Basel III Comment Period Extended; CFPB Servicing Guideline Proposals; LO Realtor Thoughts

By: Rob Chrisman | Fri, Aug 10 2012, 10:46 AM

"Wanna tell you a story, about the house-man blues.
I come home one Friday, had to tell the landlady I'd-a lost my job.
She said that don't confront me, long as I get my money next Friday.
Now next Friday come I didn't get the rent, and out the door I went!"

CitiGroup is hoping it never hears that refrain written by Delaware's George Thorogood. The bank rolled out a program where eligible delinquent homeowners can rent back their home if they agree to keep rent current and sign over the deed in lieu of foreclosure proceedings. "Citigroup's program would extend to as many as 500 families who owe more on their mortgages than their home is worth, are more than 120 days past due but can afford rent at current market rates." (Critics say it sounds like a drop in the bucket - 10 in each state - and more of a PR move, but what do they know?) Here are a few more details: http://www.insidermonkey.com/blog/citigroup-inc-nysec-starts-program-to-help-distressed-homeowners-16280/.

Jersey Shore fraud with the names of Citi and Wells mixed up in it? Who can make this stuff up? Not me: http://www.businessweek.com/news/2012-08-09/10-charged-with-40-million-jerset-shore-mortgage-fraud.

I see the Aussies aren't doing very well in the Olympics. But then, if they could run, they wouldn't have been Australians in the first place... The U.S. Post Office isn't doing very well either, but I don't hear anyone calling for it to be abolished. Maybe F&F should hire the USPS's PR firm. **The U.S. Postal Service lost $5.2 billion in its third quarter** ended June 30, in large part, the agency said, because of a 2006 law requiring it to prefund future retirees' health benefits, amounting to a $5 billion payment each year for 10 years. The New York Times reports that the agency so far has lost $11.6 billion in this fiscal year, which ends Sept. 30.

When it comes to **Basel III, which many in our industry view as having a worse impact than QM or even QRM,** nothing is simple. Its regulations were approved by the Federal Reserve in June, with a public comment period opened. This week the FDIC extended the comment period until October 22 on three notices of proposed rulemaking (NPRs) that would revise and replace the agencies' current capital rules. The proposals have been available on the Federal Deposit Insurance Corporation's website since June 12 (http://www.fdic.gov/).

The Basel accord, which is to be phased in from 2013 through 2019, will require banks to maintain top-quality capital equivalent to 7 percent of their risk-bearing assets, about three times what they are required to hold under existing rules. And mortgage servicing rights that can't exceed 10% of Tier 1 capital, impacting every depository lender that owns, and originates, servicing. On top of that, however, 28 global "systemic" banks may have to hold up to an additional 2.5 percent buffer. **It is up to each country to write rules to implement the Basel agreement for its banks**. U.S. banks have pushed regulators to allow them to count more heavily mortgage servicing rights and the unrealized gains and losses of certain securities toward their capital requirements than allowed by Basel III, but the Fed's draft rule closely follows the international agreement.

Breaking it down, one NPR, the Basel III regulatory capital reforms, would strengthen minimum requirements for the level and quality of financial institutions' capital. On the surface, this is a fine goal - but the impact on banks would be to tie up more capital when they want to hold mortgages in their investment portfolios - and how does this jive with the government wanting banks to loan out more money? The second NPR proposes changes to the agencies' Advanced Approaches capital regulation to reflect other aspects of Basel III and would apply the agencies' Market Risk capital regulations to thrift institutions and thrift holding companies. A third NPR, the Standardized Approach, proposes changes to the calculation of risk-weighted assets that address issues identified in the financial crisis, and removes reliance on credit ratings consistent with the Dodd-Frank Wall Street Reform and Consumer Protection Act. And here is one person's views on Basel III which echo many in the industry's: http://camfine.wordpress.com/2012/07/24/by-god-that-is-enough-it-is-time-to-stop-the-madness/.

This extension of the comment period for Basel III is important. Maybe reason will prevail? The proposals in Basel III, and approved by the Federal Reserve, largely reject pleas by the U.S. banking industry to soften parts of the new standards. They would force banks to rely more on equity than debt to fund themselves so that they are able to better withstand significant losses. The announcement came a day after a group of state banking organizations asked the Fed and the other U.S. banking regulatory agencies for an extension. But a bipartisan pair of senators has called on the Fed to impose even tougher standards on the largest banks. "The surcharge on the mega banks should be high enough that it will either incent them to become smaller or help to ensure they can weather the next crisis without another taxpayer bailout," Democrat Sherrod Brown and Republican David Vitter wrote in a letter to Fed Chairman Ben Bernanke. And they have some public support, given the news this year on Chase's multibillion dollar hedge loss, and the apparent manipulation of the London Interbank Offered Rate (LIBOR).

