Do Mortgage Brokers Add Value?; National Mortgage Database; Sandy and Warehouse Banks

By: Rob Chrisman | Fri, Nov 2 2012, 9:01 AM

"Spring ahead, fall back!" Sunday morning, folks in most states will receive an extra hour of snooze time!

What's the difference between a hurricane and a "superstorm?" Well, Sandy was a hurricane that turned into a superstorm when it, laden with energy and moisture from the tropical Atlantic, combined with a winter storm fueled by the southward plunge of Arctic air. Although late-season hurricanes sometimes undergo a similar "extra-tropical transition" as they travel up from the tropics, this normally happens safely out to sea over the Atlantic. Sandy's path is extremely unusual because a static area of high pressure south of Greenland has blocked the jet stream route northeastward across the ocean and instead forced the hurricane into the continental US. But now, supposedly, insurance companies are on the defensive. I don't profess to know the details, but apparently there is a difference between storm insurance, hurricane insurance, and flood insurance. And what the press is calling the event from earlier this week seems to be changing. **If that is true, it is unfortunate that a home owner's or lender's coverage turns on the term or phrase used.**

What, in general, are warehouse lenders doing about the damaged residences/collateral? "Warehouse providers all seem to have a little different twist on their practices depending on the type of portfolio clients they have. Assuming a smaller possibly less sophisticated borrower, or where the warehouse provider actually underwrites or re-underwrites the loans, they may require an actual 442's (re-certs) as required by their investors. But some warehouse providers will require a notation on their monthly compliance that stipulates they meet all investor requirements and certify to that degree. If the particular clients are more sophisticated and financially more stable (a relative definition), the warehouse provider may depend on them to have the necessary requirements met for they should know what their investors require. In many cases because if the loan is deemed unsalable, the lender will have to buy it off the line." Thank you Jerry D.!

"Rob, I thought your information on LO and branches was spot on. One thing that people should keep in mind is in **the current RESPA environment**, if we draw docs, and the borrower decides they want more cash because of the holidays coming up, then we have to re-disclose, and that makes us blow through the lock period, so we need an extension for a week or so, and it costs us 5 basis points a day, but the minimum is 5 days so suddenly we're down .250... The list goes on and on!"

This led to a comment about mortgage brokers. "I am tired of brokers being considered the 'underbelly' of the lending world. The wholesale model, if done prudently, is a viable model, especially as the lender controls the process. **Why should the mortgage broker be allowed to continue their existence?** The first and simplest answers are professionalism and cost. The MLO for a broker or small banker is licensed, background checks and educated. The SAFE Act has transformed the broker/ banker MLO into a heavily regulated professional with a license at risk. Further, the use of a mortgage broker is generally cheaper than that of a banking institution. Cost can be derived in a number of manners: speed to closing, advice on rate locks, interest rate, credits, fees charged, professional guidance through the process and outright cost of the transaction in pure dollars.

"Secondly, when the mortgage markets seemed to come apart, the access to credit rapidly diminished. The demand by the brokers to operate as conduits for varying clientele and developing new sources of credit for the consumer became paramount. As the capital markets recognized the demand, there were a large number of wholesale operations increasing in a rapid manner to fill the void. Without brokers this would have been missed or diminished. There is room in the market place for all aspects of originators. The greater the competition among the varying groups the better pricing, availability and programs for the consumer.

"And third, brokers allow for a stronger banking system from the bottom on up. Brokers allow community and regional banks access to areas of the country that would otherwise not be financially advantageous for the lending institutions to establish a presence. This also allows community and regional banks to diversify their portfolios across counties, states or even regions of the nation, with minimal cost for physical presence or increased operational expenses.

"I will finish up by saying brokers should exist because we live and work in our community. Many have been operating as small businesses in the same community for 20-30 years. Bank LOs and retail LO's come and go, yet we have a vested interest in our community. The SAFE Act further solidified this fact and commitment. If it weren't for brokers serving their communities, especially undeserved areas, many consumers would not have the opportunity or the access to credit to buy a home. We offer more products and options, better service and better rates than most bank LO's. Our experience in lending and the community is unmatched. We service minority borrowers better than bank LO's and we do it with much lower rates."

This commentary has often mentioned the ability for residential MBS holds to drill down during their due diligence and track the performance of LO loans based on NMLS numbers. Data is critical, and Adam Quinones from Thomson Reuters wrote yesterday, "**FHFA and CFPB Partner on Development of National Mortgage Database**: Initiative will help streamline disparate datasets and support regulators' efforts to monitor the market. The National Mortgage Database will include information spanning the life of a mortgage loan from origination through servicing and include a variety of borrower characteristics. Specifically, the database will include loan-level data about the mortgage including: the borrower's financial and credit profile; the mortgage product and terms; the property purchased or refinanced; and the ongoing payment history of the loan. Data will be updated on a monthly basis and track as far back as 1998." Here is the announcement.

He goes on. "This FHFA announcement gives stakeholders equal access to a benchmark database of mortgage/housing information. This benchmark database will be the standard starting point for all mortgage and housing related analysis. Whether you're forecasting production volume by MSA or running cash-flows in your MSR model, this data provides perspective from origination to securitization to cash-flow optimization. This is a BIG STEP toward improving investor confidence in US housing finance."

