FHA and VA Changes; Agency Deals Continue to Share Risk

By: Rob Chrisman | Fri, Dec 28 2018, 9:31 AM

“Rob, should we be staffing up for another refi boom?” It seems like most lenders are pausing during the holidays to take stock of current staffing levels before adjusting them one way or another. Or running “what if” scenarios through someone like Riivos. In terms of the pool of eligible loans to refinance, who’s left out there? The loans you originated since September? If their property values haven’t slid, watch out for early pay-off penalties from investors! In terms of much older loans, most analysts will tell you that the amount of “refinance-able” mortgages just isn't very big, and that the vast majority of every loan over 5.5% hasn't been refinanced simply because for one reason or another, the borrower can't. (By the way, Freddie Mac reported the 30-year fixed mortgage rate fell last week to 4.55%, its lowest level since early September. The rate is down 39bp from the 2018 high set in the first half of November but are 60bp higher from the 3.95% low from a year ago.)

Automation Product

Looking for ways to grow your business? Freddie Mac is collaborating with clients to deliver automation and insights that provide a competitive edge. Cut back on documentation and reduce time to close with Loan Product Advisor® automated income and asset assessment capabilities. Save borrowers time and money with ACE appraisal waivers, now available for certain condo unit loans. Grow your condo business with Freddie Mac’s unit-level condo exception tool, Condo Project AdvisorSM. Get greater efficiency with simpler collateral QC and underwriting in Loan Collateral Advisor® Get The Freddie EdgeSM.

FHA and VA Changes

FHA posted the following: For appraisals processed under the Fully-Automated Protocols (initial appraisal logged in FHAC November 30, 2018, and thereafter), once the appraisal logging is completed, the lender will immediately receive one of the following messages on the FHAC Logging Screen: A: SECOND APPRAISAL IS NOT REQUIRED. B: PROPERTY SUBJECT TO HECM APPRAISAL RULE SECOND APPRAISAL REQUIRED. (see Fully-Automated Protocols in Mortgagee Letter 18-06). Depending on the message received, the lender should proceed accordingly. No further action is required if message A is received. However, if message B is received, the lender must obtain and upload a second appraisal into the Appraisal Slot 2 position. View the FHA Resource Center for questions or additional information about FHA’s new automated appraisal logging procedures for HECMs.

Beginning December 24, Wells Fargo Funding sellers could take down Best Effort and Mandatory Commitments at the 2019 effective loan limits. VA Loans at the 2019 loan limits can be delivered no earlier than January 2, 2019. VA loans using the 2019 effective loan limits must meet all VA and Wells Fargo Funding requirements. The FHA loan limits are effective with case numbers assigned on or after January 1, 2019. Wells Fargo sellers can take down Best Effort and Mandatory Commitments at the 2019 limits beginning January 2, 2019.

loanDepot Wholesale recent updates include information on automation of interim disclosures and loan limit increases for FHA and VA loans.

The Fifth Third Correspondent LendingSpace portal will be updated with the **new 2019 loan limits for conventional products** effective Friday December 21st and for FHA products on the weekend of December 29th.

PRMG announced the release of its WHEDA FHA and Conventional Down Payment Assistance Programs for the Wholesale Channel. Watch its pre-recorded training webinar for details.

The Plaza Home Mortgage BREEZE loan origination system now gives wholesale mortgage brokers a new option in generating both **required disclosures and the LE at the point of sale.** The disclosures that will be sent to the borrower include Broker state and federal disclosures and Plaza lender state and federal disclosures, as well as a Fannie Mae 1003 Application. For FHA and VA loans, the 92900-A or 26-1802a forms and other required program disclosures will be included. Loan originators will have the option of electronically signing the Fannie Mae 1003 and other forms that require their signatures. Once the disclosures and LE are received by the borrowers, they can consent and sign them electronically, and notifications will automatically be sent via email keeping the originator informed at each step. All documents are then automatically stored in BREEZE’s imaging system where originators can access and save for their record. As always, mortgage brokers can continue to use their own systems to prepare disclosures and the LE or submit the loan to Plaza which will create and issue the LE to the borrower.

