Angel Oak
MORTGAGE SOLUTIONS

Q&A: Angel Oak Mortgage Solutions and its Leadership in the Non-QM Lending Space

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Angel Oak Mortgage Solutions is a pioneer in non-QM wholesale lending providing innovative solutions for underserved borrowers. Since the company's inception in 2013, it has funded more than $17 billion in non-QM loans. In this Q&A, Angel Oak Capital Advisors' Head of Institutional Sales, Adam Beeler, and Executive Vice President of Production at Angel Oak Mortgage Solutions, Tom Hutchens, discuss Angel Oak's leadership in the non-QM lending space and explains what differentiates the company from others in the marketplace.

Beeler: Can you tell me a little bit about you, your background, and how you got to Angel Oak?

Hutchens: I've been in the real estate and mortgage lending business now for over 25 years, and it's really what I've done most of my adult life. Specifically, I've been focused on the non-agency space; it's now known as non-QM [nonqualified mortgage]. I was one of the first people to join Angel Oak to build out its non-QM wholesale correspondent platform. I am coming up on 10 years at Angel Oak.

Beeler: When did you launch Angel Oak Mortgage Solutions? What was the initial goal of starting that, and has the goal changed over the past decade?

Hutchens: The goal has not changed, and the goal has been to serve the underserved borrower. Going back to the great financial crisis of 2008/2009, anyone who was in the mortgage business remembers all non-agency loan programs went away. They went away overnight due to the financial crisis, so the only borrowers that were able to get a loan had to fit Fannie, Freddie, or FHA guidelines. If it was not a government-backed loan or perhaps a local bank loan, there was no financing available. We saw that opportunity to come in through Angel Oak and build a platform that would take care of the borrowers that do not fit that tight box.

Beeler: For almost a decade, your and your team's sole focus has been on non-QM lending. Can you talk about your commitment to non-QM lending and how it differentiates you in the marketplace?

Hutchens: I think commitment is such a big word in the non-agency space because over the 10 years we've been doing this at Angel Oak, we have seen many lenders enter the market, realize they need to be more focused on it than they had expected, and then pull back and exit the market; in fact, we are still seeing that today. I also think the fact that we decided when we started this that we were going to be committed to non-QM lending is a big differentiator in the marketplace. As you know, being on the Angel Oak Capital Advisors side, Angel Oak as a company has been fully dedicated to the non-QM space, so we're not only the originator through mortgage solutions, but we also are the securitizer through Capital Advisors. What has kept us committed to the space is that there is always going to be a subset of highly qualified borrowers that do not fit the tight agency, prime jumbo, or government guidelines, and that's the space that we continue to satisfy.

Beeler: There is a very large highly qualified borrower base that is fundamentally boxed out. We have chosen to make this a business, and we have been dedicated to this business for the better part of a decade. How have those loan programs evolved?

Hutchens: The biggest need when we first started was people that had gone through a foreclosure. A record number of foreclosures happened in 2009 through 2011, so there were very highly qualified borrowers who maybe owned an investment property, and they turned the keys over because they were so far upside down on that investment property after the real estate crash. However, they were still qualified borrowers to buy a primary residence or to move, but they could not get financing because again, back to the tight agency and government guidelines, you had to season; you had to be five, seven years away from a foreclosure to get a new mortgage. So early on, that was the biggest demand—credit expansion—and we filled that niche. Fast-forward to 2016 and 2017—foreclosures were no longer the issue. Then we really became aware of the self-employed borrower, and we came up with the bank statement product, the bank statement loan, to help the highly qualified borrowers whose tax returns just simply do not justify the mortgage they need. So that became another big part of the business. And still today, approximately 65% of the non-QM space is the self-employed bank statement borrower. Great borrowers, great loans. The other piece of the business, primarily, is the DSCR loans, which are for professional investors that want to expand their portfolio of investment properties, and we take a commercial underwriting standard to residential investing. Those two, bank statement and DSCR, make up more than 95% of the non-QM market today.

