Non-Agency Mortgage Originations; GSEs Pay Dividend to Government; Property Flipping; Investor Updates

By: Rob Chrisman | Mon, Nov 8 2010, 10:42 AM

A few months back, all the press could do was talk about "double dip recession" possibilities. We've now had the election, the FOMC meeting, and a decent employment number. **Many analysts and economists are now on the "slow recovery with no double-dip recession" bandwagon.** It is hard to deny the view that US financial markets contain a huge amount of liquidity (both individuals and companies sitting on large amounts of cash), the economic data has been showing signs of improvement, mortgage prepayments have been steady, and the political climate was expected to change and did. The first three factors should help mortgages and mortgage rates.

For folks who continue to look toward the "non-agency" MBS sector, rates have been coming down, and analysts are pointing to slower liquidation rates on option ARMs and subprime loans. **Banks are starting to make "jumbo" mortgages again**, according to an article in the Wall Street Journal. Smaller, and regional, lenders are issuing more new jumbo loans and doing more refinancings, as are larger banks that never stopped doing them. The WSJ points out that in the second quarter of 2010, jumbo-mortgage lenders originated $18 billion in loans-a 20% increase from the first quarter. **Chase** increased its jumbo-mortgage volume by 146% in the first six months of this year over the same period a year earlier, **Wells Fargo** by 48%, and **PHH** by 65%. **READ MORE**

But jumbos are being mostly kept in portfolios. Interestingly, **Redwood Trust**, the only company to securitize new jumbo loans during the past few years, has pushed backed its second deal to early 2011 because "major bank originators are reluctant to sell [jumbo] loans due to their high level of excess liquidity." (Last week Redwood Trust posted a profit of $20 million for the third quarter, compared to $29 million in 2Q, and $27 million in the year ago quarter.) According to its shareholder report, Redwood had accumulated $160 million of recent loans as of Halloween. There continues to be re-packaging of existing jumbo production, and Redwood's $238 million securitization of Citi's loans earlier this year brought some hope to that area. More information can be found **HERE**

A quick note - are loan producers clamoring for low interest rates, easily accessible and often-unsound financing, over-optimism about housing price trends, and increased housing subsidies? Be careful what you wish for - Thomas Hoenig, president of the Federal Reserve Bank of Kansas City, attributed the housing bubble and collapse to those events. **FULL STORY**

There are some regional conferences coming up soon that originators may want to check out. In St. Louis, Missouri, on November 16th the Missouri Association of Mortgage Professionals is hosting a conference next week. For information go to http://www.mamb.net/. In Charlotte, North Carolina, a "mortgage summit" will be held for originators, mortgage bankers and brokers, and correspondent and wholesale lenders. On top of that, the conference will be holding licensing classes and marketing seminars. For information on this conference, to be held later this week, go to http://www.mortgagesummit.net.

There are some folks that probably won't be going to either conference. **Regulators shut down four banks Friday**, bringing the total of 2010 failures to 143 and already beating 2009's 140. K Bank (MD), Pierce Commercial Bank (WA), Western Commercial Bank (CA), and First Vietnamese American Bank (CA) are gone, with deposits going to (in order) M&T Bank, Heritage Bank, First California Bank, and Grandpoint Bank. So far in 2010 the deposit insurance fund has been hit with a $21 billion loss so far this year, compared with $36 billion in 2009. To add more perspective, the 2009 total of bank failures had been the highest annual toll since 1992, at the height of the savings and loan crisis. In 2008 25 failed, in 2007 only 3.

Early last week Freddie reported on their 3rd quarter financial picture, and late last week it was Fannie's turn. **Fannie lost $1.3 billion during those three months**, and is asking the US government for an additional $2.5 billion in federal aid. The loss takes into account $2.1 billion in dividend payments to the Treasury Department, and compares with a loss of $19.8 billion a share, a year earlier. The $2.5 billion in additional aid that Fannie is seeking compares with a request for $1.5 billion in the second quarter. Fannie and Freddie together have repaid $16.7 billion as dividends to the US Treasury. "The company requested $2.5 billion from the Treasury Department, most of which will be used to pay a $2.1 billion dividend on the federal government's nearly 80 percent stake, per an SEC filing."

I haven't made the effort to figure out why Fannie & Freddie are asking for aid from the Federal government so that they can pay preferred dividends to...the Federal government. Perhaps it is the same logic that has the Fed, which I think is part of the US Government, purchasing another $600 billion of US Government securities.

