Unintended Consequences of QE3; Letters from the Trenches on Current Lending Standards; Fannie to Roll out State-Based Pricing?

By: Rob Chrisman | Thu, Sep 20 2012, 10:22 AM

Don't do the crime if you can't do the time. Here's a loan officer in Washington facing 10-14 years for falsifying documents.

Will those in the government who regulate the mortgage industry understand risk-based pricing? The Wall Street Journal ran a story saying that **the FHFA, which oversees Freddie & Fannie, will propose "charging slightly more for all mortgages in a handful of states where it takes longer for banks to foreclose."** It is no surprise to the industry that the longer it takes a lender to repossess the collateral behind a mortgage, the higher the potential costs. And the SRP's (servicing released premiums) paid by aggregators are already usually less due to this. But the smart money says politicians from Connecticut, Florida, Illinois, New Jersey and New York will cry bloody murder. But heck, if it costs more to do business there, the cost should be passed along, although there are those that will make the argument that we should all bear the brunt of the additional expense of doing business in those states. "The proposal says Fannie and Freddie would increase the fees that they charge to lenders by 0.15 to 0.3 percentage point of the loan amount in the five affected states".

Here is a retraction. A week or so ago I mentioned that the CFPB had selected its non-government employee advisory board, and noticed no one from mortgage companies, Realtors, small businesses, etc. I stand corrected: **Gary Acosta (NAHREP) is a realtor on the CFPB Advisory Board.** (As a reminder, the Consumer Financial Protection Bureau (CFPB) announced the appointment of 25 consumer experts from outside the federal government to its newly-formed Consumer Advisory Board which will provide advice to CFPB leadership on a broad range of consumer financial issues.)

Here's a classic: "I worked with a guy who did so many immigrant loans and made so much money years ago **he named his daughter after the Nina**, As in No Income No Asset."

"Why do organizations like the National Association of Realtors, or the National Home Builders, implicitly or explicitly put the blame for tight lending back on the lenders? Realtors and builders aren't subject to the same scrutiny, the lost money if the servicing portfolio goes bad, the same potential future liabilities from the CFPB or the Department of Justice. Or large class action lawsuits or billions due the State Attorneys General. Take a look at this piece from MarketWatch. **It is a very good criticism of NAR's criticism of tight lending.**"

"Realtors, Loan Officers, Builders, etc. have been complaining about stricter underwriting criteria preventing a housing recovery. I would love to see a **top ten list of underwriting standards that these folks feel are excessively strict**."

And this note. "Why would a NAR survey be held as a factual piece of data for lawmakers? Do we ask bus boys if restaurant food prices are too high or if waiter service is too slow? I do a large number of loans for agents who represent REO's here in Southern Cal. The biggest hurdle I'm finding is the "17 day" contingency period listed in the RPA's. Agents and the REO banks are more concerned with contractual (and antiquated) verbiage than working together to close the loan. The way I view it is the bank has owned the property for at least 90 days, hasn't received a mortgage payment for 24 months and will probably sell within 45 days of it being listed. So why concern themselves with a '17 day' contingency period? The verbiage ought to read '17 BUSINESS Days'. I'd rather focus on getting the loan funded than meeting some arbitrary date set by NAR."

A chief risk officer for a well-known lender wrote, "Rob, I wish people would stop blaming the programs for any perceived lack of lending. Remember the 70's & 80's when we had 25/35 & 33/38 DTI? Credit guidelines are still favorable today compared to historical guidelines. Speaking for mortgage lenders, Lenders are not to blame for the lack of credit today either. **We are forced to address increased regulation, investor QC & repurchases, and litigation in our business models today. Lenders make money closing loans & lose money denying loans**. What Lender wants to lose money today and go out of business tomorrow? If the majority of Americans cannot get a mortgage, it is the same as previous decades (exclude 2000-2008), i.e., bad credit/no credit, lack of down payment (savings), and insufficient income/too much debt. Program guidelines cannot address these deficiencies. We tried that and it lead us to a credit melt-down."

Yesterday the housing market had a lot of statistics to chew on. Zillow's August Real Estate Market Reports showed that home values decreased 0.1 percent to $152,100 from July to August. This is the first monthly decline after nine consecutive months of appreciation. "Overall, the positive trend will hold as evidenced by home values being up by 1.7 percent in August 2012 on a year-over-year basis."

In other news, housing starts rose 2.3% in August to 750,000 units at an annual rate, coming in below the 767,000 rate the consensus expected. But Starts are up 29% versus a year ago. The increase was attributed to single-family homes (+5.5%) versus multi-family (-5%), but for the year single-family starts are up 27% from a year ago and multi-family starts are up 35%. Permits, however, dropped 1% in August, and compared to a year ago permits for single-unit homes are up 19% while permits for multi-family units are up 35%.

The U.S. economy can't recover (sometime I'd like to hear what "recover" means) without jobs and housing. And **Existing Home Sales is always a treasure trove of statistics**. Total existing-home sales, which are completed transactions that include single-family homes, townhomes, condominiums and co-ops, rose 7.8% from July, and are 9% higher than a year ago. Lawrence Yun, NAR's chief economist, said, "More buyers are taking advantage of excellent housing affordability conditions...However, the West and Florida markets are experiencing inventory shortages, which are placing pressure on prices." (Given the dreaded shadow inventory and delinquency issues in Florida and the West, one wonders how this can be.) The national median existing-home price for all housing types was $187,400 in August, up 9.5 percent from a year ago. The last time there were six back-to-back monthly price increases from a year earlier was from December 2005 to May 2006. The August increase was the strongest since January 2006 when the median price rose 10.2 percent from a year earlier.

