# Fannie Mae Approves Genworth; Reams of FHA Updates; New Correspondent Investor; Bulletins from Wells, USB, SWS, Texas & SAFE Act

By: Rob Chrisman | Mon, Aug 9 2010, 10:19 AM

Friday, Nonfarm Payroll numbers showed that the US economy's recovery is slow, and rates dropped. Are there any other questions? Just kidding - there is more near the end of the commentary on reasons why brokers are already flipping through their electronic rolodexes looking for refi candidates.

One person that won't is David Ramnauth. He is the president of **GuyAmerican Funding** (NY), a mortgage brokerage firm, and pled guilty to bank and wire fraud in a $23 million home mortgage scam. In what is a recurring theme, Ramnauth and his co-workers collected massive fees from inflated mortgages by using "straw buyers" who flipped the homes again and again. Welcome to the Big Apple - he faces up to 30 years in prison. **READ MORE**

**Friday was sure a big day for HUD, FHA lenders, FHA borrowers, and investors in Ginnie Mae securities (which contain mostly FHA & VA loans).** For starters, although it was originally announced in March HUD provided details on the adjustment to its refinance program which was announced earlier this year that will **enable lenders to provide additional refinancing options to underwater homeowners**. Starting September 7, the FHA will offer certain underwater non-FHA borrowers who are current on their existing mortgage and whose lenders agree to write off at least ten percent of the unpaid principal balance of the first mortgage, the opportunity to qualify for a new FHA-insured mortgage. The program appears to optional for lenders. And there are of course restrictions. **HUD PRESSER**

Seasoned FHA originators analyzed the FHA's announcement that, " It is our intention that effective on September 7, 2010, **FHA's upfront mortgage insurance premium will be adjusted down to 100 basis points on all amortization terms and the annual mortgage insurance premium will increase to 85-90 basis points** on amortization terms greater than 15 years." (The FHA can go as high as 1.5%, basically tripling it if they wish, from .55 currently.) It looks like the FHA-destined borrowers will need more income, i.e., the qualification process becomes slightly more challenging based on DTI, but not significantly. A few folks wrote and thought that a lowered rate by 1/4% will overcome the difference. In terms of hard numbers, one seasoned agent from The **Loan Source** in San Jose wrote that currently $102,250 (w/UFMIP) @ 4.5%, 30 yr fixed, P&I = $518.09 + annual renewal @ .55% ($46.86) = monthly payment of $564.95. But going forward, $101,250 (w/UFMIP) @ 4.5%, 30 yr fixed, P&I = $513.02 + annual renewal @ 0.90% ($75.94) = monthly payment of $588.96. At 43% back ratio, that requires $1,370 of monthly gross income (per 100K borrowed) versus $1,314 (about 4% more).

Broadly speaking, **notice has been given by HUD and the FHA on ideas that are being considered on how to bring in more money or save more money for the MMIF capital reserve account.** "FHA proposes to tighten only those portions of its underwriting guidelines that have been found to present an excessive level of risk to both homeowners and FHA. First, FHA proposes to reduce the amount of closing costs a seller may pay on behalf of a homebuyer purchasing a home with FHA-insured mortgage financing for the purposes of calculating the maximum mortgage amount. This proposed cap on 'seller concessions' will minimize FHA exposure to the risk of adverse selection. Secondly, FHA proposes to introduce a credit score threshold as well as reduce the maximum loan-to-value (LTV) for borrowers with lower credit scores, who represent a higher risk of default and mortgage insurance claim. Finally, FHA will tighten underwriting standards for mortgage loan transactions that are manually underwritten. These transactions have resulted in high mortgage insurance claim rates and present an unacceptable risk of loss." The new fees are expected to raise about $3.6 billion annually for the FHA who, of course, does not make loans directly but instead guarantees loans made to borrowers who meet certain restrictions. And as folks in the biz know, of the 95% of loans now passing through government-related channels (Fannie, Freddie, FHA, VA), +/- a third of them are FHA, at least 10x higher than four years ago.

In addition, except for streamline refinance transactions, **the FHA eliminated the CLTV ratio that was previously in place** and is returning to its previous limits beginning 9/7. So if there is no cash out involved, 97.5% is the max, refi's to borrowers with negative equity positions will up to 115% with certain restrictions, and FHA to FHA streamline refi's with or without appraisals can go to 125%.

The **Mortgagee Letters** detailing these changes should be required reading for any FHA producer - although investors/accumulators may add overlays on their own: http://www.hud.gov/offices/adm/hudclips/letters/mortgagee/

As a side note, late last week GNMA prepayment speeds were released, and determined to be "faster" than expected. Analysts feel that this is a result of TBW buyouts as 6%'s and 6.5%'s increased the most.

**Fannie Mae**, which is still alive and not yet merged with **Freddie***, notified its clients that **Genworth** has been added to its approved MI

providers. (* I only mention this because on Friday Ben Bernanke said, in a letter, "It should be possible to create a U.S. housing finance system without the need for potentially risky entities like government-sponsored mortgage finance agencies Fannie Mae and Freddie Mac. He wrote that the housing finance system should ensure successful funding of mortgages and support a secondary mortgage market even during times of financial stress without creating firms that pose systemic risk.)

