FHA Changes on Their Way; Servicing on the Move; Upcoming Events

By: Rob Chrisman | Tue, Sep 23 2014, 10:58 AM

It would be nice to think that fraud in any industry doesn't exist - but it does. And a story in the Los Angeles Times reminds readers that **fraud is still a problem** in residential lending. Not only does this industry have to continue to grapple with headline-grabbing fraud stories, but who the heck can figure out what is going on? Yesterday alone a quick glance at lending headlines showed, "Should Mortgage Lending Standards Ease?", "Policy Makers Face Tough Question: Is Drag on Housing Due Mainly to Tight Standards or Weak Demand?" "Cash Home Sales, While High, Are Falling" (the share of homes being purchased without a mortgage remains high, historically speaking, but it is beginning to edge down.) "Rate of Americans Starting Own Households 'Disturbingly Slow'" (New data released last week show that household formation slowed considerably last year, a potentially ominous sign for the housing market.)

Poor FHA. The private mortgage insurance companies want it to go away, and many politicians want to phase it out. It dipped below its minimum capital requirements in the last year or two (but has bounced back). And word spread that the FHA's volume has dropped 19% for the first half of the year from 2013 to 2014 due to "haggling and hassling." Critics say that the HAWK plan, postponed until next year, is not enough, and what would be more helpful to the market are things like spot loan condominium approvals.

But it soldiers on. A new underwriting guide is rumored to be coming out by September 30th, reportedly with more clarity. The FHA has published a "Blueprint for Access" outlining what FHA is doing to expand access to **mortgage credit for underserved borrowers**. One of the key principles of the initiative is "Quality Assurance." FHA is seeking feedback on its new methodology for evaluating underwriting defects and published an overview, FHA's Single Family Housing Loan Quality Assessment Methodology (Defect Taxonomy). Lenders and industry representatives are encouraged to use the Loan Quality Assessment Methodology Feedback Response Worksheet posted on the SF Drafting Table to record feedback. Submit your Feedback Response Worksheet to the special e-mail box for this purpose accessible from the SF Drafting Table web page by October 15, 2014.

Anna Desimeon analyzed the release from FHA, "The proposed methodology is based on three core concepts: identifying a loan defect, capturing the sources and causes of the defect, and assessing the severity level of the defect. Additionally, the methodology is comprised of nine proposed defects, their specific sources and causes, and four defect severity levels. FHA's overall Quality Assurance efforts, including the proposed Loan Quality Assessment Methodology, will provide transparency and consistency for lenders, and make it easier for stakeholders to do business with FHA."

She continued, addressing "underserved" borrowers. "The economic crisis significantly constrained credit making it tough for anyone with less than perfect credit to obtain a mortgage. According to the Urban Institute, the average credit score for loans sold to the GSEs is 752. Currently, **there are 13 million people with credit scores ranging from 580 to 680**. Shutting these consumers out of the market hurts American families and undermines our efforts to build more stable communities, create pathways to the middle class, and increase homeownership opportunities for minority and low-wealth borrowers. A healthy mortgage market serves all qualified borrowers. FHA is committed to finding ways to responsibly increase access for underserved borrowers."

Her write up goes on to address the "**Principles to Responsibly Expand Access",** "Encouraging Housing Counseling," "Establishing Clear Rules of the Road", "Avoiding Unsound Lending Practices", and so on**.** She mentions that the FHA is developing a new methodology for evaluating underwriting defects. The new criteria will be more descriptive-identifying a limited number of specific defects, their related causes, and levels of severity. Categorizing loan defect severity levels simplifies the compliance process as it allows lenders to better assess the risk posed by a specific deficiency. Additionally, assessing the quality of loans under this framework will allow lenders to more easily address the root causes of defects.

