

MS Capital Market News: *Outlining Trends in the Loan Broker and Mortgage Origination Industry*



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Loan Brokers in the US

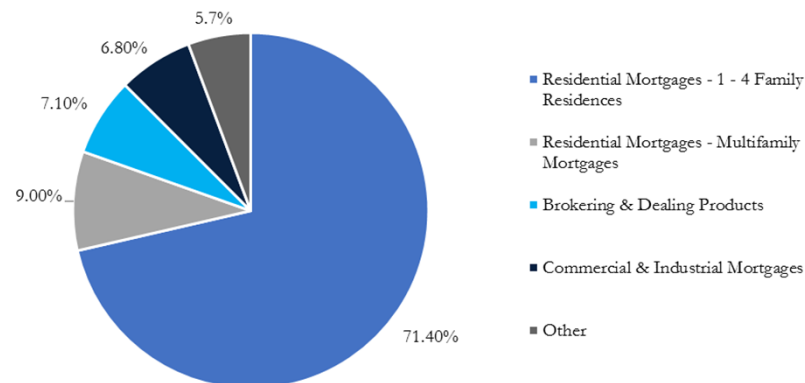
Loan Brokers Industry Key Highlights

- 2019 revenue: \$13.5 billion
- 2019 profit: \$2.4 billion
- Annual growth 2014 – 2019: 11.2%
- Annual growth projected 2019 – 2024: 3.0%
- Number of businesses: 11,410
- Key industry drivers: house price index, 30-year conventional mortgage rate, external competition for the loan brokers industry, housing starts, per capita disposable income.
- Main activities: brokering residential mortgages, commercial & industrial mortgages, home equity loans, equipment & vehicle financing.

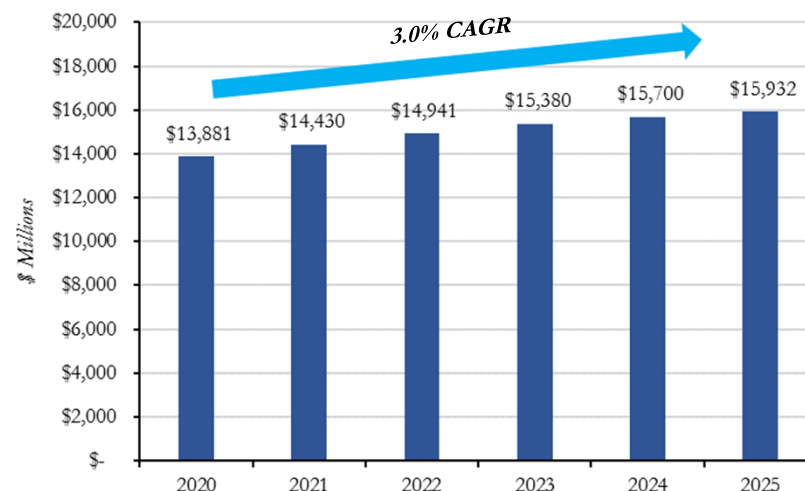
Industry Observations

- Over the five years to 2024, the Loan Brokers industry is expected to benefit from deregulation and continued growth in the housing market.
- Continued competition from commercial banks offering competitive rates will place pressure on industry profit margins.
- The industry has been increasingly consolidating as industry operators have contended with stringent regulation that has only recently been eased.
- Increased regulatory scrutiny and external competition has forced non employers to exit the industry.
- Big banks are increasingly excluding brokers from the mortgage origination process; these trends are placing increased pressure on industry operators to consolidate.

