Christopher Mayer, PhD
Chief Executive Officer, Longbridge Financial

By Darryl Hicks

IT WAS SPRING 2012. CHRISTOPHER MAYER WAS sitting at his desk at Columbia Business School grading papers, when he received a phone call from John Sinclair, former director of research at Fidelity Investments, with a business proposition. Would Mayer like to participate on an academic advisory board in a start-up reverse mortgage company?

Mayer was a distinguished scholar and researcher in real estate and financial markets. He had worked at the Federal Reserve Bank of Boston and served on the faculties at the University of Michigan, the University of Pennsylvania and Columbia, and had been director of the Paul Milstein Center for Real Estate.

He was also an entrepreneur and investor, who recognized the social value and market potential of reverse mortgages. Sinclair co-founded Longbridge Financial with Michael Gordon, head of new business ventures at New York Life Insurance Company, who became the company's CEO. Mayer soon accepted Sinclair's offer. When Gordon left to pursue a new job at BNY Mellon, Mayer replaced him as chief executive officer. Over the next five years, Mayer and his team would build Longbridge into one of the largest originators and issuers of HECM Mortgage-Backed Securities (HMBS) in the nation.

Reverse Mortgage magazine sat down with Mayer to talk about his journey developing a start-up company, how his academic background has influenced his daily decisions, and where he sees the company and the industry headed.

Reverse Mortgage: ***In addition to your teaching responsibilities, why did you start a reverse mortgage business?***

Christopher Mayer

Christopher Mayer: I wrote my first research paper on reverse mortgages in 1994. The Home Equity Conversion Mortgage was still new, volumes were low, people were still figuring it out. I had just finished my PhD at MIT, but saw the value of equity extraction and its social implications for retirement planning. However, I didn't do anything with reverse mortgages for another 18 years, until I was approached by a group looking to start a reverse mortgage company. It was an opportunity to address a serious need, help consumers and be part of a successful business.

RM: ***How does your role as a professor/researcher contribute to your role at Longbridge? And vice versa?***

CM: For me, research is critical to what we do at Longbridge. We have a very structured approach to modeling the value of reverse mortgages and trying to link capital markets with how the company operates every day. That disciplined approach comes from my background as a researcher and working with other people who have that same approach to thinking about valuation. We constantly try to understand where the market is and that has worked out well for us as a company thus far. We look at reverse mortgage clients, at the levels of credit being extended and we figure out where we can find value. The flip side is how does my role at Longbridge help with research. That also has been valuable. Understanding how reverse mortgages work informs my research. I have one research project with Professor Min Hwang of George Washington University examining how homes that are associated with HECMs appreciate in value compared to other similarly located homes to understand the financial viability of reverse mortgages. A second project is examining the drivers of tax and insurance default rates, including why they were high and the impact of recent reforms, like financial assessment and draw limits, in bringing them down. Finally, we have a project looking at how access to credit, like reverse mortgages, impacts the financial stability of elderly households who use (or do not use) reverse mortgages to help with retirement.

***RM:* Please walk us through the process of creating a new company, like Longbridge. What kind of team did you need to get started?**

CM: Creating a great company requires a great team. I have two excellent partners. Melissa Macerato helped MetLife get into the reverse mortgage business and served as the company's national sales leader. On the other side, Manjiang (Michael) Xu, runs our operations. He was at New York Life when it built a reverse mortgage product that ultimately was not released into the market. We also have a senior management team with decades of experience in reverse mortgage lending at major institutions. That experience at large companies means that we understand the challenges of getting bigger and knowing how to scale up. It's also about having the right controls in place. Our head of compliance and QC, Laura Cullen, has been very focused on instituting controls on our processes and in examining retail loans and those we buy through our wholesale channel. Having a transparent accounting system for your investors is also important. You can't have a business grow as fast as Longbridge has without understanding the institutional constraints and the kinds of things that, as you get bigger, regulators and investors examine more carefully. Warehouse lenders dig deep to understand all of your processes and procedures. If a storm hits or power fails, they want to know if you have a contingency plan for service interruptions. And that you have high-quality security systems in place. Finally, we all

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believe that it is critical to build a company with a core set of values about putting our customers first. These are things associated with scaling a successful business.

RM: ***How long did it take to build the company? How did you find funding? How do you convince funders to support a new company?***

CM: The company was founded in 2012, but it wasn't until 2014 and 2015 that we started ramping up. In its early years, Longbridge was funded by its officers, friends and family. Then the contract with BNY Mellon provided resources to help us grow. And with a relationship in place with BNY Mellon, we got our first institutional capital investment from Ellington Financial. This was so important. It meant we had an investment from a publicly-traded company with deep experience investing in HMBS securities. Ellington has a deep understanding of reverse mortgages, especially the capital markets side, and they wanted to learn more about the origination side of the business. Michael Vranos, founder and CEO of Ellington Management Group, has been very supportive of our company, as have our board members from Ellington, Nikolay Stoytchev and Daniel Margolis. After BNY Mellon decided to exit the reverse mortgage business, we sought Ginnie Mae approval to be an HMBS issuer. We wanted to service reverse mortgages. I know people talk about the challenges of servicing reverse mortgages, but from my perspective, the advantages are numerous. You own that loan for a long period of time and the relationship with that borrower. If you lend to borrowers whose financial means are not great, or whose loans were originated inappropriately, that creates problems. We are very careful about the loans we buy and the companies we work with to ensure that we are getting loans that are going to be successful. If you do servicing well, you can control the losses in your portfolio. As the portfolio grows, servicing provides cash flow, which creates stability for the company during times when originating loans can be challenging.

