Politics and The Tax Bill's Impact on Fannie/Freddie; Inflation and Housing

By: Rob Chrisman | Wed, Dec 20 2017, 9:36 AM

“Look, if a man says he will fix it, he will. There’s no need to remind him every six months.” Humor aside, it seems that Facebook is fixing things so that, in the UK, home loans are available through Facebook. Soon on Amazon?

The Politics of Freddie and Fannie

The Wall Street Journal reports that the Republican tax plan could trigger a roughly **$14 billion accounting loss** at Fannie Mae and Freddie Mac, leading to the first taxpayer-funded infusion since they became profitable firms in 2012. "At issue is an accounting change tied to lower corporate tax rates in the legislation, which requires the companies to recognize losses on around $45 billion in tax-deferred assets they hold. The decline in the tax rate to 21% from 35% will require the companies to write down the value of those assets, resulting in losses to the companies. Since they have little capital and must sweep their profits to the Treasury, they will likely need a new, one-time infusion from government coffers.

"Analysts estimate Fannie could require about $10 billion from Treasury and Freddie $4 billion. It is also possible Freddie, the smaller of the two companies, will have enough cash on hand to meet the added liability without a cash infusion. Company officials have said such a Treasury infusion wouldn't reflect the quality of their business, but rather the lack of capital to **absorb a big loss.**

Senators Bob Corker and Mark Warner are hoping to create credible competitors for Fannie and Freddie but luring more companies into the mortgage market; if no rivals emerge, Fannie and Freddie could remain **under government control.** Finding competitors for Freddie Mac and Fannie Mae? A cynic would say, "Good luck!" The plan would lower barriers to entry by removing some advantages Fannie and Freddie now possess. The goal is to create a system sturdy enough to withstand the failure of any one company and avoid a rehash of the taxpayer rescue that occurred during the 2008 financial crisis.

Can the Government shifts gears on Fannie & Freddie? Lawmakers in both parties and the Trump administration are negotiating overhauls of the two companies that could keep them at the center of the U.S. mortgage market for years to come, abandoning long-stalled proposals to wind them down.

The House Financial Services Committee recently advanced H.R. 4560, the GSE Jumpstart Reauthorization Act of 2017 to the full house for consideration. The proposed bill extends the GSE Jumpstart Act through January 1, 2019, and was approved 33-27. The **Jumpstart Act** prohibits the sale of the GSE preferred shares owned by the Treasury Department without congressional approval. The bill also permits the GSEs to suspend their payments into the Housing Trust Fund for any period when it is unable to make its full dividend payment to Treasury.

House Financial Services Committee Chairman Jeb Hensarling has indicated his willingness to negotiate on mortgage legislation, acknowledging that his Path Act lacks the support to move forward. A bipartisan bill would require him to give in to government guarantees on mortgage-backed securities, he says.

There is some good news for anyone hoping "private money" will come into the biz. The rise of private lending is reshaping the mortgage market. Traditional mortgage funders may be put off by properties that require extensive remodeling or structural repairs and business plans that depend on rezoning. That reluctance has created a growing national market for **private money lenders** and a lucrative opportunity for investors in private loan investment funds.

Capital Markets

Wells Fargo has published an analysis of their inflation forecast for 2018 which calls for **inflation to slowly strengthen** throughout the coming year. However, they present 5 categories that have the potential to alter their forecast for CPI: natural gas, dining out, medical care, rent, and hotel costs. The report cites the low natural gas storage levels along with a potential for a colder winter in the Northwest, Midwest and Northeast as having the potential to increase this component of CPI. In addition to being used for heating, natural gas is the number one fuel source for electric power plants.

When it comes to dining out, 20 states are set to increase the minimum wage in 2018. While minimum wage increases have been occurring regularly in recent years, food prices have been declining. Now that prices are beginning to rebound, there may be pressure to pass along the **increased costs to the consumer**. The cost of medical care continues to increase as a tight labor market creates upward pressure on care costs and a lack of generic prescription drugs coming to market in 2018 could push up drug prices.

On the flip side, they see **rent and hotel costs** as potentially having a **deflationary** effect the CPI forecast. Slowing rent growth and increasing vacancy rates may be a signal that multifamily housing has been overbuilt. Rent growth has outpaced income growth since 2009 and we may have reach a point where landlords cannot continue such increases until income growth catches up. Hotel room rates fell year over year in Q3 for the first time in 7 years and an increase in the number of rooms in planning and under construction could challenge prices as supply outpaces demand. While this component of CPI is small, it does have the potential to move the headline number. Overall, Wells sees these the potential risks of these 5 categories to their forecast as balanced.

Jobs and housing drive the economy, and yesterday we had some housing news. Building permits decreased to a seasonally adjusted annual rate of 1,298,000 and housing starts increased to a seasonally adjusted annual rate of 1,297,000 according to data released by HUD. Single family starts jumped to a seasonally adjusted annual rate of 930,000, the highest rate since September 2007. For perspective, the all-time high for single family starts was 1,823,000 in January 2006 and the average for this data series going back to 1959 is 1,019,000. Multi-family starts increased by 3,000 to 359,000, which is right near their long-term average of 360,000.

What should the average LO keep in mind? As BJ Necel points out, "The question is, 'Will the passage of the GOP tax bill will affect housing going forward? Many believe that this strength is going to continue into 2018, but I've seen a few articles suggesting that in the higher cost places, the tax bill could have an adverse effect since the interest deductions and the tax deductions are being limited. Coincidentally, these areas are also in wealthy democratic areas of the country (northeast, west coast). Politics aside, people will need to decide if living in a high value, high property tax area makes sense financially if the Senate passes the bill. It could also finally spur builders to actually **build some starter homes** since most the post-recession construction has been in luxury homes and luxury apartments."