Products and Services Segmentation



Loan Brokers Industry Revenue Outlook



Loan Brokers in the US

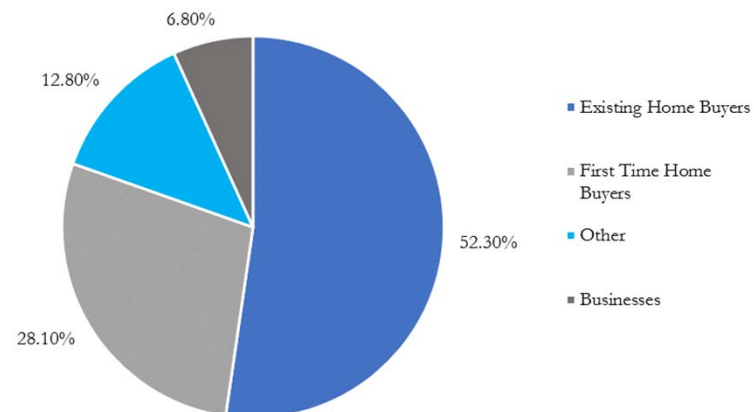
Major Market Segmentation

- A booming housing market more clearly benefits industry operators. Since an estimated 80.4% of industry revenue is driven by fees from residential mortgage transactions, increased housing starts, and home prices translated to growing revenue opportunities for brokers.
- Increases in household disposable income, either through an improving job market or declining tax rates, serve to increase demand for credit. Rising disposable income levels provide a boost to consumer sentiment and tend to increase lending for large consumer durable purchases.
- In 2019, homebuyers are anticipated to account for 81.4% of industry revenue. Consumers are broken down into first-time home buyers, existing homeowners and consumers that demand products other than residential mortgages.

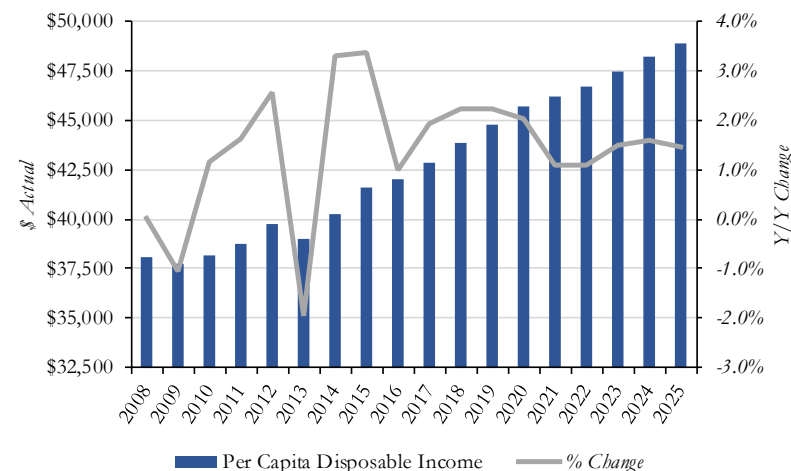
Per Capita Disposable Income

- Estimated value in 2019: \$44,804.66
- 2014-2019 Compound Growth: 2.2%
- Forecast value in 2024: \$48,182.83
- 2019-2024 Compound Growth: 1.5%
- Per capita disposable income determines an individual's ability to purchase goods or services. It is calculated by taking income earned from all sources (wages, government transfers, rental income etc.) minus taxes, savings and some non-tax payments (e.g. fines, forfeitures and donations) and dividing by the total US population. The data for this report is sourced from the Bureau of Economic Analysis.

Major Market Segmentation



Per Capita Disposable Income

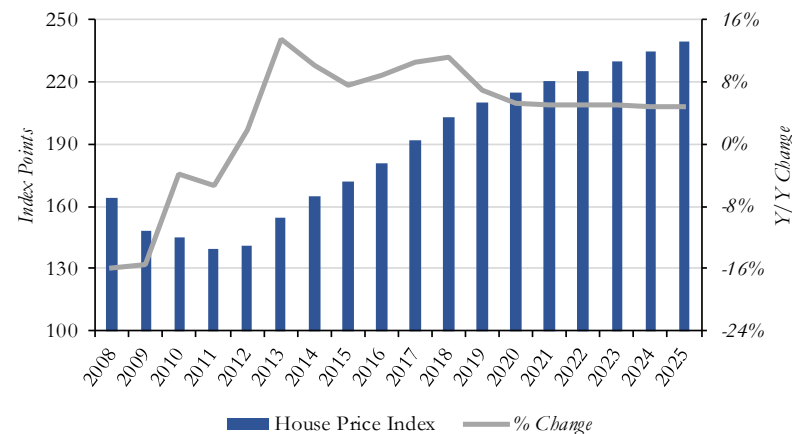


Loan Brokers in the US

House Price Index

- Estimated value in 2019: 209.7 index points
- 2014-2019 Compound Growth: 5.0%
- Forecast value in 2024: 234.9 index points
- 2019-2024 Compound Growth: 2.3%
- The S&P/Case-Shiller US National Home Price Index captures trends in the national housing market. It is designed to track the value of domestic single-value housing and is a composite of single-family home price indexes for the nine US Census divisions. The index measures changes in housing market prices given a constant level of quality.

