Fannie, Freddie, Conventional Conforming Updates

By: Rob Chrisman | Fri, Mar 11 2016, 9:48 AM

Regarding the darned time change Sunday, from Georgia Jim Bedsole writes, "Which is why I continue to advocate that, if we are going to be forced to 'spring forward,' that it should happen at 4PM on Friday, not 2AM on Sunday." Something else that is springing is the "**refinanceable population**." The big drop in interest rates has bumped up the refinanceable population to 6.7 million borrowers from 5.2 million last month, according to Black Knight Financial Services. An additional 15 basis point drop in rates would add another 2.1 million borrowers. This data is based on mid-February numbers, with a FHLMC 30 year rate of 3.65%. Just another reason why 2016 might be a little better than expected. Now, if borrowers actually remembered what their rate was...

A story earlier in the week in the Wall Street Journal caught my eye. In 9/08, the government took over Fannie and Freddie after investing $116 billion and $71.5 billion in them respectively. In exchange, the government initially took a 10% dividend on bailout monies and since 2012, against stockholders wishes, has been taking all profits. In 2015, Fannie earned $10.3 billion, Freddie $5.5 billion, dividend rates of 8.9% and 7.7% respectively, significantly less than the 10% dividend. This is bad news for stockholders since it means the common stock in both is worthless.

This from an industry vet: "Fannie Mae just published **DU Version 10.0 release notes**. Multiple inquires made by multiple creditors? That will no longer be viewed by DU as multiple inquiries! The use of 'Trended Credit Data' would probably push DU toward 'Refer with Caution.' FNMA says a mortgage late will no longer be viewed as a higher risk than any other late. DU 10.0 will treat a DQ as a DQ. Late= Late - check out Appendix A in FNMA's release notes. There's a few example of credit relaxation and a few examples of credit tightening.

This Announcement communicates the following updates to the **Fannie Mae** Selling Guide: eliminated the continuity of obligation policy, clarified lender reporting obligations related to a breach of compliance with laws, simplified the Selling Guide to use consistent language as it relates to the types of losses for which lenders must indemnify Fannie Mae, clarified when recourse is required on HomeStyle Renovation mortgage loans, adopted a simpler definition of relocation loans, and other miscellaneous updates. For a summary of key updates in this Selling Guide Announcement, view the **executive perspectives video** presented by Jude Landis, Vice President, Credit Policy, and/or the **executive overview** provided by Carlos Perez, Chief Credit Officer for Single-Family.

Fannie Mae has created a centralized webpage that gives lenders easy access to Spanish origination resources all in one place. Easily find Spanish versions of many helpful loan origination documents, including the loan application, loan estimate, verification forms, closing disclosure, mortgage, note and more. Spanish and English versions are offered side-by-side on the page. **Bookmark the page today**

Freddie Mac's new Workout Settlements website goes live on March 1. This new interactive website guides Workout Prospector through the automated settlement process from start to finish - from preparing a transaction for settlement, to completing and monitoring the settlement, to making post-settlement corrections. The new website also provides links to Freddie Mac training opportunities, additional resources, and tips to help you avoid potential roadblocks. Please note the reorganization did not involve a rewrite of existing policies or requirements, or the introduction of new ones. Click here for redirection to Freddie's interactive website.

Effective for mortgages with settlement dates on or after March 28th, Freddie Mac is removing the separate maximum LTV/TLTV/HLTV ratio requirements for Super Conforming Mortgages. To reflect these changes, the Super Conforming Mortgages post-settlement delivery grid has also been updated. Freddie Mac is also aligning the eligible LTV/TLTV/HLTV ratio for no cash-out refinance transactions and purchase transaction for mortgages secured by a 1-unit Investment Property. Effective August 1st, 2016 is the prohibition of the sale of Mortgages secured by a Condo Unit in a Condo Project or a property in a PUD with a master or blanket insurance policy that combines insurance coverage for numerous unaffiliated Condo Projects or PUDs.

