

Originators Work More For Less; FHA Tips from Citi; DU 8.0 April Update; Japan Passes China as Biggest Tsy Buyer

By: Rob Chrisman | Thu, Feb 18 2010, 10:22 AM

"Suppose They Gave a War and Nobody Came" was a 1970 movie with Ernest Borgnine and Tony Curtis (both of whom are still with us). What if the Treasury gave an auction and nobody bid, aside from Primary Dealers who must bid? That is one of the fears that drove prices down and rates up yesterday, especially with the news that **China fell behind Japan to become the second-biggest holder of US Treasuries**. That is not a good thing, and is an indication that the Chinese have been acting on recent complaints about US policy by unloading US debt. China was a net seller of Treasuries by \$34 billion, bringing its total holdings down to \$755 billion from \$790 billion in November. **Money talks.**

Treasury prices went south after this China news came out, the positive data on the housing market, and the apparent progress on Grecian debt (Treasuries don't need to be the "safe haven"). More important than numbers reflecting last month's economic climate, however, were the Fed minutes. "A few suggested that the pace of asset sales, and potentially of purchases, could be adjusted over time in response to developments in the economy and the evolution of the economic outlook". Does this mean that the Federal Open Market Committee will adjust asset sales and purchases rather than the overnight Fed Funds rate? Perhaps!

Traders saw a higher-than-recently-normal amount of selling from originators Wednesday, which made mortgage rates move a little more than Treasury rates toward the downside. **The minutes from the late-January meeting revealed that members debated how and when to shrink the central bank's \$2.26 trillion balance sheet, with some policy makers pushing to start selling assets in the "near future."** Officials unanimously agreed that Fed assets and banks' excess cash will need to shrink "substantially over time" and return the central bank's holdings to just Treasuries, but obviously there is concern about upsetting the stability of the markets. [READ MORE](#)

Today we have another large amount of economic news with which to grapple. We have already had the Producer Price Index and Jobless Claims; still ahead are the Philly Fed and Leading Economic Indicators. The PPI showed that inflation picked up more than expected: +1.4%, with the core rate +.3%. Year-over-year the PPI was +4.6% and the core rate was +1.0%, roughly as expected. Jobless Claims rose 31k to 473,000. **On this news stocks moved down, and rates improved somewhat: the yield on the 10-yr is chopping around 3.75% and mortgage prices are worse.**

Generally speaking locks desks around the nation were a little slower last week. Yesterday the MBA reported that **applications from last week were down about 2%, with purchases down 4% and refi's down about 1%** Refi's are still amounting to about 69% of the mortgage activity (*what would your volumes look like if refi's went below 50%?*), and ARM loans are still less than 5%. Yesterday morning, after the Starts & Permits number, we learned that in January Industrial Production was +0.9% and Capacity Utilization went from 71.9% to 72.6%, both relatively strong numbers. [READ MORE](#)

GMAC Bank Correspondents now are using GMAC's "Occupancy Certification" form. For a purchase transaction the borrower(s) certifies as to their intent to occupy the subject property as a primary residence or second home, and for a refinance transaction, the borrower(s) certifies that the subject property is not currently listed for sale or under contract to be listed for sale. "The completion of this form is recommended for all primary residences and second homes, however may be required, at the discretion of the GMAC Bank Correspondent Funding underwriter, to be completed and signed by the borrower(s) prior to closing."

Bank of America Home Loan correspondent reminded clients that the last day it will purchase loans under the old Fannie DU 7.1 guidelines (FICO less than 620, expanded approval, etc.) is February 26th. Also remember that the last day BofA will purchase temporary buydowns for IO and non-owner loans (*which it ceased offering effective February 12*) will be March 29th. (Qualification for temporary buydowns means using the note rate for fixed rate loans and for ARMs borrowers must qualify using the greater of the Note rate or fully indexed rate). BofA also tweaked its Servicing Released Premiums (SRP's) and agency pricing slightly. For example, starting two days ago the price adjustment for FHAVA (including Rural Housing and Sec 184) with credit scores from 620 to 639 increased to 37.5 basis points, and FHA Streamline refinances below a 640 credit score have been removed entirely. Lastly, Bank of America Home Loan reminded clients that the FHA no longer limits the origination fee to one percent, but that lender fees should be fair and reasonable, and will monitor fees to ensure borrowers are not overcharged, and that BofA is following HUD's "appraiser independence" directives (only non-commissioned employees or third parties may select the appraiser, lenders may use an AMC, loan production staff may not have any substantive communication - somewhat subjective - with the appraiser, etc.).

