Current Lending Environment; FHA, VA News; HELOC Resets Doing Well

By: Rob Chrisman | Tue, Jul 18 2017, 10:28 AM

How much would you pay to keep your job, or find a new one? Political analysts forecast that two wealthy contenders for the 2018 Illinois governor spot (yes, that Illinois, with its financial difficulties) will spend more than $300 million trying to be elected. Fiscal intelligence?

What's the environment like out there? Jeff Babcock, who heads up STRATMOR's M&A effort, writes, "In conversations with various lenders, I'm detecting a growing degree of pessimism about mortgage origination performance for the full year 2017. It seems that even the best-managed lenders are maintaining volumes at 2016 levels, but with lower margins. The average performers' **volume is down 10%** to maybe even 20%. While 2nd Quarter production accelerated after a slow 1st Quarter, several executives expressed concern that the 2nd Quarter volume may be their peak period for 2017. Some lenders are focused on recently-implemented staffing cuts considering below-average application pipelines. The roadblock appears to be a lack of housing inventory for sale, so purchase business naturally lags. At the same time, Rate/Term refinance volumes are fading. Lenders are not foreseeing positive market dynamics which might stimulate improved conditions for the last half of 2017. Mortgage banking is an inherently cyclical business, but hasn't really experienced a sustained downturn in 7 or 8 years."

Speaking of which, Fannie Mae's official take on things tells us that **affordability** is the housing market's greatest obstacle in 2017. Fannie Mae warns that political uncertainty around the Republican administration and rising affordability challenges could limit housing growth in 2017. Housing market conditions are expected to remain resilient in 2017, but policy uncertainty under Donald Trump and rising affordability challenges will put a cap on growth.

VA, FHA, and HELOC news

The CFPB is now proposing to **temporarily increase the threshold** to the origination of 500 home equity lines of credit in each of the two preceding calendar years. The temporary increase would apply for data collection years 2018 and 2019. The CFPB notes that through outreach it "has heard increasing concerns from community banks and credit unions that the challenges and costs of reporting open-end lending may be greater than the Bureau had estimated when adopting the 100-loan threshold. Additionally, the Bureau's analysis of more recent data suggests changes in open-end origination trends that may result in more institutions reporting open-end lines of credit than was initially estimated." The temporary increase will allow the CFPB to assess the appropriate threshold for smaller-volume lenders. Comments on the proposal are due by July 31, 2017. (Under rules scheduled to go into effect, credit unions and community banks are exempt from the requirement if they have originated fewer than 100 HELOCs during each of the previous two years.)

Remember many "experts" saying the U.S. was going to be hit by a **tidal wave of foreclosures?** (Private investors, loan modifications, and institutional buying of properties soaked up the supply.) And remember when "experts" said that HELOC resets were going to be a disaster? It turns out that rising home prices have saved the day and HELOC resets won't swamp the banking industry. The economy and jobs picture have improved and the housing market has recovered enough in recent years to give borrowers more flexibility. Specifically, it has become less common for mortgage borrowers to owe more than their house is worth.

Banks had originated or purchased large sums of home-equity lines of credit, or HELOCs, prior to 2008, often to borrowers with bad credit or living in overvalued homes. Typically, the borrowers could pay back only the interest for 10 years. In recent years, banks worried those borrowers wouldn't be able to keep up when the lines reset, which can raise monthly payments by hundreds of dollars. Now, more than halfway through the problem resets, banks are more optimistic. Borrowers with HELOCs taken out in early 2007 are falling behind at lower rates than the HELOCs that reset over the past three years, according to data provided to The Wall Street Journal by credit-reporting firm Equifax. About 3.8% of borrowers who signed up for HELOCs in early 2007 were a month or more late on their payments four months after the lines reset, according to Equifax, down from rates in the 4% range.

FHA published its quarterly Lender Insight newsletter. Issue #16 includes information on: Loan Review System (LRS) best practices and user resources; Working with Material Findings and Self Reports in LRS; and Submitting electronic case binders.

Effective immediately, **NewLeaf** Wholesale requires that all Loan Applications for refinance transactions taken on or after July 15, 2017 be disclosed on the Alternate LE and Alternate CD. The following loan transactions are exempt from the TRID Rule: Reverse Mortgage, HELOC, Mobile Home, and Dwelling not attached to land.

NewLeaf released the PACE guidelines for Conventional, FHA and VA products.

Mountain West Financial has updated its policies to better align with FHA, VA, and USDA guidelines regarding the PACE/HERO program. As of July 14th, a subordination agreement will no longer be required for PACE/HERO liens when originating an FHA, VA, or USDA loan. The PACE/HERO lien amount will also be excluded from the CLTV calculation. Conventional loans (both Fannie Mae and Freddie Mac) still require the PACE/HERO lien to be paid in full.

