Servicing Examination Manual; MetLife - Business as Usual? JPM Chase Mortgage Numbers

By: Rob Chrisman | Fri, Oct 14 2011, 10:16 AM

How much does a media room cost in Arizona? $2.5 million... when it's attached to John McCain's listed house.

MetLife Mortgage, suddenly the talk of the mortgage world, sent a memo to its clients. "MetLife, Inc. announced on October 12, 2011 that in addition to its previously announced decision to explore the sale of MetLife Bank, N.A.'s depository business, the company will also explore a sale of the Bank's *forward* mortgage business. (Editor's note: thus coining a term for the opposite of the "reverse" mortgage business, which apparently is not for sale.) It's business as usual. MetLife Home Loans will continue to add new clients, accept new registrations and locks, and fund and/or purchase forward mortgages. The company also remains committed to continue servicing all of its mortgage clients. There is no impact to your business with MetLife Home Loans."

Cynics are quick to point out that this is exactly the time when there is a huge impact to the business, but I received this note from a MetLifer: "We are excited after learning more of knowing who will be lucky enough to acquire us. We're hiring processors, underwriters, and funders, so we're going to continue to build the platform. There is talk about improving pricing, and retention bonus', all the good stuff! My team is sticking together and looking at all options but first and foremost waiting until we know who our new parent is."

I received a few other notes. "Rob, *is there any truth to the rumor that MetLife is going to take the Snoopy logo and replace it with Lucy yanking the football away from Charlie Brown?*" (Not that I have heard, but that's clever.) "What are folks saying about the buyer?" (Early front-runners appear to be **PNC**, which, as a top-10 bank, is making a push into the California market, and a few folks mentioned **Fortress Financial** - I am sure someone at BofA still has their phone number.)

Unfortunately for the commercial-mortgage-backed security business, the Fed is not buying any of those. The Wall Street Journal reports that **Credit Suisse Group is poised to shut down its commercial-mortgage-backed securities division** just days after a new warning of layoffs on Wall Street. "The cutback also is a sign of the soft patch the commercial real-estate industry is enduring. Property values had been recovering until this summer, when concerns began rising about weakness in the economy and global capital markets. Albert Sohn, the Credit Suisse executive who oversees all securitized products...told the team that Credit Suisse is reviewing several businesses for possible downsizing and would reach a final decision about the securitization group in the next 30 days...in the meantime they weren't to make any new loans, spend firm money, or travel to meet with clients." *So much for the big Halloween office party*.

Being a large servicer has to, at this point, be an absolute nightmare. (Becoming a small servicer, however, seems to be an attractive option for many.) **The Consumer Financial Protection Bureau said it will make oversight of the mortgage servicing industry a top priority as it ramps up its oversight of banks**. Get in line: countless state and government agencies, special interest groups, and servicing staffs are examining bank foreclosure practices and whether the proper legal steps are being taken by servicers, who collect and manage loan payments, when a borrower becomes delinquent on a loan. "We are going to take a close and measured view to ensure that servicers and financial institutions are in compliance with the federal consumer financial laws," Raj Date, the Treasury official leading the bureau. Unfortunately for the CFPB, the nomination of its leader, along with many of its proposed policies and procedures, are bogged down due to politics in Congress. "The agency will initially focus its supervision efforts on the 105 banks, thrifts and credit unions that have more than $10 billion in assets."

Steve Antonakes leads Financial Services Examinations at the CFPB, indicated that CFPB examiners will focus on several areas of non-performing servicing: The fees charged to borrowers who are in default; the process for referring a loan to foreclosure; the servicer's application process for loan modifications and whether information to borrowers is accurate, prominent and clear. The servicing examination procedures will be implemented immediately.

The Dodd-Frank Wall Street Reform and Consumer Protection Act gives the CFPB supervision authority over a large number of mortgage servicers, allowing the agency to assess whether the servicers are following the law. Read the Mortgage Servicing Examination Procedures.

Analysts have been "looking under the hood" at the JPMorgan Chase better-than-expected earnings, with an eye on mortgage operations. (Net income was $1.2 billion, compared with $716 million in the prior year.) "Net interest income was $4.1 billion, down by $218 million, or 5%, reflecting lower loan balances due to portfolio runoff. Noninterest revenue was $3.5 billion, up by $939 million, or 37%, driven by higher mortgage fees and related income, debit card income, and deposit-related fees...The provision for credit losses was $1.0 billion, a decrease of $370 million from the prior year and an increase of $33 million from the prior quarter. While delinquency trends have modestly improved compared with the prior year and are flat compared with the prior quarter, the current-quarter provision continued to reflect elevated losses in the mortgage and home equity portfolios...Noninterest expense was $4.6 billion, an increase of $395 million, or 9%, from the prior year, driven by investments in branch and mortgage production sales and support staff, as well as elevated default-related costs. Mortgage Production and Servicing reported net income of $205 million, compared with net income of $25 million in the prior year."