On or after March 7th, **Wells Fargo** is permitting borrowers delayed financing (i.e., cash recoupment) for investment properties under its Non-Conforming program. Effective April 4th, Wells is removing several policy overlays for Conforming Loans and expanding its policy for Non-Conforming Loans in order to align more closely with Fannie Mae cooperative requirements. Also, Wells has a new Streamlined Condominium Review allowing Sellers to have an additional condominium review option for Non-Conforming Loans.

In order to meet agency requirements that non-U.S. citizens are lawfully residing in the United States, **Wells** is updating its requirements to include residency documentation for all permanent resident alien borrowers on the Loan, regardless of whether or not their income and/or assets are being used to qualify. On or after March 7th for all permanent resident aliens, a copy of the front and back of the green card must be included in the Loan file on Conventional Conforming loans.

A while back **Wells Fargo** removed its conventional Conforming policy overlay requiring rent loss insurance for 1- to 4-unit investment properties, effective March 7th, and adjusters for Super Conforming and High Balance ARM Loans with LTVs/CLTVs greater than 75% (including HARP loans) changed. Its' Best Effort and Mandatory rate sheets for ARM Loans will reflect a separate adjuster for LTVs/CLTVs greater than 75% up to 90% and new adjuster for LTVs/CLTVs greater than 90%.

Wells Fargo has removed its overlay that requires a minimum of two comparables from outside the subject project for condominiums under its Prior Approval High Balance Conforming Loan Program. In order to simplify requirements for documenting and calculating rental income for Non-Conforming Loans, Wells is making several changes, including, but not limited to: aligning income stability, property management experience, and documentation requirements to a two-year timeframe. Eliminating the baseline method for calculating rental income. Adding requirements for tax returns aged nine months or more.

Wells Fargo Funding is updating its Conventional Conforming Loan policy to require eligibility review of properties with solar panel systems that are leased or subject to a Power Purchase Agreement (PPA), prior to delivering the Loan for purchase. Wells is removing its policy overlay for short refinance and restructured mortgages for conventional Conforming Loans. Wells will require 2015 Tax Return Transcripts for Loans Closed on and after June 15. Regarding High balance loans with expanded LTV, its systems have been updated to fully support Registration and Lock processes, the temporary processes are no longer required.

M&T Bank updated the FNMA Standard Fixed Rate program has TO ALLOW co-op properties to 97% LTV on primary residences and 90% on second home. These changes were a part of the FNMA updates previously announced. New York State co-ops' are still limited to 80% LTV.

NationStar Mortgage has released its updated Seller Guide. **To download the complete update, please click here.**

Effective immediately, **Ditech's** conforming underwriting guidelines for Desktop Underwriter, Loan Prospector, and Manual Underwrite transactions are being clarified or updated. Continuity of Obligation (DU and Manual Underwrite) as Fannie Mae is no longer requiring that Continuity of Obligation be met; therefore the Continuity of Obligation policy for Desktop Underwriter and Manual Underwrite transactions is being eliminated. LP guidelines are being updated to clarify the Employee Business Expenses filed on IRS Form 2106. It must be deducted from commission income when calculating commission income used for qualification (regardless of the amount of the commission earned). A wage earner who files IRS Form 2106 is not required to deduct those expenses from income.

NYCB Mortgage has added an additional -0.125% price adjustor factor (PAF) to be applied to Conforming Fixed High Balance transactions in California as of March 1st.

Effective for all conventional loans with application dates on or after February 1, **Sun West** began requiring the following documentation when business income is reported on Schedule K1 and used for qualification: Income documents must include the most recent two years individual tax returns (Form 1040) with all schedules, most recent two years business tax returns - with Schedule K-1, Form 1065 for Partnerships/LLCs, and form 1120S for S-Corporations/LLCsv. For Use of Self-employment income from Partnership or S Corporation business: Ordinary income, net rental real estate income, and other net rental income reported on Schedule K-1 may be included in the borrower's cash flow provided: the borrower can document ownership share (using Schedule K-1); and the borrower can document access to the income (such as a partnership agreement or corporate resolution); and the business has adequate liquidity to support the withdrawal of earnings.

