Letters on Servicing Premiums, Title Scam, and the Sacred Mtg Deduction; Top 10 Signs You've Been Doing Loans Too Long

By: Rob Chrisman | Mon, Sep 17 2012, 11:57 AM

We, including my old college roommate "Slugbreath," find ourselves in *"Unmarried and Single Americans Week."* The Buckeye Singles Council "National Singles Week" started in Ohio in the 1980's, and apparently didn't include enough other groups (such as single parents, those with partners, and so on) to everyone's liking so now the week, for Census Bureau calculations includes unmarried people include those who were never married, widowed or divorced. **Last year they counted 102 million unmarried people in America 18 and older**. (I always tell Slugbreath he's not the only one.) The percentage of unmarried U.S. residents 18 and older who were women was 53% versus 47% for men. 62% of these folks have never been married, 24% were divorced, 14% widowed. There are 55 million households maintained by unmarried men - 46% of households nationwide. *Some Realtors may know that 33 million people lived alone in 2011 - 28% of all households, up from 17% in 1970*. The Census Bureau tells us that there are 89 unmarried men for every 100 unmarried women.

There is more positive news from iServe Residential Lending. This GNMA approved lender issuer continues to experience significant growth and has recently expanded their retail operations by opening seven new Branches in California and the East Coast. A "one-stop shop focused upon speed and quality of service," iServe is hiring NMLS licensed Originators and Branch Managers in key markets throughout the United States. Go to joiniserve.com or email joiniserve@iservelending .com. All inquiries are held in strict confidence.

Here's a sign of the computer age. Title attorney Terry M. writes, "As a title attorney, one of our new concerns involves the Seller who leaves a closing with the proceeds check; goes to the parking lot and takes a picture front and back and deposits same in their bank account via the internet. They then return to the closing agent's office asking that the funds be wired to them. There is no evidence on the check that this has been done."

And this note. "In the past it was always the real estate sector that pulled the country out of economic woes. What's different? We no longer have any viable mortgage programs. We have buyers, we have sellers and we have folks looking to refinance, but **the program guidelines are designed to fail the overwhelming majority of Americans**.

"Rob, I don't care if rates go down to 1%, or near 0 like in Japan. Why? Because until residential lending loosens up somewhat, especially on some of these bizarre and unreasonable underwriting requests, and lenders aren't terrified of future liabilities and lawsuits, **borrowers who didn't refinance in this last wave aren't going to be able to do so now**. How is the Fed going to deal with that?"

Friday's commentary mentioned the cost to the borrower of refinancing which not only includes title & escrow costs, but appraisals, and so on. I received this note from Joe S.: "Also if a consumer wants to refinance with the same broker, **most states have a 2 year waiting period to make compensation once again**. Regardless if it cost money last time to do it and the consumer wants the same broker to refinance them, the state will not allow us to make income unless it is new money. Now that there is lender paid, I am not sure if that follows the old yield spread premium format on broker compensation."

And Saturday's discussed mortgage servicing rights (MSR's), which are included in the value of mortgages which, of course, is passed down to one degree or another on the rate sheet for borrowers. I received this note. "Your discussion of servicing values revolved around how the value can change based on repurchase demands, regulatory oversight, and default losses. It is important for readers to remember that prepayment speeds are a huge determinant of servicing values." (Editor's note: I often ask why any investor would want to pay a 5 point premium - 105 - for something that may pay off in two months.) **The Servicing Released Premiums that investors pay, and are usually passed on to borrowers, are determined to a great degree by how long the loan will be on the books**: the duration of the MSR cash flows. And we all know that the life of the loan is estimated by using default and prepayment curves based on current market conditions and several other analytic components. If an investor calculates the SRP based on a life of 40 months, and the loan pays off in 4, it is a loss; if the loan pays off in 80, it is a profit."

The writer continued. "Up until mid-2012 prepayment speeds were predictable. But the big rally in July has hit prepayment models hard as some groups of loans (with certain rates, credit scores, LTV's, etc.) showing prepayment speeds above 40% annualized. Any SRP much greater than 62.5 bps would be a money loser to the investor. And we expect the same for this month, and QE3, with its impact on MBS pricing will only make things worse for investors who paid for servicing. **Originators should not expect any improvement in SRPs in the coming months."**

After a seemingly endless preoccupation with the presidential election still happening (yes, we have another month and a half), **the mortgage interest deduction (MID) is back in the news**. I received this note. "The real estate business loves the MID. But I wonder why. Imagine if I told you I had an amazing financial deal for you. You give me $20,000 today and I'll give you back the present value equivalent of that $20,000 over the next 7 to 10 years. You'd rightly look at me and say, 'Why would I ever do something so dumb?!' Yet that's exactly what the MID is. The lobbyists in the real estate industry go into histrionics when anyone threatens the dear old MID. They immediately exclaim, 'Home values will drop by 20%!'

