



*What the Mortgage Market Reads*

## **INSIDE MORTGAGE FINANCE®**

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### **MetLife May Have Difficult Time Selling Mortgage Banking Business When Starting Fresh Is a Plus**

MetLife announced last week that it wants to sell its mortgage banking business, but regulatory and legal issues that are partly driving the firm's retreat may also make it hard to find a buyer.

Nowadays, starting from scratch may make more sense than buying someone else's problems. MetLife explained in a press release that the decision was prompted by an "uncertain marketplace and regulatory environment [that requires] a tremendous amount of resources – both in terms of people and capital – to effectively compete in and profitably grow the forward mortgage business. Doing so would divert these resources away from MetLife's primary focus."

The company earlier this year decided to sell its retail banking operations for similar reasons. Few existing mortgage companies have been buying capacity in a market where production is expected to continue declining. [Bank of America](#) recently decided to just shut down its correspondent operations after failing to find a buyer for the operation.

New entrants may not be very interested either. John Robbins, who has started several mortgage businesses and sold them for a profit, last week announced the launch of a new mortgage banking business with backing from Bexil Corp., a California-based investment firm. Robbins said he looked at different mortgage companies for more than two years before deciding to form a start-up, Bexil American Mortgage.

"In the past, we would look at the amount of profitability, the volume and the branches," said Robbins. "Now, the value is about half of whatever they've got in the bank. The level of repurchases required by Fannie, Freddie and the FHA made it very difficult to determine (the mortgage companies') actual value," Robbins said.

In the press release announcing the new venture, Robbins emphasized the potential for profit in the mortgage industry. "I have always felt real opportunity is born in the vacuum created by the bottom of a cycle," he said. "We have the opportunity to create a nimble, efficient company."

MetLife Home Loans ranked as the 12th largest originator through the first half of 2011 with \$8.9 billion and had the 11th largest servicing portfolio (\$116.8 billion).

Auditors require buyers to keep a reserve for future repurchases. "With the escalated number of repurchases, it's difficult to set a reserve amount in place because you don't know what the level of repurchases will be," said Robbins. "You're potentially putting new equity infused in a company to repurchase bad loans. It's just easier to invest money in a start-up where there are no legacy portfolio issues," he added.

In addition to lingering questions regarding buybacks, potential buyers must also take into account the technology that existing mortgage companies use for their systems. "Many companies have older technology and have not chosen or can't afford to buy new models," said Robbins. "The systems work, obviously, but they don't have the latest bells and whistles."

A start-up offers a company the opportunity to compare different technology and choose which works best for them, instead of either resigning oneself to the company's tech in place or scrapping it and buying all new.

A MetLife spokesperson declined to comment on the mortgage unit's repurchase liabilities or its technology systems. Although the company wants out of traditional mortgage banking, it plans to keep its reverse mortgage business, a less competitive market from which Wells Fargo and Bank of America have recently withdrawn.

"The vast majority (of the companies on the market right now) are going to need to wait a couple of years until the market settles down," said Robbins. "It's highly devaluing for companies today to put themselves on the market."