CitiMortgage did originators a favor by publishing a fine list of tips for processing FHA loans. If everyone followed these, the world would be a better place. It is a long list, so I put in about half today, with the next half tomorrow.

For documentation:

The 92900A must be fully executed, signed by all parties and completed per HUD requirements.

The initial 92900A, page 2, section V must be signed and dated.

Page 1 of the initial 92900A must be fully executed and dated by the lender.

Underwriter must complete Page 3 of the Final 92900A at the bottom of the page regarding having a "financial interest" in the transaction.

Source of Funds

Verify and document the source of funds used for the down payment and borrower closing costs.

Funds must come from sources acceptable to HUD. For example, gift funds require a gift letter and evidence of receipt, transfer, and donors, ability, deposit slips, wire transfers and/or certified checks evidencing withdrawal and deposit for borrower and donor. For bank Statements / Retirement Funds / Stocks / Bonds / Mutual Funds / Money Markets, provide all pages to asset documentation, explain and document any large deposits, liquidation documentation is required for all 401k, IRA, etc. withdrawals.

Borrower Credit

Analyze borrower credit and document explanations regarding past delinquencies, outstanding collection accounts, and credit inquiries.

All credit inquiries within the past 90 days must be addressed and verified.

Is borrower a heavy credit user, compare balances to limits.

Include all debts in the qualifying ratios.

Ensure credit information is consistent with other loan file documentation.

Compare SSN to W2, tax transcripts, etc.

(Continued tomorrow.)

Fannie announced that its DU Version 8.0 April Update Release Notes are now available. "Release Notes are available for the Desktop Originator/Desktop Underwriter Version 8.0 April Update, which will be implemented the weekend of April 17, 2010." The version coming out provide additional information for DU Refi Plus loans, some DU potential red flag messages for social security number and occupancy verification requirements will be changed to Verification messages that must be fulfilled before delivering the loan, and the new version will "be able to underwrite this community lending product, and will issue a message on all HFA Affordable Advantage loan casefiles reminding lenders that they must have approval to deliver these loans to Fannie Mae."

Real words from a real agent: "I have been originating residential loans for 26 years, and originating a loan has never been so time consuming and labor intensive. I work three times as hard for one-third the income, literally. The mortgage companies and banks now expect the originator to originate the loan (I like this part the best and spend the least amount of my day doing it) set up the loan (open escrow, order credit and appraisal, input loan (completely- error free) into the loan origination software, process the loan (complete the disclosures, collect signatures on disclosures, collect income and asset documentation from the borrower, underwrite the file manually and electronically (DU or LP), and close the loan (follow up on additional conditions created by an "underwriter"). Of course the "underwriter" takes out his/her checklist and finds fault with something we have or haven't done (real or imagined) to justify their existence by conditioning for additional pieces of paper that do nothing for anyone (they blame it on the investor). There is really no such thing as an underwriter anymore. If DU or LP say no, it's a no. I find it almost laughable that the set up department doesn't set up (they police the disclosures) and processing department doesn't process (they submit the completed package to the underwriter) and the underwriters don't underwrite. There is no fun left in the business for originators. It's sad but true. *The parts of the business I truly love and excel at - figuring out how to market/originate loans and helping people realize the "American Dream" - are the parts I spend the least amount of my day doing.*"

The meaning of "potentially" and "realistically":

A young boy went up to his father and asked him, "Dad, what is the difference between 'potentially' and 'realistically?'"

The father thought for a moment, then answered, "Go ask your mother if she would sleep with Brad Pitt for a million dollars. Then ask your sister if she would sleep with Brad Pitt for a million dollars, and then ask your brother if he'd sleep with Brad Pitt for a million dollars. Come back and tell me what you learn from that."

So the boy went to his mother and asked, "Would you sleep with Brad Pitt for a million dollars?"

The mother replied, "Of course, I would! We could really use that money to fix up the house and send you kids to a great university!"

The boy then went to his sister and asked, "Would you sleep with Brad Pitt for a million dollars?"

The girl replied, "Oh, good heavens! I LOVE Brad Pitt and I would sleep with him in a heartbeat. Are you nuts?"

The boy then went to his brother and asked, "Would you sleep with Brad Pitt for a million dollars?"

"Of course," the brother replied. "Do you know how much a million bucks would buy?"

The boy pondered the answers for a few days and then went back to his dad.

His father asked him, "Did you find out the difference between 'potentially' and 'realistically'?"

The boy replied, "Yes, 'Potentially, you and I are sitting on three million dollars, but 'realistically, we're living with two 'tramps' and a future congressman."

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