

Loan Defect Report; Shutdown and Possible Impact on Lenders; Verus Non-QM Deal

By: Rob Chrisman | Fri, Dec 21 2018, 9:06 AM

Welcome to the Winter Solstice with more daylight in the Northern Hemisphere every day for the next six months. Today is definitely greeted by residents of Fairbanks, Alaska where the sun sets at 2:40 in the afternoon (with a high temperature of -14). More sunlight isn't all that's going to be happening. According to [Private Communities Registry](#) (PCR), an online resource for real estate shoppers interested in "amenity-rich, master-planned lifestyle communities," buyers do their most serious research for a second home in the winter, [right after Christmas](#). What else? Oh yeah, another potential government shut down. We've been through this before, right? Caribou and hibernating animals will have to leave the national parks. Lots more below.

Shut Down

A shutdown would **further reduce confidence in government?** Guess what? It can't go much lower. Once again, we can all follow the inability of our government to come to a decision, or an agreement, about its fiscal responsibility. What happens to the process of making a home loan if the government actually shuts down? Too bad the government doesn't produce a single source, but here is a good start: [A list of contingency plans from 2015](#).

Because Congress has already approved a portion of the various appropriations bills, only certain agencies would be impacted by a shutdown, such as HUD (including FHA and Ginnie Mae), USDA (including RHS), and Treasury (including the IRS). Authorization for the National Flood Insurance Program is also set to expire at this deadline.

If the government shuts down today, every non-essential government employee should wake up really late and smile. After all, they are lucky. When private companies have budget problems, the people on the non-essential worker list don't get a three-day weekend. They get a six-month 'vacation' of sending out resumes, eating Ramen noodles, worrying about their mortgages, and filling out applications. In comparison, the furloughed government workers will have some time to enjoy the holidays in D.C.

The mainstream press won't let this happen, but what if the U.S. government shut down and no one noticed? Even worse (or better, depending on one's point of view), what if all federal workers went on furlough and the public realized there were benefits, not just costs, to smaller government? Essential services will be maintained, including the distribution of Social Security checks. Employees involved in the military, national security and law enforcement will stay on the job. Non-essential workers will be furloughed.

Since it doesn't rely on Congressional funds, the Federal Reserve (central bank) **would remain open for business** as usual, with normal staffing levels. The Fed would therefore be able to continue with its day-to-day operations. The SEC is expected to continue operations as well. But lenders and vendors were out warning originators about possibilities. Not so with the IRS or SSA— open but good luck avoiding delays. NMLS offices will probably remain open during any government shutdown. The Federal Home Loan Banks? Open.

HUD has [a plan](#). Reportedly the FHA will be able to endorse single family loans, with the exception of Home Equity Conversion Mortgages (HECMs) and Title I loans, during a shutdown. It is said that the VA will continue business as usual during a shutdown. But any pending Case Number, LDP, GSA, CAIIRS, 4506T, and SSI Validation be ordered as soon as possible. If a shutdown does occur, FHA Connection and VA Information Portal may or may not be available, 4506T, IRS Transcript processing and SSI Validation will not be available.

MBA has created a [guide](#) should a partial Federal government shutdown take place on December 22.

Capital Markets

Some say non-QM lending is doing just fine. Critics say its volume is a tiny percentage of overall originations. This week correspondent investor Verus Mortgage Capital (VMC) completed its seventh rated RMBS transaction for \$442 million, the **second largest in VMC history**, and its fourth securitization this year. Rated by S&P Global Ratings and [Morningstar](#), the transaction included 809 owner occupied non-QM loans as well as non-owner occupied loans from 61 lenders. VMC is backed by Invictus Capital Partners. VMC purchases loans in all 50 states and the District of Columbia and focuses solely on the non-agency market. VMC has purchased in excess of \$3 billion in expanded, non-agency loans since its inception. In addition, through its affiliates, VMC has completed seven rated securitizations.

The U.S. 10-year closed Thursday +1bp to 2.79%, as we saw further yield-curve flattening with markets **digesting Wednesday's FOMC statement** and preparing for a potential U.S. government shutdown as President Trump indicated he would not sign the stop-gap bill that

passed through the Senate, which would have pushed the shutdown date back to February 8. Media outlets had a field day with the resignation of Defense Secretary Jim Mattis as speculation abounded regarding the future of the Trump administration. Separately, House Speaker Paul Ryan said that President Trump indicated he will not sign a stopgap funding bill that does not include funding for the border wall.

Internationally, the Bank of Japan made no changes to its policy stance; the Hong Kong Monetary Authority raised its base rate by 25 basis points to 2.75%, as expected; Sweden's Riksbank unexpectedly hiked its repurchase rate by 25 basis points to -0.25%, noting that economic activity is strong and inflation is expected to remain close to target in the near term; the Bank of England voted unanimously to keep its key rate and purchase program at their respective 0.75% and GBP435 billion; and Banxico raised its overnight rate by 25 basis points to 8.25%, as expected.