Treasuries extended Monday's losses on Tuesday and the yield curve steepened as the 10-yr note finished the day yielding 2.46 percent. There wasn't a specific headline that acted as a catalyst for the selloff. This morning, after the passage by the House of Representatives of the tax bill, we've had the weekly MBA application survey from last week (apps -4.9%, -8% from a year ago, purchase apps -6%). Coming up is November's Existing Home Sales at 10AM ET. The day starts with the 10-year yielding 2.48% and agency MBS prices worse .125 versus last night's close - so yes, the yield curve is steepening.

Products

Floify, the mortgage automation app for modern LOs, has just announced its latest partnership and full integration with leading mortgage CRM, Jungo. This fresh integration provides users of Floify and Jungo with the ability to seamlessly sync loan data between the two systems, more effectively manage important borrower documents and correspondence, and stay completely connected to borrowers throughout the loan process - all from a secure central repository. Floify's Jungo announcement comes on the heels of other recent and exciting partnerships, including several MeridianLink credit reporting vendors, Equifax, Hippo Insurance, AccountChek, DocuSign, and more. If you've been considering joining more than 253,000 users already leveraging Floify to streamline the mortgage process, now is a great time to take advantage of this powerful solution. Experience how Floify has helped LOs close loans an average of 8x faster and increase annual loan volume by more than 11%.

Sell payment 'like a boss' with the Lakeview Agency No MI Program. Are you looking for a replacement for lost refinance business? This program focuses on getting borrowers a lower monthly payment with LTV's up to 97%. Lakeview Agency No MI Program is designed to get the lowest payment possible. Recent guideline updates now allow refinance transactions in addition to purchases. The Lakeview Agency No MI Program continues to have a positive impact on Loan Originators volume. Contact your Correspondent Business Development Director or Wholesale Account Executive to get your Loan Originators armed with something new to discuss with their Realtor partners in 2018! After all, it's all about the payment.

Sierra Pacific Mortgage continues to provide resources to its Retail, Wholesale and Non-Delegated partners. In anticipation of introducing renovation home loans, Sierra Pacific has taken the time to hire an entire Renovation Department, led by Michael Brooks, to provide the utmost care for these focused loan products. Michael has been specializing in renovation home loans for nearly 15 years. The company will be launching renovation loans, including the FHA 203(k) Limited and Standard, in January 2018. Reach out to your Sierra Pacific contact to learn more.

Caliber Home Loans, Inc., America's fastest growing mortgage company, is excited to announce Caliber Reconnect, a new program designed to help mortgage brokers stay connected with borrowers. Caliber Reconnect alerts subscribers when borrowers engage in meaningful activity. For example, Caliber will notify brokers when a borrower lists their home on the market and can even identify borrowers who may be exploring other lender options. Users can subscribe to Caliber Reconnect free-of-charge, without any obligations. Caliber is the second largest wholesale lender in the country-and the only one that's capable of leveraging its full-servicing department to add value to its broker network. For information regarding Caliber Reconnect, or if you're interested in joining Caliber Home Loans, Inc. as an approved broker, reach out to NewClientInquiry@CaliberHomeLoans.com.

Jobs

loanDepot enjoyed a banner year in new product development, technology enrichment, and both production and employee growth in 2018. The company broke new ground by launching over 100+ new loan programs, invested over $80 million in proprietary technology and partnered with some fellow industry disruptors OJO Labs and OfferPad. These advancements and alliances have their sights set on further revolutionizing and streamlining the home buying experience of tomorrow. As a forward-thinking entrepreneurial lender, loanDepot is working to evolve its platform to embrace the way Americans will shop for a mortgage, while never losing sight of the core of their business: delivering a premier platform for their employees to succeed. Please contact Shane Stanton to learn more about what sets loanDepot apart or check out their Career page."

Envoy Mortgage is ending 2017 on a high note. While some lenders may have seen downturns in business this year, this national mortgage lender sustained its growth with over 150 local branches nationwide. In 2017, Envoy launched several marketing and technology-driven platforms designed to help loan originators and its Realtor partners reach a growing number of diverse markets. Envoy began a substantial digital transformation this year, from launching a search engine-friendly corporate website, along with branch and individual loan originator pages, to a robust testimonial and online review platform for its loan originators. Advancing the transformation, a new mobile app was introduced last month giving their loan originators a powerful way to exponentially expand their referrals. The company also recently launched Envoy EDGE, a powerful new marketing and technology suite to help increase new business and attract potential employees. Poised to have 2018 be another year of substantial growth and innovation, Envoy is a company to watch. To learn more about Envoy, contact recruiting@envoymortgage.com.

"If you're reading this, you are most likely in the top group of mortgage originators in the nation. That means you know how to see beyond the noise and hype and get to the deal. So do we. Assurance Financial is quietly growing into a nationwide leader in lending. Yes, our compensation structure is excellent - better than most. And yes, our back-office support is second to none - 16 years of working, changing, and perfecting it. And yes, we have a full-service marketing team at your disposal with a budget and commitment to helping you do what you do best. And yes, we have an unwavering mission to close loans on time, every time! We have immediate openings for proven, successful producing Branch Managers and MLOs in Wilmington, Charlotte, Austin, and many other branch locations throughout the country, as well as an Eastern Regional Production Manager for our expanding East Coast operations. Are you the one? For immediate consideration and more information, contact Paul Peters, CMB, Assurance Financial, Recruiting Manager (225-239-7948)."

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