

Mortgage Shakeout Yields a Deal for Bank

BY BRYANT RUIZ SWITZKY
STAFF WRITER

The Business Bank has agreed to purchase Prime Mortgage Corp., a deal that would give the bank eight new offices, 110 new employees and a broader business model.

The purchase is the latest in what may be a trend of independent mortgage companies attaching themselves to banks. Earlier this week, Residential Mortgage Group closed on a similar deal to merge with Maple Grove-based InterBank.

Terms were not disclosed for either acquisition.

Through the deal, 22-year-old Prime Mortgage aims to be among the survivors in a mortgage market that's been squeezed by new state regulation, a tough credit environment and a tanking housing market.

The merger is a major expansion for the 7-year-old Business Bank, which now has \$100 million in assets and just 15 employees. The companies are based in the same building in Minnetonka and expect the deal to close within a month.

By becoming a division of a bank, Prime Mortgage hopes to gain favor with consumers who have grown wary of mortgage companies, said Sally Turriffin, co-owner. "For many years, it has been to our advantage to say we are independent. ... Now it helps build trust and credibility with consumers to be associated with a bank."



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Teresa Tembreull, left, President of The Business Bank, and new co-workers Tom Olson and Sally Turriffin of Prime Mortgage.

On the flip side, The Business Bank gets to diversify revenue streams and get into the mortgage industry on the downside of a cycle, when it's presumably a buyer's market. It also plans to use the Prime Mortgage branches as loan production offices.

"We think this is a very good time to do something like this," said Brad Krohn, chairman and CEO of The Business Bank. "The whole industry is going through a metamorphosis. The good mortgage companies will survive, and there are a lot of reasons a good mortgage company would want to make an agreement with a bank."

Not a subprime lender

Prime Mortgage thinks of itself as one of those good companies, having done almost exclusively high-quality, prime mortgages. It closed about \$700 million in home loans last year and expects to do about 10 percent less than that in 2007.

"Business has slowed, but it hasn't crashed by any means," Turriffin said.

The company is considered a mortgage bank rather than a mortgage broker because it funds the loans initially and "warehouses" them for a few days or months until they can be sold into the secondary market.

BANK: Mortgage firms partnering with banks gain stability; deals can help banks boost revenue streams

In contrast, mortgage brokers pass loans directly to mortgage wholesalers at the closing, never fronting their own money to hold the loan.

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Sally Turrittin
Co-owner, Prime Mortgage Corp.

The warehousing component is another benefit to the merger. Rather than taking out a line of credit to hold the loan, The Business Bank will

fund the mortgages until it can find a buyer.

There’s been much hullaballoo about the secondary mortgage market constricting, to the point where mortgage companies can’t find buyers for loans. But that’s not the case with high-quality, prime loans, Turrittin said.

Banks shopping the market

In 2000, 1,071 mortgage originators were licensed in Minnesota. The housing boom fueled an explosion of independent mortgage companies, particularly brokers, bringing the total licenses to more than 4,000 as of last month.

As brokers dominated the market, they pushed banks out. But the pendulum may be swinging back toward the bank side as brokers leave the industry in droves and independent mortgage companies see advantages to joining ranks with banks, said Karen Grandstrand, chair of Minneapolis-based Fredrikson & Byron’s bank and finance practice group.



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THE BUSINESS BANK

City: **Minnetonka**
CEO: **Brad Krohn**
Business: **Commercial and private bank, soon-to-be mortgage company**
Founded: **2000**
Assets: **\$99.5 million (June 30)**
Net income: **\$283,000 (January - June)**
Employees: **125 (post merger)**
Offices: **9 (post merger)**
Web: www.businessbankmn.com

Teresa Tembreuli, President of The Business Bank, said that a new law to curb predatory lending practices put mortgage firms at a disadvantage versus banks.

“I’ve got some bank clients, frankly, that are keeping their eyes open for good opportunities to pick up good mortgage companies because they believe it’s a good industry, it’s a good line of business [and] it’s a good business for banks,” she said.



Grandstrand

There also are regulatory advantages to becoming part of a bank, given a new Minnesota “predatory lending” law that went into effect Aug. 1 restricting the types of products mortgage companies can sell and making mortgage companies liable for acting in a customer’s best interest. Banks and credit unions are exempt.

While most agree that the law was necessary to curb shady lend-

ing practices, it puts independent mortgage companies at a competitive disadvantage, said Teresa Tembreuli, president of The Business Bank.

“We think this is a very good time to do something like this ... the good mortgage companies will survive.”

While Krohn acknowledges the risks of getting into an industry that’s in turmoil with declining transaction volume, he isn’t too worried. “It’ll take a while [for business to pick up], but there will always be demand for a good solid mortgage company,” he said.

Brad Krohn
CEO and chairman,
The Business Bank

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