Wells Fargo Paying Back TARP; HAMP Resources; ARM Index Websites; HUD & Form 1004D

By: Rob Chrisman | Tue, Dec 15 2009, 10:24 AM

Wells Fargo joined the other large banks in announcing plans to pay back our TARP money. Banks are complaining that they can't attract top talent with their compensation structures capped. This is good news, since Wells called me the other day to offer me a high paying job (they said I could spel good) but I turned them down since their pay was capped. Who needs that?

TARP: Troubled Asset Relief Program - maybe that is one acronym that we can forget. Wells Fargo may avoid the label of being the biggest bank still holding bailout money when it announced that it plans to pay back its $25 billion in government loans. For those keeping track at home, yesterday they followed **Citigroup**, and **Bank of America** last week, in making that announcement. Wells will raise $10.4 billion from the markets, another $1.5 billion by selling certain assets next year, with approval from the Federal Reserve, and another $1.35 billion by issuing stock to employee retirement plans and giving stock awards instead of cash to "certain Wells Fargo team members." Wells, and the other banks, expects this to help 2010 earnings but that it will hurt fourth-quarter financial results, reducing income available to common shareholders.

Count your blessing that you don't work for some company like **Optimal Blue** or **Del Mar Data Trac**. Not that they are bad companies by any stretch of the imagination, but the underwriting and program changes are fast and furious - it is difficult to keep up! Smaller companies continue to rely on outsourcing for this information. And, unless I am missing something, there is little in the way of loosening or good news. As a partial list, recently SunTrust suspended their Agency Plus Permanent product lines, Bank of America updated their Conforming Fixed DU Version 8.0 products and discontinued their Conforming 5-yr balloon, Conforming 7-yr balloon, Expanded Approval Level II, and Expanded Approval Level III product lines, Franklin American tweaked products (their Bulletin 2009-40), Flagstar has discontinued their Fannie Mae HomeStyle Renovation product line. SunTrust updated their Conforming & Key Loan Products product lines, and of course Fannie Mae updated their Conforming Temporary High Balance product lines and began using DU 8.0 products and guidelines. Citi has suspended their Flex with 18% MI product lines. Whew!

Originators are not the only ones having trouble keeping up - servicers have to be quick on their feet. **Fannie Mae released a nine page bulletin to mortgage servicers updating the Home Affordable Modification Program (HAMP).** The bulletin provided "Guidance to Fannie Mae-approved servicers related to the format, content, and timing of notices that must be provided to borrowers requesting consideration for a modification under HAMP, changes to federal income tax return requirements for borrowers facing imminent default, alternative documentation requirements for other earned income, and changes to title endorsement and recordation requirements based on capitalized amounts."

Freddie Mac followed suit by issuing their bulletin 2009-28 which also included information on HAMP. In it, for servicers, Freddie outlined the HAMP updates, revisions to loan modification requirements for all mortgages, and discussed mortgage modification conversion drive (designed to expedite the conversion of HAMP Trial Period Plans into permanent modification agreements). But don't take my word for it: **check out the government's "frequently asked questions" website**.

As every originator knows, Fannie's DU version 8.0, which supports their earlier announced policies, updated their minimum credit scores, MI requirements, pricing for certain DU loans, biweekly loans, and so forth. Now their maximum allowable total expense (DTI) ratio is 45%, 50% for certain loan case files with strong compensating factors (not applicable to DU Refi Plus). Gone are the Expanded Approval EA-II and EA-III recommendations (except for DU Refi Plus loan case files), and borrowers had better have a 620 credit score (except for the Refi Plus loans).

By the way, Flagstar will not close *another* lenders' refinance over 105% LTV. Yesterday I mentioned their 125% program, but that only applies to loans that they are servicing. Personally, I don't know of any wholesalers that will close a 125% unless they are currently servicing the loan.