Beeler: Angel Oak is one of the largest in the space as far as origination volume. Can you put some numbers around that growth?

A: Through Angel Oak, we have funded in excess of $17 billion in non-QM loans, and I don't know numbers of others in the market, but I can assure you that would be the largest origination number out there. We're proud of that, but we're not resting on our laurels. One of the things that we are always focused on is how we can scale this business to continue to find and help our broker partners and origination partners grow their own businesses by finding these borrowers that are underserved. That market is still untapped, with lots of opportunity going forward.

Beeler: Angel Oak Mortgage Solutions is certainly not the only nonqualified mortgage originator that is out there. We have seen lots of companies come and go, and we have seen some stay. As far as a single licensed mortgage originator dedicated to non-QM and the overall growth there, what does the rest of the market look like? Could you give us a little bit more there?

Hutchens: It is relatively fragmented. There are all kinds of different lenders. In the first phase of growing our business, I would say it was a lot of people hearing about non-QM, dipping their toes into non-QM, trying it, but still being an agency lender primarily. And that is a very difficult ask because the process, the expertise required, and the commitment required to be good at non-QM are very specific. It is very demanding from a lender perspective, so that is where we have seen a lot of people come and go. There are other capable non-QM lenders in the market. It is not a monopoly, but I would say when you start looking at years of service, experience, and expertise, you start to get a very finite number of lenders that check those boxes. And that is important to an originator because non-QM loans require expertise. It is not agency lending. These loans are not guaranteed by the government. They are not desktop underwritten to where an approval is given right up front, and all the originator has to do is just follow that path. This requires experts in the business, in underwriting, in sales, our account executives—the tenure of our account executives has to be higher than anybody else's in the industry, and that makes a difference. It really differentiates Angel Oak from all the others.

Beeler: Can you discuss the Angel Oak Mortgage Solutions structure? You have regional salespeople and account executives. How do they work with brokers to support their business, and is it unique?

Hutchens: We focus on not only being experts ourselves but also teaching our origination partners how to be experts, because non-QM works really well for an originator when they have confidence in these products and programs. The way they do that is they go through the loan process with Angel Oak and gain that confidence and then want to find another non-QM borrower. Eventually, they then want to become a non-QM origination expert. From day one when an account executive starts with us, we focus on making that account executive an expert. The way we do that then in turn makes our origination partners experts in the space as well.

Beeler: How many approved brokers are on the platform?

Hutchens: In 10 years, we have over 10,000 approved brokers across the country. That number continues to grow, as the market—certainly the agency market—has softened in the last 12 months. We see more brokers and originators realizing in this current environment they need to be diversified. If they have a borrower walk in the door, they cannot just offer agency and government loans. They need to have more tools in their tool belt, and that is where non-QM comes in to help originators capture more business and actually grow their market.

Beeler: You mentioned the number of approved brokers on the platform. Can you go into a little bit more detail on the additional support you provide them?

Hutchens: One thing we hear from our brokers, once they've closed a non-QM loan with Angel Oak, is that they generally are very anxious to go out and find more non-QM borrowers so they can continue to grow their own business. Something we do just for our approved brokers is provide personalized marketing collateral that speaks to the non-QM space and the non-QM opportunities that our brokers can personalize just with their information. It says nothing about Angel Oak on it, and they can share that with their referral base and help grow their exposure and differentiate themselves as they market themselves for new business. That is something we continue to get really positive feedback about from our origination partners; those that utilize it make a difference in their business.

Beeler: Technology has come a long way in the mortgage industry after the GFC. However, non-QM has mostly been human underwriting, and it is very people- and resource-intensive, which perhaps is one of the reasons why more people have not entered the space. Can you talk about how technology has come along? How do we use it to better ourselves and better the experience with a broker that sends business to us?

