

# Street CRED

— by WARREN LUTZ —

“**W**arehouse” brings up images of dodgy waterfronts and dark *film noir* detective stories, with tough-talking private eyes trading punches and dodging bullets from unruly mobsters. But for mortgage lenders, a warehouse is more similar to what former Mortgage Bankers Association (MBA) chairman John Robbins, CMB, once described as “the industry’s oxygen.” ¶ Unless you’re a financial powerhouse with ready cash, you can’t live without it. That’s something that warehouse lending experts have said for a long time, particularly when the industry nearly ran out of air. ¶

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**How Stanley Street used technology and savvy to help keep warehouse lines flowing and earn customer loyalty in the warehouse-lending space.**

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As the mortgage banking industry emerged to take its place as a major player in residential finance, warehouse lenders arose to become the indispensable funding bridge between originators and the secondary market. ¶ In the 1980s,

lending growth was spurred by economic recovery, and the warehousing business grew with it. Along with the sector's rise, so, too, grew a company called Street Resource Group (SRG), Atlanta, and the influence of its founder, Stanley Street.

With a background in accounting and finance, Street was a vice president at a large regional bank in Atlanta when he founded his own firm to service the needs of community banks.

Nearly 30 years later, Street Resource Group has become one of the largest services companies devoted exclusively to the warehouse lending sector.

Just since 2008, its technology has handled more than \$350 billion in warehoused mortgage loan transactions between originators and providers of warehouse lines, according to the company. With 45 current warehouse-lender clients servicing more than 800 mortgage banking companies, SRG recently surpassed 8,500 end software users.

Yet the road has been anything but smooth.

### **Building a bridge to the warehouse**

While it's rarely thought about by mortgage industry rank and file, warehouse lending is critical to mortgage production. Some would call it the industry's lifeblood, because without it, only the very largest banking entities would have the ability to sell loans to the public. Warehouse lines help keep a diversity of lenders active in the marketplace—which helps keep the industry competitive.

Yet as important as warehouse lending is, it's not particularly known as a hotbed of technological innovation.

When Street founded his company, his expertise in asset liability management became the main focus of his consulting practice. Technological tools were merely a means to an end in supporting the analytics and decision-making processes. Street was good at spotting a need and filling it, and financial institutions had huge needs.

"From 1986 to 1994, I was primarily dedicated to bringing expertise and technology-based tools to underserved banks, mainly in small towns," Street says. "Some consultants didn't want to go to rural Alabama, for instance. So my whole market was built around service to underserved markets."

For banks with the means to do it, warehouse lending offered great margins. But for smaller banks, it was extraordinarily hard work.

"Back then, if a small bank had a warehouse division, it was a completely manual process being done with spreadsheets and fax machines," Street recalls.

If a small regional bank wanted to provide warehouse loans efficiently, it needed technology. But by the mid-1990s, there were two options: build your own system—a costly alternative generally only available to the big banks—or buy technology that was mostly geared to larger institutions.

Street was approached by a banking client to automate the process of selling warehouse lines to originators and make it more efficient.

His self-taught programming skills combined with his business process engineering expertise resulted in the development of the Warehouse Lending System™ (WLS), a software platform that allowed warehouse lenders and their mortgage banking customers to conduct business seamlessly over the Internet.

Launched in 1994, WLS enabled lenders to complete a warehouse transaction that used to take two days in just 20 minutes. The software is not browser-based, but communicates directly over the Internet between the warehouse line provider and the mortgage banker. Through this method, says Street, the company has been able to provide a singular secure system to its entire client base that is highly configurable to a specific client's needs, yet does not require any customization.

"When an originator uses it with one warehouse lender, and then they look for another warehouse lender, they'll want one that uses our system," Street says.

"In essence, the software becomes a selling point for the warehouse lender, because the customer doesn't have to learn another system. You know exactly what you're getting, and you know it will work."

Today, the users of WLS include a diverse range of banks and warehouse lenders of varying size, but most are relatively small yet active warehouse lenders. The company's clients say there is nothing extravagant about the system—it just works.

"It's such a well-defined and well-tested system because it's been

in the marketplace for so long," says Kevin Rost, vice president and division manager of the warehouse lending group for Louisville, Kentucky-based Republic Bank & Trust Co.