A quick note on the House (not the Senate!) passing the Financial Overhaul bill: The legislation includes significant reforms to monitor systemic risk, improve stability of the financial markets, establish and administer a new agency, the Consumer Financial Protection Agency, that will be responsible for regulation and enforcement of consumer protection laws, and reform laws governing capital markets and credit reporting agencies. **The House voted against an amendment that would have permitted bankruptcy judges to modify ("cram down") mortgages during Chapter 13 bankruptcy proceedings. READ MORE**

For all the processors and appraisers out there, **HUD will accept Fannie's Appraisal Form 1004D for Value Recertifications after January 1st.** The form does two things: extend the validity period of an existing appraisal that is due to expire or has expired, and report the completion of a repair and/or the satisfaction of requirements and conditions noted in the original appraisal report referenced in the header of the Summary Appraisal Update and/or Completion Report. Starting in January, basically, appraisals are only valid for 120 days instead of 180 days for existing construction and 12 months for all proposed and under construction cases. Hopefully the recertification form will save the borrowers the expense of having to pay for a second appraisal and will save lenders time from having to wait for a new appraisal. But it is not a panacea: if the property value has been determined to have declined since the original appraisal, or building improvements can't be seen from the street, or the exterior has seen significant changes, the 1004D form can't be used. Just what we need: more subjectivity!

Lock Desks seem to be in the holiday mood, or, at least, the loans are not being locked or sold (doubtful). Wall Street traders reported a slow Monday. Of course the Fed is in buying, but they report that money managers, hedge funds, servicers, and Asia have been quiet. Of course companies in the servicing business will benefit, since their existing portfolio of loans will be on their books for a while.

How 'bout that yield curve? Recently we've seen the steepest yield curve ever, spurred on by Fed Funds being near 0%, the 2-yr Treasury note being around .8%, and 30-yr bonds moving up to 4.50% after a poor auction last Thursday. Some investors have a somewhat bearish outlook for mortgages due to this yield curve environment, inflation issues, and the Fed's eventual exit from the agency MBS market, currently scheduled to end in March.

If we do enter an **ARM market**, agents and brokers are best advised to keep these sites on their desktop: LIBOR Index: Wall Street Journal and CMT indices from the Federal Reserve site

U.S. producer prices were up 1.8%, more than expected in November, mostly due to energy costs. (Analysts seemed to believe that the PPI was only going to be up .8% last month.) Year-over-year the PPI was up 2.4% in November versus an expected number of +1.6%. Gas was up over 14%, hurting Escalade and Hummer drivers everywhere, and the "core rate" without food and energy was +.5%. Although we still have Industrial Production and Capacity Utilization ahead this morning, currently the bond market is taking the news on the chin: **the yield on the 10-yr is up above 3.62%, and mortgage prices are worse between .375 and .625**.

It is near the Christmas break of the school year. The students have turned in all their work and there is really nothing more to do. All the children are restless and the teacher decides to have an early dismissal.

Teacher: "Whoever answers the questions I ask, first and correctly, can leave early today."
Little Johnny says to himself "Good, I want to get outta here. I'm smart and will answer the question."
Teacher: "Who said 'Four Score and Seven Years Ago'?"
Before Johnny can open his mouth, Susie says, "Abraham Lincoln."
Teacher: "That's right Susie, you can go home."
Johnny is mad that Susie answered the question first.
Teacher: "Who said 'I Have a Dream'?"
Before Johnny can open his mouth, Mary says, "Martin Luther King."
Teacher: "That's right Mary, you can go."
Johnny is even madder than before.
Teacher: "Who said 'Ask not, what your country can do for you'?"
Before Johnny can open his mouth, Nancy says, "John F. Kennedy."
Teacher: "That's right Nancy, you may also leave."
Johnny is boiling mad that he has not been able to answer to any of the questions.
When the teacher turns her back Johnny says, "I wish these "gals" would keep their mouths shut!"
The teacher turns around: "NOW WHO SAID THAT?"
Johnny: "TIGER WOODS. CAN I GO NOW?"

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