In the West, any credit unions or depositories out there looking for the "**new correspondent government investor** on the street" may want to check out **FMC**, who is setting up relationships in CA, OR, WA. NV and AZ. Mortgage bankers **can also apply**. It turns that First Mortgage is servicing about $2 billion and has a large cash position. So if you're interested in originating sub-620 FHA and VA loans, having an investor purchase VA 100% financing up to $1 million or CHF Access loans, shoot an e-mail to Chris McBrearty at Chris@equityiq.net.

"Rumors" hit late last week regarding warehouse lender **Southwest Securities**. It appears that the company cut many of its warehouse lines to its clients, although since Southwest Securities is a publicly traded company (SWS), employees cannot comment. One reader wrote, "SWS lowered their line to us, supposedly due to an audit and had to write down a large number of bad loans, and possibly performing loans as well. SWS may be warehousing a smaller, set portion of their previous business every day, first come first serve, and that we would be receiving a new agreement from them shortly. It's a mess." The couple on their **web page** does not look like they've had their warehouse line cut.

The only bank closure Friday was in Illinois. **Wintrust Financial Corporation** announced that its wholly-owned subsidiary bank, **Northbrook Bank** and Trust "has acquired certain assets and liabilities and the banking operations of **Ravenswood Bank** in an FDIC-assisted transaction."

**U.S. Bank Home Mortgage's Wholesale Division** clarified its policy for employees returning to work after an extended absence (to be in compliance with agency guidelines - FHA, VA, etc.) although, like other investors, this policy "supersedes any current agency's guidelines". Given that "an extended absence" is defined as any time period six months or longer, "After returning to work after an extended absence borrower's income may be considered effective and stable if he/she is employed in the current job for six months or longer, and can document a two year work history prior to an absence from employment using traditional employment verifications and/or copies of W-2's or pay stubs.

**Wells' Wholesale** channel is rolling out its "Super Conforming Mortgage Program" next Monday. The program, viewed as an enhancement to the current High Balance Program, includes "Primary-Purchase & Rate/Term-ARMs up to 90%, Primary-Cashout up to 75%, Second Home-Purchase & Rate/Term up to 80%, etc." It is good to see some continued ice-breaking in this sector of the market which, along with self-employed borrowers, has probably seen more than its share of volume drop off.

**In Texas, any originators who haven't passed the SAFE Act testing had better shove those armadillos out of the way and get going!** The deadline at Texas Department of Savings and Mortgage Lending for MLOs to have all of their SAFE requirements completed is August 31. Versus projections, less than half of the folks have taken care of the PE, passed the national test, the state test, or completed the CBC to satisfy the SAFE requirements.

This week we have another **Federal Open Market Committee** meeting. Over the course of the financial crisis, the Fed dramatically increased the size of its balance sheet-from roughly $855 billion in 2007 to $2.3 trillion as of last quarter. Although it would be difficult at this time to reduce the balance sheet purposely (it is already dribbling off with mortgage refi's and debt coming due), there has been increasing speculation among analysts and the financial press that policymakers will take action to stop the shrinkage of the Fed's balance sheet. The Fed will be trying to figure out what do with the money from early pay-offs and maturing agency and MBS securities, just as large servicers do. The Fed can reinvest this in mortgages or direct the money into Treasury securities.

Not only are there huge issues at the Federal level, but also at the state level. California and other states are experiencing great financial difficulties, with no easy answers. They can either decrease spending, increase revenue, or both, and critics say that measures such as legalizing marijuana & sports gambling while building does little to satisfy the basic problems. It is apparent that we need jobs, education investment, housing relief, and support for small businesses (including mortgage companies) rather than a reliance on government or large corporations for jobs. What a mess.

Looking at rates, and the news that moves them...the labor market continued to sputter last month, although the economy has still grown 3.2% over the past four quarters and is further along the recovery track at this stage of the cycle than it was in either the 1991-1992 or 2001-2002 recoveries. After the employment data came out, the US 2-yr note hit an all-time low yield of .4977% (and you wonder why banks pay so little for checking account interest), and the 10-yr went down to 2.84%. Mortgages had a nice .250 improvement on the security side on Friday after the unemployment data. Mortgage selling was pretty slim though, with only about $1.4 billion being traded - the lion's share being 4.0%'s.

**It is a very light week for economic news**. Wednesday we'll see some trade figures, Thursday the usual Jobless Claims, and on Friday Retail Sales and the Consumer Price Index - but no one seems to care much about inflation right now. But more importantly we have the Fed meeting (certainly look for no change in overnight rates) and the Treasury auctions ($34 billion 3's, $24 billion 10's, and $16 billion 30's, starting tomorrow). **The 10-yr is sitting around 2.83% and mortgages are roughly unchanged.**

A recent study found the average golfer walks about 900 miles a year.
Another study found golfers drink, on average, 22 gallons of alcohol a year.
That means, on average, golfers get about 41 miles to the gallon.
Kind of makes you proud. Almost feel like a hybrid.

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