Mortgage Banker Profit Figures; G-fee Hike Implications; Credit Unions Rockin' & Rollin'

By: Rob Chrisman | Tue, Sep 4 2012, 11:08 AM

Yes, it's Tuesday already - and football season. Wasn't it just Memorial Day? Here's a quick one told to me by a college football referee in Ohio: "What's 2 and 2?" "In Tennessee, its 3rd and 6."

Are you making money? I hope so, because if you're not making some ducats in this environment, you might be in the wrong business. The MBA reported that independent mortgage bankers (or at least the 305 included in the survey) and mortgage subs of chartered banks saw their **profits surge during the second quarter of 2012**. Ninety-five percent of the firms posted pre-tax net financial profits in the second quarter of 2012! Read all about. ("In basis points, the average production profit (net production income) was **107 basis points** in the second quarter, compared to 82 basis points in the first quarter.")

Speaking of the MBA, I, and about 600 other folks, will be heading to Dallas over the weekend for the **MBA's "Risk Management and Quality Assurance Forum.**" ("Forum" - not to be confused with a conference, a round table, a pow wow, a congress, or a convocation.) The forum is divided into four tracks of concurrent sessions as well as several general sessions allowing you to focus on the topics that are most valuable to you and your business: Quality Assurance, Underwriting, Servicing QC, and Risk Analytics. More information

I have been retained by a Sacramento, CA mortgage banker that is seeking an experienced Secondary Marketing/ Lock Desk Analyst at its headquarters to support its aggressive growth plans. The lender is 100% retail with a purchase transaction focus. They offer a wide range of loan products including FHA/VA, Conventional, Jumbo and Reverse mortgages. A candidate should be able to quickly price out loan scenarios, accurately review and confirm lock requests and respond clearly and confidently to other lock desk requests. In addition, the individual will assist in selling loans to investors, managing hedge positions and developing/maintaining business unit reports. Please send confidential inquiries or resumes to me at rchrisman@robchrisman .com.

Stearns Lending, Inc. is holding a job-related open house tomorrow in Southern California. Stearns is the nations' 5th largest privately held mortgage lending institution, and is rapidly expanding its Fulfillment Operations at its headquarters in Santa Ana, but is also looking for remote underwriters across the nation.

Credit unions aren't dummies, and in the current environment, with documentation, appraisal, and credit "back to the old days," and lenders leaving, **mortgage lending among credit unions is on its way up.** Grab that market share! Volume rose 1.7% to $240.3 billion in the second quarter from $236.4 billion in the previous quarter, per the National Credit Union Administration (NCUA). "The credit union industry's performance further strengthened in almost every category," said NCUA Chairman Debbie Matz. "Assets, earnings, and net worth rose, as charge-offs, bankruptcy filings, and loan loss reserves declined." Gains in membership at credit unions continued in the second quarter, increasing by 643,322 individuals. It is a record high for the industry, whose 93.1 million members deposited an additional $2.7 billion in savings at credit unions in the quarter. **Total loans by credit unions have increased for five consecutive quarters**. Credit unions booked $581.7 billion in outstanding total loans in the second quarter, up 1.7% from the previous three months.

Well, we all knew the guarantee fee increase was coming, right? It is/was generally accepted that Freddie and Fannie weren't/aren't charging enough to guarantee investors (the bond holders) a return of their money. Pulled off the web, "The main component of the guarantee fee is charged to protect against credit-related losses in the mortgage portfolio (think of it like MBS insurance), but small sub-fees are also deducted to cover internal expenses for such services as: Managing and administering the securitized mortgage pools, Selling the MBS to investors, Reporting to investors and the SEC, Maintaining the MBS on the open market, and selling, general and administrative expense."

"The FHFA has directed both GSEs to increase guaranty fee pricing. In order to comply with this directive, Fannie Mae will increase the base guaranty fees (i) by 12 basis points for adjustable rate mortgage loans and fixed rate mortgage loans with amortization terms greater than 15 years, and (ii) by 6 basis points for fixed rate mortgage loans with amortization terms of 15 years or less. These increases are applicable to loans in MBS pools with issue dates on or after December 1, 2012, and will be added to guaranty fees in effect immediately prior to that. Fannie Mae will also make adjustments to pricing for loans committed on or after November 1, 2012, through its whole loan programs, including eCommittingTM, eCommitONETM, and the Servicing Execution ToolTM (SETTM)."

Suddenly correspondent lenders across the nation had huge lock days. Given processing times, lock periods, and lead times, LO's and borrowers can expect to see these price changes soon. Borrowers have seen the average guarantee fee charged by F&F increased from 26 basis points in 2010 to 28 basis points in 2011, and then another 10 earlier this year to cover the Payroll Tax Waiver Extension. Here is the actual bulletin.

Will investors in lower coupon 30-yr MBS's likely benefit from FHFA announced g-fee hikes? Stay tuned, but there are two specific changes: increasing g-fees on loans with tenure greater than 15 years relative to those below. (This is to reduce cross-subsidies between higher risk loans and lower risk loans), and increasing g-fees charged to large lenders to bring them more in line with smaller lenders. One implication of these changes (assuming that the g-fee increase is applied across the 30-yr sector) is **an additional refinancing hurdle for lower coupon 30-yr borrowers**. Being for-profit institutions, lenders typically pass on the entire increase in g-fee to the borrower.