MWF's recent communication with HUD has prompted a Change in Calculation When Using an MCC on an FHA Loan Transaction. Effective immediately, when an MCC is being used on an FHA loan, the amount of the MCC needs to be added as income, rather than to offset the PITI. The amount of the MCC needs to be included in the income section of DU. When running the loan through DU, select the FNM Government MCC in the income section (dropdown box). This will ensure that the MCC is included as income.

As clarification, **M&T** is confirming that a rider must be used to amend security instruments for properties secured by leasehold estates. This requirement has been confirmed with FHA directly and this link was provided as a reference for lenders to obtain rider language compliant with FHA handbook requirements. When applicable, a leasehold rider must be present in the package submission to be eligible for whole loan purchase.

Mortgage Solutions Financial is offering a pricing incentive for purchase transactions with FHA, VA, and USDA financing. FICO ≥680; Loan amount < $250.000 (0.250). Loan amount ≥$250.000 (0.000). FICO 620-679; Loan amount < $250.000 (0.250) Loan amount ≥ $250.000 (0.250). FICO <620; Loan amount < $250.000 (0.000). Loan amount ≥ $250.000 (0.000).

Capital markets

Should we brace ourselves for whatever political theater occurs over the next month? Probably, as the economic announcements seem more or less coming in as expected. A lack of any health care bill is likely a bad sign for tax reform and probably increases concerns over the administration's ability to get the debt ceiling increased before the end of summer. As 2017 rolls on, it seems that the ability of Congress and the President to accomplish change, in any direction, is going to take much longer than previously thought.

Interest rates are range-bound. In late June, plenty of smart folks thought rates were heading lower, but then we had a selloff in European bonds and hawkish talk out of the European Central Bank and our Fed: rates shot up. But then rates came right back down again due to soft U.S data and Fed Chair Yellen's dovish comments.

Paul Jacobs writes, "It's increasingly clear that the economy's basic trajectory is the same as it's been over the past several years. This means no shocking growth + inflation event to blast rates higher. It also means we're not seeing weakness so profound that the Fed should shift course. So no 3.00% 10-year and no 2.00% 10-year. Scary thought for us trading types: This could go on for a long time."

The Federal Reserve Open Market Committee (FOMC) is concerned about the fact that inflation remains stubbornly below the target level. Suddenly plenty of folks are saying the FOMC won't raise short term rates before December, if even then. And so, we could see rates go up a little, then down a little, for months to come. Yesterday the 10-year improved about .125 and closed yielding 2.31%. Agency MBS prices didn't move much from Friday's closing levels.

Today we've seen June import & export prices (both -.2%, weak). Redbook Same-Store Sales Index will be released, along with the NAHB Housing Market Index for July to tell us what builders are seeing. The day begins with the U.S. 10-year yielding 2.30% and agency MBS prices better a smidge versus Monday's close.

Personnel, jobs, and products

In California, Western Bancorp is excited to welcome Tisha Hartman, EVP Operations and Credit to the Western Bancorp Family. With more than 22 years of experience in the mortgage industry. Tisha has a comprehensive understanding of regulatory compliance and multi-channel operational infrastructures. Possessing a wealth of knowledge and a demonstrated track record. Tisha is highly analytical and a strategic leader building successful operational experiences that puts our customers first.

"InHouseUSA brings a unique combination of in-depth understanding of the valuation industry and proprietary technology that constantly evolves to better serve our client needs. Would you like to be part of a fintech focused on managing and growing business in the mortgage industry? Do you have account management experience working with mortgage lenders, as well as the sales acumen and technical background? We are looking to add an Account Manager based in Irvine, CA who is responsible for prospecting, qualifying and generating new sales leads to support the sales team." To learn more about InHouseUSA, and this opportunity, contact Colleen Colman, HR Director.

Do you have ESP? No, not the mindreading ability but the ESP that stands for the Endeavor Select Program. This is the new offering from the wholesale lender Endeavor America that gives you premium pricing on select loans. Peer into the future of your business with ESP and get premium pricing and premium service on select loans. Endeavor America is Built for Brokers and their new FHA program is built to help grow your business. They've removed most overlays and made it easier for you to close your FHA loans. Endeavor is looking for experienced, national Account Executives to join its growing team. Contact Steve Curry (714-209-7810) for more information.

LBA Ware Founder Lori Brewer writes, "There's more to LO compensation than just a paycheck. Because of the close ties between origination volume and branch performance, LO comp data can provide key insights into profitability at the branch level...if you can get to it. With many lenders still managing compensation via spreadsheets, this data could exist across a handful of areas within the organization, creating walls where there should be windows and inhibiting visibility into individual branch performance. Having successfully deployed LBA Ware's CompenSafe platform to automatically calculate commissions and bonus compensation for all its retail branches, Houston-based Envoy Mortgage made the call to leverage CompenSafe as a comprehensive branch management tool. The result? Unparalleled access to branch performance metrics that empowered Envoy's branch managers and regional vice presidents to assess profitability and take corrective action at a branch level. To learn more about Envoy's expanded deployment of CompenSafe, download the free case study here."

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