Capital Markets; Disclosure, FHA Products; Primer on Servicing Values

By: Rob Chrisman | Thu, Apr 4 2019, 8:56 AM

NASA has taken another step to make interplanetary living a reality, naming the top three finalists for its ongoing 3D-Printed Habitat Challenge. I am sure building something on the moon or Mars is expensive, and the taxpayer foots the bill. But here on earth, how do small and mid-sized builders obtain financing for their projects? Here's a list.

Lender Products and Services

Altisource® recently launched its FHA bundled product, offering comprehensive and customized asset management services utilizing the Altisource suite of servicing products. At the center of this offering is an FHA modeling tool, which allows servicers to accurately project costs and determine marketing strategy to reduce losses on properties. Features include actionable data and insights that empower decision-making for the entire asset portfolio and end-to-end data transparency throughout the CWCOT asset disposition process, with customizable Field services triggering the analysis model at key points. The FHA bundled product is a better solution for any size FHA servicer needing to support and prepare for a growing FHA portfolio. Download this FHA Bundled Product brochure to learn more.

SimpleNexus has just launched its new disclosure solution, delivering a full end to end digital mortgage solution for lenders. This new disclosure toolset seamlessly presents disclosure packages and enables borrowers and loan originators to eSign in the mobile app or online and includes automatic disclosure tracking within the LOS. Watch our new Disclosure Video and get a demo for SimpleNexus Disclosures.

Name Change

Colorado State Bank & Trust Mortgage and Bank of Arizona Mortgage have officially changed their name to BOK Financial Mortgage, in order to better align themselves as a regional banking presence. The recent acquisition of CoBiz Financial (Colorado Business Bank/Arizona Business Bank), represented a unique opportunity to unite under the BOK Financial brand. "When it comes to furthering our state, it's not just business, it's personal. This is the force behind merging two of Colorado and Arizona's most trusted banks – to give you a financial partner that not only offers local decision making but the regional power and strength to keep pace with the growth in these two states."

Servicing Primer

The industry is still grappling with the servicing valuations forced on us by Basel III. But let's take a basic look on how servicing is valued – it is not quite as simple as a company telling auditors and regulators the value. Everyone says, "Oh, Fannie Freddie .250 servicing is trading at a 4 multiple, which means 4 (multiple) x.250 (servicing fee) = 1 point." Or put another way, if a FNMA loan that has 25 bps of interest, its value can be expressed as a 4 multiple or 100 bps. But what makes for that "4" servicing multiple? It can simplify things to think of that number as the number of years, or "duration" the asset takes to pay off. First, some background.

A mortgage servicing right (MSR) is a strip of interest from the loan, and based on accounting rules, becomes an asset when a mortgage loan is sold servicing retained. The strip of interest is paid to the servicer to perform the servicing duties based on the investor guidelines, namely, the collection of payments on the mortgage loan and the distribution of these payments to the appropriate authority.

The fair value of the MSR asset is driven primarily by the strip of interest. We know that as interest rates increase, refinance activity goes down, thus making the value of servicing portfolios increase as the duration of the servicing assets (the number of months the servicer will be able to collect payments) increase. As servicing values move directionally with interest rates, if interest rates decrease, the value of the servicing portfolio decreases, as more loans are likely to be refinanced and paid off.

The value of servicing is the net present value of the servicing revenue components less expenses, adjusted for expected prepayment speeds and is expressed as either a multiple of the service fee or as a percentage of the UPB. Prepay rate (remember, this is an estimate that is subjected to shock analysis of a specific portfolio), the inverse of the assumed life of the asset (in years), is the biggest driver of the multiple, and that figure is based primarily off interest rate. For this reason, prepayment models **require constant monitoring and calibration.**

Let's say the borrower pays a 4.75% interest rate, and that loan is assigned to a 4.00% coupon, the gross servicing fee would be the difference, or 0.750%. GSEs charge a Guarantee Fee to ensure the value of the loan in case of default. So if this Gfee was 0.500%, the service fee would be the remainder, or 0.250%. But now how to determine the multiple to get to that 100bps of value in this example.

