How Wells and Chase Results Reflect Overall Mortgage Trends - Citi Video; Basel III to be Delayed?

By: Rob Chrisman | Mon, Oct 15 2012, 10:35 AM

Will Basel III be delayed? Maybe! Here is the latest. Many believe that what's wrong with Basel III is that while its intentions are good, its unintended consequences for banks and, in turn, mortgage lending, are dire.

But Basel issues are not stopping hiring in the mortgage sector! BluFi Lending, a San Diego County, CA based direct lender is expanding and looking for a few key positions to enhance its existing team. BluFi is actively licensed in 5 states with 4 more states on the way and currently has approximately 125 employees in California. BluFi is looking for a Controller with 10 years of experience preferably in the mortgage industry and a CPA license desired. BluFi is also looking for an Underwriting Manager with both DE and VA designations, a Post Closer with Investor Reporting Experience, and a Processing Lead with 5 years of experience to round out their existing staff. Local candidates are preferred but remote candidates will be considered. To apply please visit bluficareers .com.

And up the coast, a regional mortgage banker in the SF Bay Area is searching for a Loan Officer Assistant to support the Branch Manager and top producing Loan Officer. The company is highly respected with a strong presence in the local marketplace. Located in Berkeley, this office currently produces $150-$200 Million annually with in-house processing and local underwriting. The ideal candidate currently supports producing loan officers, is highly organized, understands the real estate transaction, customer service oriented and proficient in technology including Calyx Point, MS Office Suite and Optimal Blue. Candidates should contact Paula Elazier at pelazier@rpm-mtg .com.

You think it is **easy being the Fed chairman**? Guiding the economy is kind of like steering an old steamer? Try again - this little game will amuse someone out there. (And people wonder what the folks at the Federal Reserve Bank do all day!). No one will argue that mortgage rates are tied to the economy, and the economy is influenced by politics, and the deficit. There are vast differences in tax plans floated by President Barack Obama and Mitt Romney, but one thing is certain: regardless of who wins, his full proposal won't succeed. Both plans come up short on revenue needed to help trim the federal deficit, and let's not forget Congress is the entity required for passage. Good luck! (And today's "joke" is about the debt ceiling.)

Speaking of the **looming election**, I received this note from a New Jersey broker. "Sadly, I still don't know who I'm going to vote for as of today. It's the lesser of 2 evils. One wants to keep F&F alive until the real estate market rebounds but thinks the CFPB Politboro is the "end all" of regulatory problems, and the other wants to absolve all funding supports for the real estate market and leave it to the free market. But the free market only operates if there is a profit and little risk. My co-workers and I believe that the CFPB is a greater risk to the financial markets than if the markets are left to their own unattended devises."

But the CFPB isn't going anywhere soon, if at all, and the MBA knows it. The Mortgage Bankers Association has sent a letter to the Consumer Financial Protection Bureau, stating that the agency's proposed amendments to the Truth in Lending Act and the Real Estate Settlement Procedures Act with regards to residential mortgage loan servicing need to "accommodate borrower needs, balanced with a clear understanding of servicer limitations." In the letter, MBA President and CEO David Stevens wrote: "In developing servicing standards, we believe it is important to pay careful attention to the cost/benefit of change for both large and small servicers and borrowers. When making changes to the current model, we need to be mindful of unforeseen and unintended consequences that could result ultimately in higher costs for consumers, fewer benefits or options to borrowers and reduced access to credit."

Folks in the mortgage banking biz are looking forward to **next week's conference in Chicago**. And at the same time, they are wondering about the choice of having Bill Clinton and Rudy Giuliani as keynote speakers. As Phil Hall, the editor of Secondary Marketing Executive points out, "This upcoming lineup brings considerable baggage, and I'm not talking about Clinton and Giuliani's respective second term adultery scandals. Both have another common bond: a dismal record in regard to housing." Mr. Hall goes on to list tinkering with the CRA, the repeal of Glass-Steagall, weakened government enterprise underwriting guidelines, putting Henry Cisneros and Andrew Cuomo in charge of HUD, and scandals in various New York housing agencies. My bet is that the MBA's conference will be good - I'll be there - but many may opt for business meetings instead of listening to the speeches.

I am sure that some of the conference chatter will be about the recent Chase and Wells financial information, and what it tells us about other mortgage banks. Basically, Wells Fargo's booming mortgage business accounted for much of its strength in the quarter. Fees from the bank's mortgage business added to its revenue, and new mortgage loan originations rose to $139 billion from $89 billion in last year's third quarter. Low mortgage rates have encouraged homeowners to refinance, and although this leads to fee income it leads to less interest income for Wells, Chase, and any other bank. In fact, mortgage banking noninterest income surged 53 percent to $2.8 billion in the third quarter at Wells Fargo from the same period a year earlier. Noninterest expense from foreclosed assets declined about 9%. Noninterest income from servicing plunged 81% in the mortgage banking business.

So **why did Wells' stock drop?** The stock fell mainly because **analysts are concerned** about Wells Fargo's ability to make money on interest from loans that it originates. Having a portfolio of loans paying 3.5% doesn't earn as much, obviously, as a portfolio earning 4%. Wells Fargo and other banks have a shrinking net interest margin — the difference between interest it collects on loans and interest it must pay to depositors and other lenders. Wells Fargo's net interest margin fell to 3.66 percent from 3.84 percent a year earlier.