Some of it was probably priced in already - it is really no surprise to anyone - but on the Friday before a three day weekend? FHFA said the change to the g-fee pricing is intended to encourage greater participation in the mortgage market by private firms, a goal set in the agency's Strategic Plan for Enterprise Conservatorships. Acting FHFA Director Edward J. DeMarco (when will he be promoted to the actual director?) said "These changes will move Fannie Mae and Freddie Mac pricing closer to the level one might expect to see if mortgage credit risk was borne solely by private capital."

As a word of warning, in previous reports, the FHFA has repeatedly pointed out that weaker credit borrowers (chiefly higher LTV and lower FICO) are cross subsidized by better credit borrowers. FHFA Director DeMarco has indicated the overall policy position to be in favor of raising g-fees for these borrowers. That would result in a much steeper loan level price adjustment (LLPA) matrix across most characteristics - further inhibiting refinancing but helping investors in existing MBS.

How about some recent industry news?

It is heavily rumored that **Intercap** shut down their wholesale division last week, although I have seen nothing in writing. Hopefully it is just a rumor.

Chicago's **Guaranteed Rate** announced that it has struck a strategic alliance with **Manhattan Mortgage Co.**, one of the largest residential loan brokerage firms in the New York area. Apparently they have "formed an alliance that will enhance both firms' future growth" per NMN. Manhattan Mortgage was hit by Wells withdrawing from wholesale, and found a ready partner with Guaranteed Rate who has funded more than $8 billion through June.

Over in France, the government plans to intervene to rescue **Credit Immobilier de France** after the struggling mortgage lender was hit by a liquidity crisis following a recent downgrade by credit rating agency Moody's. CIF's board met on Friday night and formally demanded government help, the newspaper said. CIF has about 300 branches throughout France. Supposedly CIF has been looking for a buyer since at least May after its future was thrown into doubt by the evaporation of once-cheap funding from credit markets, on which it depends to finance its operations. The mortgage lender at this point is most likely to be wound down with government backing rather than being sold or revived, the paper said.

Umpqua Holdings ($11.5B, OR) will buy the parent company of **Circle Bank** ($322mm, CA) for about $25mm or 1.5x book. The move gives Umpqua 6 more branches in Northern CA.

A few weeks ago **Mortgage Solutions Financial** announced that it would cease to accept Forward locks for DU Refi Plus loans as of August 20th and will only accept locks for loans that have been approved. Lock periods of 15, 30, or 45 days are available for loans with Ready for Clear to Close status, and a 45-day period is available for approved loans. Loans with any other status cannot be locked.

SCBT Financial Corporation entered a definitive merger agreement with **The Savannah Bancorp** under which the former will acquire the latter in a deal valued at $67.1 million. At present, the two serve four common counties in South Carolina and Georgia; with the closing of the transaction, SCBT's network will comprise 87 branches throughout the Carolinas and Georgia. Financial advisor Keefe, Bruyette & Woods says that the merge should close by the end of 2012.

Last week, in spite of some economic news and a Treasury auction in the U.S., the markets seemed more concerned about Bernanke's speech on Friday. And although he didn't say too much new, the fixed-income markets, including mortgages, ended the week at higher price levels and lower rate levels. Bernanke wisely did not commit to implementing any additional easing measures during his speech, but his comments caused investors to raise their expectations for a third round of Fed asset purchases (called quantitative easing or QE3). The possibility of additional monetary stimulus also caused stocks to rally on Friday - yes, stocks and bonds often improve on the same day.

In related news, four Fed presidents (out of the twelve districts) have come out **in favor of an open-ended strategy for bond buying**, with three calling for the program to begin now. Rather than specify a fixed amount of bonds to purchase by a certain date, such a strategy would leave the Fed able to announce a pace of purchases that it could adjust as the economy gets closer to Bernanke's goals. "You would be able to react to the incoming data in an incremental way and not be in a situation where you have to either drop the bomb or do nothing," St. Louis Fed President James Bullard said in an interview last week during the Fed's annual monetary policy symposium in Jackson Hole, Wyoming. "That might take the form of announcing a flow of purchases of securities per month" that would continue "for as long as appropriate," Williams said in an interview at Jackson Hole. The Fed would then "adjust this program as time goes on, either to increase it or decrease it, end it sooner or later, depending on how economic conditions develop." Perhaps such a program would be more effective because it "would emphasize the unlimited nature of the Fed's balance sheet and that they're willing to do as much as necessary."

For this week the biggest economic event next week may be the European Central Bank (ECB) meeting on Thursday. But if you think about it, these meetings have been long on expectations and short on actions - I doubt if this one will be any different. For economic news in the U.S., we're off to the races today with the ISM Index and Construction Spending (both at 7AM PST). Tomorrow is some 2nd quarter productivity and unit labor cost numbers, and on the 6th we have Initial Jobless Claims, the Challenger Job Cuts, and ADP Employment Change. Friday the 7th has the monthly employment data.

On Friday the U.S. risk-free 10-yr T-note closed at a yield of 1.56%, and this morning (so far) we're little changed at 1.57% with MBS prices nearly unchanged.

WORLD SURVEY BY PHONE
Last month a world-wide survey was conducted by the UN.
The only question asked was: "Could you please give your honest opinion about solutions to the food shortage in the rest of the world?"
The survey was a massive failure because of the following:
1. In Eastern Europe they didn't know what "honest" meant.
2. In Western Europe they didn't know what "shortage" meant.
3. In Africa they didn't know what "food" meant.
4. In China they didn't know what "opinion" meant.
5. In the Middle East they didn't know what "solution" meant.
6. In South America they didn't know what "please" meant.
7. In the USA they didn't know what "the rest of the world" meant.
8. In the UK they hung up as soon as they heard the Indian accent.

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