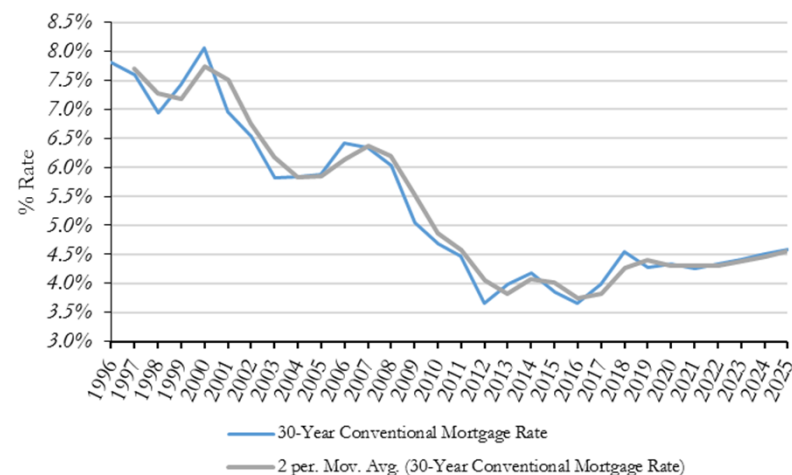
House Price Index



30-year Fixed Mortgage Rate

- Estimated value in 2019: 4.3%
- 2014-2019 Growth: 0.1%
- Forecast value in 2024: 4.5%
- 2019-2024 Growth: 0.2%
- The 30-year fixed rate mortgage is the most-common type of loan for home purchases in the United States. The data for this report is sourced from Freddie Mac's Primary Mortgage Market Survey. The values presented in this report are annual figures, derived from equally weighted monthly averages.

30-year Fixed Mortgage Rate



Loan Brokers in the US

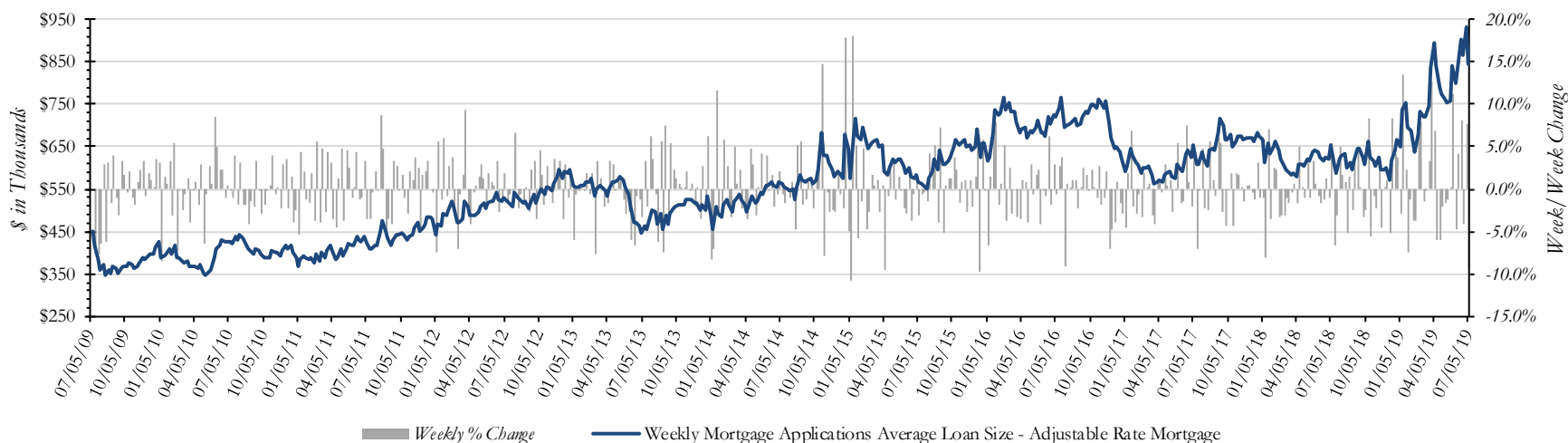
Housing Starts

- Estimated value in 2019: 1,279.4 Thousands
- 2014-2019 Compound Growth: 5.0%
- Forecast value in 2024: 1,449.5 Thousands
- 2019-2024 Compound Growth: 2.5%
- This driver measures the number of new, privately owned housing units started in a given year. This includes both single-unit and multiunit developments. The data is sourced from the US Census Bureau and is the sum of unadjusted monthly data.
- With unemployment at or below the natural rate of unemployment, developers and individuals alike have been more willing to invest in new units.