Speaking of the agencies, Fannie & Freddie have allowable flips and non-allowable flips - whether or not investors follow this is up to them. Wells Fargo's wholesale channel recently told its brokers that for conventional, conforming, high balance, and Guaranteed Rural Housing (Rural Development) transactions, **"legitimate property flipping transactions" are now eligible to be financed by Wells Fargo Home Mortgage** (primary residence and second homes only). "Additional appraisal products are required that will result in additional time and cost to the transaction. Do not order a second appraisal product until notified. A notification will be sent when the appraisal and sales contract have been reviewed. All property flipping transactions must meet the more restrictive of these guidelines or the policy for the product, program and transaction type."

Stearns reminds their broker clients that any FHA loan with a FICO between 620 and 639 must fund by November 30th. (The 660 minimum FICO score requirement remains in effect for cash out refi's under the FHA High Balance Program.)

RMIC alerted its clients that it will accept FHA appraisals for MI underwriting. "Effective immediately, RMIC will accept appraisals originally ordered for FHA loans. This applies to both full package and delegated mortgage insurance submissions. All other RMIC property and appraisal guidelines continue to apply." (Editor's note: there are many in the businesses that believe that FHA appraisals are better than conventional appraisals anyway, due to the ordering procedure and the detailed inspection process.)

Union Bank told its clients that starting today it would discontinue the purchase discount, eliminate preferred broker discount on 5/1 refinances, improve pricing on 5/1 by .125 in rate, improve pricing on 15 year amortizing fixed and all 10/1 ARMs by 25 basis points in rate.

Pinnacle Capital Mortgage rolled out its "Flex 97" loan program for qualified borrowers who have limited funds for a down payment, but who have a good credit history. There is a price adjustment along with LTV/FICO adjustments, and guidelines include "Primary Residence Purchase & Rate/Term for 1-unit properties Up to 97% LTV Standard loan amounts Borrowers must contribute a minimum of 3% of their own funds toward the down payment. After the borrower's minimum contribution, flexible sources of down payment can apply. Loan Terms: 30 and 15 year fixed options," etc.

AmTrust articulated to its clients that "effective for Second Homes or Investment Property loans registered on or after 11.07.2010, the maximum number of financed properties is limited to four (4) including the borrower's primary residence."

Icon Residential is increasing the minimum credit score requirement on the FHA program, both conforming and high balance loan amounts, to 640 for purchase, refinance and cash-out transactions. "The minimum credit score requirement for Streamline refinance transactions remains at 640 and the minimum credit score for high balance cash-out transactions remains at 660. FHA loans currently in the pipeline with a credit score less than 640, must fund no later than this Friday."

Kinecta Credit Union updated the look of its "Eligibility Matrix" and added several policy and guideline changes to all agency ARM products (Conforming, Super-Conforming and Interest only). These included Kinecta now requiring the original and amended tax return, evidence of filing, payment and ability to pay if not paid, and letter explaining the re-file, a written VOD plus one month bank statement is required regardless of DU requirements, a VOE, paystub and W2 are required regardless of DU requirements, etc. Kinecta's clients are advised to read the actual bulletin for complete details.

Plaza Home Mortgage brought out an additional VA IRRRL program option that "allows waiver of the appraisal for loans currently serviced by GMAC." Plaza also reminded clients that "Fannie Mae and Freddie Mac's Appraiser Independence Requirements replaced the Home Valuation Code of Conduct (HVCC) effective 10/15/2010. Per Fannie Mae, these new requirements pose no significant changes to current policy. Additional language has been added to clarify questions raised during HVCC implementation. Plaza Home Mortgage has and will continue to support strong appraiser independence."

How about rates and the economy? As I mentioned in the first paragraph, the economy is showing some decent signs of life. The October employment report still pointed to a slow jobs picture but was better than expected, and momentum appears to be rebuilding for stronger jobs gains in the coming months. At the same time, corporate profits are booming, and in the past, surging corporate profits have always been a good barometer of the underlying employment trend. Over the week, MBS prices did not move all that much, surprisingly. But for the day on Friday, MBS prices finished worse between .250-.50 with about $3 billion being sold.

There is not much news this week, although we do have another Treasury auction during the next three days, and Thursday is market holiday with many lenders being closed. On Wednesday we have some international trade numbers, which shouldn't move the market much, and weekly jobless claims. Friday has a consumer sentiment number. The combination of improved hiring, further stimulus from the Fed and greater clarity on the political front (with respect to tax rates, regulatory reform, etc.) could jump start a virtuous economic cycle of faster job creation, rising employment income, accelerating consumption, continued corporate profit gains and hence even more hiring.

You can retire to Phoenix, Arizona where...

1. You are willing to park 3 blocks away because you found shade.
2. You've experienced condensation on your rump from the hot water in the toilet bowl.
3. You can drive for 4 hours in one direction and never leave town.

4. You have over 100 recipes for Mexican food.
5. You know that "dry heat" is comparable to what hits you in the face when you open your oven door.
6. The 4 seasons are: tolerable, hot, really hot, and ARE YOU KIDDING ME??!!

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