RM: ***What distinguishes Longbridge from other companies?***

CM: We are a data and research-driven company. We bring sophistication to the capital markets and link together the different parts of the business. We don't think about origination separately from servicing or securitization. We think about those things together because we are looking for borrowers who are going to own their loans for a long time when we securitize them. That integration is really important. We spend a lot of time on numbers and understanding where value is created along the chain of producing, securitizing and servicing loans. In terms of leadership, you can get away with a CEO who comes from outside the business, but you can't succeed without a team of managers who are deeply knowledgeable, who have been in the business a long time and come from good companies. And on the entry level side, we want Longbridge to be a company for people to build careers. So, at the top you need people who can run large areas. In the middle, you need people with deep experience in the areas they are running. Then you hire entry-level people and train them to think about the business the same way you do and offer them a career path where they can see promotion and success within the company. The combination of all of those things has made for a successful business model.

RM: ***You've not only received capital investments from Ellington Financial but also Home Point Capital. What attracted these companies to Longbridge? What do investors expect as a return? Are they patient or do you need immediate results? What is a lender/investor relationship like?***

CM: The reverse mortgage business addresses a demographic group, homeowners age 62 and older, that has more than six trillion dollars of home equity, but very little market penetration. We have a leadership team with deep experience in reverse mortgages. And perhaps the most important issue was that the loans originated and serviced by Longbridge were all new loans, post financial assessment, post upfront draw limits. We focus on the quality of what we're doing, so we're able to have a high-quality portfolio of loans that don't have the legacy issues associated with the business. They also believe, as do I, that reverse mortgages will remain a viable business for many years to come. In terms of patience, when you have great institutional investors, they aren't necessarily looking for results tomorrow. Rather, they are looking for a plan and you're ability to execute and meet commitments based on that plan as a management team and as a company. Our plan did not have us making money on day one. We had to go through a process of acquiring loans, getting a Ginnie Mae license and being able to issue HMBS securities. Our business model was a bit unique because we bought a lot of reverse mortgages with the intent of securitizing them once we got our issuer license. Most issuers get the license first and then build a portfolio. But we were building momentum, we didn't want to lose that momentum, and so we held loans on our balance sheet while applying for the securitization license. The Ginnie Mae licensing process can be long and drawn out with a lot of due diligence, but we were able to start issuing securities within ten months, which was incredibly fast. We worked closely with Ginnie Mae's staff. They asked a lot of questions. They carefully scrutinized our team, our business plan and that we had a strong capital commitment. So, we had to go through that whole process. But our investors were patient!

RM: ***Besides having a good, executable business plan, what else makes for a successful relationship between a lender and its investor?***

CM: It requires communication. If you can't deliver on something, or even when you exceed expectations, you need to communicate that. It's also good to have investors that bring more than just capital to the table. In our case, Ellington has deep capital markets experience in HMBS securities. They helped us develop a sophistication in that area. Home Point has an incredibly experienced team running the forward mortgage side of its business, led by their CEO Willie Newman, who has been a strong advocate for our company. They understand the mortgage business. They understand the regulatory issues. Management issues. Reporting issues. IT issues. The combination of operating experience and capital markets experience has proven immensely helpful to Longbridge. It's critical to find investors who can contribute to your success. It's a partnership that's working for us.

RM: ***Do you think the recent reduction in principal limit factors will inspire more companies to launch their own proprietary reverse mortgage products? Will Longbridge be among them? Can the business survive as a one product industry?***

CM: Yes, Longbridge expects to develop its own products over time. Our company started back in the New York Life days when Michael Gordon and Manjiang Xu developed a proprietary reverse mortgage product. Our head of capital markets, Tim Wilkinson, traded proprietary products and our head of servicing, Richard Burke, serviced them. So, it is in our DNA that one day we would do the same. There are a lot of things that we can do more efficiently with a private product, servicing being one area. That said, it's difficult to develop proprietary products right now that compete head-to-head with HECM. Investors lack experience in the proprietary reverse mortgage market since the financial crisis. As that market develops again, there will be opportunities for innovation, but for now, the products being offered are relatively simple and more expensive than HECMs.

RM: ***Given the current conflict and chaos in Washington, is it wise for the industry to create products that are not dependent upon the government? And is that possible?***

CM: If you asked me the single-most frustrating thing about this business, it is having a single product that is managed by the government with all of the uncertainty associated with that. That said, even with the recent changes to principal limit factors, I don't think private-label reverse mortgages will be the saving grace for this industry for several more years. Look at private-label options in the forward mortgage market, which are minimal and have taken years, not months, to develop. We have to be realistic about where and when that's going to happen. But over time, my hope and expectation is that we will have a market with viable, privately financed products that can successfully compete with the HECM.

RM: ***If you could impart one piece of advice to a community bank or a mortgage broker that's debating whether to enter the reverse mortgage space, what would that be?***

CM: Reverse mortgages appeal to a client base that is growing and needs our help to have a better retirement. There is tremendous opportunity, but it's a product you need to commit to. You have to learn about the product. You have to learn about the rules and regulations. And you have to understand that the sales process is completely different compared to forward mortgages. There are some examples from the top ten or 15 lenders from the forward world that have ramped up and been successful in this business. But it didn't happen in ten minutes. They devoted resources and hired experienced people to do it right. If you're a bank, it's nice to help young people buy a home, but I think it's equally compelling to look at your older population who have hundreds of thousands of dollars in home equity. It's sitting right under their noses. RM