

# UFMIP Reminder; HUD Shuts Down Two Lenders; REO Appraisal Guidance; Primary Dealers; Texas Laws Pay Off

By: Rob Chrisman | Mbn, Apr 5 2010, 10:27 AM

Earl and Bubba are quietly sitting in a boat fishing, chewing tobacco and drinking beer when suddenly Bubba says, "Think I'm gonna divorce the wife - she ain't spoke to me in over two months." Earl spits overboard, takes a long, slow sip of beer and says, "Better think it over Bubba, women like that are hard to find."

What seems to be harder to find these days are **primary dealers - there were *thirty one* dealers who could trade directly with the Fed 11 years ago**: ABN AMRO, Aubrey G. Lanston, Bear Stearns, BT Alex Brown, Barclays Capital, Chase Securities, CIBC Oppenheimer, Credit Suisse First Boston, Daiwa, Deutsche Bank, DLJ, Dresdner Kleinwort Benson, First Chicago Capital Markets, Fuji Securities, Goldman, Sachs, Greenwich Capital Markets, HSBC Securities, J. P. Morgan, Lehman Brothers, Merrill Lynch, Morgan Stanley, NationsBanc Montgomery Securities, Nesbitt Burns, Nomura Securities, Paine Webber, Paribas, Prudential Securities, Salomon Smith Barney, Warburg Dillon Read, and Zions First National Bank.

**There are *eighteen primary dealers* now**: BNP Paribas, Banc of America, Barclays Capital, Cantor Fitzgerald, Citigroup Global Markets, Credit Suisse, Daiwa, Deutsche Bank, Goldman Sachs, HSBC, Jefferies, J.P. Morgan, Mizuho, Morgan Stanley, Nomura, RBC Capital Markets Corporation, RBS Securities, and UBS.

The FHA, through the Mortgage Review Board (MRB) banned **RSA Financial** (Atlanta) and **1st Alliance Mortgage** (Houston) from originating and underwriting new FHA-insured mortgages, and from participating in the insurance program and filing claims on losses related to default. The MRB said that RSA misleadingly stated it was properly licensed by the Georgia Department of Banking and Finance at the time the company submitted an application to FHA for lender approval, and submitted false or misleading information regarding the criminal conviction and sanction history of its owner and executive, Ramsey Suphi Agan. 1st Alliance supposedly engaged in prohibited branch arrangements, provided false certifications, failed to implement a quality control plan, and committed a number of other violations of HUD/FHA standards. MRB alleges 1st Alliance used independent contractors to originate 708 loans from branch offices that were not true branches of the company and then falsely certified the contractors were full-time employees of the company, along with charging borrowers unallowable, excessive or duplicative loan processing and origination fees and also failed to list fees paid outside of closing on HUD-1 Settlement Statements. HUD also reached settlement agreements with **Franklin First Financial** (NY) and **Paramount Bond and Mortgage** (MO) on various improprieties.

On the first of April, all HUD REO appraisals changed their "validity period" to establish the listing price on HUD's REO properties and used for FHA insured loans used to purchase these properties using "203b" and "203b with escrow" programs. All investors have gone along with this, of course and now **REO appraisals will be valid for a period of 120 days** from the effective date of the appraisal instead of 6 months. In addition, when a buyer is using FHA financing to purchase a HUD REO property, the appraisal that was utilized in determining the list price will remain effective for purposes of obtaining the FHA-insured mortgage. A second appraisal may not be ordered to support a higher purchase price.

All investors have also told clients that loans with FHA case numbers assigned today onward will have a "brand new" upfront MIP of 2.25%. This change will apply to purchase and refinance transactions, including FHA-to-FHA credit-qualifying and non-credit qualifying streamline refinance transactions. There is no change to annual premiums. If you are a client, for example, of Guild or others, you should know that **applications that are disclosed with the lower UFMIP factors and do not have a case number assignment date prior to April 5, 2010 will be required to re-disclose to increase the UFMIP to the borrower within 3 days of the change circumstance event**, or no later than April 8, 2010 to comply with Regulation X.

Are borrowers in Texas better off than borrowers in the rest of the United States? No, but perhaps the quality of loans is? [HERE](#) is an interesting article on just why **Texas delinquencies are lower than in other parts of the nation**.

Do overlays still exist? Yup - just look at the FHA flip waiver. **GMAC Bank**, told its correspondents it now has an "Underwriting Overlay Matrix" so that clients can see what current overlays apply to a Fannie Mae, Freddie Mac, FHA or VA underwriting guideline.

Thank you to Scott at VestCap in Newport Beach who sent me a good treatise on short sales. "[An Overview and Warning to Real Estate Licensees Re: Fraud, and Legal and Ethical Minefields](#)"

The **FDIC** issued its list of state nonmember banks recently evaluated for **compliance with the Community Reinvestment Act (CRA)**. Are insured banks and thrifts meeting local credit needs? The list, which comes out regularly, is indeed public and can be found [HERE](#)

Mortgage companies and investors actually used to have employees who would **design and roll out new products**. It is not a lost art, as many believe that 2010 will see a move toward new products later on, but it is important to remember why it is important to take the time to discern the impact the product has on their current and future operations. When introducing a new product, a product proposal should be used to define marketing and financial objectives, operational impact and constraints, and key issues impacting delivery. At a minimum the proposal will include a definition of the product, customer needs, competitors, ability of the company to actually roll it out, potential profits, ultimate goals and objectives, risks, etc.

**Now that the Fed has stopped buying old and new loan production, now what?** Everyone in the business, including investors, knows that these loans are higher quality than those of a few years ago. These are fully documented loans with stricter underwriting guidelines and DTI's. Not only that, but in many markets property values are stable or actually increasing, according to some measures. But investors in all fixed-income securities face the prospect of higher rates, which can drive down the value of a bond and its steady payment stream. **Even if you think that the economy is stagnant, you can't ignore the fact that the stock market has improved for five weeks in a row, is up 6% during that time and is up about 36% in the last 12 months!**

The economy seems to be doing fine, commodities, including gas, are going up, there is little foreign news on debt problems, and the Fed believes that things are stable enough to end their purchase program. **Is anyone really predicting lower rates?** (Conversely, *should people be paying various services to hear the seemingly obvious prediction of higher rates ahead?*) Economic indicators last week suggested continued economic growth, including job growth, factory orders, and the Institute for Supply Management manufacturing index. But wait! Construction spending, including residential building, is disappointing. And who is going to solve the budget shortfalls in many states or at the national level? This week we have to digest yet another auction, this time with 3, 10, and 30-yr maturities from the Treasury. Friday we had an early close in the bond market, some companies were closed entirely, so when you combine some decent economic news and an illiquid market, watch out. The yield on the 10-yr seems to be moving toward 4.00%. The Week Ahead

A man and his wife walked into a dentist's office.

The man said to the dentist, "Doc, I'm in one heckuva hurry. I have two buddies sitting out in my car waiting for us to go play golf, so forget about the anesthetic and just pull the tooth and be done with it. We have a 10:00 AM tee time at the best golf course in town and its 9:30 already. I don't have time to wait for the anesthetic to work!"

The dentist thought to himself, "My goodness, this is surely a very brave man asking to have his tooth pulled without using anything to kill the pain."

So the dentist asks him, "Which tooth is it sir?"

The man turned to his wife and said, "Open your mouth, Honey, and show him."

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