Housing Starts



Mortgage Bankers Association Weekly Mortgage Applications Average Loan Size in \$ (Adjustable Rate Mortgages United States)



Select Comparable Transaction

Date	Target	Buyer(s)	Target Business Description
6/18/19	Deephaven Mortgage LLC	Pretium Partners LLC; Pretium Holdings LP	Deephaven Mortgage LLC provides residential mortgage services. It focuses on purchasing non-agency mortgage loans from mortgage origination companies. The company was founded by Matthew Nichols in 2012 and is headquartered in Charlotte, NC.
6/14/19	CBIS LLC	HUB International Ltd.; Hellman & Friedman LLC	In-Fi provides insurance services. It focuses on high-volume mortgage origination opportunities. The company was founded in 2016 and is headquartered in Greensboro, GA.
4/17/19	Reali Loans, Inc.	Reali, Inc.; Zeev Ventures LLC	Reali Loans, Inc. develops an online platform for home loan processes. The customers able to process its application straightforward and streamlined with out the need of banks and brokers commissions and fees. The company was founded by Jason van den Brand, Chris Piro, and Elijah Murray in 2014 and is headquartered in San Francisco, CA.
4/1/19	Firstbank /Nashville Trn/ /Wholesale Mortgage Origination Bus/	Renasant Bank	Provides wholesale mortgage origination services
1/16/19	Blue Valley Ban Corp.	Heartland Financial USA, Inc.	Blue Valley Ban Corp. operates as a bank holding firm. It operates through the subsidiary, Bank of Blue Valley, provides banking services to consumer and commercial customers in Johnson County, Kansas. The company offers loans, time deposits, checking and savings accounts, mortgage originations, trust services and investment services. The company was founded by Robert D. Regnier in 1989 and is headquartered in Overland Park, KS.
12/17/18	Fidelity Southern Corp.	Ameris Bancorp	Fidelity Southern Corp. operates as a bank holding company. The firm through its subsidiaries Fidelity Bank and LionMark, engages in the provision of banking services and trust and wealth management services and credit-related insurance products. It attracts deposits from individuals and businesses and using these deposits and borrowed funds to originate commercial, residential mortgage, construction and installment loans. The company was founded by W. Clyde Shepherd Jr. and Robert J. Rutland on August 3, 1979 and is headquartered in Atlanta, GA.
11/7/18	Owens Realty Mortgage, Inc.	Ready Capital Corp.	Owens Realty Mortgage, Inc. engages in the provision of mortgage lending services. It focuses on the origination, investment and management of commercial real estate loans. It also offers customized, short-term loans to small and middle-market investors and developers. Its portfolio includes commercial, residential, and land loans. The company was founded on August 9, 2012 and is headquartered in Walnut Creek, CA.
10/5/18	Access National Corp.	Union Bankshares Corp.	Access National Corp. is a bank holding company, which engages in the provision of commercial banking, mortgage origination, credit, deposit and equipment leasing services. It operates through the following segments: Traditional Commercial Banking, Mortgage Banking Business, and Wealth Management Business. The Traditional Commercial Banking segment consist of interest earned on loans and investment securities and fees from deposit services. The Mortgage Banking Business segment offers interest earned on mortgage loans held for sale, gains on sales of loans in the secondary mortgage market, and loan origination fee income. The Wealth Management Business segment includes transactional fees charged to clients as well as fees for portfolio asset management. The company was founded on June 15, 2002 and is headquartered in Reston, VA.
8/28/18	Ciena Capital LLC	Capital Crossing Holdings LLC	Ciena Capital LLC provides non-banking financial services. The company specializes in small business loans, commercial mortgage brokers, commercial mortgages and SBA loans. It provides financial services for expanding an existing business, financial real estate, construction, renovation, machinery, equipment, office furniture and fixtures, and refinance debt. The company is headquartered in Greenville, SC.
6/11/18	Athens Bancshares Corp.	CapStar Financial Holdings, Inc.	Athens Bancshares Corp. operates as a bank holding company. It operates through its subsidiary, Athens Federal Community Bank, which offers a variety of financial services from the general public and use those funds to originate primarily residential mortgage and to a lesser extent, non-residential real estate, construction, land and land development, multi-family real estate, consumer, and commercial business loans. The company was founded in September 2009 and is headquartered in Athens, TN.
5/21/18	MB Financial, Inc.	Fifth Third Bancorp	MB Financial, Inc. is a holding company, which engages in the provision of commercial and retail banking, leasing, and wealth management services. It operates through the following segments: Banking, Leasing, and Mortgage Banking. The Banking segment concentrates on serving small and middle market businesses, and their owners. The Leasing segment includes lease originations and related services offered through its leasing subsidiary, MB Equipment Finance. The Mortgage Banking segment offers services residential mortgage loans for various investors and for loans owned by the company and makes bulk purchases of servicing rights. The company was founded in 2001 and is headquartered in Chicago, IL.
2/27/18	PHH Corp.	Ocwen Financial Corp.	PHH Corp. engages in the provision of outsourced mortgage banking services. It operates through the Mortgage Production and Mortgage Servicing segments. The Mortgage Production segment provides mortgage loan origination services and sells mortgage loans. The Mortgage Servicing segment performs servicing activities for loans originated by PHH Mortgage and mortgage servicing rights purchased from others, and acts as a subservicer for certain clients that own the underlying mortgage servicing rights. The company was founded by Duane Peterson, Harley Howell, and Richard Heather in 1946 and is headquartered in Mount Laurel, NJ.
2/13/18	Nationstar Mortgage Holdings, Inc.	WMIH Corp.	Nationstar Mortgage Holdings, Inc. engages in the provision of servicing, origination, and transaction based services. The company was founded on May 9, 2011 and is headquartered in
11/13/17	First Sentry Bancshares, Inc.	WesBanco, Inc.	First Sentry Bancshares, Inc. operates as a bank holding company. The firm through its subsidiary, First Sentry Bank, offers consumer and business banking services. The principal business activity of the company consists of accepting deposits, originating commercial real estate loans, commercial loans, one- to four-family residential mortgage loans and originating consumer loans. The company was founded in 1996 and is headquartered in Huntington, WV.
11/7/17	Coastal Banking Co., Inc.	First Federal Bank (Lake City, Florida); First Federal Bancorp, Inc. (Lake City, Florida)	Coastal Banking Co., Inc. engages in the provision of a full range of consumer and business banking services. It operates through three segments: Community Banking, SBA Lending, and Mortgage Banking Operations. The Community Banking segment provides traditional banking services offered through the bank's full service branch locations in Lady's Island and Port Royal, South Carolina; Fernandina Beach, Florida; and Meigs, Georgia. The Mortgage Banking Operations segment originates residential mortgage loans through a network of independent mortgage brokers, a national network of traditional retail mortgage lending branches, an internet leads based retail loan origination branch, and retail mortgage lending through the bank's deposit branch locations. The company was founded on June 8, 1999 and is headquartered in Beaufort, SC.
8/14/17	Western Bancorp, Inc. (San Jose, California)	Eli Global LLC	Western Bancorp, Inc. wholesales consumer lender. It provides banking, trust, escrow, and other financial services throughout southern California. The firm accepts time and demand deposits; originates commercial, consumer, real estate, and mortgage loans; provides trust and escrow services; and makes other investments. The company was founded by Rick Soukoulis and is headquartered in San Jose, CA.