"It was very easy to integrate into our existing bank systems, and Street Resource Group provides excellent assistance in terms of walking clients through the initial configuration, client training and on-boarding. For banks looking to enter the warehouse lending space, WLS contributes to a smooth and efficient launch into the business," Rost says.

WLS grew as Street Resource Group took on additional warehouse clients. Street slowly let go of his other consulting work and in 1999, he completed the transition to focus solely on warehouse lending.

"The industry had a need, and I was able to craft a specific solution for the warehouse niche. There was remarkable growth in that," Street says.

### **A user-friendly system**

Jill Gainer, vice president, warehouse lending manager for Moultrie, Georgia-based Ameris Bank, had little experience with either when she launched her company's warehouse

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division and began using Street's warehouse lending platform in October 2012. In just a year and a half, Ameris signed on more than 60 customers.

"I was a little anxious about getting this division started and off the ground. But with the system he's created, I quickly felt extremely confident," Gainer says.

"The reporting capabilities of the software are just as useful to our customers as they are to us, and the support and service we receive from SRG is just unmatched. From the point of view of our clients—I know there's other software out there, but most of our customers don't have the background [for] using it."

WLS clients have proven remarkably loyal. Ken Jones, senior vice president of mortgage banking and warehouse lending for Tysons Corner, Virginia-based First Guaranty Mortgage Corporation, had been a client of Street Resource Group with a previous company, Atlantic Coast Bank.

After joining First Guaranty in September 2013 to launch one of the few non-bank warehouse lending platforms, he found himself in need of a new system that could be implemented quickly, and came back to WLS.

"Other systems require a large amount of customization, development, time and cost," Jones says. "But WLS allows somebody who wants to enter the warehouse business to get into the market quickly."

David Frase, president of mortgage warehouse lending with Dallas-based Southwest Bank and past president of the Texas Mortgage Bankers Association, describes WLS as "mission-critical software" because it tracks every loan the company funds.

"It's a mortgage-literate system. We don't have to fit to a traditional bank's loan system to handle residential mortgage loans and all the data that goes with them. It accepts Fannie and Freddie data seamlessly," he says. "Our customers easily access the system and upload loans in standard data formats, without having to rekey everything."

WLS also helps Frase demonstrate that the warehouse unit has complete control over the process. "To have all that information organized and at your fingertips is really important," he stresses. "If there's some trouble in the industry and my board calls me to find out how many jumbos we have in our portfolio, I can look at the system and know instantly."

Street isn't surprised that WLS has been so well received. "We have prospects visit our clients and leave drop-jawed at how efficient the process was and yet how high the quality of the work remained," he says.

"Our clients are significantly different from the high-stress environments of other warehouse lenders. We improved the lives of warehouse staffs, and ultimately extended that

efficiency to their customer bases with our WLSDirectConnect™ client software." WLSDirectConnect allows mortgage bankers to electronically submit loan funding requests and upload loan data from their loan origination system (LOS) to the warehouse provider.

#### Surviving the storm

In 2007, Street Resource Group released a new version of WLS, marking a new direction in the platform's history. For the first time, WLS was available as software-as-a-service (SaaS), which meant no more hard-wired client installations. It was now easier and less expensive for warehouse lenders to implement, in addition to being more scalable and secure—making WLS a good solution for a growing warehouse lender.

But as successful as Street Resource Group was, it was unable to protect its client base against the ravages of the 2007–2008 housing downturn.

Just months after Street Resource Group released a new version of WLS in 2007, warehouse lenders—many of them Street Resource Group clients—began to vanish.

Within a period of six months, the industry's roster of warehouse line providers fell from a peak of 120 warehouse lenders in September 2008 to just 20 in March 2009. Mortgage bankers—even those that were well capitalized—simply could not stay in business without warehouse funds.

"The abrupt exit of many warehouse lenders took down mortgage bankers because they suddenly lost their liquidity," Street recalls.

Larger depository institutions have those accounts to draw upon when needed, but the typical mortgage banker cannot finance the gaps between loan closing and investor purchase without warehouse lines. The industry was in crisis, with 90 percent of its warehouse funding "oxygen" gone.

One reason Street Resource Group stayed in business was its size. The company does not reveal staff numbers, but it is small and has always run lean.

Slowly, warehouse lenders came back to the market as risk fears abated and attractive yields beckoned. But their numbers remained well below their pre-downturn height.

