Fannie And Freddie Changes; Jumbo Market Altering And Not For The Better

By: Rob Chrisman | Fri, Jul 29 2016, 10:28 AM

"Buy land - they're not making any more of it." And the reverse is happening in Louisiana. Say what you want about global warming, or inappropriate levy building, the fact is that the state is watching a football field-sized piece of land disappear under water every hour. Per the Smithsonian Magazine Louisiana is losing 75 square kilometers of coastal terrain every year. And in California this article points out a mining company is "stealing a beach.

The International Monetary Fund and US regulators have given **Deutsche Bank** heat for risks posed by its 42 trillion euro derivatives portfolio, which among other factors contributed to it failing Federal Reserve stress tests. Analysts wonder if Deutsche Bank would do well to abandon its US businesses, but it has little else generating profits and is the last European holdout in the investment banking market.

And in other news that isn't particularly good for lenders, especially for non-bank companies who offer jumbo loans, **Two Harbors Investment Corp**. is discontinuing its Agate Bay jumbo securitization platform. The company notes that expected costs to wind down the program will be around $3 million in the second half of 2016, and expected savings will run around $10-11 million annually.

Why is TWO **"bailing and sailing" from jumbo?** The company stated that its reason for exiting the business is simply the challenging market environment confronting the jumbo securitization business. The demand to hold jumbo mortgages (mostly from banks) on balance sheets has resulted in very little jumbo production moving to the private label securitization market. Banks love the jumbo loan asset, and why pay rating agencies and attorneys thousands of dollars to securitize the loans? Banks flush with deposits have been willing to pay more for these loans than bond investors, making it more profitable for lenders to sell mortgages to banks than to securitize.

TWO sponsored 13 securitization deals backed by nearly $4 billion in prime jumbo mortgages since the program's inception in 2013. TWO has been among the more active issuers in the non-agency securitization space for loans without government guarantees, behind Redwood Trust and a group of large banks. Two Harbors, managed by a unit of hedge fund Pine River Capital Management, sold mortgage bonds under the name "Agate Bay Mortgage Trust."

Securities Industry and Financial Markets Association (SIFMA) reports that issuers sold about **$60 billion** of non-government residential mortgage bonds last year, compared with more than $1.24 trillion in 2006. Of that $60 billion, just $12 billion were traditional non-government mortgage securities. Late last year JPMorgan Chase & Co. analysts forecast that $10 billion of prime jumbo loan mortgage bonds would be sold this year but less than $2 billion of the securities have been sold through June, according to its data. Banks are happy to sit on this product.

Other lenders that packaged jumbo mortgages into bonds have also **stepped back from that business**, and it doesn't take long to find out what lenders & investors are selling to a particular "end" investor. "Effective on Friday, July 29, 2016 **NewLeaf** Jumbo Prime and Jumbo Prime High LTV products are discontinued. All loans must be locked by 4:00 p.m. (PDT) on July 28. Extensions will not be granted after July 28. Products impacted are NewLeaf Jumbo Prime - W530, NewLeaf Jumbo Prime High LTV - W531, and NewLeaf Jumbo Prime Asset Depletion - W532."

And **NYCB Mortgage Banking** sent out the word yesterday that, "Due to the immediate and unexpected closure of one of our investors, NYCB must suspend our Jumbo Fixed 30-Year loan program. Effective at 5:00 PM Eastern Standard Time (yesterday), NYCB will no longer accept new applications for the Jumbo Fixed 30-Year loan program." In order for NYCB to fund/purchase a jumbo 30-year fixed loan the loan had to have been locked, or expired loans relocked, yesterday.

Last week, **Five Oaks Investment Corp**., another real estate investment trust, said it was scaling back its unit. On July 21 Five Oaks Investment Corp., the publicly traded REIT parent of Five Oaks Acquisition Corp. (Five Oaks), released a Form 8-K filing stating that effective August 1, 2016, Five Oaks will not be purchasing additional prime jumbo mortgage loans and would not renew its warehouse agreements beyond October 2016. At this time, the REIT's decision to suspend its conduit operations is not expected to impact the OAKS 2015-2 securitization or KBRA's outstanding ratings for the transaction.

And **WinWater Home Mortgage**, a unit of hedge fund Premium Point Investments, shuttered its program earlier this year, citing similar challenges.

LOs know that borrowers who want a jumbo loan can find them. Much of the lending, of course, takes place on the East and West Coasts, within 10-20 miles of the ocean, or in nice suburbs of major cities. And some lenders specialize in jumbo lending, and have adjusted their underwriting guidelines to accommodate wealthy borrowers. For example, Bloomberg reports on a no-money down $2 million program in

Northern California. Lenders are now taking into account stock and stock option compensation for determining whether a borrower can afford a mortgage. That's okay in an appreciating or stable housing market. Otherwise...

And there are changes in the conforming conventional world of Fannie Mae and Freddie Mac.

Fannie Mae has announced changes to its 3% down HomeReady program. There are **several changes** that go into effect immediately. Income limits have been raised to 100 percent of area median income (AMI) in all areas except for low income market tracts which have no limit. Fannie believes this will expand access to affordable credit and also make it easier for lenders to determine eligibility for the loans.

The occupant borrower will now be allowed to own other residential properties. Homeownership education courses that fulfill the HomeReady mortgage requirement have been expanded to include one-on-one pre-purchase advising from HUD-approved providers. Fannie Mae will offer lenders a $500 credit to encourage borrowers to take advantage of this option. Homebuyer education will continue to be available through Framework, Fannie Mae's education partner.
The requirement for homeownership education has been removed for limited cash-out refinances and borrowers for loans secured by two- to four-unit properties will no longer be required to take landlord education although homeownership education will remain a requirement.