As we ease our way into 2016, 4Q15 housing and banking numbers continue to flow in from various agencies and bureaus. Recently the FDIC released profit numbers for federally insured institutions. **Commercial banks and savings institutions insured by the Federal Deposit Insurance Corporation reported aggregate net income of $40.8 billion in the fourth quarter of 2015**, up $4.4 billion (11.9 percent) from earnings of $36.5 billion a year earlier. The increase in earnings was mainly attributable to a $6.8 billion increase in net operating revenue and a $2.7B decline in non-interest expenses. The reduction in non-interest expenses is attributed to a drop in litigation expenses at a few large banks.

What's good for the goose is good for the gander. What the heck is a "gander," you ask? I didn't know either, but according to my mechanic it sits next to the Johnson rod, and needs to be replaced just as frequently. If the Federal Reserve is the goose, then investment bankers and institutional investors are the gander....and contrary to the above axiom, **rate hikes** rarely are viewed as a positive. We ended 2015 with expectations of four Fed Fund Rate hikes due in 2016; the probability is we'll probably experience only one (insert dismal economic data here). According to the CME Fed Watch Tool the probability of the FOMC adjusting the target rate for 2016 is: **March (12%), April (22%), June (38%), July (39%), September (43%), November (44%), December (57%).** These percentages obviously reflect current data and economic realities and are based upon Fed Fund Futures contracts.

Shifting to the daily markets, we were reminded yesterday that we're a global economic village when all the focus was on Europe. The ECB (European Central Bank) statement over-delivered versus expectations by cutting all three overnight rates by 5 to 10bp, and increasing & expanding its Quantitative Easing program. They're even going to start buying corporate securities! Mario Draghi said, "Rates will stay low, very low, for a long time period of time and well past the horizon of our purchases (currently March 2017). From today's perspective and taking into account the support of our measures to growth and inflation we don't anticipate that it will be necessary to reduce rates further."

Don't forget that in the United States QE is basically alive and well, and the government continues to buy agency MBS with the proceeds from loans that pay off early. The NY Fed released the estimate for MBS reinvestment purchases covering the March 11 to April 12 period: about $23 billion agency MBS.

For news today we'll have the US Labor Department's February import and export prices - look for declines on both. We wrapped up Thursday with the 10-year's yield at 1.93%.

Jobs and Announcements

San Francisco based **Bay Equity Home Loans** **is "continuing its methodical growth by breaking into the Idaho market**. We are proud to announce The Christy Jordan Team has joined in Boise and Rich Holsman and his team have joined in McCall. Both Christy and Rich are industry veterans and rank amongst the top 1% of producers in the country. Bay Equity is built for and around our producers and is accomplishing our goal of providing a platform that is seeing career best personal production years for even industry veterans. Our successful formula includes a family oriented culture, shared best practices and tools that boost production levels and a regionalized operations team that executes our core competency of getting loans funded efficiently and on time. To find out why our roster of top producers is growing exponentially reach out to Bay President Casey McGovern at 415-820-4502."

Elsewhere in the nation **GMH Mortgage Services, LLC** **is aggressively looking to add top loan officers and producing branch managers to its retail platform**. Key target markets are PA, NJ, DE, MD, MA, CT, RI, and NH. The #1 Best Place to Work for medium-size companies, as selected by the Philadelphia Business Journal, "GMH has proven to grow loan officers' business. In 2015, loan officers grew their business 33% vs. the MBA National forecast of 16%. If you are looking for best-in-class with a culture built around a one team, customer-centric approach to business, you need to take a look at GMH." Contact Brian Beale, VP of Recruiting & Corporate Initiatives, for a confidential conversation.

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