While we're talking about banks, the OCC released an update to its Bank Accounting Advisory series that includes clarification on accounting for acquired loans, OREO, TDRs, nonaccruals, ALLL, insurance claims and other hot topics. The Advisory, and others, can be found here: http://www.occ.gov/news-issuances/index-news-issuances.html.

The CFPB announced another public comment period, this time for proposals directed at servicers "...aimed at protecting homeowners from unexpected costs and shoddy service by companies that collect their monthly mortgage payments. Mortgage servicing companies would be required to provide clear monthly billing statements, warn borrowers before interest rate hikes and actively help them avoid foreclosure under the proposal by the Consumer Financial Protection Bureau. The rules also require companies to credit people's payments promptly, swiftly correct errors and keep better internal records."

Once again, who can disagree with the publicly stated mission? But the devil is in the details. Here is a more in-depth write up of the recent developments: http://www.marketwatch.com/story/new-rules-aim-to-lessen-mortgage-complaints-2012-08-10. And to comment on this or any other CFPB proposal, visit http://www.consumerfinance.gov/notice-and-comment/.

Speaking of comments, earlier this week, the commentary noted the money spent by NAR, leading to some comments by a Realtor noted yesterday. I don't relish being in the middle of a water balloon fight, especially between two groups that need each other like lenders and Realtors, but a few originators wrote back. "Realtors don't take on any buy back risk from Broker/Correspondent agreements where the risk lasts for years, Early Pay Off fees that take more than you made on a file (both that vary risk costs with the size of the loan file), knowing you'll work 3-5 times harder on some loans than others due to structure and program, employee/staff payroll costs that have increased dramatically the last five years to stay in compliance with new regulations, hours of answering emails and calls of scenarios while the borrowers second guess everything you tell them these days after you first do hours of research on minute technical guidelines at 2-3 levels of overlays that could trip up the file at close if you miss it. Solving problems for hours with more research as the file adjusts with appraisals and/or changes from the Realtors after a home inspection. I pay for all of my personal marketing expenses that have run well into five figures annually to get leads and many lunches for Realtors I drive to. I agree with Linda J from Florida, but any LO could come up with a very similar list about why every loan is unique, probably longer than mine, and it made no difference to the Feds in 04/01/11 and may not now to CFPB coming in January. **Realtors would do better to join the mortgage industry in trying to stop this Federal overreach rather than in saying their job is harder/different so should be exempt from regulation on costs to consumers. It didn't work for us."**

And, "For originators, every item of personal time and money Linda itemized is replicated on mortgage side of the transaction and then expanded for 60+ days - its business. What isn't reflected is the 11PM calls from frantic borrowers who were told by the realtor they could close in 30-45 days and terminated the rent, the borrower who was "advised" to waive the mortgage contingency because "this town is hot right now", or the Realtor who tell you she/he scheduled the closing for the day after tomorrow and you're still tracking asset documents. This is business. The entire 19% of GDP that the real estate sector covers is under attack. In the past 2 months I have given talks about regulatory issues and their effects on the industry to 4 groups of about 350 Realtors total. I would estimate less than 10 had ever heard of half the items I presented such as the Flat Fee proposal nor the proposals requiring the inclusion of Realtors fees in the Flat Fee. In the past year I have received only 1 item from NAR about regulatory issues. **Unfortunately the regulators and borrowers only see the commission checks paid to broker and Realtors and not the massive work load, regulatory expenses and human stress behind the check.** What the Regulators seem to miss is intellectual property rights of the MLO. Yes, you should get what you pay for."

Turning to the markets, on Thursday the 10-yr closed at 1.69%. Rates certainly wouldn't have improved given the results of the 30-yr Treasury bond auction - they were poor. However, at least the auctions are over, and the 10-yr, which hit a high of 1.73%, improved somewhat, and seems to be doing so again in the early going today. Over on the agency MBS screens, current coupon prices were worse about .250 at one point but then buyers stepped in and voila! Prices improved, and MBS rallied back - there didn't seem to be enough market moves to warrant price changes by the majority of investors.

Today's calendar is relatively sparse again, as it has been several times this week, with just Import Prices for July (predicted slightly higher). This is not a market-moving number, and given the waning days of summer vacation for many, folks heading for the doors early may represent the majority of movement later in the day. **In the very early going the 10-yr yield is down to 1.64% and MBS prices are better .125-.250.**

Things we know because of TV! (Part 2 of 3.)
- When paying for a taxi, never look at your money. Just pull out a bill or two and hand it over. It will always be the exact fare.
- If a killer is lurking in your house, it's easy to find him. Just relax and run a bath even if it's the middle of the afternoon.

- All single women have a cat.
- Even when driving down a perfectly straight road, it is necessary to turn the steering wheel vigorously from left to right every few moments.
- It does not matter if you are heavily outnumbered in a martial arts fight. Your enemies will wait patiently to attack you one by one.
- When you turn out the light to go to bed, everything in your room will still be clearly visible, just slightly bluish.
- Dogs always know who is bad and will naturally bark at them.

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