But Wells is only one big bank that originates mortgages. Citi, who dropped to #9 in correspondent residential mortgage originations during the 2nd quarter (#5 in overall rankings), still has some major problems per Sheila Bair: http://www.americanbanker.com/video/why-sheila-bair-worries-about-citigroups-future1053428-1.html.

JPMorgan Chase's (#2 in mortgages) earnings were helped by an increase in mortgage lending. New home loans and refinancings at the bank hit $47 billion, up 29% from the period a year earlier. Refinancings accounted for roughly 75% percent of the quarter's mortgage volume, and Mr. Dimon said that it won't last. But with the improving credit environment, **JPMorgan set aside less money to cover potential losses**, increasing its profits. In the mortgage banking business, the bank cut the amount of reserves by $900 million. Across the bank, JPMorgan set aside $1.79 billion of such funds, compared with $2.41 billion a year earlier.

How about some relatively recent agency & investor news? It is best to read the actual bulletin for full details, but these will give you an indication for current events.

Don't forget that **Fannie Mae expanded DU Refi Plus Financing**. On October 11, Fannie Mae announced that existing mortgage loans with investor-paid mortgage insurance that was obtained to meet credit enhancement requirements for loans with LTV ratios greater than 80% are now eligible for DU Refi Plus financing if the coverage is converted to borrower-paid or lender-paid coverage. This change is effective October 13:
https://www.efanniemae.com/sf/guides/ssg/annltrs/pdf/2012/sel1211.pdf.

In response to the g-fee increase, **Pinnacle Capital** updated its extension and relock policy. Agency ARMs and fixed-rate products with terms over 15 years that locked before September 18th will incur a fee of 50 bps in addition to the current extension fees if they need to be extended past October 15th in order to fund. An extra 25 bps will be added to Agency ARMs and fixed-rate products with terms of 15 years or less. Relock costs for Conforming loans locked before September 18th remain unchanged, as do extension and relock costs for Conforming loans locked on or after that date.

Upon assessing concerns over Fair Lending and disparate treatment, **Pinnacle has amended its broker compensation policies**. As of October 1st, broker compensation now has a 50 basis point flexibility from the base that will be set for each Regional Production center; brokers in regions where the base is set at 200 bps may opt for a compensation plan between 150 and 200 bps. Flat fees may still be charged in addition to compensation up to $750, and minimum and maximum compensation ability will continue to be allowed, provided that maximum compensation does not exceed 300 bps, including the flat fee. Borrower-paid compensation will no longer be accepted.

Pinnacle has also revised guidance on Conforming loans with LTVs between 95.01-97%, FHA loans on leasehold properties, disputed tradelines for USDA loans, and rental income for VA loans. For further details of the changes, see
http://app.streamsend.com/c/17033491/67921/MeOlIFj/wcjU?
redirect_tohttp%3A%2F%2Fwww.pcmwholesale.com%2Fserveannouncements.aspx%3Fid%3D258.

MSI is requiring sellers to provide Anti-Steering Disclosures for all loans with applications dated on or after April 6, 2011 where the Regulation Z safe harbor is applicable. Loans that do not meet the Anti-Steering Disclosure requirements will be ineligible for funding.

In response to the USDA purchase funding situation, **Freedom Mortgage** reminded clients that it does not permit financing on conditional commitments that are issued "subject to funding" and that all transactions that do not receive conditional approval before October 1st must be disclosed or re-disclosed with the new fee structure. FMC is accepting new applications for USDA refinance transactions provided that all disclosures reflect the updated g-fee structure. Clients should note that such transactions will not receive final approval or be permitted to close until after October 1st.

Turning to the markets, home loan rates continue to be just fine, and last week, during a relatively quiet week, global concerns caused investors to increase demand for safer assets – like agency mortgage backed securities. Stronger than expected US economic data had little impact. As a result, mortgage rates ended the week a little lower. Europe is certainly back in the news, and protests and riots have been seen in Spain and Greece as a result of austerity measures. Tensions have been rising in the Middle East. Questions remain about economic growth in China. Strong results for this week's US Treasury auctions and rising MBS prices reflect the global appetite for US bonds, which is positive for mortgage rates.

In fact, Friday was snoozer of a day in the market, with MBS prices going out within 1/32 of Thursday's 3PM EST closing levels. As usual, the origination was offset by both Fed and non-Fed buying. The 10-yr went into the weekend at 1.66%.

For thrills and chills this week we have Retail Sales today, along with an Empire Manufacturing number. (It's hard to be excited about these second tier numbers when the Fed is buying about twice the daily agency mortgage production.) Tomorrow is the Consumer Price Index, the Industrial Production & Capacity Utilization duo. We also have the continuing stream of housing news with the NAHB Housing Market Index tomorrow, Housing Starts & Building Permits on Wednesday, and Existing Home Sales on Friday. Thursday is Jobless Claims & the Philly Fed. (I am heading off to Ontario, CA early this morning for the day, and it is too early to know much about where rates are today – but it appears that the 10-yr is roughly unchanged at around 1.67%.)

THE DEBT CEILING
* Democrats don't understand THE DEBT CEILING
* Republicans don't understand THE DEBT CEILING
* Liberals don't understand THE DEBT CEILING
* Conservatives don't understand THE DEBT CEILING
* NO ONE understands THE DEBT CEILING
SO - Allow me to explain...
Let's say you come home from work and find there has been a sewer backup in your neighborhood. Your home has sewage all the way up to your ceilings. What do you think you should do? Raise the ceilings or pump out the "stuff"? Your choice is coming in November. Don't miss the opportunity.

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