It goes on. "Mortgage production pretax income was $493 million, compared with a pretax loss of $450 million in the prior year. Production-related revenue, excluding repurchase losses, was $1.3 billion, a decrease of 10% from the prior year and an increase of 35% from the prior quarter. **Current-quarter revenue reflected wider margins and higher volumes when compared with the prior quarter, and lower volumes and flat margins when compared with the prior year**. Production expense was $497 million, an increase of $63 million, or 15%, reflecting a strategic shift to higher-cost retail originations both through the branch network and direct to the consumer. Repurchase losses were $314 million, compared with prior-year repurchase losses of $1.5 billion, which included a $1.0 billion increase in the repurchase reserve. Mortgage servicing, including MSR risk management, resulted in a pretax loss of $153 million, compared with pretax income of $494 million in the prior year; and compared with a pretax loss of $1.1 billion in the prior quarter, which included $1.0 billion for estimated costs of foreclosure-related matters. Servicing-related revenue was $1.2 billion, a decline of 10% from the prior year, as a result of the decline in third-party loans serviced."

The FHFA in its role overseeing Freddie & Fannie released a revised proposal on the structure of mortgage servicing compensation which will also impact the borrower. The FHFA discussion paper revealed two new compensation structures for comment. The first represents only a small modification to the current system, and includes a small reduction to the minimum servicing fee, and usage of a reserve account to sequester some of the servicing fee stream for non-performing loans. It is not a big change, would keep the MSR as an asset on bank balance sheets, maintain the alignment between investors and servicers, and on the margin help non-performing loan servicing. For those reasons (it is not much change) odds makers don't give this one much chance.

The second option represents a significant departure. It effectively switches servicing comp to a pure fee-for-service model where the minimum servicing fee is reduced to zero and the servicer receives a fixed fee for performing loan servicing. $10 a loan per month, perhaps? One variant of this proposal allows the servicer to fully segregate the excess IO asset from the MSR, leading to even greater flexibility. This proposal would certainly represent a large shift for banks, investors, and the GSE's, since the fee-for-service approach effectively makes all servicers sub-servicers to the GSE's. It appears, before any unintended consequences kick in, to address many of the concerns the FHFA has regarding non-performing loan servicing, capitalization of the MSR asset, and increasing competition. But servicers and investors would be spooked.

During the darkest days of the recession more than 650,000 people a week were filing their first-time claims for unemployment insurance. That number trended down for the next two years, but since the beginning of 2011, only rarely have initial claims dipped below 400,000. This is not enough for a pick-up in the economy. Yesterday we found that Jobless Claims decreased 1,000 in the week ended Oct. 8 to 404,000, as expected. We also found out that the U.S. trade deficit was $45.6 billion in August, little changed from the previous month, as exports held near a record.

Yesterday traders reported that "**real money began to emerge** along with Fed buying that has been averaging $1.3 billion per day" which helped mortgage prices somewhat. Mortgage banker selling was limited at an estimated at $1.5 billion for the day. (Do the math on the supply and demand.) MBS prices were higher by over .25 on 30-year 3.5's and the 10-yr finished at 2.17%.

This morning, however, gold is up, stocks are up, oil is up, grains are up, and...rates are up. Retail Sales for September came out +1.1% - its strongest pace in seven months. We'll have Consumer Sentiment and a Business Inventory number. But the decent Retail Sales number, showing a little strength, has nudged rates higher: the 10-yr is up to 2.25%

Ole and Lena went to the Olympics.
While sitting on a bench a lady turned to Ole and said, "Are you a pole vaulter?"
Ole said, "No, I'm Norvegian and my name isn't Valter."

If you're interested, visit my twice-a-month blog at the STRATMOR Group web site located at www.stratmorgroup.com. The current blog takes a look at Fannie & Freddie & the FHFA, and the changes they have in the hopper. If you have both the time and inclination, make a comment on what I have written, or on other comments so that folks can learn what's going on out there from the other readers.

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