Revamped Repurchase Plan; Thoughts on Importance of QC; Agency Updates

By: Rob Chrisman | Tue, Sep 11 2012, 11:01 AM

Is it easier to finance 500 non-owner loans than it is 5? It is kind of looking that way.

But speaking of lots of loans, and lost in the chatter about the Treasury saying it will sell about $18 billion of its AIG stock holdings, reducing its ownership stake from 53% currently to about 20% after the sale and making a nice profit, some of the buzz in the rating agency session at yesterday's conference in Dallas focused on **Redwood Trust's new non-agency deal**. Here are is the summary. And Redwood share price, like many other mortgage related stocks (banks, REIT's, servicers, etc.) is doing pretty well.

And regarding loans in general, I received this note, "Rob, my borrowers ask me about bank lending. In this environment, **can't banks make money even falling off a log?**" My opinion is that no, they can't - it still takes work. Sure, the spread right now between their cost of funds (easily less than 1%) and where their loans are (an easy guess is where residential or commercial loans are right now) is good. But much of the cash they're earning now is being socked away for a rainy day. There are **significant** changes to bank capital structure under Basel III which may or will come into play - what if it is too expensive for banks to hold many residential mortgages being originated now? Regulatory changes have muddied the water so much, investors can't tell what sort of return they will get on their investment so capital flows have slowed to a trickle. Add to that a Presidential election year and an uncertain outlook and you have all the pieces of a very jumbled and confusing situation that has too much risk in motion to properly calculate bank income into the future.

It seems, however, that even though Fannie and Freddie are going after old repurchases with lots of vim and vigor, **the FHFA is going to revamp repurchases**. "Under the new rules, the two taxpayer-owned companies won't force lenders to repurchase defaulted loans if the borrowers have made 36 months of consecutive, on-time payments. Banks will be protected from buyback requests after only 12 months of payments for certain types of loans, such as those originated under the federal government's Home Affordable Refinance Program."

Whoever controls the information, and can mine the data, is going to come out ahead, right? Just think of all the data that entities like MERS, title companies, the FHFA through Freddie & Fannie, and so on hold. There exists, outside of those entities just mentioned, "a computerized compendium of millions of housing transactions." It is a decade's worth of residential information from across the country, and some think it might shed some light on historical mortgage information that could be used to correct issues in the future. "The system is an outgrowth of work done by a New York investment manager, Thomas Priore. In the boom years, his investment firm, ICP Capital, navigated the dangerous waters of collateralized debt obligations via an investment vehicle called Triaxx.... Triaxx's technology came to light only last month, in court documents filed in connection with the bankruptcy of Residential Capital. ResCap was the mortgage lending unit of GMAC, now known as Ally Financial. As an investor in mortgage securities, Triaxx gained access to a lot of information about loans that were pooled, including when those loans were made, where the properties are and how big the mortgage was, relative to the property's value." Here is the scoop.

It is definitely a different environment now then it was then for lenders. David Green, the president of quality control's **The StoneHill Group**, writes, "Rob, among lenders out there we are seeing confusion regarding Fannie and now Freddie's pre-funding QC requirements and recommendations. The extent of the review, documenting and establishing action plans based on the results of the reviews and incorporation of the review into a company's Quality Control plan; all of these areas appear to be open to interpretation, based on who you speak with. We are also seeing many lenders still struggling with Fannie and now Freddie's Loan Quality Initiative (LQI); establishing a compliant QC plan based on the quality initiative, as well as the scope of review based on the level of LQI. Whereas LQI 1 encompasses all loan types, including FHA and VA, LQI 2 is generally based on conventional loan product. Many Lenders are still unclear of the levels of LQI as well as the initiative."

David continues, "Senior management's involvement and action around findings is required once the QC reviews are complete. **A formalized plan, involving Sr. Management, to review and remediate findings discovered during a Pre-Funding and/or Post Close Quality Control review is necessary for a successful Quality Control Program**. Documentation around findings and resolutions as well as updating of the Lenders QC plan are an integral part of the process. Clients often ask about selecting a defect rate. While this is left up to the lender, selecting a defect rate that is relative to the lender's business model is imperative. Defect rates should be realistic in nature and should be established for both significant and insignificant ratings. Defect rates should not be set to a standard that is not reasonably obtainable. Lastly, a lenders commitment starts at the top and filters through to all employees of the company. A "Commitment to Quality" statement outlining a lenders quality initiative, requirements and agreeance to adhere to this commitment should be executed by all employees. This brings awareness and a level of understanding to all involved that the company is committed to Quality." (If you'd like to reach David, write to him at dgreen@stonehillgroup com.)

Well, the agency, investor, and lender updates just keep coming. It is hard to keep up, and I squeeze them in, space permitting. As always, it is best to read the actual bulletin, but these will show you the trends.

The National Association of Mortgage Brokers is presenting a webinar on the recent regulatory developments surrounding disparate impact claims and mortgage loan originator compensation on Thursday, September 13th. Led by a team from BuckleySandler LLP, the training will also discuss the implications of the business model for wholesale lenders and brokers. The event is free for NAMB members thanks to the sponsorship of SunTrust Mortgage, Franklin American Mortgage Company, and Premier Nationwide Lending. See more.