Today's heavy economic calendar kicked off with updates on Durable Goods and the final look at 3rd quarter GDP. GDP clocked in at 3.4%, lower than expected, but it is old news. Durable Goods were +.8%, less than forecast with plenty of negative numbers "under the headline." Coming up is Personal Consumption Expenditures (PCE). The core PCE deflator is forecast unchanged at 1.5%. November personal income expected increasing 0.2% MoM with consumption rising 0.3% and the Core PCE Price Index rising 0.2% MoM and 1.9% YoY (versus 1.8% previously). The University of Michigan Sentiment Index, also ahead, is seen declining at 10:00am, as is the KC Fed manufacturing print 30 minutes later. We begin today with the 10-year yielding 2.79% and Agency MBS prices better by .125 versus Thursday's close.

Lender Products and Services

If this challenging market environment has you searching for answers on improving your profitability and competitive position, why not tap into insightful benchmarking that is trusted by the industry and is based on current transaction level data specific by channel? ICON's LendersBenchmark™ analytics platform delivers the actionable insights you need while there is still time to impact your performance. Insights on your competitive position and relative results in the marketplace are easily gained across product, risk and geographic segments by benchmarking your production and pricing versus the market. Focus less on trying to access and process data for reporting and spend more time understanding the actions you can take to positively impact your performance with [LendersBenchmark™](#). Contact our VP of Client Success, John Sayre, to learn more.

Don Calcaterra, Jr., VP of the [Community Home Lenders Association \(CHLA\)](#), is testifying at today's House Financial Services Committee hearing on GSE reform. CHLA will present its views from the small IMB perspective: Maintaining cash window and small/mid-size lender securitization execution and prohibiting volume discounts by guarantors and securitizers. CHLA will also raise concerns about proposals to use GNMA as the vehicle for what is currently the entire GSE market. This comes in the wake of reports that GNMA is curtailing small IMB commitment authority requests, raising net worth requirements beyond posted requirements, and taking other actions that could curtail smaller issuer participation.

CHLA is warning of small issuer scrutiny that appears disproportionate to credit risk, at a time when GNMA is making \$1.5 billion in annual net profits. CHLA expects to issue a report on GNMA in January, with recommendations to preserve full participation of smaller IMBs as GNMA issuers.

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ARMCO Q2 2018 QC Trends Report: Defect Trends Indicate Continued Lender Downsizing - "In Q2 2018, we saw continued increases in defects typically resulting from downsizing and understaffing," said Phil McCall, president and COO of ARMCO. "This seems to indicate that many lenders are still responding to the reduction in business and compressed margins with personnel changes, even in a purchase-dominated market." The report's noteworthy findings for Q2 2018 include: A significant quarter-over-quarter increase (23.8% over Q1 2018) in defects related to Loan Package Documentation, which are often associated with downsizing and understaffing; the majority of defects were attributed to the Income/Employment category; core underwriting and eligibility issues were the most frequent cause of critical defects; defects attributed to Borrower and Mortgage Eligibility increased by roughly 70%, from 6.57% in Q1 2018 to 11.36%. [READ THE FULL REPORT](#)

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have a digital mortgage if you still have to think and ask dozens more questions and figure out what you need for documentation? Schedule a live webinar with their team and you will see why PerfectLO is the smartest and best POS for mortgage on the market. They speak 'mortgage' not <code>. Multi-language, upload, realtor interaction, SMS dashboard updates and more."

Jobs and New Roles

Mountain West Financial continues to expand its footprint in Wholesale. "We are pleased to announce a rare opportunity, as we are currently looking for top sales professionals with 3-5 years' experience that have established, quality broker relationships to join our Elite Wholesale Team. In addition to our large variety of lending options, we are industry leaders in the affordable housing arena. There is a reason we have been voted a Top Workplace 4 years running; we excel in creating relationships. If you are interested in being a part of the Mountain West family, send your resume to Laura Martell."

"Angel Oak Home Loans is proud of our phenomenal growth and success due to exceptional customer service, commitment to clients, and an innovative line of structured portfolio loans. Our products are ideal for buyer's diverse loan needs such as an in-house Jumbo program, Asset Qualifier, and Bank Statement among others. We help self-employed, those with a past credit event, and investors to name a few. Success is the goal for all of our partners whether you are a client, buyer, or loan officer. Loan officers receive internal leads to help develop and grow their business. If you are interested in joining our team of experts at Angel Oak Home Loans, please contact Lee Williamson.

Congrats to Maria Vergara who has joined Fannie Mae and will be overseeing Fannie's affinity and industry partner relationships. Maria has over twenty years of experience and in-depth knowledge of the financial, investment and housing industries while serving in senior management roles at organizations such as NAHREP, CitiMortgage Prudential/Wachovia, and Edward Jones. (Maria is taking the place of fabled long-time vet Beth Millstein who is retiring at the end of March.)

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