MortgageOrb

John Hutchison: Creating Meaningful Partnerships Through Due Diligence

By **Michael Bates** - March 21, 2022

John Hutchison

PERSON OF THE WEEK: As we continue to move into the purchase money mortgage market, lenders are finding that selling their production into the secondary market has taken on a new dimension.

There are more opportunities to make small errors when originating purchase money loans and that could cause problems down the line, some of which could be serious. As you would expect, more lenders are reaching out to professional due diligence partners to help them review their loans and get their production ready for sale.

In addition, secondary market investors are partnering closely with their due diligence providers to streamline a difficult process and allow them to make more investments faster in a shrinking market. To find out more about the changes taking place in this part of the business, MortgageOrb recently sat down with John Hutchison, chief operating officer at Infinity IPS.

Q: A lot of lenders are focusing their innovation on the origination side of the mortgage industry. Where are the biggest areas lenders should be looking to innovate when it comes to the secondary market?

Hutchison: We expect to see more innovation on the origination side, particularly as it pertains to lenders adding new products to meet the needs of more borrowers as their traditional lending business shrinks. We're already seeing more lenders embracing Non-QM loan products, for instance.

But as they add these products, they are also adding new investor relationships. Whether it's a buyer of Non-QM production or DSCR, Fix-and-Flip or any other non-traditional mortgage product, the investor will have its own set of requirements. Meeting the specific needs of these investors is the way to grow strong partnerships that will serve the lender through this downturn and on into the next part of the cycle.

This suggests that lenders need to be thinking about their post-close QA/QC and investor delivery functions and looking for both opportunities to innovate and innovative partners who can help them build those relationships with investors, loan aggregators and other securitizers.

Q: What is the biggest misconception lenders have about the secondary market due diligence process?

Hutchison: The biggest misconception we have been hearing in our discussions with lenders is that it's difficult or impossible to find good partners in the Third Party Review business. It is true that many lenders have had mixed results in their dealings with some of these firms and that has made them wary.

There have been many changes in the TPR industry over the past few years and that has led to wide variations in the turn times, quality and accuracy of the results that lenders have been seeing. You can see why they would be skeptical.

But it's a misconception to believe that all TPR partners have the same weaknesses. It's like any other part of the lender's business: finding the right partner requires some due diligence. But the right partner is out there.

Q: How can lenders nurture a partnership with investors through due diligence services?

Hutchison: The first, most obvious way is by helping the lender initiate these new partnerships. Many lenders receive solicitations from a number of prospective investor partners, but have no personal experience with any of them, especially when they are moving into a new line of mortgage products. A good due diligence partner will already know these investors and have existing relationships with them.

That warm introduction is very valuable because it lets the lender know from the beginning what to expect. But a good partner does much more than that by helping the lender deliver what the investor expects to buy.

So many relationships are damaged or destroyed because either the loan originator or the investor — or both — doesn't get what they expect. A good due diligence partner acts as a sort of liaison between the parties, making sure that the lender knows what the investor is expecting to see in the production they are buying at the same time they allow the investor to buy with confidence.

The end result is that the originator will have easier access to aggregators and other securitizers, either directly or through Reliance Letter activities for their sale and liquidity.

Q: When establishing a new investor relationship, what are some key considerations the lender should keep in mind for originators and servicers to ensure quality portfolios?

Hutchison: Nothing happens until a borrower takes out a new loan, so lenders must first remain focused on the changing needs and demands of borrowers in their current market. It's important to make sure that their investors can provide the solution to their liquidity needs in the form of loan products their borrowers want.

In addition, it's important to partner with a due diligence firm that can keep up with these changes and the changes coming down from secondary market participants. Their TPR programs must be flexible to best serve both sides.

Investors know that they must remain nimble in this changing market and able to pivot as interest rates fluctuate and credit demands change. They must ensure liquidity remains available to lenders and easily accessible.