Federal Home Loan Banks in Correspondent Lending; MBA Confirms Average Lenders are Making Big Bucks

By: Rob Chrisman | Fri, Dec 14 2012, 10:39 AM

Yesterday I journeyed to San Jose to visit with the Silicon Valley Chapter of CAMP. Casey Fleming, the president, reminded the capacity crowd how important it was to support your local organization. (Apparently this chapter has the most members of any of the **California Association of Mortgage Professional** chapters, and is very proud of that.) He also stated how important it is to be surrounded by your fellow mortgage professionals, which is very true. In my travels I have heard of a few tactics that help bring in new members to our trade organizations. One is to have a vendor give new members (and old?) a certain number of free credit reports, or flood certs, or "whatevers" instead of sponsoring a lunch, therefore absorbing a good chunk of the yearly fees. Another is to remind members about how their incomes have increased this year versus last year, and contribute a small portion of that to their trade organization. Makes sense to me!

And plenty of people and companies are making more this year. Hey, if you are a residential lender and can't make a lot of money in this environment, or an LO who isn't busy, you should consider doing something else with your time. (Basically, **if you can't make money or loans now, when are you?**) The **MBA's** members experienced the "a rising tide raises all boats" phenomenon.

Earlier this week we discussed Freddie's status, and Fannie also reported that after a quarter of growth, **Fannie Mae's total book of business remained essentially flat in October**. Declines in both Fannie Mae's gross mortgage portfolio and in new business acquisitions brought the book's growth to a negative annualized rate of 0.03 percent, down from a positive rate of 0.4 percent in September. Year-to-date, the book's average compounded growth rate is 0.3 percent. In total, Fannie Mae's Book of Business was worth about $3.19 trillion at the end of the month, down about $90 million from September. The GSE also reported a decline in seriously delinquent single-family loans. The single-family serious delinquency rate fell from 3.41 percent in September to end October at 3.35 percent.

Continuing on with large-scale books of business, Kate Berry with **American Banker** reported that "the Federal Home Loan banks are picking up where some of the nation's largest correspondent lenders left off. **Six Federal Home Loan banks have been dramatically increasing purchases of home loans from their member banks and are selling the loans to Fannie Mae**, filling the gap created by large aggregators like BofA that exited the correspondent lending business late last year. So far this year, the Federal Home Loan Banks of Chicago, Boston, Des Moines, New York, Pittsburgh and Topeka have purchased $13 billion of loans from member banks, almost double what they purchased in all of 2011. Nearly 800 banks are now participating in the program, up 15% from a year ago." (Editor's note: Combined, however, it is still a far cry from what a single top correspondent rep with a large bank investor might purchase, which is $1-2 billion per month.) And the income from the so-called "Mortgage Partnership Finance Program," is enough to cover the program's costs. "More notably, the program provides a crucial service to member banks that want to continue to make home loans, says Eric Schambow, a senior vice president and director of the Mortgage Partnership Finance program at the Federal Home Loan Bank of Chicago. 'We really want 30-year fixed-rate mortgages to be available at community banks at a competitive price,' says Schambow. 'Our role is as an aggregator and our price point is just as good as selling directly to Fannie.'"

Community banks, left high and dry by BofA, MetLife, Wells wholesale, TBW, etc., are flocking to the Home Loan banks because it allows them to take part in the current refinancing boom, offer interest rates that are competitive with large banks and offload the interest rate and prepayment risk to the Home Loan banks. The program has a twist: while banks pay Fannie and Freddie to take over a loan, **Home Loan banks paid member banks a credit enhancement fee, typically between 7 and 10 basis points a year based on the unpaid principal balance of the loan, for retaining a share of the credit risk** - like QM/QRM, "The big picture concept was that the actual lender making the credit decision should retain skin in the game, and the portfolios would have better credit performance," says Alex Pollock, a resident fellow at the American Enterprise Institute, who designed the program in 1997 when he was president and CEO of the Chicago Home Loan Bank."

And **the home builders are making money off the mortgage market**. Mortgage revenue jumped 70 percent in the third quarter, almost six times the revenue gain from home sales. A Federal Reserve program aimed at lowering borrowing costs by purchasing home-loan bonds has widened margins across the lending industry. The average gain-on-sale, which measures the difference between the rate homeowners pay and the rate paid by investors, has doubled this year on increased demand for the securities. The homebuilders are little players in the lending world, but they're seeing the wide margins that lenders are seeing.

Two companies that aren't being helped by these great margins are Countrywide and IndyMac (originally bankrolled by Countrywide). Earlier this week IndyMac was back in the news when we saw three IndyMac LO's ordered to pay a large fine. (Good luck with the three coming up with over $150 million.) Now we are reminded of Countrywide: even after paying a $67 million settlement to the SEC and being banned from the mortgage industry Angelo Mozilo, founder and former president of **Countrywide Financial Corp.**, still says his company never made a loan "that we knew the borrower could not pay." Mozilo defended Countrywide in a deposition made last year in connection with a law suit by MBIA, Inc. against Bank of America (BofA) which bought Countrywide in 2008. The deposition was filed in the New York Supreme Court earlier this week. Mozilo said that he had no regrets about how he had run his firm, and denied that Countrywide had caused the housing crisis. "This is all about an unprecedented, cataclysmic situation, unprecedented in the history of this country. Values in this country dropped by 50 percent," he said. Perhaps the folks at BofA would beg to differ, with having spent an estimated $40 billion so far in trying to clean up "the Countrywide mess." Mozilo contends he only agreed to the $67.5 million regulatory settlement in 2010 to protect his family. **Read: Mozilo Speaks up for Countrywide in MBIA Lawsuit: "We were a world-class company..."**

Time for some ever-present vendor, investor, and agency news issued recently!