Remember when you didn't need a logon and password every time you sent an e-mail? Those days might be coming to an end. "In an effort to provide more security to you and to your borrowers, Pinnacle Capital Mortgage now requires that all email containing sensitive and private information, (social security numbers, tax returns, credit reports, income documents, loan documents, loan disclosures, etc.) are sent to us with our secure encrypted email system. This is very important for your submission packages, to be encrypted, and any follow up documentation. It is very simple to use: log on to pcmloan.com, and click the link at the bottom of the page to get started.

Most know that the **FHA** has decreed that Social Security income, including Supplemental Security Income and Social Security Disability Income, may be used to qualify borrowers if it is considered likely to continue for at least three years after the date of the borrower's mortgage application. This income should be verified with federal tax returns, the borrower's most recent bank statements disclosing deposit of the income, and a copy of the Social Security Benefit Statement (SSA Form 1099/1042S). As proof of the income's continuance, lenders should provide a copy of the last Social Security award letter or any equivalent document that establishes award benefits to the borrower. Full details of the documentation requirements are available via the official FHA-HUD Mortgagee Letter 12-15 (http://portal.hud.gov/huddoc/12-15ml.pdf).

Previously, the FHA had announced changes regarding unpaid taxes, condo owners and HOA fees unpaid utility bills, and manufactured housing titles as they pertain to title approval at conveyance. These changes, which were set to go into effect on August 1st, will now go into effect on November 1st.

HUD-Approved Housing Counseling Agencies should be aware that the Notice of Funding Availability Policy Requirements for the 2013 fiscal year have been published and include instructions for applying for grant funds. All applicants are required to have a Dun and Bradstreet Universal Numbering System (DUNS) number, one of which can be obtained here, as well as an active registration in the Central Contractor Registration system. Applicant must also register to be eligible.

Rural Development has exhausted all funding for refinance transactions for this fiscal year, which draws to a close on September 30th. This means that all Rural Housing refinance transactions for which an RD Conditional Commitment hasn't yet been issued will be suspended until funding for the 2013 fiscal year is available. If a refinance loan has already been issued with a Conditional Commitment, it is still eligible to fund as per standard guidelines. Rural Development has also issued a reminder of the guarantee and annual fee increases that go into effect on October 1, 2012. All loans will be subject to the revised upfront guarantee fee of 2% and the revised annual fee of 0.4%.

Freddie Mac has amended its condo project reviewing guidelines and no longer requires copies of recorded declarations, by-laws, and amendments for established operations. The guidelines for mixed-use condo projects have been relaxed as well.

In support of the Home Affordable Foreclosure Alternatives program, Freddie has updated Workout Prospector with an indicator that identifies HAFA deeds-in-lieu and short sales through the loan cycle. The updates facilitate processing of file preparation, settlement, and reporting when delivering HAFA loan workouts.

As part of its Servicing Alignment Initiative, **Fannie Mae's new short sale and deed-in-lieu of foreclosure guidelines** have been released. The updates cover preforclosure sales, borrower eligibility, imminent default, delinquency management, the streamlining of documentation requirements, borrowers' cash contributions, methods used to determine the property's market value, the evaluation of short sale offers, property list guidance, mortgage insurer approval, subordinate-lien payments, anti-fraud measures, servicer responsibilities, borrower relocation incentives, borrower response packages, evaluation notices, and the foreclosure review process. Servicers must implement the changes by November 1, 2012, the full details of which may be found at www.efanniemae.com.

Starting on October 1st, Fannie will require servicers to cancel hazard insurance within 14 days of a foreclosure sale, assuming that the property has been inspected and confirmed vacant by the broker, agent, or property management company.

As it updates DU to Version 9.0, Fannie is making several policy changes that affect both DU-underwritten and manually underwritten loans. LTV ratios, compensating factors for manually underwritten loans, Refi Plus appraisal report requirements, and Area Median Income limits, and the Eligibility Index on efanniemae.com are all being revised. In addition, Fannie is updating the maximum amount of HOA assessments that may have a limited priority over Fannie Mae's mortgage lien document custodian requirements, and maximum allowable deductible for flood insurance. Two new whole loan products for certain Refi Plus products will also be rolled out as part of HARP.

A supplement to the **DU Version 9.0 Release Notes** addressing additional changes is now available and may be viewed here.

There isn't a whole heckuva lot going on with the markets and rates. Yesterday treasuries and residential MBS prices ended the day mostly unchanged after erasing earlier losses. On the day the 10-yr ended at about 1.68%. But there certainly wasn't enough movement to have any rate changes.

There ain't much going on today, to be honest. We did have a trade deficit of $42 billion, a shade better than expected. We also have a $32 billion auction of 3-year notes, which will be followed by sales of 10-year debt tomorrow and 30-year securities Thursday. The market is anticipating the Federal Reserve, which meets on Wednesday and Thursday of this week, may announce it is willing to take out extra insurance against an economic relapse and increase asset purchases to spur growth. There is a good chunk of the market expecting the third round of bond purchases, commonly known as QE3. **In the early going the 10-yr is 1.69% while MBS prices are down.**

Given the day today (**9/11**), rather than spend the 15-20 seconds reading the daily attempt at humor, it would be a good time to remember what happened eleven years ago on September 11th. And the fact that the Treasury reports our national debt has now surpassed $16 trillion.

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