Apparently the FHA's Lender **Compare Ratio**, calculated for all lenders, is under review. This ratio is geographically based, comparing the rate of early defaults and claims for single family loans in a geographic area to other mortgagees in the same area. The FHA plans to introduce an additional national lender performance metric. This new Supplemental Performance Metric will assess lender performance based on the lender's default rate within three credit score bands and compare it to an FHA target rate, rather than to the lender's peers. Like the Compare Ratio, the new metric will be reported in Neighborhood Watch.

The deputy assistant secretary and executive director of the United States Department of Treasury's Financial Stability Oversight Council, besides running out of space on his business card, told the industry that regulators plan on keeping a close eye on the growth of non-traditional players in the world of **mortgage servicing** in the coming year. Patrick Pinschmidt said that for securitization, this will mean working on implementing common standards and operational controls across the various non-bank mortgage servicing platforms. The state agencies and the Consumer Financial Protection Bureau will be working in tandem to develop the new framework. "Panelists on

Sunday at a session dedicated to mortgage servicers specialized in overseeing soured private-label RMBS loans lashed out against an investigation being conducted by Benjamin Lawsky, superintendent of the New York Department of Financial Services. '[The industry] should leave all special servicing to non-banks,' said Michael Lau, chief executive officer at Pingora Asset Management, which services RMBS loans.

Speaking of servicing, let's get some servicing color out of the way.... **Mortgage Industry Advisory Corporation (MIAC)** has a $50 Million or more, per month, flow mortgage servicing offering currently out for bid. The flow servicing is being offered by a well-capitalized mortgage company that originates nationally. The seller will be providing full representations and warranties for the loans included in the offering. The characteristics of this package are: $202,629 average loan size, 97.68% FRM, GNMA - 67.34%, FNMA A/A - 32.66%, National State Distribution, with an average escrow balance of $2,239. Bids are due on Wednesday, September 24th and bidders may present their flow bid pricing matrices for FNMA or GNMA separately.

I've seen two deals for **Mountain View Capital Holdings**, the first, a $3.3 billion FHLMC/FNMA non-recourse servicing portfolio from a well-capitalized which is 100% fixed rate, 1st lien product, WaFICO of 765, WaLTV of 67.5%, WAC of 3.42%, low delinquencies, average loan size of $264k, with California (55.5%), Utah (5.7%), Colorado (4.3%), and Texas (3.6%); the second package a $835mm GNMA servicing portfolio which is 99.7% fixed rate, 1st lien product, WaFICO of 691, WaLTV of 94%, WAC of 4%, average loan size of $205k, with California (23.9%), New York (9.6%), Florida (4.7%), and Pennsylvania (4.5%)....

Interactive Mortgage Advisors is the exclusive broker for a Federal Savings Bank offering $4.0 Billion in Fannie Mae bulk residential mortgage servicing rights with a WAC of 4.032%, $204k Average Loan Balance, WaFICO of 756, with Texas loans comprising the largest share of the pool.... Also, IMA has two active packages that I have seen; the first is for $126.9 Million of Fannie Mae bulk residential mortgage servicing rights. The package is 80% 30 Year Loans, with an average loan balance of $251k, 8 months of seasoning, with ZERO delinquencies; the second is for $308.7 Million of Ginnie Mae bulk residential mortgage servicing rights. The bulk of this portfolio is comprised of VA Loans. This package is 100% Retail Originations, 100% FULL DOC Loans, 100% of appraisals were reviewed and approved by VA, $222,000 average loan balance, with ZERO delinquencies. Written bids for both packages will be due Thursday, Sep 28th....

I've seen two offerings from **Phoenix Capital Inc** recently, the first is "Project Halifax" which is a $50 million per month Fannie Mae and Freddie Mac flow mortgage servicing rights offering; the pool's characteristic will represent May-Jul 2014 production numbers which look like: 87/13% (30/15yr), average Bal $227k-$233k, WaFICO 752; WaDTI 33%, WaLTV 80%; with 75% GA geography, and 70% Retail originations. Their second package is "Project Patagonia" which is $1.2B in Ginnie Mae mortgage servicing rights; the pool is 76% FHA, 18% VA, 6% FmHA, 99% Fixed 30yr term, WAC of 3.928%, average balance of $231k, 54% CA originations, WaFICO 688; WaLTV 94%, 82% Wholesale and 18% Retail.

