SunTrust in the Hot Seat; Bank M&A Continues; Green Tree Now Ditech

By: Rob Chrisman | Fri, Mar 7 2014, 10:46 AM

Dave T. writes, "Rob, I have noticed that the **originators attending classes or local association meetings are older, and mostly men over 50 years old** and have been in the business in excess of 20 years. Generally, there are just a few younger (less than 35 years old) LOs. What's going on?" I discuss it regularly: a lack of retirees (some can't retire), and a lack of new blood. A 50-year old borrower isn't wild about working with a 24 year old LO who loves to text. (Not all, but most.) And the folks buying houses are usually not in their 20's - they are mostly living with their parents or renting. (Not all, but most.) There are other careers that don't have the recent reputation that residential lending has, many older LOs are very good at what they do, and few go through school with the goal of being a LO. There are exceptions, but those are the issues in a nutshell. Great opportunities!

Michael Milken does a pretty good job of formalizing the frustrations that many in the business feel about **government's role** in housing and home ownership. "According to the Census Bureau, 65.6% of households owned a home in 1980. More than three decades and trillions of dollars later, the needle hasn't budged-it's still about 65%. Subsidized mortgages did create three things, none of them good..."

In a similar vein, a study by George Mason University finds 83% of community banks in the U.S. say their **compliance costs have increased more than 5%** due to Dodd Frank. Of course those costs are passed on to depositors and borrowers. The Mercatus Center at George Mason University recently published the results of a **study** of the effects of Dodd-Frank on small banks, defined as banks with less than $10 billion in assets each. The anonymous, web-based survey relied on responses from about 200 banks and was conducted between July 2013 and September 2013. The study sought to analyze the impact of increased regulations on different areas of a small bank's operations, including products and services offered. An overwhelming percentage of respondents (94%) responded that they would not be adding new products or services as a result. Respondents had already discontinued or were anticipating discontinuing residential mortgages, mortgage servicing, home equity lines of credit, overdraft protection, and credit cards.

But wait a minute! The last I'd heard, any bank with less than $10 billion in assets was **exempt**, per statutes, from CFPB supervision - what's up? It is apparent that small banks are feeling the impact of Dodd-Frank - and are consumers better off? Many would say "yes, they are better protected." That is fine, as we are seeing evidence that any regulations applied to larger banks and other financial institutions **always flow downhill**. Small banks that serve rural and small metropolitan areas may suffer a disproportionate impact from Dodd-Frank.

Speaking of which, the **bank news continues.** First, a correction to a bank merger I mentioned earlier in the week. The merger in GA was with Oconee FS&LA in Seneca, SC, not Oconee State Bank in GA. Eastern Bank Corporation signed a definitive agreement to acquire Bedford, N.H.-based Centrix Bank & Trust in an all-cash transaction valued at approximately $134 million. Sterling National Bank ($6.6B, NY) said it will close 10 branches in coming months due to economic reasons. Bank of Tokyo-Mitsubishi UFJ said it will rename its U.S. financial holding company from UnionBanCal Corp. to MUFG Americas Holdings Corp. and its banking unit Union Bank NA to MUFG Union Bank NA.

KBW announced that **Park Sterling Corporation**, the holding company for Park Sterling Bank, and Provident Community Bancshares, Inc., the holding company for Provident Community Bank, N.A., announced the signing of a definitive merger agreement under which Park Sterling will acquire Provident Community for a total transaction value of approximately $6.5 million. HomeTrust Bank ($1.6B, NC) will acquire Bank of Commerce ($129mm, NC) for about $10.1mm in cash and stock or about 1.19x tangible book. Eastern Bank ($8.7B, MA) will acquire Centrix Bank & Trust ($908mm, NH) for $134mm in cash or about 2.17x tangible book. Lastly BOK Financial ($27B, OK) will acquire Texas' independent investment advisory firm MBM Advisors (TX). MBM has over $1.2B in assets under management.

Last week, **SunTrust Banks** reported in its annual 10-K regulatory filing that it is currently under investigation for mortgage violations and could face substantial penalties. The loans & policies in question are related to "legacy" loans, originated several years ago. Moody's Investor Services suggests that the resulting settlements and penalties could result in materially higher costs for SunTrust that would be credit negative for the bank. SunTrust admitted in its filings that the bank "harmed borrowers and violated civil or criminal laws by making misrepresentations and failing to properly process applications for modifications of certain mortgages owned by the GSEs pursuant to the HAMP guidelines."

SunTrust has a **lot on its plate**. The U.S. Attorney's Office for the Western District of Virginia and the special inspector general for the Troubled Asset Relief Program are investigating whether SunTrust harmed borrowers and violated laws by improperly processing mortgage modifications in 2009 and 2010 under the government's Home Affordable Modification Program. The bank announced that it has certain substantive disagreements with the government that may prevent it from reaching a definitive settlement related to FHA-insured mortgage loans. SunTrust disclosed a new DOJ investigation into the origination and underwriting of mortgage loans that SunTrust sold to

Fannie Mae and Freddie Mac.

