

JP Morgan Chase Profits Exceed Expectations; Updates from GMAC, Wells, US Bank; Rates Rising

By: Rob Chrisman | Wed, Oct 14 2009, 9:30 AM

Sorry the commentary is a little late today. I was trying to track my [Chia Pet order](#). Who could resist? Don't be the last one on your block to own one! (These may have contributed to the strong Retail Sales number this morning.)

In my spare time I write an advice column. The other day I received a letter. "Dear Robbie ("Dear Abby" was taken) - I am a broker who specialized in the jumbo market. It is the only thing I know - I can't do anything else. My question is will jumbo origination come back before Thanksgiving or after Thanksgiving?" I wrote back, "Dear Future Bank Employee - Thanksgiving of what year? The "private label" residential mortgage-backed securities market remains dormant, and some estimates peg it at less than 20% of 3 years ago. Only about 6% of loans (volume-wise) being originated are "jumbo". And of that, 3% are from \$417k up to \$729k, and 3% are \$729k and higher. At this point, **the vast majority of jumbos are being put into banks' portfolios, are being originated through bank retail channels, and there is little to suggest that anyone is going to ramp up jumbo production through wholesale or correspondent channels.**

I am often asked about mortgage backed security prices. MBS prices are generally seen on sites that charge a subscription, although some folks, as a proxy, use the yield on the 10-yr Treasury yield, one site has undertaken the task of explaining the underlying movements of mortgage rates as they relate to the trading environment in the secondary market. I think that site is worth checking out...[HERE IT IS](#)

JPMorgan Chase, who has been known to originate a loan or two and is the second largest bank in the US as measured by total assets, had 3rd quarter earnings of almost \$3.6 billion. Stockholders should be pleased, since Chase has already paid back their TARP funds to the government and it appears that Chase's investment in WaMu and Bear Stearns is paying off. Chase added \$2 billion to its consumer credit reserves, bringing the companywide total to \$31.5 billion, or 5.3 percent of total loans. "Credit costs remain high and are expected to stay elevated for the foreseeable future," Dimon said in the statement. "While we are seeing some initial signs of consumer credit stability, we are not yet certain that this trend will continue."

Interestingly, the latest H.8 report showed that **large domestic banks were net sellers of \$33 billion MBS over the last week in September, which amounts to about 5% of their total MBS holdings.** Are they reducing the size of the balance sheet or realizing quarter-end earnings, with the help of the Fed buying them? Well, if one looks at the market, it is estimated that these loans have at least 4 points of profit in them, amounting to \$1.2 billion in earnings. And they shouldn't have any problem replacing them with new production, right? But while we're talking about banks making or losing money, the unrealized losses on the books of domestic banks also declined dramatically in recent quarters, which could have a meaningful impact on tangible common equity ratios of some banks. This may account for some of the nice rally that we've recently seen in bank stocks.

Lock desks slowed a little last week, at least according to the MBAA. Applications for the week ending 10/9 fell about 2% - not a shock given that they hit a record the week before.

It is another small step in the right direction that GMAC Bank's Correspondent Funding group removed the funding cap price of 103.500 for all conforming loans locked after yesterday. However, and this must sting for wholesalers, **"Any loans originated through a third party Broker, including table-funded loans, will continue to be subject to a yield spread premium of 3% of the loan amount as stated in the Correspondent Client Guide."**

Not content with the current form, **Wells Fargo's correspondent group updated their Verbal Verification of Employment form.** "To align with agency guidelines regarding data elements that are required on the Verbal Verification of Employment (VVOE) form, Wells Fargo Funding is updating our VVOE form" after November 1. So after that date, loans submitted for prior approval underwriting will be conditioned accordingly. "Sellers submitting Delegated loans are reminded to comply with Agency requirements regarding VVOE policy and also have the option to use Wells Fargo's form".

U.S. Bank Home Mortgage Wholesale Division (USBHM) previously outlined their requirements to insure compliance with the changes to Reg. Z. They previously stated that a corrective TIL disclosure would be required when the APR on a subsequent TIL increased by more than 0.125% when compared to the early TIL. **Effective Friday USBHM will require a corrective TIL disclosure when the APR on the corrective TIL has increased or decreased by more than 0.125% when compared to the APR on the most recently disclosed TIL. The 3 day period stands.**

Hope springs eternal. Jeff Walton, who ran residential mortgages for Bear Stearns, is forming **National Residential Mortgage**. The company will make home loans on behalf of First Arizona Savings. But don't look for anything too exciting: **nothing is planned to be held in portfolio, and the loans will be conventional mortgages that meet FHA guidelines**. Since First Arizona is a federally chartered thrift, National Residential Mortgage will be eligible to issue mortgages in all 50 states and have access to funding from deposits.

So how have securities backed by mortgages been doing relative to Treasury securities? Recently the "spread", or the difference in yield between the two, has been very narrow ("tight"). Some analysts feel that it will continue to improve if mortgage production declines, and the Fed continues to buy mortgage securities, or if the Treasury continues to auction off monumental amounts of fixed-income securities. The ownership structure of the MBS market has changed, with the Fed being the predominant buyer. So until private investors come back into the market, analysts feel that there is very limited upside to owning agency MBS over Treasuries at current spread levels. **And tight spreads are good for mortgage prices, in general. (Too tight is bad)**

Something has to give, though, right? Gold, stock, and bond prices can't all keep going up forever, right? Well, with some profit news from Intel, overseas equity markets rallying, and the news this morning from Chase, bonds could come out on the short end. **Treasury prices are lower, rates are higher (the 10-yr is at 3.42%), and mortgages are down (worse) almost .500 in price** (FN 4.0 is down 15/32 in price). And I don't think that the release of the FOMC minutes in several hours will help us. Retail Sales were down 1.5%, but this was better than expected. In fact, if one factors out autos from the number, Sales were up - so has consumer spending recovered?

Roz and Gloria were doing some carpenter work on a Habitat for Humanity House. As Roz was nailing down house siding, she would reach into her nail pouch, pull out a nail and either toss it over her shoulder or nail it in.

Gloria, figuring this was worth looking into, asked, 'Why are you throwing those nails away?' Roz explained, 'When I pull a nail out of my pouch, about half of them have the head on the wrong end and I throw them away.'

Gloria got completely upset and yelled, "You moron! Those nails aren't defective! They're for the other side of the house!"

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