Let's take a brief look at some **upcoming events** that will be interest.

First, Friday's commentary noted, "In Oklahoma, the **OMBA Conference** on October 3rd will be presented by Bricker & Eckler LLP and INCompliance. This one-day conference covers the most critical regulatory, compliance and litigation issues facing the industry. Event details include agenda and registration information." It turns out that OMBA, in this case, should have been Ohio.

The Washington Association of Mortgage Professionals hosts the 2014 Northwest Real Estate Summit & Mortgage Expo tomorrow, Wednesday, 9/24 - industry experts, breakout sessions, industry innovations and more. The 1st 100 realtors are pre-registered guests and mortgage lenders have been encouraged to bring their realtor partners.

The New England Mortgage Bankers Conference is this week (September 24th through the 26th). Some of the highlights include programs on non-QM mortgages, servicing released options in the market from co-issue to MSR sales, a sales track for sales management, Loan Officers and Realtors.

Ginnie Mae is conducting an Investor outreach call September 30, 2014 to discuss recent and upcoming Ginnie Mae Data Disclosure topics.

Liquidity and funding risk management conference in New York, October 16th-17th is an opportunity to join leading treasury and liquidity management executives from Citibank, Bank of America, Scotiabank, and many others. This invaluable forum slated for senior-level executives to weigh the impacts of recent regulatory requirements and exchange methods for operating effectively and profitability in the new liquidity environment.

MBA regulatory compliance conference in D.C., September 28th- September 30th, is offering virtual sessions for anyone who cannot attend the conference in Washington.

MBA of St. Louis is accepting registration for its October 2nd presentation on Mitigating Risk When Originating Non-Qualified Mortgage (Non-QM) Loans with Ari Karen and Christopher Tiso.

Rates actually came down a little Monday - don't ask me why. I guess they didn't want to go up! The only news was that Existing Home Sales lost some momentum in August - sales dropped 1.8%. Sales are at the second-highest pace of 2014, but remain 5.3% below a year ago. The NAR chief economist said sales activity remains stronger than earlier in the year, but fell last month as investors stepped away. "There was a marked decline in all-cash sales from investors," he said. Total housing inventory declined 1.7% to 2.31 million, which represents a 5.5-month supply. However, unsold inventory is 4.5% higher than a year ago. All-cash sales were 23% of August transactions, the lowest since December 2009.

Today I head out from the wonderful MBAC conference and head to Denver, thus the early e-mail. But it might be a quiet day as the only news is the FHFA House Price Index (basically measuring the market covered by Freddie and Fannie). In the early going the 10-yr, which closed Monday at 2.56%, is at 2.54%, and agency MBS prices are a shade better.

Jobs

For jobs, **Angel Oak Mortgage Solutions**, a fast-growing wholesale lender offering creative non-Agency products, continues to grow and expand. AOMS is currently seeking qualified Account Executives in Arizona, Northern California, Oregon, Nevada, Washington and Michigan. Delivering on its commitment to bring "make-sense lending" back to the mortgage business, AOMS provides unique programs to help partners grow their business in a challenging mortgage environment. If you are interested in joining our team as we grow, please send resumes and inquiries to careers@angeloakms.com.

On the personnel side, after 10 years mortgage icon Gary Cipponeri is leaving the bank to start a new company, according to two people with knowledge of the move, according to Bloomberg's Jody Shenn, who stays up on such things. Mr. Cipponeri is/was the head of capital markets for JPMorgan Chase & Co.'s U.S. mortgage unit, but is bailing and sailing to start a firm called **TradeRoom Capital Partners** that will trade mortgages that haven't been packaged into bonds and do consulting.

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