How about some investor news?

Redwood Trust announced its 3rd quarter earnings. It, like practically anyone else in the lending arena these days, is making money. It had earnings per share of $0.48 and operating EPS of $0.36. Operating EPS excludes $13.9 million ($0.17 per share) in realized gains and $3.5 million of negative market value adjustments (-$0.04 per share). Total REIT taxable income was $0.21 which included $0.02 of income from the taxable REIT subsidiary (TRS). While mortgage banking income benefited from an accounting change as the company started marking balance sheet loans to market, the increase in valuation reflects the improved profitability of these loans and would otherwise be realized through higher gain-on-sale margins. At the end of 3Q, the company had **49 active sellers of loans to the conduit**, an increase of 12 from 2Q12. Redwood expects this number to increase to 55 by year-end and noted that it is in **negotiations with 46 other sellers**, most of whom are likely to become active sellers in the near term. The company is also **in the process of becoming a licensed seller/servicer for the GSEs** and expects to be offering loans in this market by early 2013. Redwood completed a $313 million securitization of prime jumbo loans and closed a $320 million securitization after quarter end. The company also completed two whole loan sales totaling $53 million during 3Q.

Kinecta reminds clients that all wholesale and correspondent loans must be accompanied by a Loan File Submission Form that has been signed by the respective business partner upon submission. The representations certified on this form are key in ensuring that files comply with regulation.

Affiliated Mortgage has published several helpful tips about compliance issues with disclosed finance charges understated by more than $100, GFEs, HUD-1s, and notices of Intent to Proceed.

M&T Bank has amended its guidelines on removing co-borrowers from the note for all HARP loans as per recent changes to the program. Relief Refinance and Refi Plus borrowers must be qualified according to the guidelines used for payment increases over 20%, and the respective requirement of removing the co-borrower from the deed and title has been eliminated. For Open Access and DU Refi Plus condo projects, M&T is no longer requiring reviews except to verify that the project is not a hotel, houseboat, or timeshare and does not have segmented ownership. However, M&T will not be adopting the appraisal revisions outlined in the Fannie and Freddie updates.

M&T has announced that it will permit the use of Hardest Hit Fund resources with HARP loans provided that the HHF funds are used to pay down financing costs and don't result in a lien being placed on a property. The loan file should include a copy of the promissory note, and the HUD-1 should provide evidence of the transfer of the funds from the relevant Housing Finance Agency. In cases where there is repayment and the HARP application requires borrower qualification, the monthly payment must be included in the monthly total DTI ratio. M&T will not accept any Hardest Hit Fund program transactions that require matching dollars.

We had a lot of news yesterday, and it tended to push rates higher. There is still too much going on with Sandy, today's unemployment data, and the election I guess. Jobless Claims fell 9,000 to 363,000, the fewest in three weeks, and less than the forecast for 370,000. The four-week moving average, a less-volatile measure, fell to 367,250 from 368,750. Non-Farm Productivity rose at a 1.9% annual rate in 3Q2012, and Unit labor costs decreased 0.1% as hourly compensation increased 1.8%. Unit labor costs have risen 1.1% over the last four quarters. Construction Spending increased 0.6% in September and is up 7.8% year over year. Private construction rose 1.3%, and residential construction was up 2.8%. And lastly the Institute for Supply Management Factory Index climbed to 51.7 in October, the highest since May.

Of more importance to the MBS markets, however, was the usual Thursday afternoon announcement by the Fed about its purchases for the week. Fed purchases dropped to $13.4 billion, with a slight shift into conventional 30's from 15's. This amount was lower than the $15-16bn in each of the last few weeks due to market closes related to Hurricane Sandy. The Fed shifted slightly towards 30's over 15's, with conventional 30's comprising 62% of the week's purchases versus 60% last week. The Fed increased its gross purchases of 30yr conventional 3.5's to 22% of the total compared to 18% the prior week. 3% coupons declined by 1% to 58% of the total. Purchases of 15-yr conventional 2.5's declined by 3% to 16% of gross purchases. Overall purchases of 15-yr conventionals also declined to 19% from 21% the prior week. The purchase share of Ginnie 30-yr 3's remained steady near 15%, while 3.5s remained near 4%, but the Fed continued to stay out of the Ginnie 15-yr sector.

By the end of Thursday prices on current coupon agency MBS were worse by about .250, and the 10-yr closed at 1.72%. But that was yesterday, and this morning we've had the unemployment data. Nonfarm Payrolls were projected at +125k while the unemployment rate is expected to tick higher to 7.9% from 7.8%. The numbers actually came in at +171k, with some back-month revisions higher, and the unemployment rate came in at 7.9% as expected. **Early on the 10-yr is up to 1.77% and MBS prices are worse .125-.250.**

He asked me, "Why are married women heavier than single women?"
I said to him, "Single women come home, see what's in the fridge and go to bed. Married women come home, see what's in bed and go to the fridge."

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