"Let's assume their 20% number is right. What they are effectively saying is that the price someone pays for a home is 80% the value of the home and 20% the present value of the future tax deductions. In other words, we all pay 20% MORE for houses (and we have to finance that 20%) because of the MID. So, essentially, we all pay a 20% premium now for the ONE TIME GAIN that homeowners got when the MID was put in place. Those people were the winners. The rest of us simply play a zero sum game. (Actually, those of us who sell inside of 3 or 4 years lose because we never recoup the MID premium we paid). So, think about that next time you get excited about taking your MID. You're really just slowly retrieving the tax premium you paid when you bought the home."

The writer continued. "I'd think the NAR would lobby to get the MID removed. Sure, it would be painful to see home prices fall, but the basic laws of economics tell us that lower prices increase demand. Increased demand means more home sales and more home sales mean more commissions. Further, homes under $200,000 would likely go UP in price. Why? Because the folks who own those homes get very little value from the MID. The interest they pay on smaller mortgages isn't enough to offset the standard deduction, so the MID premium is zero or very small. The biggest effect on home prices if the MID were removed would not be to the middle class (folks making under $100,000 a year). The biggest effect on MID removal would be on folks carrying larger mortgages.

Letting homeowners deduct interest paid on their mortgages from taxable income makes no sense. It encourages taking on more debt, discriminates against renters, subsidizes one kind of spending over others and favors the upper incomes. It advances the questionable public goal of making more Americans into homeowners. And it costs the Treasury about $100 billion a year."

Candidate **Mitt Romney** has called for revenue-neutral tax reform that would lower federal income-tax rates while getting rid of loopholes - "broadening the tax base." (He refuses to be specific on which ones he'd close.) By leaving out mention of the mortgage deduction, the platform would push the message along. No sooner was that thought on paper than the real-estate industry went to work on the Republican Party. In its place was put a pledge to protect the mortgage deduction if tax reform doesn't happen. Why offer a tax break for buying one product and few others? "The social-policy argument for the mortgage deduction is that it helps Americans buy homes, and that homeownership stabilizes communities. The first part is debatable. Canada does not allow for a mortgage-interest deduction and its rate of home owning matches ours. The federal government should not care whether you buy or rent your residence. Because lower-income people are more likely to rent, they are left out. Because higher-income people are more likely to have bigger houses with bigger mortgages, they benefit disproportionately. Meanwhile, the deduction is useless to those who don't itemize, which is most taxpayers."

One suggestion is to phase out the deduction very gradually. If house shoppers know that a full deduction for mortgage interest is available for only a few years, it might boost house sales now. There's already a $1.1 million ceiling on the size of mortgages whose interest can be deducted. Over time, further limit the deduction's value. The housing industry will undoubtedly go through the roof, hollering that war has been declared on a rare (and much exaggerated) middle-class tax benefit. But closing this loophole could win wider backing if most mortgage holders are convinced that the value of the deduction they are losing would be offset by lower income-tax rates. You never know. Someday our political leadership may summon the courage to do the rational thing and treat real estate like any other possession." Thanks for the note!

So we closed off the week with the Treasury's 10-yr. up to 1.87%. Wow. But hey, **does the 10-yr. make any difference with agency MBS prices at all-time highs?** Kind of: last week's economic and world news certainly did not reflect the new era of "QE until we stop" but it did show how international events impact oil markets, and our dependence on foreign oil. Retail sales for August increased by 0.9%, the biggest jump since February. The CPI for August showed the largest monthly gain in more than three years and the first gain since March, up 0.6%. U.S. industrial production fell by 1.2 percent in August as Hurricane Isaac disrupted the Gulf Coast region, and capacity utilization fell to 78.2 percent. But the preliminary University of Michigan consumer sentiment index for September jumped to 79.2% from August's 74.3%.

Some economists are concerned about inflation. QE3's plan to buy $40 billion a month of mortgage-backed securities on an open-ended basis, pushing down (mortgage) interest rates and increase spending, might lead to inflation. But the tension in the Middle East and North Africa is more pressing from not only an energy cost perspective but also a global policy concern.

I am in South Carolina for the MBAC conference, and need to send this out prior to knowing what is going on in the U.S. markets. But for economic news this week, we have nothing as exciting as the Fed telling us late last week that overnight rates would be near 0% through

2015. That aside, today we have Empire Manufacturing, tomorrow is another housing price index (NAHB), Wednesday is more housing news (Housing Starts, Building Permits, and Existing Home Sales), Thursday is Initial Jobless Claims, and Friday is the Philly Fed and Leading Economic Indicators).

Thank you to Dave H. with San Francisco's Bay Equity: **"*Top Ten signs you have been doing loans too long*."**

Number ten: You think Fannie would be a cute name for one of your kids.
Number nine: You still have a WAMU T-shirt you sleep in.
Number eight: You review your kid's homework and you separate the corrections into PTD's (Prior to desert) and PTF's (Prior to Fun) categories.
Number seven: You still use an HP35 Calculator.
Number six: You wish you could go back to the good old days when everything was a wet signature.
Number five: All your friends still smoke.
Number four: At cocktail parties, the only thing you can talk about is HARP 2.
Number three: Your bucket list includes doing one last stated income loan.
Number two: You remember when making money was an okay thing.
And, the number one sign you have been doing loans too long: You fanaticize about members of the opposite sex's FICO scores.

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