corp.'s (Capital Assets') Portfolio Engineering (PE) Analysis can forecast the size and composition of your portfolio in the future. Today, I will introduce some highly effective strategies to ensure you achieve your targeted growth goals.

The Key to Growing Loans

The solution to grow your loan portfolio is very simple: add more loans to the portfolio than you are losing to amortization, prepayments, and curtailments. Obviously, that can be much easier to say than to do. Most banks and credit unions have been originating new loans at maximum capacity and if it were possible, they would already be making more. The challenge today is offsetting the high runoff rate in the face of fierce competition in most markets.

When you are unable to achieve the desired growth rate with organic originations alone, there are three ways to supplement organic originations to improve the net growth rate:

- **Purchase Bulk Pools** — From time to time, institutions sell pools of loans that were originally made to hold for a long-term investment. The motivation for these sales can be to manage concentration, generate cash, rebalance the portfolio, etc. These seasoned loan pools are typically excellent credits with long demonstrated payment histories and can be a terrific balance sheet investment for someone needing additional earning assets in the form of loans.

- **Purchase Flow Loans** — Flow purchases are when Capital Assets arranges a commitment between one or more of our hundreds of correspondent lenders around the country to, in effect, be your correspondent for a given period of time. Our Supplemental Loan Program (SLP) is so simple any FHN Financial customer, regardless of experience, can participate. You control the number of loans you want, the loan types, and the way those loans are documented. In most cases, we can have loans originated to your specifications in your market footprint. The borrower makes their first payment to you, so just as with a loan you make directly, servicing the loan from the very beginning puts you in the best position to cross-sell other products and services.

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- **Combination Bulk and Flow** — Depending on your needs, another option is a one-time bulk purchase along with a carefully designed SLP flow commitment. This approach adds immediate earning assets with a continual flow of SLP loans that will supplement your organic originations over time.

Is the Supplemental Loan Program Right for me?

The benefit of the SLP is it provides a continuous flow of loans. SLP is most effective when implemented as part of a long-term balance sheet management strategy that can create meaningful and sustainable benefits in a cost-effective manner. Like any effective strategy, planning is the first step. Some of the questions to answer are:

- What are my corporate objectives?
- What is my actual versus budgeted growth rate?
- How many additional loans do I need to reach my targeted goals?
- What product types best complement my existing portfolio?

To answer these and other questions, we typically run a Mortgage Portfolio Performance Analysis (PPA) first. The PPA contains a wealth of information about your mortgage portfolio, including loan level data we use to conduct the next step in the process, which is a PE Analysis.

The Portfolio Engineering (PE) Analysis is a sophisticated scenario modeling process that helps us design a highly effective long-term strategy to achieve specific targeted growth goals. With the PE Analysis, we can explore multiple "what if" scenarios of adding different SLP amounts and loan types to complement your organic origination flow. The process effectively "reverse engineers" the ideal number of loans of a given type that are needed to achieve your goals. The SLP can be used to accomplish any of the following outcomes:

- Improve Growth Rate
- Rebalance the Portfolio
- Increase Earnings
- Diversify

The PE Analysis develops the business case for a loan growth strategy and covers all bases, including risk management, compliance, operations, as well as the specific number of additional loans you need to ensure you reach your targeted goals. By periodically running a PE Analysis, we can track actual versus projected results. SLP commitments are all best efforts, which allows us to easily dial up or down the volume as needed to ensure we accomplish the outcome you want.

Conclusion

In next week's Capital Assets *Weekly Comments*, Mark Cary is going to describe the nuts and bolts of the Supplemental Loan Program. What you'll find is this highly sophisticated strategy, once implemented, is easy to manage with little drain on existing resources. I strongly encourage those of you looking for safe and effective ways to improve growth to give the SLP a hard look. In the meantime, please call your FHN Financial representative or Capital Assets directly at 800.456.5460 for more information.

Related Links

[Loan Growth — Part 1: When More is Less]
[Growing the Mortgage Portfolio?]