Median EBITDA Multiples Trend

Average Number of Months to Close Deals

2017	2018
8.7	9.3

Breakdown of Cash at Close

	2017		2018	
	<i>Low</i>	<i>High</i>	<i>Low</i>	<i>High</i>
Cash*	82%	86%	78%	85%
Seller Financing	10%	17%	10%	11%
Earn Out	0%	4%	1%	3%
Retained Equity	0%	4%	0%	4%

* Combination of buyers equity and senior debt

Advisor, Investor, and Executive Surveys

- 79% expect increased average number of deals in 2019 (up from 70% a year ago)
- 83% expect strong market to expire within the next 24 months (33% say its within 12)
- 19% of transactions valued below \$2M were business services – highest proportion
- 27% of transactions valued above \$2M were in manufacturing – highest proportion
- 66% of investors/buyers use adjusted EBITDA multiple when valuing privately-held businesses
- Top 3 reasons deals didn't close were valuation gap (36%), unreasonable seller/buyer demand (20%) and no market for business (11%)

EBITDA	Manufacturing	Construction & Engineering	Consumer Goods & Services	Wholesale & Distribution	Business Services	Basic Materials & Energy	Healthcare & Biotech	Information Technology	Financial Services	Media & Entertainment	Average
< \$1M	5.0x	3.5x	4.3x	5.5x	3.0x	5.0x	4.3x	7.0x	5.5x	4.0x	4.7x
\$1M - \$5M	5.5x	4.5x	5.5x	5.5x	4.8x	5.5x	5.5x	7.5x	6.0x	5.5x	5.6x
\$5M - \$10M	6.5x	5.0x	5.8x	5.8x	5.3x	6.0x	7.3x	8.0x	7.5x	6.0x	6.3x
\$10M - \$25M	7.5x	6.5x	6.5x	7.5x	6.0x	6.0x	7.5x	8.5x	7.8x	6.5x	7.0x

Sources: Pepperdine Private Capital Markets Report, PitchBook Data, GF Data M&A Report November 2018, Market Pulse