

IN THE UNITED STATES BANKRUPTCY COURT FOR
THE NORTHERN DISTRICT OF ALABAMA
NORTHERN DIVISION

In the Matter of:)
)
Hometown Lenders, Inc.) CASE NO.: 24- 81038 -CRJ11
EIN: XX-XXX6790) CHAPTER 11
)
Debtor.)
_____)

DECLARATION OF WILLIAM TAYLOR, JR.

I, William “Billy” Taylor, Jr., hereby declare that the following is true to the best of my knowledge, information and belief:

1. I am the Chief Executive Officer of Hometown Lenders, Inc. (“Debtor”). In this capacity, I am familiar with the historical operations, business, and financial affairs of the Debtor.
2. If called upon to testify, I would testify competently to the facts set forth in this Declaration. I am authorized to make this Declaration on behalf of the Debtor.
3. On June 3, 2024 (“Petition Date”) the Debtor filed for relief under Chapter 11 of Title 11 of the United States Code, 11 U.S.C. § 101 et seq. (the “Bankruptcy Code”) in the United States Bankruptcy Court for the Northern District of Alabama (“Court”).
4. I submit this declaration to assist the Court and other interested parties in understanding the Debtor’s business and the relevant facts and circumstances regarding the commencement of its Chapter 11 case and in support of the First Day Pleadings. Except as otherwise noted, I have personal knowledge of the matter set forth in this declaration. The facts stated herein are based on my own personal knowledge or my discussions with other members of the Debtor’s management, my knowledge of the Debtor’s operations and financial affairs, my review of relevant documentation and/or my opinions based on my knowledge and experience in the retail mortgage origination industry. In making this declaration I have relied upon information and materials that have been gathered, prepared and provided to me under my ultimate supervision and to assist in the preparation of this declaration.

5. Debtor is a corporation organized and existing under the laws of the State of Alabama. Its corporate headquarters was located in Huntsville, Alabama. It was originally organized as a limited liability company in 2000 and quickly became the largest mortgage banker in Alabama. The sole shareholder of the Debtor is William “Billy” Taylor Jr.

6. The Debtor continued to grow and in 2012 it became the an independent mortgage banker. In 2017, it converted its corporate structure into a corporation and was primarily engaged in the business of originating and selling residential mortgage loans through its retail origination channel. In 2018 it expanded its business nationwide and by 2021 it had over 1400 employees and 120 offices in 46 states.

7. As an independent mortgage banker, the Debtor’s principal business was to facilitate the purchase of residential real properties by extending mortgages to qualified buyers which were then subsequently sold to industry investors such as Fannie Mae and Freddie Mac.

8. Because the Debtor’s business was capital intensive, it required the Debtor to establish lines of credit with various lenders, known as warehouse lenders, to fund in the origination of residential mortgages. Debtor’s primary warehouse lenders were Flagstar Bank N.A. and First Horizon Bank but it also had credit lines with the Georgia Banking Corporation; Norpointe Bank and South States. The agreements with the warehouse lenders were structured either as repurchase facilities or secured loan facilities. Each warehouse lender provided the Debtor with a line of credit which it used to originate and fund residential mortgage loans.

9. Over 95 percent of the Debtor’s loans were originated, funded, closed and warehoused in its name. These loans were secured by certain collateral including the mortgage loans which were originated utilizing the lines of credit.

a. With regard to First Horizon, the debtor entered into a lending relationship in 2018 and established a \$30 million line of credit. This loan was subsequently modified and renewed on several occasions the latest being on June 16, 2023 when Debtor obtained line of credit from First Horizon in the amount of \$45 million which is evidenced by a Master Promissory Note and Amendment to Mortgage

Warehouse Loan and Security Agreement.

b. Debtor had a similar financing agreement with Flagstar. On or about November 24 2020 Flagstar and the debtor entered into a mortgage warehousing loan and security agreement whereby Flagstar loaned funds to the debtor so that it could originate and fund certain residential mortgage loans. Pursuant to this agreement that are established a \$60 million revolving line of credit which it utilized in its business operations.

10. Typically, these loans were either sold to or guaranteed by an entity such as Fannie Mae or Freddie Mac. Once they were sold the proceeds were applied against the line of credit. For instance, the Debtor believes that once the mortgages which secured the lines at both First Horizon and Flagstar were sold that no amounts remained drawn on the lines. In fact, the Debtor should have a surplus of funds at these banks.