Earlier this week the commentary mentioned 97% LTV loans, and specifically with MGIC. It turns out that other MI companies, such as UG, also cover 97 LTV conventional products. **UG**, for example, has its guidelines. And as one UG rep wrote, "We insure for the GSEs and FHLBC along with all investors. In fact some of the FHLB's use UG exclusively."

Franklin American has revised the Disaster Requirements section of the Correspondent Lending Manual to include conventional non-conforming jumbo properties in Presidentially Declared Major Disaster areas designated by FEMA as eligible for public assistance along with those designated as eligible for individual assistance. The FAMC Disaster County Detail Worksheet has also been updated to reflect which products are affected for each county; in counties that are eligible for individual assistance, all loan types will show up as Affected Products. For FHA loans in affected areas, correspondent lenders are required to comply with all of the requirements outlined by ML 2012-23, and the standard 120 day appraisal validity period will apply.

California's **Pinnacle** has removed the two-year seasoning requirement and has added credit score overlays to the existing requirements for deed-in-lieu, pre-foreclosure, and short sale seasoning requirements. Fall Line Distance guidance has been added for all FHA loans and USDA borrowers with only one credit score are now ineligible. Additional guidance now applies to Enhanced DU Refi Plus products.

M&T Bank has instated a new maximum insurable mortgage for streamline refinances, which are not permitted to exceed the outstanding principal balance minus any applicable refund of the UFMIP and plus the new UFMIP that will be charged on the refinance. This cannot include prepaids, closing costs, or discount points, and cash back to the borrower is capped at $500.

SunWest's disaster policy is in effect for all properties in New Hampshire areas affected by Hurricane Sandy, which includes Belknap, Carroll, Coos, Grafton, and Sullivan Counties.

Essent Guaranty has announced plans to implement its new Clear2Close Guideline Summary streamlined eligibility requirements, which will allow DU Eligible/Approve and LP Accept/Eligible loans qualify for mortgage insurance by meeting four key criteria. All loans with suitable AUS findings will be considered eligible provided that they fall within the DTI-FICO parameters, aren't manufactured housing, comply with the Non-Permanent Resident Alien section of the Essent Underwriting Guidelines, and meet the Florida condo requirements if applicable. Clear2Close, which is scheduled to go into effect on January 3, 2013, eliminates Non-Retail Declining Markets designations and eligibility overlays and expands eligibility for certain delegated submissions, ARMs, Renovation Loans, Temporary Buydowns, high-LTV loans, co-ops, condos, second homes, and Non-Arms Length Transactions. Construction-to-Permanent transactions for loans over $417,000 will remain ineligible.

Secure Settlements has announced that Peter Stevens, former Deputy Commissioner of Insurance in Utah, has joined its AB and that it has signed up Minnesota-based Traditional Capital as a warehouse bank, along with Traditional Mortgage LLC, one of Traditional Capital's mortgage lender subsidiaries.

The **Colorado Mortgage Lenders Association** is now accepting applications for the Mortgage Leadership Program, which will take place in Denver on January 3rd and 4th. Compliance issues, industry history, and legislative analysis are all on the agenda. The registration deadline is January 1, 2013; see http://cmla.com/. For those planning ahead, the CMLA's 22nd Annual Lenders Expo is scheduled to take place on April 4, 2013.

The **Ohio Mortgage Bankers Association** will be holding its annual convention from May 13th-15th and has announced that Wall Street Journal writer Bob Hagerty will deliver the opening address. Interested parties should watch for registration links and more information in the coming weeks.

On to the markets! Sure our press is consumed with the fiscal cliff, and our government's inability to move forward. (What happened to politicking?) But just because the press is focused on us doesn't mean that the problems overseas have gone away. Economist Elliot Eisenberg points out, "By 12/31/13 the Greek economy will be 30% smaller than it was in 2008! And, it may not be done shrinking. Thus, the most recent Greek bailout is simply the latest 'fix' with more to come! Worse, this tragedy becomes more costly the longer the wealthy nations ignore reality and pretend Greece can 'grow out' of its problems out of fear of upsetting their electorate by telling them the truth."

In our markets, yesterday the 10-yr closed at 1.72% and agency MBS prices worsened about .125 on above-average volume. Seems like all the originators are out there selling bonds! But really, with the Fed soaking up all the bonds, and keeping prices high and rates low, how bad can things become? But as Thomson Reuters notes, "Despite the Fed's appetite, with supply running at $3+ billion per day recently there is increased risk of supply/demand imbalances on bouts of profit-taking such as experienced yesterday."

TGIF! The week closes out with three economic reports. November's CPI was -.3%, ex-food and energy +.1% - there is just not a lot of price pressure right now. Later this morning we'll have the Industrial Production and Capacity Utilization couplet at 9:15AM EST. In the early going **the 10-yr is unchanged at 1.72%, and MBS prices are also roughly unchanged from Thursday's close**.

Well, there was a bit of confusion at the grocery store this morning.
When I was ready to pay for my groceries, the cashier said, "Strip down, facing me."
I gave her a startled look and made a mental note to complain to my congressman about Homeland Security running amok, however, I did just as she had instructed.
When the hysterical shrieking and alarms finally subsided, I found out that she was referring to my credit card!!
Consequently, I have been asked to shop elsewhere in the future.
They need to make their instructions a whole lot clearer for us senior citizens!

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