The Seller Guide announcing the above changes also noted that Fannie Mae expects to make **additional enhancements** later this year, including allowing a maximum loan-to-value up to 97 percent on limited cash-out refinance transactions in Desktop Underwriter (DU) if the existing mortgage is owned or securitized by Fannie Mae, expanding current HomeReady eligibility for buydowns and adjustable-rate loans to include three- to four-unit properties, and adding additional incentives for the one-on-one homeownership counseling implemented with the current changes.

Fannie Mae's state specific Attorney Authorization Approval (AAA) Matrices have been updated to include information regarding foreclosure related title costs. Also, the Allowable Title Cost for Fannie Mae Foreclosures document has been updated on the **Fannie Mae** business website. These documents are available for servicers who have access using their valid user ID and password. If you need access, contact your Technology Manager Administrator.

Beginning August 1, three new reports will be available in **Fannie Mae** Connect: Consecutive Months Delinquency Status (CMDS) report, Potential HomeReady Eligible Case Files report and Potentially HomeReady Eligible-Not Delivered HomeReady report. For more information on Fannie Mae Connect, the report transition from Message Manager.

Fannie Mae's Lender Letter provides information about changes to the MassHousing Mortgage Insurance Fund requirements as well as updates to the *Approved Mortgage Insurers and Related Identifiers* and*Approved Mortgage Insurance Forms* lists.

During the weekend of August 20, Desktop Underwriter (DU) for government loans will be updated to support FHA changes in how Required Investment from the borrower is calculated. In addition, the release will include several other messaging and logic updates. See the Release Notes for more information.

Mountain West Financial noted on conventional transactions, Fannie Mae will allow a PACE/HERO loan to be paid through a regular cash out refinance or a HomeStyle Energy rate and term refinance, without including the assessment in the DTI, or in the impound account. However, Fannie Mae will NOT allow the PACE/HERO loan to be subordinated on a purchase, or any type of refinance. Although both FHA and VA have put out guidance, MWF is in the process of working with FHA and VA, to determine clearer guidance.

Freddie Mac has updated its cash-to-close calculations for Total Funds to be Verified

Fannie continues to court servicers, as in this recent update.

Freddie Mac released additional information on its **Common Securitization Platform/Single Security website**, including a preliminary transition timeline and updated exchange program deck. Click here for the main CSP/SS website: The Single Security and the Common Securitization Platform, and here is theLegacy PC Exchange Program deck.

Keeping on with the bond market and interest rates, U.S. Treasuries and agency MBS prices were nearly unchanged Thursday. You'd have thought rates would have moved one way or the other given the way since oil prices moved lower and a higher-than-expected trade deficit in goods caused downward revisions to Q2 GDP growth forecasts. (The advance estimate of Q2 growth will be released this morning.) Initial jobless claims disappointed slightly but remain near historic lows. Treasuries spent most of the New York session in a narrow range, prior to breaking out to lower yields (1.492% low yield in 10s) following the 7-year auction before retreating into the close ahead of the pricing of the multi-tranche offering from Apple.

For today's thrills and chills, the Bank of Japan released their monetary policy decision. The experts thought we'd see another 10 basis point cut in the policy rate to -0.20% and an increase in monetary base. The BOJ pledged to increase purchases of exchange-traded funds (ETF) but kept interest rates steady at the close of its two-day meeting on Friday, confounding market expectations of hefty stimulus.

Later today we'll have the Chicago Purchasing Manager's survey as well as the University of Michigan sentiment numbers - both rarely if ever move rates - but also the European bank stress tests. We've already had the GDP figures for the 2nd quarter: 1.2% at an annual rate, lower than expected, and the 1st quarter was revised downward. We've also seen Q2 employment cost, +.6%, as expected.

After all that weak news the 10-year's yield is nearly unchanged at 1.51%as are agency MBS prices.

Jobs and Announcements

Let's move inland for some job news. **Radian is currently searching for a Regional Training Manager in its Central region.** This role is responsible for managing all aspects of training and facilitation for the Central region and plays a critical role in the Radian Account Manager's partnership with its clients. Candidates will need to demonstrate expertise in technical mortgage underwriting and originations as well as dynamic presentation and facilitation skills, and should be fluent in adult learning theory and applying it to the training delivery environment. This position can be based in either Dallas, TX or Denver, CO; travel requirement 75%. Interested candidates can apply to Kim Martin.

The Compliance Group, Inc. is continuing to expand its operations, and is seeking Compliance Professionals to join its outstanding Compliance Team from anywhere in the nation. These positions will provide support and guidance to clients, handle compliance projects, review new and existing regulations for impact to lending industry, perform regulatory and state audits, review compliance audit results, conduct onsite client training and consulting and train internal staff, as well as draft and maintain regulatory policies and procedures. At least five years of compliance experience is preferred. Candidates holding a CRCM is a plus! Package includes competitive salary and benefits. Please send resumes toJanet Twombly.

Big congratulations to Wells Constantine who **Ditech Financial LLC** has hired as its National Sales Manager for its new wholesale lending division. "He will be responsible for overseeing the company's wholesale lending sales teams and expanding its wholesale presence in the United States. Constantine has more than 20 years of experience in the mortgage industry with a specific focus in wholesale lending."

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