Events Leading Up to Bankruptcy Filing

11. Like all mortgage originators, the Debtor was subject to certain economic and regulatory risks in originating the loan. For instance, the Debtor was subject to interest rate risk such that in a rising interest rate environment, it experienced a decrease in loan production, as well as decreases in the value of mortgage loans held for sale that were not committed to buyers, all of which negatively impacted the Debtor's operations. The Debtor was also subject to the risk that if the loan pays off within a specified time frame, it will be required to refund to the lender or investor a portion of the sale proceeds.

12. This is exactly what occurred in the mortgage industry commencing in 2022. After years of historically low interest rates, mortgage rates in the United States began to increase as a result of the Federal Reserve's policy to curb inflation. For instance, mortgage rates increased from an average of 3.2% in January 2022 to 7.2% in May, 2024. As a result of these significantly higher rates the Debtor's top-line revenues declined by over 70%. This drop in revenue was caused by a decrease in loan production which in turn was caused by higher interest rates eliminating potential home buyers from the market and investors who were not willing to purchase the mortgages based

on the belief that interest rates would soon decline and the homeowner would then refinance out of the higher rate mortgage. As an example, the Debtor was closing approximately 1,500 loans per month in the first quarter of 2022 but was only closing less than 100 per month as of June, 2023. In addition to the compression in top-line revenue the Debtor was required to repurchase significantly more mortgages as a result of investors being unwilling or unable to purchase those mortgages at the prevailing rate.

13. As these unforeseen events continued to unfold in 2023, the Debtor began a systematic process of cost cutting to reduce its overhead. This included closing a significant number of its offices nationwide and laying off a number of its employees. This systematic process continued such that by the end of June, 2023 the Debtor had fewer than 40 offices and less than 400 employees.

14. Despite making these cuts, however, the Debtor was unable to overcome the unforeseen adverse market conditions in the mortgage lending industry. As a result of these challenges, it was forced to cease all business operations and terminate its remaining employees as of October 13, 2023.

First Day Motions

15. In order to effectively manage the commencement of this Chapter 11 case, the Debtor has requested certain relief in its “first day” Motions and applications filed with this Court (collectively, the “First Day Pleadings”).

16. I have reviewed the First Day Pleadings and the statements contained therein are true and correct to the best of my knowledge and belief. Expedited consideration of these Motions is necessary to prevent immediate and irreparable harm to the Debtor’s estate.

17. Debtor has minimized the relief that it is requesting from the Court in connection with its First Day Pleadings. Debtor requests the consideration of the following Motions at the hearing on its First Day Pleadings:


- a. Application to Employ Debtor’s Counsel.

- a. Application to Employ Debtor's Counsel.
- b. Debtors' Motion for an Order Establishing Notice Procedures.
- c. Motion for Order Extending Time to File Schedules of Assets and Statement of Financial Affairs
- d. Debtors' Motion for Authorization to Use Cash Collateral on an Interim Basis; and
- e. Motion to Approve Procedures for Payment of Interim Compensation of Professionals


18. Although the Debtor is not operating, it anticipates filing several actions pursuant to which the Debtor in good faith believes will generate funds that are sufficient to pay the allowed claims of priority and general unsecured creditors of the estate. Upon information and belief, all of the funds available to the Debtors constitute cash collateral of their Secured Creditors. Without access to these funds the Debtors will cease business operations and permanently impair their going concern value and the value of their estates.

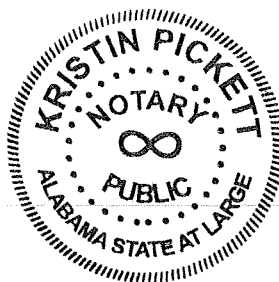
I declare under penalty of perjury that the foregoing is true and correct.

Dated this the 3rd day of June, 2024.


 WILLIAM TAYLOR, JR
 Chief Executive Officer

Sworn to and subscribed before me, this the 3 day of June, 2024.


 NOTARY PUBLIC
 My Commission Expires: 9/22/25



CERTIFICATE OF SERVICE

I hereby certify that on the 3rd day of June, 2024, I served a copy of the foregoing **Declaration of William Taylor, Jr.**, on the parties listed below by depositing the same in the United States Mail, postage prepaid and properly addressed or via electronic mail at the e-mail address below, or via the CM/ECF System for the United States Bankruptcy Court for the Northern District of Alabama, pursuant to FRBP 9036 in accordance with subparagraph II.B.4. of the Court's Administrative Procedures as indicated below:

Notice will be electronically mailed to:

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Richard E. O'Neal USAALN.BANKRUPTCY@usdoj.gov Attorney for the IRS
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Notice will be mailed to:

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/s/ Kevin D. Heard

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