ResMac's New Wholesale Channel; Wells & 600 FICO Scores; Fannie & Freddie & Suspicious Activity Reports

By: Rob Chrisman | Fri, Feb 21 2014, 10:44 AM

Tongues are wagging about **Wells Fargo**'s extending credit to borrowers with lower credit scores (600 FICOs) and thus, on the surface, perceive higher credit risks as it seeks to replace plunging residential mortgage lending volume. Of course that is through the **retail** channel, not correspondent, but many believe that other investors will follow suit. Wells' program is only for purchases, and I'd also be surprised if Wells went with standard FHA guidelines without a credit overlay since that FICO band has performed so poorly in past vintages compared with higher credit tranches. We've all been through this before: staffing aside, volume drops, margins drop to make up for it, product lines are expanded. But we have QM and non-QM this time - it will be interesting. And QM doesn't specify credit score. Here's more on Wells' move.

Before I forget, ResMac has recently launched its new wholesale channel. Based in Boca Raton, FL, ResMac is a privately held national mortgage lender that was founded in 2008. As a provider and servicer of Agency and Government backed mortgage assets, ResMac offers almost all Fannie Mae, Freddie Mac, FHA, VA and USDA residential mortgage products to broker clients. Management's objective is to "create a positive experience for brokers by reducing the red tape associated with today's fulfillment requirements by combining '+1' customer service along with a positive user experience via their proprietary technology, *marti*.

In other lender & aggregator news, **Chase** announced improvements to its non-conforming (jumbo) loan level pricing grid. And **Prospect Mortgage**, LLC has launched a new Builder Division in Texas focused on mortgage products for new home construction. Prospect's Texas Builder Division will be located in the Company's 30,000 sq. ft. facility in Irving, Texas.

Maybe there are some new prospecting efforts underway? Yesterday no less than five people wrote to me, asking about the **number of lenders** there are in the United States. What's going on out there? One fellow who actually did his own research wrote that as of the end of Q3 2013 there were 16,076 state-licensed mortgage companies in the US and 125,572 individuals that held at least one active MLO license. And let's not forget the 6,800 or so banks in the U.S., and the credit unions.

Speaking of banks, **FinCEN** said banks can do business with marijuana-related businesses but are responsible for conducting **their own due diligence**, making sure the business is operating legally and making sure the businesses not violating any DOJ rules or requirements. Banks would still have to file three different types of SARs, however and could face fines if AML laws are not followed. Given all of the risks, it is expected many banks will still determine it does not make sense to do business with such businesses. That is a question often asked by lenders in states that have either legalized marijuana use for recreational or medical reasons: how do we count the income of growers and retailers? Unfortunately for potential borrowers in that business, the income is usually not counted.

The Financial Crimes Enforcement Network (FinCEN) finalized anti-money laundering (AML) regulations that will require the housing government sponsored enterprises (read: Freddie and Fannie) to develop programs for the prevention of money laundering and to file suspicious activity reports (SARs) with FinCEN. This Final Rule adopts, without significant change, all of the regulatory provisions contained in FinCEN's November 2011 Notice of Proposed Rulemaking. The Final Rule requires that the Housing GSEs (Fannie Mae, Freddie Mac, and the 12 Federal Home Loan Banks) file SARs directly with FinCEN instead of the current practice of filing less detailed reports through their regulator, the Federal Housing Finance Agency (FHFA). It is hoped that this will provide law enforcement and regulators with a more complete and timely national picture of suspected **mortgage fraud and money laundering**, as well as assist with investigations and prosecutions of significant mortgage fraud schemes. FinCEN closely coordinated this rulemaking with the FHFA, to which FinCEN is delegating responsibility for examining the Housing GSEs for compliance with the regulations. This rule is effective 60 days after publication in the Federal Register. The compliance date for 31 CFR 1030.210 is 180 days after publication in the Federal Register.

Speaking of recent banking news that is a little off the beaten path, French bank BNP Baribas, the parent company of Bank of The West ($65B, CA) and First Hawaiian Bank ($17B, HI), reported it set aside a $1.1B provision for possible penalties under OFAC. The set aside relate to financial transactions it reportedly conducted with restricted foreign countries blocked by the U.S. By the way, OFAC is the acronym of The Office of Foreign Assets Control, part of the US Department of the Treasury.

To say the U.S. Census Bureau has access to data, is like saying Facebook has a few subscribers. I'm constantly impressed (maybe surprised?) at the technical and **interactive mapping features** coming out of the bureau in recent years; I can still remember when a once-per-decade phone call would come to the house. This month the Census Bureau is releasing the 2007-2011 5-Year ACS Estimates, which shows county-to-county migration flows crossed by educational attainment, individual income, and household income. The data, and subsequent map, give great illustrations to county specific immigration, out-migration, and net migration to the more than 16 million people who move across county lines each year. Some numbers are more interesting than others; while Los Angeles County occupies the top two spots in migration OUT of the county (with residents moving south and east to Orange County and San Bernardino), it also has the largest NET migration, from Orange County and Asia (which is not a county, I'll grant you that). While, the in, out, and net migration patterns found in the study suggest large migration hubs like the southwest (AZ and CA) and the northeastern corridor had the most migration activity, most of the migration was between neighboring counties. The same was found across characteristics, as most flows were in close proximity.