The FHA Connection's Application Coordinator **User Identification (ID) assignment process has been automated** as of November 9th. FHA has discontinued mailing paper documentation to a mortgagee's chief executive officer when a new user ID has been assigned to one of their employees. Notifications will be delivered via e-mail to the mortgagee's administrative contact assigned in FHA's Lender Electronic Assessment Portal (LEAP) system.

The Veterans Administration generally requires an annual fee of $100 per third party originator for each entity that sponsors their origination. Beginning on Veterans day, American Financial Resources (AFR) will now pay this fee on behalf of its brokers and correspondents on AFR-related VA loans.

PRMG posted its Product Update 18-57 which includes updates to Agency Fixed, DU Refi Plus, Home Possible, FHA and VA products, Silver Medal, Ruby Jumbo, Niche products, Expanded Access and all Housing Authority programs.

loanDepot's LIBOR 5/1 ARM caps for the Conforming and High Balance ARM - DU programs are changing from 5/2/5 to 2/2/5. This change represents a positive for Borrowers in an increasing rate environment. loanDepot has also expanded its CMT 5/1 ARM offering to include the FHA 203(K) Standard Program.

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Plaza Home Mortgage has updated its FHA FICO price adjustments with most LLPAs improving. There are improved FHA price adjustments for FICOs under 680: FICOs from 580 – 619 have improved by 1.75, FICOs 620 – 659 improved by .250. These improvements apply to all FHA programs. Improvements for FHA FICOs > 720 (excludes 203k), have been reduced by .250 or .500 depending on FICO.

PennyMac Correspondent Group has posted an announcement on the Release of Non-Delegated FHA and Temp Buydowns.

Capital Markets

Why do capital markets matter? In short, efficient markets are essential to facilitate investment and capital formation that grow and sustain a vibrant economy.

In the secondary markets the Agencies are doing deals, laying groundwork for a single security, and transferring credit risk away from taxpayers to willing buyers. MLOs should know that all these help rates for their borrowers. And next year the secondary markets, and with them the primary markets as beneficiaries, can look forward to the single security!

On October 31, Fannie Mae priced the first benchmark Credit Risk Transfer transaction utilizing a REMIC structure (CAS Series 2018-R07), a $922 million note offering that represents Fannie Mae's inaugural CAS REMIC transaction. This is the **seventh and final credit-risk sharing transaction of 2018** under the Connecticut Avenue Securities (CAS) program, Fannie Mae's benchmark issuance program designed to share credit risk on its single-family conventional guaranty book of business; the most actively traded credit-risk transfer product in the market. Enhancements to the program allow CAS notes to be issued as REMICs, advancing Fannie Mae's goal to support the long-term growth of the program by making the product more attractive to market participants, including real estate investment trust (REIT) investors and international investors. Going forward, all CAS offerings will be issued as CAS REMICs making the offering more attractive to a broader range of investors over the long run. The reference pool for CAS Series 2018-R07 consists of more than 98,000 single-family mortgage loans with an outstanding unpaid principal balance of approximately $24.3 billion. With the completion of this transaction, Fannie Mae will have brought 30 CAS deals to market since the program began, issued $36 billion in notes, and transferred a portion of the credit risk to private investors on over $1 trillion in single-family mortgage loans as part of the CAS program.

On October 31, Freddie Mac priced a new offering of $1.01 billion Structured Pass-Through Certificates (K Certificates) **backed by floating-rate multifamily mortgages with seven-year terms,** expected to settle on or about November 13, 2018. The K-F53 Certificates will not be rated, and will include one senior principal and interest class, one interest-only class, and one class entitled to static prepayment premiums. The K-F53 Certificates are backed by corresponding classes issued by the FREMF 2018-KF53 Mortgage Trust (KF53 Trust) and guaranteed by Freddie Mac. The KF53 Trust will also issue certificates consisting of the Class B, C and R Certificates, which will be subordinate to the classes backing the K-F53 Certificates and will not be guaranteed by Freddie Mac. K-Deals are part of the company's business strategy to transfer a portion of the risk of losses away from taxpayers and to private investors who purchase the unguaranteed subordinate bonds, featuring a wide range of investor options with stable cash flows and structured credit enhancement.