Hutchens: Our focus is to make the experience of our origination partners better, easier, and more efficient. We have a tool called QuickQuote that we introduced very early on, over nine years ago, and now we have seen some others try to copy it. But the QuickQuote serves as the starting point. Any time we work with a new originator, we tell them, go to our website. You do not have to be an expert in the space. Start here. Put in a little bit of information on a potential borrower you are working with, and it will give you an answer within seconds. If that answer looks like something you might be able to turn into a loan, then we have an easy link to get more information to your local account executive, who is the expert on getting a loan from start to finish to the closing table, which is what we are all in the business for. We are always looking at technologies that can make it easier on our origination partners to get these loans closed and to get more business and go out and find more borrowers.

Beeler: I have to imagine that 10,000-plus number that you threw out before of approved brokers on the platform, those have to be close relationships because what they're doing is handing you one of their clients so they can fill out and do desktop underwriting. Share a little about the client experience with the broker as well as the client experience with the borrower.

Hutchens: I think one of the things we always try to educate originators about is that originating and closing/funding a non-QM loan is no different from closing an agency loan. As far as difficulty, it is the same process; it is just different from what they might be most accustomed to, which is the desktop underwriter. An easy example is a bank statement borrower—instead of a tax return that they must get for the agency loan, they're getting 12 months of bank statements, so they still have to get the same type of documents. The documents are a little bit different, and the tools that we provide are a little different. Once someone has gone through the process, they almost always come away and say, "Wow, that was easy. I want to go find another non-QM borrower because I can be that expert originator and I can differentiate myself in the market as someone who knows how to take care of these self-employed borrowers or these professional investors." That's really the key to the whole process: ease of execution. Surety of execution is a phrase we use a lot, which means when we say we can do a loan, we are going to do the loan at the terms we said we would. And that is frankly unique in the market.

Beeler: Angel Oak Mortgage Solutions has never wanted to be the company doing fringe products. The company has been the best in the country at business bank statement-type loans, the underwriting, the procedures, all of that. Typically, what is the process from start to finish, measured in days?

Hutchens: Well, a lot of it depends on what the need is. If the borrower has a close of escrow in three weeks, we can get that done. If it is a close of escrow in 45 days, no problem. We work backwards. We talk to our origination partners up front. We look at when this loan is scheduled to close, and we set realistic expectations. If we know that it is a tight timeline, we address the things in the process that might take a little longer. A great example is when the mortgage business was extremely busy a year, year and a half ago, you really had to consider appraisal turn times because appraisers were inundated with business. If you had a loan that had to close in two weeks, we would advise the originator to get that appraisal ordered immediately. You have to do that first, because we can get everything else done, but if we don't have an appraisal completed in time, we're going to miss the closing date. Our average is probably 20 days, but it can be less, and it can be more, just depending on the scenario and really what's needed for that transaction.

Beeler: Could you give us a brief summary on non-QM origination looking back over the past 12 months and then where you see it going, not only at Angel Oak but also where you see the market growing over the next three to five years?

Hutchens: Non-QM has been similar to agency. We have seen rates increase pretty drastically and very fast, but the market has adjusted. The one thing that has not changed is that the underserved borrowers are still out there, and so we have had to make some changes as far as better ways to market to these people. Our rates are indicative of what is happening with interest rates in general, but the borrowers themselves, the self-employed borrowers and the professional investors, are still out there. They are still trying to buy homes and refinance homes, and that hasn't changed. The outlook is that non-QM is in a growth mode. We are seeing growth, and the market is seeing growth, and in the next three to five years, I believe we are going to start to reach the potential that non-QM has. We have had some bumps in the road, certainly, with the speed at which rates went up. It was shell shock to the entire mortgage business in agency and in non-QM. However, the industry is working through that, and adjustments are being made, but non-QM borrowers are still there, and they still don't know about the opportunity they have to get a loan.

Tom Hutchens
Executive Vice President of Production
Angel Oak Mortgage Solutions

Adam Beeler
Head of Institutional Sales
Angel Oak Capital Advisors