Simply put, if you wanted to calculate the multiple figure yourself, you would do an NPV calculation using the prepayment rate as your discount rate and the sum of your net values between servicing revenue and expenses to arrive at a fair value. If you then took that fair value and divided it by the loan amount and that figure by the servicing fee, it would give you a multiple. Now remember, this is a trial and error process that is more useful for shock analysis than exact determination. As such, valuation of the MSR portfolio policies and procedures for the establishment of the fair value and should include a quarterly review of valuations as they compare to external market data, market trades, third party valuations, reconciliation of expected versus actual cash flows, etc. **This is why the companies doing MSR valuations are able to stay in busines**s: They maintain much more historical data than one IMB could obtain, and thus provide more accurate predictions.

Capital Markets

Compass Analytics, a leading provider of mortgage pricing and risk management analytics to financial institutions nationwide, is actively seeking an experienced capital markets candidate in midtown New York to serve as Pipeline Risk Desk Manager. This person will lead a team of account managers and contribute to the further development and delivery of our industry leading technology. Candidates must possess hands-on experience in hedging pipelines, trading, pull-through modeling, best execution, profit/loss and position reconciliation, rate sheet creation, margin management strategies and PPE solutions. The role also the requires the ability to engage with multiple clients and lead account managers in delivering exemplary customer service. For more information about this unique opportunity, please click here to see a detailed job description and to submit a resume.

The first quarter of 2019 has come to a close and by most accounts economic activity has been soft compared to last couple of quarters. Expectations for declining growth in the first quarter were only reinforced with the downward revision of fourth quarter GDP to +2.2 percent. **Many expect the growth in the first quarter to dip below the 2 percent mark** due to the effects of the government shutdown, weaker global economic conditions, as well as geopolitical uncertainty surrounding trade with China and Brexit. U.S. income growth rose a mere 0.2 percent in February after a 0.1 percent decline in January but consumer confidence remains at high levels. Inflation continues to remain near the Fed’s target as prices. The soft economic news has caused the yield on the 10-year Treasury note to fall below the yield on the three-month T-bill. While this has stoked headlines around a potential recession, it is important to keep in mind that not every inverted yield curve has been followed by a recession. The current softness is following a relatively strong position where high employment growth and low unemployment have strengthened household balance sheets.

Looking at rates, driven by the bond markets, Wednesday saw a “curve steepening” action for Treasuries, including the 10-year closing +4 bps to 2.52%, after Treasury futures slumped Tuesday evening in response to an official at the U.S. Chamber of Commerce **saying trade talks with China are entering an "end-game stage."** The same official said that 90% of the deal is done, but the remaining ten percent is the hardest part. Trade talks, better than expected service PMIs and a potential path forward in Brexit all helped move Treasuries and agency MBS. European Commission President Jean-Claude Juncker said the EU will not grant a short-term extension of Article 50 if the British Parliament does not approve Prime Minister May's Brexit deal before the next meeting of EU leaders on April 10.

Today's calendar got under way with a couple labor market indicators ahead of tomorrow's payrolls report. First up were March layoffs from Challenger, Gray and (60k). We have also had weekly jobless claims for the week ending March 30 (202k, less than expected and the lowest since 1969). Today also sees three scheduled Fed presidents speaking, New York's Williams, Cleveland's Mester and Philadelphia's Harker. We begin today with agency MBS prices better by a few ticks and the 10-year yielding 2.51%.

Employment

Producers at Caliber Home Loans, Inc. don’t have to say good-bye to their borrowers at closing because in addition to being one of the nation’s fastest-growing originators, Caliber services a majority of the loans it closes. This provides Caliber Loan Consultants and their borrowers with a major advantage over other originators, especially in today’s refinance market. To help draw refinance-eligible Caliber customers back to its originating Loan Consultant, they deploy credit triggers and personalize mortgage statements. These tactics give Caliber producers opportunities to retain pasts clients and keep the originating Loan Consultant top-of-mind. Caliber’s lender for life strategy is simply unmatched in the competition. Top-producing Loan Consultants who are interested in working for a leading lender that’s prepared to succeed in any market condition should email Jeremy DeRosa and can visit www.joincalibernow.com.

