

Large Lenders Becoming Larger; News from MGIC, Freddie, and GMAC

By: Rob Chrisman | Tue, Oct 6 2009, 1:28 PM

"Keep skunks and bankers at a distance" so the old saying goes. Mortgage bankers may have to ignore that saying, however, given some National Mortgage News data that shows that **four companies** (Wells Fargo, Bank of America Home Loan, JPMorgan Chase, and Citigroup) control almost 58% of the overall lending market. Wells was the largest mortgage originator in the second quarter, funding \$131 billion in loans and doubling their originations from a year ago. BofA did \$114 billion, up 223% from a year earlier. Chase and Citi combined have a market share of about 13%, but both lost market share in the 2nd quarter of 2009 compared to 2008.

Of course this news led to further conjecture about the future of the small mortgage lender. For years industry followers have noted that it is "**interesting**" **indeed** how "ABC Home Loans" competes with a company like Bank of America for the borrower, somehow retains the client, and then turns around and sells the loan of BofA, who has a lower cost of funds and could have even possibly provided ABC with their warehouse line. Now non-depository bankers are not only faced with continued higher costs of doing business, and fewer warehouse lines, but also higher net worth requirements. And if the volume estimates of companies like Chase or Wells come true, 2010 will be much less than \$2 trillion, leading to more consolidation. That being said, mortgage brokers have always proven to be **resilient and nimble** in the face of changing conditions, and certainly offer a point of contact with borrowers that big banks do not. Stay tuned....

Companies that **issue mortgage insurance** have had a number of problems to grapple with, which isn't surprising since any company in this business has had their share of problems. In an interesting twist, MGIC reports that "New York has approved a rate filing that affects BPMI and LPMI rates. Effective October 19, 2009, New York will have the same BPMI and LPMI that were effective in most states in November 2008. The New York rate cards dated March 2009 reflect the rates that will be effective for MI applications received by MGIC on or after October 19, 2009." Anyone involved in mortgage insurance knows that when the lender pays for MI, they will typically charge a slightly higher rate, but in turn the borrower pays no monthly MI premium, there are no MI closing costs, and the borrower may actually save money over the life of the loan. On the flip side, under the LPMI scenario, lenders tend to have better secondary marketing execution and excess servicing profits.

I am sure that they have their reasons – IBM has not been in business for as long as they have by making bad decisions. It was announced that IBM (yes, the computer company) bought the main operating assets of Bank of America's Wilshire Credit Corporation. As you may recall, Merrill Lynch, who was purchased by BofA earlier this year, bought Wilshire Credit Corp for about \$48 million in 2004. (Picture a big fish swallowing a small fish who swallowed a smaller fish.) So the 900 employees of Wilshire will have a new boss, and will report up through IBM's Lender Business Process Services Inc. unit, which is a subsidiary of IBM.

GMAC came out with some news about them purchasing HPML (Higher Priced Mortgage Loans) related to the Federal Reserve's July changes to TIL. Although GMAC has the guidelines set forth, "...due to system delays, Clients using our Broker Fulfillment Group or our Branded Web for closing documents, will not be able to close a "higher priced mortgage loan." We are hoping to have both systems updated to permit "higher priced mortgage loans" by the end of this month." And these programs and products are not eligible for purchase by GMAC Bank when combined with a HMML: conventional conforming ARMS with initial reset of less than 7 years, Freddie Mac Relief Refinance - Open Access, FHA and VA ARMS, VA IRRRLs, and FHA credit qualifying and non-credit qualifying streamline refinance.

Let's step into the "way back machine" for a moment. In mid-January, FHFA announced that Freddie Mac would be required to capture new loan-level origination data for mortgages with application dates on or after January 1, 2010. This date has now been pushed back to July of next year, so mark your calendars. Their clients, however are warned that "with this change to the effective date, Freddie Mac is now (actually, in July) required to collect the following unique identifiers for mortgages with application dates on or after July 1, 2010: loan originator identifier, loan origination company identifier, appraiser's state license number, and supervisory appraiser's state license number, if applicable."

In the markets, yesterday was a relatively quiet day. Rates are still low, and the stock market improved somewhat, which tends to make the US populace feel a little better about things. In fact, in spite of the profit margins, interest rates for 30-year fixed-rate mortgages are near last May's levels. And 15-yr rates, where interestingly enough the principal portion of the early payments is about half of the total P&I, are the lowest in decades. So these rates, combined with the potential end of the \$8,000 tax credit and some great pricing, are certainly helping to stabilize home sales. New home sales are the highest they've been in a year, and inventories are the lowest they've been in decades. One cloud on the horizon, as it always is, is this week's Treasury auction. Or, put another way, with the supply this week don't look for a big drop

in rates unless the stock markets continue their downward path, which may be unlikely. Yesterday we had \$7 billion of 10-yr TIPS, today we have \$39 billion of 3-yr notes, tomorrow \$20 billion of 10-yr, and on Thursday \$12 billion of 30-yr. bonds. Without much other news, we find the 10-yr currently yielding 3.24% and mortgage security prices about unchanged.

A young man excitedly tells his mother he's fallen in love and going to get married. He says, "Just for fun, Ma, I'm going to bring over 3 women and you try and guess which one I'm going to marry."

The mother agrees.

The next day, he brings three beautiful women into the house and sits them down on the couch and they chat for a while. He then says,

"Okay, Ma, guess which one I'm going to marry."

She immediately replies, "The one in the middle."

"That's amazing, Ma. You're right. How did you know?"

"I don't like her."

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