"We're back up to more than 70 lenders, but the majority of warehouse providers are those that came on since 2009," Street says.

He adds that a number of companies are standing in the wings, on hold right now, kicking the tires and exploring the business—but often backing off because they recognize there's overcapacity.

"They will come back when there is an increase in production," Street says. "It's all about timing. They're basically hunkered down for the time being. They all expect the business to

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return and don't want to miss the opportunity when the volume comes back."

The good news is that as the market recovered, many smaller banks became interested in warehouse lending because of the relatively high yields compared with other forms of lending. Other warehouse executives who previously used WLS before the downturn, and whose companies left the market or collapsed, became clients again with new companies.

One of them was Steve Curley, senior vice president of Phoenix-based Western Alliance Bank. Curley's former company, First National Bank of Arizona, had been a Street Resource Group client until it exited the business in 2008. When Curley joined Alliance in 2010 to launch the company's new warehouse division, he reacquired WLS. Since then, Curley's division has increased volume fivefold and doubled its staff.

As Curley tells it, WLS is perfect for warehouse lenders that aren't that big and may have limited resources.

"If you want to get into this business, traditionally you'd need half a million dollars to acquire or build the software," Curley says. "Stan was great. He provided 90 percent of the functionality his clients needed at one-fifth of the cost of any other solution. Plus, you didn't need 50 or 60 mortgage bankers to get started—you could start with just five or 10. He really lowered the barrier to entering the warehouse lending business."

#### **Building a legacy**

Street Resource Group's client base has grown steadily in recent years, adding 30 new customers over the past five years. But clients say the company has done more than that—that it has actually helped rebuild the warehouse lending industry. In fact, Street Resource Group may have played a significant role in the housing market's rebound by helping bring back the liquidity needed to fund loans for mortgage bankers.

By simplifying and standardizing the process of warehousing loans for many originators, Street Resource Group "brought more warehouse providers and mortgage bankers into the fold," observes Curley. "Without WLS, I'm sure half of the mortgage companies accessing warehouse lines through the system wouldn't have gotten into the business."

Curley remembers the days when warehouse lenders used spreadsheets and 50-page faxes, and says Street played a role in moving the warehouse lending industry into the Internet age.

The company has also lowered costs for mortgage bankers that rely on warehouse lines, which is reflected in the prices consumers pay for loans. "We usually charge between \$50 and \$100 for processing a mortgage," says Curley. "If we didn't have Street Resource Group's software, I'd say we'd have to charge at least twice as much. I think Stanley's probably saved the average Joe in the world \$100 on his mortgage."

Jones adds that Street Resource Group's software also helps warehouse lenders and their banking clients to have a standardized process, which facilitates compliance in the current regulatory environment. "Stanley has a very comprehensive view of mortgage banking," he says. "He doesn't have the mindset of someone who is siloed in the warehouse lending space. He is very knowledgeable about the overall mortgage banking environment and about business in general."

He continues, "You can call them anytime and it seems like they are always available. Whether you have a big problem or a small problem, it's never an inconvenience. He has created a culture within his company of putting the client first. A lot of people say they do, but it takes a special company to actually do it."

When the warehouse lending business was hurting, there was talk about getting the government involved because of concerns that it would otherwise disappear. "It took someone going bank to bank, talking to boards and directors about how warehousing works, and that's what Stan did," Frase says. "I think he had more influence than anybody else in reviving the warehouse industry. It created competition for us, that's true. But he also made it a regular business and strengthened the position of our industry."

So what's next for this warehouse-lending pioneer? Earlier this year, Street completed a move from Atlanta to Washington, D.C., opening up a second office for Street Resource Group in the nation's capital—a change that mirrored his growing interest in housing fi-

nance policy. Street Resource Group is also hard at work developing the latest version of WLS. But there are no plans to expand or reinvent the business, but rather to continue its proven formula for success.

"We continue to do what we do best," Street says. "By focusing on our core, we're not sidetracked by ancillary products or distractions. SRG is the quintessential niche software provider. We've changed the way the business is done, and we continue to improve the process."

Street adds that he's driven by one central theme that he distills into several important questions: "If I were sitting at my client's desk, what would I want? How could I make my job easier, get more satisfaction and improve the experience for my own customers so they want to do business with me?" he says.

"Addressing those questions is where we started, and we have stayed focused on the answers ever since." **MB**

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