On October 23, Freddie Mac prices a $436 million offering of Structured Pass-Through Certificates backed by multifamily loans sold to a third party and securitized by Freddie Mac. The class A offering of the K-I03 Certificates have a weighted average life of 2.07 years, a discount margin of 25, a coupon of 1 month LIBOR +25, and are expected to settle on or about October 31, 2018. K-Deals are part of the company's business strategy to transfer a portion of the risk of losses away from taxpayers and to private investors who purchase the unguaranteed subordinate bonds.

On October 26, Freddie priced a $1.1 billion K-Deal (K-082) of multifamily mortgage-backed securities. The K-82 Trust will also issue certificates consisting of the Class X2-A, Class X2-B, Class B, Class C, Class D, and Class R Certificates, which will not be guaranteed by Freddie Mac and will not back any class of K-082 Certificates. There are four offered classes, with class A-1, A-2, and A-M all having a 3.92% coupon and yields ranging from 3.56% to 3.83%. The dollar price of the A-1 class is $102.08, A-2 is $101.19, and A-M is $100.70. There is a $187 million X3 class, which has a coupon of 2.29%, a yield of 5.72%, and a dollar price of $16.62.

On October25, Fannie Mae priced its second issuance of Secured Overnight Financing Rate (SOFR) securities, issuing $2 billion of 6-month, $1.5 billion of 12-month, and $1.5 billion of 18-month floating-rate corporate debt. Building on its first SOFR issuance in July 2018, this second transaction was designed to provide additional points on the SOFR curve and serve as a benchmark for market participants. With six maturity points, total orders exceeded $18 billion from a broad array of investors, showing momentum in the SOFR market for floating-rate securities, including S&P’s confirmation of SOFR as an anchor rate for S&P-rated money market funds; the Federal Reserve’s announcement that enables issuers to shorten the lockout period ahead of coupon payments for some floating-rate securities to two days; and additional SOFR transactions from a variety of issuers.

On November 19, Freddie Mac priced a new offering of $1.2 billion in multifamily mortgage-backed Structured Pass-Through K-Certificates, expected to settle on or about November 27, 2018.The K-084 Certificates are backed by corresponding classes issued by the FREMF 2018-K84 Mortgage Trust (K-84 Trust) and guaranteed by Freddie Mac. The K-84 Trust will also issue certificates consisting of the Class X2-A, Class X2-B, Class B, Class C, Class D and Class R Certificates, which will not be guaranteed by Freddie Mac and will not back any class of K-084 Certificates. K-Deals are part of the company’s business strategy to transfer a portion of the risk of losses away from taxpayers and to private investors who purchase the unguaranteed subordinate bonds. K Certificates typically feature a wide range of investor options with stable cash flows and structured credit enhancement.

Rate-wise yesterday, it was a decent day for anyone waiting to lock as MBS pretty much rallied back to Monday’s levels and the 10-year closed at 2.74%. The U.S. Treasury’s auction of $32 billion in 7-yr notes was “solid,” a good indicator of demand, and initial jobless claims continue to print at low levels that don't suggest any meaningful softening has occurred in the labor market despite the concerns about a slower growth outlook. The Conference Board's Consumer Confidence Index decreased in December good November, and the numbers indicate a growing belief that the **pace of economic growth will decelerate in the first half of 2019**. The FHFA Housing Price Index rose 0.3% in October after increasing 0.2% in September. Slow and steady!

But it’s a global market, and our rates are influenced by what is happening elsewhere. There are growing expectations that the Bank of Japan to ease monetary policy in 2019 if equities remain weak. Despite, once again, growing tensions, mid-level talks between trade officials from China and the United States are expected to take place during the week of January 7.

This morning, Advanced trade indicators for November were scheduled to kick off this morning’s calendar but due to the government shutdown, the report has been delayed. But we’ll have Chicago PMI for December at 9:45am ET (expected to decline), Pending Home Sales Index for November at 10am ET (projected to increase). Friday begins with rates little changed from last night’s close: the 10-year is yielding 2.75% and Agency MBS prices are better by a few ticks.

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