Appraisal Trends; Fannie & Freddie - Never a Dull Moment

By: Rob Chrisman | Thu, Aug 25 2016, 9:08 AM

How'd you like to work for a company that was in the press nearly every day – rarely in a good way? How'd you like to work for a company whose future is uncertain, and anyone with a keyboard can comment on it? How'd you like to be thought of as a ward of the state, unable to save any money for a rainy day? How'd you like to work for a company whose history and good works seem to have been forgotten, and the employees can't discuss the future? Welcome to Fannie Mae and Freddie Mac – and below there's a lot of news with the Agencies. It's not all fun and games – unlike the Chicago White Sox and Guaranteed Rate. Guaranteed Rate has signed a 13-year naming rights contract with the Sox: beginning November 1 the MLB stadium will be named "Guaranteed Rate Field."

FHA implemented system updates to its Electronic Appraisal Delivery (EAD) portal and FHA Connection (FHAC) technology that provide new functionality for related entities to view and work with appraisal reports. **Both** the originating lender (Principal) or the underwriting lender (Agent) and their third party service providers authorized to upload appraisals to the EAD portal can: Submit an appraisal to FHA through the EAD portal; Complete any updates on FHAC's Appraisal Logging Screen; and Confirm the data as required in FHAC. Mortgagees should note the following about case transfers relative to appraisal reports in both the EAD portal and FHAC: If, prior to case transfer, the original mortgagee uploaded an appraisal for the case, the mortgagee that the case was transferred to (new mortgagee) will be unable to view the appraisal in EAD. Review new EAD portal Frequently Asked Questions (FAQs) about the Principal and Authorized Agent, and working with case transfers on the FHA Resource Center's online, searchable FAQ site.

The Borrower's Bill of Rights and Consumer Caution and Home Ownership Notice disclosures are no longer required to be provided to the borrower for Michigan loans. Accordingly, **Flagstar** has removed the Michigan General Disclosure, Doc. #3950 from its Seller's Guide. Additionally, as of August 29th, Appraisal fees will increase to $640 in the state of Montana with the exception of Park County - $850 and Yellowstone County - $800. All counties in the state of Oregon will be $620.

Pacific Union Financial, LLC announced a change for the required appraisal, if applicable to the transaction, to be submitted at loan submission for all refinances submitted by Non-Delegated Clients on and after August 8.

Effective with all refinance transactions submitted by Non-Delegated Clients on and after August 8, **Pacific Union Financial, LLC** requires the appraisal to be submitted with the credit package. This requirement will apply for all new refinance submissions from Non-Delegated Clients when the transaction requires an appraisal. Submission of the appraisal with the credit package will initiate review of collateral documentation earlier in the process and help expedite the timeframe from review to credit approval.

NationStar Mortgage has updated it Appraiser Exclusionary List. Correspondents are encouraged to review the list prior to submitting a loan for loan purchase. In addition, NationStar's Seller Guide has been updated.

The president of the National Association of Realtors (NAR) Tom Salone discussed appraisals recently. (Forget the fact that an appraiser can "only" do 2-3 a day, they don't want to work 7 days a week, they seem to receive about 10 requests a day, few want to train their future competitor who will eventually undercut their price, and all are usually pressured by real estate agents to deliver on price.) Mr. Salome stated, "...in addition to affordability concerns, an issue seen earlier in the housing recovery may be reemerging. Realtors are indicating that appraisal complications are appearing more frequently as the reason why some home sales settlements are being delayed...

"Appraisal-related contract issues have notably risen over the past year, and were the root cause of over a quarter of contract delays in the past three months...This is likely a combination of sharply growing home prices in some areas, the uptick in home sales this year, and the strong refinance market overworking the already reduced number of practicing appraisers. Realtors are carefully monitoring this trend..."

What kind of headlines have Freddie Mac and Fannie Mae been garnering lately? Of course no one wants to call their twin sister ugly, but both companies are jockeying for the long run - reducing personnel expense, going after customers, etc. In Tom LaMalfa's poll from the May Secondary Marketing Conference, Freddie edged out Fannie in terms of "ease of doing business." And Freddie is definitely pushing its technology Suite.

First off, Freddie Mac thinks 2016 could be the best year for mortgage origination since 2012, with total origination topping $2 trillion due to stable low rates. For 2017, Freddie's economists are forecasting a drop back to $1.7 trillion as home price appreciation falters and interest rates rise, although rising rates shouldn't be too bad given they are forecasting 2017 GDP growth to be below 2%. They anticipate the mortgage rate to increase 10 basis points to 3.7%.

Freddie Mac expanded its **"green" portfolio**, launching the Freddie Mac Multifamily Green Advantage, which offers borrowers an avenue to obtain better pricing and increase their Freddie Mac loan amounts to finance energy and water improvements on multifamily properties.

Both Agencies reported their second quarter earnings. Fannie Mae reported $2.9 billion of operating profit before the payment of preferred stock dividends, while Freddie Mac reported an operating profit of $993 million. Earnings at Fannie Mae beat many estimates primarily on a $1.6 billion loss provision benefit, while earnings at Freddie Mac missed due to $2.1 billion derivative loss.

The FHFA released "Results of Fannie Mae and Freddie Mac Dodd-Frank Act Stress Tests. Under the severely adverse scenario, projected draws were projected to range between $49.2bn and $125.8bn (depending on treatment of deferred tax assets) which would leave between $208.9bn and $132.2bn in available funding commitment under the Senior Preferred Stock Purchase Agreement with Treasury. To date, the GSEs combined have drawn $187.5bn from the Treasury agreement, with $258.1bn still available.

