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Rates are up, but it's not all bad news: Non-QM is still going strong

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by Kim Burgess | 22 Mar 2018



On Wednesday, the Federal Reserve increased interest rates again, a move that was bad news for the mortgage industry — but there are still some bright spots. For the non-qualified mortgage sector, business is strong, and it's predicted to continue reaching record-breaking heights well into the future.

Angel Oak Companies recently announced that it had surpassed \$1.1 billion in non-QM originations during 2017, the highest volume in its history. The Atlanta-based company is also building a new operations center in the Dallas-Fort Worth metro as part of its expansion in Texas and the West Coast.

Tom Hutchens, senior vice president of Angel Oak Mortgage Solutions, said the rapid growth reflects a new era for non-QM, a market that is projected to hit \$100

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Unlike the risky subprime mortgages before the financial crisis, these new products have stricter

billion in the coming years.

"We believe that responsible non-agency loans are what the market really, really needs," Hutchens said. "And now, with everything that is happening with rates and the refi business and all that, it is coming into focus at the originator level. We have been on an educational mission for five years now. We have been trying to educate about what non-agency, non-QM looks like today compared to what it looked like pre-crisis."

Still, the majority of originators have yet to venture into the non-QM, which means they aren't taking advantage of "all the available products," Hutchens said.

The sector has a diverse customer base that includes everyone from wealthy retirees seeking interest-only loans to single parents with poor credit. Buyers like self-employed business owners who lack fully documented income also fall into non-QM territory, even if they have hefty bank accounts.

Originators who are ready to take the plunge into non-QM can work with Angel Oak to brand themselves as experts and sell that skill set to real estate agents. The company offers a variety of collateral marketing pieces for approved originators, including

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flyers, videos and a PowerPoint that showcases non-QM's massive potential. Some of the highlighted statistics include:

- Half of U.S. households have a credit score below 680
- 33 percent have credit scores below 620
- Roughly 15 million borrowers are self-employed
- Over 950,000 foreclosures were filed last year

Hutchens stressed that Angel Oak provide a lot of support for originators who are just getting into non-QM. In the current market, building that expertise can bring huge dividends.

"If you get into non-QM, it will make you different," Hutchens said. "This huge swath of borrowers have been cut out of the market."

During the coming year, Angel Oak plans to continue expanding and potentially exceed its past growth.

From 2016 to 2017, Angel Oak's total originations across the lending platform rose by 40%. Its three affiliated lending companies – Angel Oak Mortgage Solutions, Angel Oak Home Loans and Angel Oak Prime Bridge – added staff and locations nationwide.

- Angel Oak Home Loans, the retail lending affiliate, opened branches in three Southern California cities – Irvine, Oxnard and Newport Beach. It is also working to expand into North Carolina, starting in Wilmington.
- Angel Oak Mortgage Solutions, the wholesale mortgage affiliate, established a correspondent lending channel and hired account executives in Birmingham, Seattle, Portland, Minneapolis, Columbus, San Antonio, Houston, and Nashville. They also added licenses in five additional states, bringing the total to 38, with eight more states planned by the end of 2018.
- Angel Oak Prime Bridge, the investment property lending space affiliate, expanded to 15 states in 2017, with seven states planned for 2018. The company hopes to match its 300% growth in origination volume from the past year.

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