SocialSurvey, the leader in online presence and reputation management for the mortgage industry, is continuing its impressive growth across multiple verticals but still has a key role to fill for its mortgage team; the Regional VP of Business Development for the Southwest. If you have a proven track record of selling technology into the mortgage industry and reside in the southwest region, this is a unique opportunity to be part of an amazing growth story. Having recently closed their Series-A round funding, SocialSurvey is just getting started. Make sure you don’t miss out, send a confidential resume and contact info to nabby@socialsurvey.com to learn more.

On Q Financial has launched the industry's first fully operational Spanish, Russian, Simplified Chinese, and Vietnamese websites complete with mortgage calculators and videos. Critical loan documents including Loan Estimates and Closing Disclosures are available in all four languages to support On Q's Originators as they create trust and transparency for their clients. At On Q, The Dream is Inclusive™. If you're ready to join the most innovative and passionate team in the industry, please contact Nick Suwanvichit or visit On Q Financial Careers.

Are you a retail loan originator, retail branch manager, direct lender or banker? Tired of losing clients and the up and downs at your retail shop? Have you considered making the move from retail to independent? BeAMortgageBroker.com can help. We are your single, no-cost source for the information, support and tools you need to become an independent mortgage broker. We can help you take the next steps toward opening your own mortgage broker shop or help match you with an independent mortgage broker in your area. Call us for a free, confidential consultation and continued support throughout the process at 800.229.6342 or learn more at BeAMortgageBroker.com.

"Planet Home Lending is excited to share that in Q1 2019, we experienced 13% growth in our retail branch network, thanks to our retail leadership team's experience and our operations team's "can do" philosophy. Adding further to our proposition value, Planet is partnering with XINNIX Mortgage Academy Sales and Leadership Performance Programs to offer all originators the best training, accountability and coaching in the industry to take their careers to the next level. Free of financial legacy issues, Planet remains committed to growing its retail branch network across the country. Planet MLOs have the tactical-edge technology to meet consumers, whether online or in person. A true no-overlay credit policy on government products, no minimum credit score on FHA/VA and manual underwriting allow our MLOs to expand market share and say "Yes" to more consumers. See what you could accomplish with the right tools: Visit www.LandAtPlanet.com."

Amerifirst Home Mortgage, a division of Amerifirst Financial Corporation, announces that its elite mortgage lending team is growing with the addition of Michael Lassiter, a 20+ year mortgage industry veteran. As manager of the Raleigh Area, Michael will work to expand Amerifirst's footprint in the Carolinas by carrying out the 35-year-old mortgage company's mission to make a meaningful difference in the lives of others. Michael's exceptional work ethic, authentic character and strong track record exemplifies the caliber of talent for which Amerifirst is known. Amerifirst Home Mortgage is a community mortgage lender with more than 30 years serving the real estate market. Amerifirst employs over 700 team members and provides home financing opportunities for thousands of homebuyers each year, especially in rural and underserved communities and among first-time homebuyers. Michael Lassiter NMLS# 116890. NMLS# 110139. Equal Housing Lender.

"Have you been able to attend American Pacific Mortgage's Spring Sales Summit yet? We've been on the road for the last month on our multi-city tour and are wrapping up in Seattle/Bellevue, Washington on April 9th and it's your LAST CHANCE to attend! The jam-packed agenda and breakout sessions are designed to provide you with inspiration and strategies to elevate you and grow your production by creating experiences that matter.

Discover first-hand how APM operates and commits to supporting Originators. Click here for a video to give you a sneak peek at what Summit is all about. For qualified candidates that want to take a serious look, we will cover the cost to get you there! Click here to register or contact Dustin Block at 303.378.3166.

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