Record Bank Earnings, Basel Update; Appraisal and Collateral Trends

By: Rob Chrisman | Fri, Mar 3 2017, 9:12 AM

For me the last few weeks included travel to events in Florida, Texas, Southern California, and now The Mortgage Collaborative's event in Arizona. And although I wouldn't describe the mood as "vivacious" out there ("keeping our noses to the grindstone" would be more appropriate), in terms of demographics I have noticed more and more younger faces at conferences. Indeed, Pew Research finds that as of the end of last year there were over 58 million millennial workers in the US labor force ranking this group #1 in size vs. 53 million Gen X workers coming in at #2.

Bank and M&A news.

Tricon Capital Group announced that it has entered into an agreement to acquire public single-family rental (SFR) operator Silver Bay Realty Trust Corp. by way of an all-cash transaction for approximately $1.4 billion, which values the company at $21.50 per share. Tricon Capital indicated that the acquisition is expected to close by the end of the second quarter of 2017. Tricon Capital is the parent company of Tricon American Homes (TAH), which is the firm's wholly owned operator of its U.S. single-family rental business. The acquisition of Silver Bay will create the fourth largest publicly-owned SFR company. After the completion of the acquisition, TAH will hold more than 16,800 homes in its total SFR portfolio, of which nearly 9,800 are currently included in three single-borrower securitizations totaling $1.1 billion.

Is it true that banks are where all the money is? Perhaps. **Banks' profit** hit a record high of $171.3 billion last year, a 4.9% increase from 2015, according to the Federal Deposit Insurance Corp. Unprofitable banks made up 4.2% of the system, the lowest level since 1995.

Global regulators working on the **Basel III** banking rules have ended a two-day meeting without setting a date for their issuance, but have expressed a determination to reach agreement and completion, saying that many outstanding matters have been resolved. The US has not yet appointed a Federal Reserve official who would oversee banking supervision, and this has been cited as a main reason for the delay.

With hints of **lessening regulations** (heck, everyone would be happy if we did away with triple damages with the False Claims Act) will banks pick up the pace in residential lending? As everyone knows more borrowers are choosing non-depository lenders than ever before to obtain a home loan. In 2011, 50 percent of all new mortgage loans originated from the three largest banks: JPMorgan, Bank of America, and Wells Fargo. However, in September 2016, that share plunged to 21 percent. During that time, non-banks emerged as six of the 10 largest lenders by volume, including Quicken Loans, loanDepot, and PHH Mortgage. In 2011, only two of the 10 largest lenders were non-banks.

Obviously, **depository banks** have a wide range of revenue earning products whereas the standard mortgage bank only has first liens and mortgages. Non-banks are a little nimbler and can offer more home loan products. As depository banks have backed away from the mortgage business due to onerous and often overlapping & conflicting regulations from the last ten years, non-bank lenders have filled the void.

Appraisal, collateral, and value trends & developments

Has the appraisal crunch we had six months ago in many parts of the nation died down due to volumes falling? To some extent, yes. But some inherent structural problems remain, and I received this note from the president of a well-known bank in the West on the lack of new, young appraisers. "First off, the entrepreneurial return to enter/pursue the business just hasn't been there. With the 4-year degree and 2-year apprentice requirements (which many lenders and realtors don't have this level of experience) many would-be candidates maybe choosing different business lines that can pay them more much sooner with their experience.

"Along the same line, the appraiser has long been one of the least underpaid part of the real-estate transaction. Even at current 'high' fee levels, a '2 appraisal a day' appraiser turning 600 in a year charging $700/appraisal is making gross $420K/yr. before overhead expenses and assuming full capacity. Reduce this by 50% for those factors and a very good appraiser (established with degree and client base) **may make $200K/yr**. How many real estate agents and originators make more than this? Lots of them!

"Also, apply this to new folks looking to enter the market and you can see where it may deter many. The presence of CU and other **automated tools** may likely change this landscape dramatically in the next 5-years as appraisers may take on 2 roles: property viewer/certifier of condition (non-technical), and specialized/unique property appraiser (specialized and more difficult). Finally, much of this is due to the current rate environment. If volume slows, the noise is likely to drop a lot. Experienced appraisers have been through this before and are unlikely to build up their business when they may have to deal with overhead cuts soon."

Quicken Loans' National Home Price Perception Index (HPPI) showed the average appraisal value was 1.47 percent below **what owners**

expected in January. This two-month drop in the HPPI comes on the heels of a six month stretch where opinions between homeowner and appraiser were steadily moving closer to equilibrium. Appraisal values in January stayed mostly flat, slipping only 0.34 percent last month per Quicken Loans' Home Value Index (HVI). When viewed annually, appraised values continue to rise, increasing 3.93 percent year-over-year.

Ditech Financial posted a Job Aid when ordering VA appraisals through the WebLGY application in the online Veterans Information Portal for its Wholesale Clients. The Job Aid will help clients generate a complete and accurate VA Request for Determination of Reasonable Value Form (26-1805-1) and reduce errors that may delay the appraisal inspection and issuance of the VA Notice of Value (NOV).