How about this headline from last week? **Everybody has a plan for Fannie and Freddie but nothing gets done.** Plenty of ideas have been floated. Former FHFA Director Edward DeMarco and ex-Senate Republican staffer Michael Bright have proposed turning the GSEs into **lender-owned insurers.** Others have suggested transforming them into what amount to mortgage utilities, with capped rates of return, essentially keeping them in place in a more regulated form. So everyone in DC realizes that the current state of affairs (with the GSEs as wards of the state) is unsustainable, however no one really knows what to do with them. The US taxpayer bears the credit risk of 90% of all new origination. Republicans would like the government less involved with the mortgage market, while Democrats would like to see them officially nationalized and made a government owned corporation. The point is moot, however, in that there is nothing obvious in the private sector capable of outright easily replacing them.

Here is an in-depth look at Fannie and Freddie. The author gets into everything from their creation, current position under supervision and potential future options for the 2 giants. I did not agree that the connection between the 30-year fixed mortgage and the existence of Fannie and Freddie is as interdependent as the author makes it seem. At the same time, there was an interesting quote in the middle of the piece that Americans believe they should have access to an affordable mortgage just as we have come to rely on electricity delivery when we turn on the lights. If true, this is another example where popular demand may outweigh what's actually best for the economy or the country.

The article raises the issue of the need to decide what takes precedent: our expectations or our country's financial health. When those two thing align, like in the case of entrepreneurship (we believe it is a good thing / pays off and overall it is a good thing), everyone wins. When Americans demand something that is risky long-term, it is supposed to be when Congress or other institutions step in to make a judgment call. Increasingly, that's not happening and no one is willing to deny American expectations.

So has **American exceptionalism become American "expectationalism?"** This is not altogether a bad thing as long as we recognize our expectations of comfort take precedent and may (in some cases) cost more. Therefore, we have to do other things, like pay more for the 30-year fixed mortgage or pay more to the federal government in other ways, to offset the risks associated with giving everyone what they expect. If we can be honest about that, we can continue to provide 30-year fixed mortgages to everyone. If we cannot be honest about it, we'll continue to want our cake and eat it too (affordable mortgages for all, low student debt, low taxes and vibrant growing economy) which is an impossible position going forward.

Note that Fannie & Freddie were 100% owned by the government (Fannie Mae was a New Deal phenomenon), and LBJ made them a nominally private institution. The reason? Fannie Mae's debt was becoming a problem for the national balance sheet and was making it difficult to finance the Vietnam war. Brent Nyitray points out that, "LBJ wanted Fannie Mae's debt off the official books of the US Government, so he spun off a piece to private investor. So, yes Virginia, the first user of off-balance sheet financing was Uncle Sam."

A US court has ruled that shareholder rights transferred to the Federal Housing Finance Agency when Freddie Mac entered conservatorship in 2008. The ruling follows a shareholder's request to view financial records of the mortgage-finance company.

Once again the bond market continued with its "steady as she goes," "dog days of summer" price movement. Wednesday the fixed income markets again saw a narrow trading range, less than 3 basis points on the 10-year which once again closed in the 1.50% bracket - this time at 1.56%. The usual parties were in selling mortgage-backed securities, and the usual parties were in buying (today through mid-September we should expect the Fed's appetite for MBS to still average over a billion a day).

This morning we've already had the always volatile Durable Goods (+4.4%, very strong) and weekly Initial Jobless Claims (-1k to 261k). Before the sun comes up in many parts of the U.S., **the 10-year is at 1.57% and agency MBS prices are, once again, nearly unchanged.**

Jobs and Announcements

Texas Capital Bank, N.A. continues to grow its Correspondent Lending business and spread the word to potential lender clients of its account executive lineup: Andrew Gauder and Becky Lottridge- Northeast, Nathan Rohrmeier and Page Woodall- Southeast, Brad Buchanan and Jennifer Seward- South, Susan King and Cari Smith - Northwest, and Paul Speck and Rob Loesch - Southwest. To learn more about becoming a seller, please reach out to the Director of Correspondent Lending, Jack Nunnery, or an account executive in your area.

In wholesale news, **Endeavor America Loan Services has just received its California Finance Lender (CFL) and now accepts brokers who are CFL licensed.** You can download a broker package here.EA is "Built for Brokers" and has updated their rate lock policy to better serve loyal brokers. "One of the fastest growing lenders, Endeavor America has enjoyed record growth and is looking for talented peopleacross the country. You can explore EA's job openings or reach out directly to Steve Curry, Executive Vice President of Sales at Endeavor America."

A well-known publicly-traded, full-service seller/servicer looking to expand its national presence is seeking a Retail Regional Sales Director for its Midwest territory. If you're an experienced sales leader, now is the time to take your career to the next level with an organization that is focused on exceeding client expectations, while providing the most competitive combination of price, products and services in the industry. This lender originates, finances and services agency and non-agency residential mortgages through its network of retail offices. Confidential inquiries should be addressed to me for forwarding on to the principals; please specify the opportunity.

For the third time, **CoesterVMS** has made the Inc. 5000 list of the fastest growing privately held companies in the country. This year the company ranked at 1757 and has enjoyed a three-year sales growth of 212 percent. "It is definitely an honor to have CoesterVMS recognized by Inc. for our continued efforts to improve our service to the industry as well as our internal business processes," said Brian Coester, CEO of CoesterVMS. "We want to continue to focus on being the best valuation provider in the industry". **Coester has recently hired 10 account executives across the country and is currently looking for a Chief Appraiser** to assist with its growing compliance and technology team. Please e-mail resumes to Brian Coester.

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