But the fun for SunTrust's legal & compliance staffs continue. The Federal Housing Finance Agency's Office of Inspector General is conducting an audit related to the mortgage repurchase settlements between Fannie Mae and Freddie Mac, both of which are regulated by the FHFA, and banks like SunTrust.

SunTrust isn't the only one feeling pressure. **JPMorgan Chase & Co** will pay $400 million to settle lawsuits brought by bond insurer Syncora Guarantee Inc over toxic mortgage-backed securities, according to the insurer. And a federal judge approved a settlement Friday of a class-action lawsuit against JPMorgan Chase for its force-placed insurance practices, an agreement that could pay more than $300 million to about 750,000 mortgage borrowers.

Banks aren't the only ones on the hot seat. On February 26, the **CFPB** filed a complaint against ITT in the Southern District of Indiana, accusing the **educator** of violating the Dodd-Frank ban on unfair, deceptive, or abusive practices by misleading borrowers about job placement rates and salaries after graduation, misrepresenting information about accreditation and the transferability of credits, and strong-arming students into high-interest loans that the company knew students would be unable to repay.

Keeping on with company-specific news, **Green Tree is now rebranded to Ditech Mortgage**. (The transition from Green Tree Servicing to Ditech Mortgage Corp occurred on March 1. Ditech Mortgage is one of the companies under the parent holding company, Walter Investments, and was included in the acquisition from ResCap last year.) Ditech spread the word that it now accepts FHA Safe Harbor loans, have removed most of its FHA overlays and accept FICO scores for FHA to 620. Ditech has opened up AOT as a delivery option & Bank of Oklahoma is now added as an approved dealer, added a 2/2/5 conforming ARM product, and told clients that its LPMI (Ditech-paid mortgage insurance) program has become very "QM Friendly" since it does not need to be included in the 3% QM fees.

PHH has added a 12-month seasoning requirement to the existing lien for all USDA Rural Development Guaranteed Loan refinances and is now requiring that the existing mortgage have been current for the last year in order to be eligible. A letter of explanation is required for any late mortgage payments during the last 36 months, and late mortgage payments over the last 12 months will no longer be permitted based on the housing payment history. All relevant transactions now require an appraisal and debt ratio waivers will no longer be considered. In addition, the new PITIA payment is now required to be less than the PITIA amount of the existing loan.

M&T Bank has updated its FNMA Homestyle guidelines to require a minimum FICO score of 740 for 2-4 family and second homes, replacing the previous reserve requirements and 720 minimum. The Treasury Jumbo program guidelines have also been revised to clarify that, if there are multiple borrowers, each individual's credit score should be determined and the lowest one used as the representative FICO.

National Mortgage Insurance Corporation (National MI) has launched a new lender-paid mortgage insurance (LPMI) program with imortgage, one of the country's leading lenders. National MI's LPMI program with imortgage is backed by what National MI believes is an innovative delegated assurance review process. imortgage has approved National MI as a provider of private mortgage insurance. Through this relationship, imortgage gains access to a new, well-capitalized source of private mortgage insurance with enhanced confidence of coverage and rescission relief available through National MI's delegated underwriting review process.

United Wholesale Mortgage has rolled out its new UWM Track, which allows brokers to track the status of a loan in order to provide realtors with up-to-date information. When viewing their loan pipeline in the EASE portal, brokers can see when a loan is submitted to underwriting, has its conditions reviewed and cleared, been approved, when prep and closing documents were sent to the title company, and when it can be expected to fund.

This daily is about the mortgage biz, and discusses investors in MBS. But we all need to be reminded that investors in fixed-income securities have other options - like putting their money into **corporate debt**. Corporate supply is on fire so far in March: Wednesday actually surpassed Tuesday in becoming the most active day of the year, with 13 deals pricing, for a total of nearly $20 billion. As BAML noted, "Excluding the $49 billion Verizon deal last year, this is the busiest 2-day stretch in over 3 years." So who has been issuing debt? Companies like HSBC, McKesson, Texas Instruments, Ford, Hospitality Properties, AT&T, Xlinx, and so on. Of course one wonders why corporate debt issuance has increased: it could be they like current rates, possible expansion plans, and retiring stock or old debt immediately jump to mind.

Continuing on with the markets, Thursday we learned that the Fed is still buying more than $2 billion a day. Prices didn't do much, in spite of some economic news, with more weight being put on today's employment data. This morning we had Non-farm payrolls. February's number came in at +175k (versus +129k in January), with the Unemployment Rate at 6.7% and hourly earnings up .4%. The numbers were viewed as strong (certainly stronger than expected), and this is pushing interest rates higher. Thursday we closed the 10-yr at a yield of 2.74%, opened this morning at 2.72%, but it **after the employment data we're up to 2.80% & agency MBS prices are worse .250-.375** - and I don't think anyone wants more of a crisis out of Russia to cause a flight to quality to push rates down.

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