Nationstar Mortgage now maintains and distributes a monthly Appraiser Exclusionary List in an effort to continue to ensure collateral quality. Correspondents are encouraged to review the Nationstar Mortgage Appraiser Exclusionary List prior to submitting a loan for loan purchase. If a loan delivered to Nationstar utilizes an appraiser on the Appraiser Exclusionary List, the loan is ineligible for purchase.

Wells Fargo Funding added an authorized appraisal management companies (AMCs) to include Assurant® Valuations (formerly StreetLinks). Beginning February 14, 2017.

Updates to NYCB's Appraisal Fee Schedule [WSL:652] will be effective 02.20.17 for all new registrations on Table Funding loans and all Correspondent transactions where the appraisal is ordered through Gemstone.

The Appraisal Fee Screen's functionality at **Stearns** was improved to simplify the LE process. Its newest enhancement to SNAP 2.0 enables you to automatically pull the exact Appraisal Fee into your loan based on the state and appraisal type requested. No matrix or grids to review. To avoid delays, any LE generated on or after 2/10 will require the new appraisal fee to be disclosed on your LE. Visit SNAP 2.0 to reference the new appraisal fee schedule.

Effective for Insurance Applications received by MGIC on or after Feb. 15, 2017, Fannie Mae PIWs will be accepted as meeting the Underwriting Requirements when offered by Desktop Underwriter®(DU®) and exercised by the lender in accordance with requirements published in Fannie Mae's SEL-2016-08 and its Selling Guide. Further, MGIC will not rescind coverage on a loan with an exercised PIW based on a Material Value Variance, unless fraud, misrepresentation or inaccurate data were involved in obtaining the PIW or the PIW was not valid under the Fannie Mae Selling Guide.

Home values influenced by pot? According to a study from the University of Mississippi and software technology company FNC Inc., marijuana legalization could drive housing values up.

Capital markets

By now a March rate hike is nearly fully priced into the market. At least, if anyone is paying attention to what all the Fed officials are saying in their speeches it should be. In the last 48 hours, we've had additional comments by Governors Brainard and Powell expressing support for a 25-basis point rate hike at the March meeting. And to its credit the Fed has been relatively transparent in their various speeches. With this as a backdrop, the 10-year note's yield broke 2.50% for the first time since mid-February closing at 2.49%. (The 5-year note and agency MBS prices worsened about .125.)

The highlight of today's calendar will be the five scheduled Fed speakers, and we can all expect more hints at our economy doing well enough for the FOMC to vote for another increase. There aren't any big scheduled economic numbers coming out, merely some secondary or tertiary numbers like some Markit Services PMI and ISM Non-manufacturing PMI later in the morning. In the early going the 10-year is yielding 2.50% and agency MBS prices are approximately unchanged versus last night's close.

Jobs and Announcements

Turning to the job market, an established national mortgage lender is looking to acquire a wholesale sales team. The Company is well-capitalized and approved with all government sponsored agencies (Fannie, Freddie, Ginnie). If you're interested in having a confidential conversation, please e-mail me to relay your note; please specify the opportunity and excuse any delays due to travel.

In correspondent news, "Do you know what the 'Rule of 72' is? In the investment community, it is a simplified way to determine how long an investment will take to double, given a fixed annual rate of interest. Well, at The Money Source (TMS) they have their own 'Rule of 72.' After analyzing 32,891 loans recently purchased by TMS's correspondent lending division in 2016, an astonishing 72% of all these loans had a final price equal to original price! It is no surprise they are now one of the top 10 correspondent lenders for government loans in 2016. TMS also just rolled out its EASY bulk registration and Excel download PA tool to help your secondary team and back office save time and energy when delivering loans. To find out more about how you can deliver loans to an investor who doesn't nickel and dime you on the backend after loan delivery, email EVP of Correspondent Sales, Jeff Vanderluit."

In product news, "As lenders look to adopt a truly automated and more efficient process, the discovery process involves finding a technology that truly replaces the labor-intensive manual data entry, and not simply outsources the work to the lowest possible bidder. LoanBeam, a premier provider of mortgage technology solutions, will be in Las Vegas in Booth #711 of the Ellie Mae Experience 2017 to help lenders identify how to build a consistent, repeatable, transparent, and more profitable process. LoanBeam's automated income extraction and calculation is capable of extracting and calculating 100% of borrower's income through OCR technology refined over 14 years and millions of scanned income documents. With this type of refinement, LoanBeam accurately pulls out all relevant income data from any native PDF at a 99.7% accuracy the first time, with no human touch. For more information about how LoanBeam can improve your process flow, increase your efficiency, and deliver higher profitability per loan, visit our site.

And, "With the explosion of millennial buyers, managing your online reputation is more important than ever. History has taught us that if you are not managing what people see, your unhappy customers are all too happy to go to Google, Yelp and the CFPB and damage your reputation and create endless headaches. SocialSurvey turns this problem into a big opportunity and will spark a digital transformation for your company. If you want to learn how to get control of your online reputation, email SocialSurvey."

In personnel news, congrats to Steve Roberts! Utah's Veritas Funding announced Steve is its new president, and will oversee all aspects of sales and fulfillment at the company. Steve Roberts has been part of the Veritas Executive Team since 2013, serving most recently as the company's VP of Sales. Veritas Funding is a FNMA and FHLMC direct seller/servicer and a GNMA issuer, and it funded nearly $1.7 billion in residential loans in 2016.

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