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'Hottest IPO' Hopes to Stay That Way

Since going public in March, Accredited Home Lenders, San Diego, has seen its shares nearly triple in value.

And Ray McKewon, executive vice president and co-founder of the home equity lender, says he believes the company can continue its growth trajectory.

Founded in 1990 with $30,000 in equity and three employees, Accredited didn't always have an easy time obtaining credit or capital for its operations. At a recent investment conference here, Mr. McKewon said that in its early days of operation, he had to use his credit card to fund loan advances. It was a strategy that left little room for error if he failed to sell loans quickly, he said.

Now, the company has $1.6 billion of warehouse financing available to fund its operations.

"We plan to take that north of $2 billion shortly," Mr. McKewon said.

Today, the firm's financial backing is much more solid. In 2002, Accredited reached $57.5 million in retained earnings. Accredited also has 1,500 employees. And the company works with numerous loan purchasers and funding sources.

Mr. McKewon said Accredited, which managed to survive and grow during the turmoil that rattled the home equity lending industry in 1998, manages its risk well.

"One of the ways we hedge risk is to take each of our business operations and diversify it," he said. That means multiple funding sources and strategies, as well as multiple loan sale outlets.

The bulk of the company's loan production consists of cash-out refinancing and debt consolidation loans, which account for 54% of Accredited's loan production. Thirty-eight percent of its loans are for home purchases and 8% are rate and term refinancings. He said the capital that has been raised by Accredited's initial public offering "puts more gas in our tank" for future growth. It also allows Accredited to fund its growing portfolio of loans that have been retained, which the company services itself.

He also said the company benefits from strong credit risk management that compares favorably to industry averages.

At the end of the first quarter, 2.5% of Accredited's loans were delinquent. Mr. McKewon told *MSN* that the company's low delinquency rate reflects both its higher-than-average credit scores and its strong collections platform.

"At this point in time we have an extraordinarily low delinquency rate for the business we are in," he said.

The company's borrowers have an average FICO score of 630, a strong mark by the standards of the nonconforming lending industry, he said.

The company does not require borrowers who are approved for a loan-to-value ratio above 80% to have mortgage insurance, nor does Accredited buy insurance itself on the loans. Mr. McKewon said this reflects the company's confidence in its risk management strategy.

"If we pay someone a premium to protect us from ourselves, I'm not sure what statement that makes about us," he said.

On average, the company's portfolio consists of loans with a 7.5% to 7.6% note rate, or about 200 basis points above what conforming loan borrowers are getting.

"We think our money is very fairly priced for the risk that we take," he said.

Some media reports have touted Accredited as this year's hottest IPO in the stock market, and Mr. McKewon said he hopes things stay that way.

In late June, Accredited's stock was trading at about $24 per share. That's about three times what the company's share were selling for when the firm went public last February.

— TED CORNWELL