The stats continue. Distressed homes (foreclosures and short sales sold at deep discounts) accounted for 22% of August sales (12% were foreclosures and 10% were short sales), down from 24% in July and 31% in August 2011. Lastly, per NAR, the total housing inventory at the end August rose slightly to a 6.1-month supply with the median time on the market being 70 days in August, consistent with 69 days in July but down 23.9 percent from 92 days in August 2011.

How about some quick bank M&A and structural company updates?

Last Friday Truman Bank ($282mm, MO) was closed and sold to **Simmons First National Bank** (AR). Simmons gets 4 branches, all deposits and entered into a loss-share agreement on $117.8mm of assets. (Truman lost $61mm since 2008.)

Over in Washington **Heritage Financial** ($1.3B) has signed a definitive agreement to acquire Northwest Commercial Bank ($72mm) for $3mm in cash and an earn-out provision that could be
worth another $1.8mm.

Out in Illinois, **Wintrust Financial** ($17B) will buy the parent of Hyde Park Bank & Trust ($390mm) for $27.5mm in cash/stock.

Three credit unions in Ohio are merging together to form **Pathways Financial Credit Union** ($187mm, 6 branches, 25,500 members). The three (Members First Credit Union, Powerco Credit Union and Western Credit Union), were not in financial trouble, but took the action in order to expand, better deal with regulatory pressures and offer more products.

Out in Colorado **FirstBank** ($12.1B) will close 15 branches, amid lower traffic and a change in customer behavior to more online activity. After the closures, FirstBank will still have 118 branch locations. And along the same lines, Texas' **Frost Bank** will close 4 branches as it seeks to streamline operations and boost efficiency. After the closures, Frost will still have 111 branch locations.

As everyone continues to ruminate on QE3 (QE Unlimited), Jessi B. writes, "**Rates are so low that traditional monetary policy is no longer effective in stimulating the economy**. Hence QE3, unconventional monetary policy, where the Fed plans to print money & buy up securities 'well into the economic recovery.' Great for us folks in the mortgage biz; perhaps not-so-great for the value of our dollar. Lenders are busy because the Fed is doing everything possible to keep rates low, but it's not sheer volume keeping us busy. It's also time spent interpreting & attempting to predict regulations and then implementing changes accordingly. Many of us would agree the regs. are well-intentioned, but they are numerous, often confusing & it's usually the borrower who is the most put out by their enforcement. **Ensuring compliance is becoming increasingly costly, but the fear and risk of noncompliance could prove to be far more costly in the future.** Wholesale lenders fork out a lot of money to firms & attorneys to interpret regulations, and honestly gamble their livelihood in hopes that these firms are accurate. We risk hundred million dollar fines for 'unintended actions' characterized by legal terms with no legal precedence established. Of course margins are good when the Fed Funds Rate is at or near zero; the interest rates on pools of loans has to be high enough to attract investors. That profit is largely spent on compliance and probably sacked away for potential fines and settlements, trying to earn enough interest to keep up with inflation."

Here are some more unintended consequences. The Financial Times reports that, "A top US bank regulator has warned that the Federal Reserve's aggressive new easing program, known as **QE3, may lead to banks taking on increased risk**, raising concerns for supervisors charged with overseeing the soundness of the nation's banking system. Tom Hoenig, a director at the Federal Deposit Insurance Corp, said on Wednesday that he is worried that the Fed's open-ended third round of quantitative easing could lead to banks taking on longer-duration and higher-yielding assets as the central bank promises to buy $40bn of mortgage-backed securities a month in a bid to keep borrowing rates near record lows." As rates stay low, banks may "go out on the curve and take some risk. A low-rate environment creates a strong push by banks to get higher yields and that means getting riskier assets.

But yesterday was another good day for anyone owning mortgage-backed securities. It is not much fun trying to pair off (buy back) MBS positions, however, as any hedger is basically bidding against the Fed, right? MBS prices were better by over .250 in price, setting yet more record prices and the 10-yr closed at 1.78%.

We are learning, however, that great MBS prices don't lead to job growth, at least not right away. Initial Jobless Claims came in at 382k - much higher than expected. At 7AM PST we'll have Leading Economic Indicators for August expected at -.1% and the Philly Fed Survey. **Early on the 10-yr is down to 1.74% and MBS prices are a shade improved versus Wednesday's close.**

WOMEN
A real woman is a man's best friend.
She will never stand him up and never let him down.
She will reassure him when he feels insecure and comfort him after a bad day.
She will inspire him to do things he never thought he could do: to live without fear and forget regret.
She will enable him to express his deepest emotions, and give in to his most intimate desires.
She will make sure he always feels as though he's the most handsome man in the room and will enable him to be the most confident, sexy, seductive and invincible...
No wait...
Sorry....
I'm thinking of whiskey. It's whiskey that does all that stuff.

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