Email protocol has always confused me. If I am sent an email, but my name is in the 'Cc' line, am I obligated to reply? Or is this just a "heads up"? If so, is this an insult? And what's with 'Bcc'? Is this the ultimate form of disrespect? It's sort of a club, within a club, spreading information but retaining the distribution rights. "You and I know that he knows, but he doesn't know that we know"....these are the things which keep me awake at night. One email, however, I was glad to be blind copied on, came from Barclays Securitized Product Research Department. It's always interesting to read research papers coming from market-makers, and I was pleasantly surprised to read, in the face of dwindling pipelines and uber-compliance, Barclays view on areas of **credit expansion**. "With mortgage credit still at historically tight levels and the housing market continuing to normalize, we see scope for expansion in mortgage credit over the coming years. That said, the ATR/QM requirements imposed by the Dodd Frank bill will make it harder for credit to expand to pre-crisis levels...We think most of the credit expansion is likely to be within the QM box, with a lot of room left on FICOs and some on LTVs. Outside the QM rules, the area most likely to witness pickup in originations over the next few years is pristine credit IO loans." And many would agree. Their paper addresses possible expansion, going forward, into areas such as sub-prime and HELOCs, along with addressing common concerns, and barriers of entry for such originators. I read a lot of analytics in the course of the month, and this one is pretty good.

Unintended consequences...The **MBA** is holdings its national servicing conference this week in Florida and the everyone is talking about the myriad of rules & regulations, and about how sometimes they conflict. On the same day that the CFPB's Steven Antonakes warned executives that the agency was taking a hardline stance on compliance with its new servicing rule, MBA officials complained that following the rule puts them in danger of blowing through Fannie Mae and Freddie Mac foreclosure timelines. Put another way, the CFPB has foreclosure timelines that actually are not acceptable by Fannie Mae and Freddie Mac, certain forms of borrower contact, and the timelines by which you must contact the borrower. The complete interview with Dave Stevens of the MBA can be found here.

When you're hot, you're hot, and according to January's Pro Teck Valuation Services' Home Value Forecast, Long Island, New York leads in HVF rankings as the **hottest real estate market** in the nation. Tom O'Grady, CEO of Pro Teck Valuation Services writes, "Many factors account for Long Island's strong market, including foreclosures making up an inconsequential 2.18 percent of sales and available housing inventory at only 3.63 months. Looking at the extended forecast, we see Long Island reaching peak highs again within five years." Their top ranked list of metros are: Nassau County-Suffolk County (NY), Los Angeles-Long Beach-Glendale (CA), Ann Arbor (MI), Anaheim-Santa Ana-Irvine (CA), Oxnard-Thousand Oaks-Ventura (CA), San Diego-Carlsbad (CA), San Luis Obispo-Paso Robles-Arroyo Grande (CA), Santa Maria-Santa Barbara (CA), Ashville (NC), and Houston-The Woodlands-Sugar Land (TX). At the bottom of PTV's list resides Jacksonville, FL, which is seeing 81.15 percent of its sales as foreclosures; meaning 'banks' are the seller in more than four of every five homes purchased: Pro Teck Valuation HVF.

Meanwhile in **Iowa**.....the state has recently updated the HOME Investment Partnerships Program to clarify certain rules. Many will recognize HOME as the HUD sponsored program which grants to states and units of general local government to implement local housing strategies designed to increase homeownership and affordable housing opportunities for low and very low-income Americans. Iowa has also adopted the Military Service Member Home Ownership Assistance Program to implement Iowa Code sections 16.5(1) and 16.54. The primary focus of this program is to aid low income households and eligible members of the armed forces to rent or purchase qualified homes in Iowa.

The fixed-income market, and thus interest rates, continued "up a little, down a little" Thursday, although the coin toss Thursday pointed to "down a little". One school of thought says that the economy is doing well but has had some weather-related setbacks, while another school of thought says that it's grim out there, and they are seeing no recovery whatsoever. But... one should never fight the Fed, and Janet Yellen & others see signs of recovery.

Speaking of the Fed, the latest report from the NY Federal Reserve Bank indicated official buying averaged $2.2 billion per day, and traders report originator supply coming in around $1 billion. But the question I am often asked is, "If we're seeing +/- $1 billion a day in lender TBA sales and there's 252 trading days in a year, that is only about $250 billion a year in mortgage production. The MBA predicts the industry will fund about $1-1.2 trillion this year - **where is the other trillion?"**

First, agency MBS issuance is projected at $700-800 billion. Any hedges, assuming an 80% pull through would account for $600 billion in MBS sales - still far more than the $1 billion traders are seeing. Traders report what they see individually, so one dealer may see $1 billion in agency MBS trades on a given day, and another may see a "different" billion due to different account coverage.

But the majority of the difference comes from two sources. The first is large retailers, namely institutions like Wells, BofA, Citi, and Chase, who are originating loans that flow into their own servicing portfolios. These include jumbo, non-QM, non-agency, and some ARM products.

And the second source of the discrepancy is lenders selling loans **directly to the Fannie & Freddie** cash windows. Hundreds upon hundreds of lenders are bypassing the aggregators and are selling loans directly to the cash windows. And many of these are the companies that, eventually, are selling flow or bulk servicing into the market. Just something to keep in the back of your mind...

So Thursday the 10-yr was off slightly, closing at a yield of 2.75%, and agency mortgage-backed security prices were down/worse about .125. Today we'll close out the week with January's Existing Home Sales at 7AM PST. (It is expected at -4%.) In the early going the 10-yr seems content around 2.77% and agency MBS prices are down/worse .125 from Thursday's close.

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