Non-QM Products; Mortgage Mergers Roll On; QE Still Influencing Rates - a Primer

By: Rob Chrisman | Wed, Apr 17 2019, 8:31 AM

Economic doldrums? Probably not – but there is always someone out there claiming dire straits are right around the corner. A CNBC survey of Wall Street experts finds over 96% do not anticipate a recession by summer 2020, 70% are optimistic about the economy, and 30% have a neutral outlook. Fitch Ratings said there are no signs of recession currently but noted that global growth was sharply deteriorating. Fitch sees relatively strong US GDP growth as a positive and expects China will start stabilizing soon. And a survey of economists by the Wall Street Journal found that 57% thought the next rate increase by the Fed wouldn't happen until September or later. This number is up from 35% in the February survey and 13% in the January survey. Overall, 18% of economists believe the Fed will not raise rates any more this year and that its next move will be to cut rates. This is up from 10% in February and 4% in January.

Lender Products and Services

Non-QM has arrived and is now spreading to virtually every lender and broker in the country, and originators are asking, how do I go about sourcing these clients in this high growth marketplace? Well, Deephaven is here to help! Deephaven Mortgage, a leader in the Non-QM market, and one of the first – established in 2012 - continues to **shine the light on Non-QM** through its products, processes, and innovative technology, and through education and ideas on how to source clients and build a Non-QM business. To find out more about how Non-QM can help you grow your business, please Deephaven's wholesale or Deephaven's correspondent group.

Is your call center consistently delivering high quality customer interactions? Sourcepoint, formerly ISGN Solutions, can streamline your call center operations to help you better manage changing call volumes and reduce costs. Sourcepoint's next generation Contact Center and Collections services help loan servicers better communicate with customers, when and how they want, by voice, email, chat, social, text or survey. Its omnichannel contact center solution FirstCustomerIntelligence optimizes people, processes and operations by pairing customers with qualified agents and monitoring agent-customer conversations for constant improvement. Sourcepoint has also invested heavily in compliance and licensing to ensure your peace of mind. With centers across the U.S. and around the world, Sourcepoint offers the right languages, geographies and time zones to help drive the best customer satisfaction and return on investment. So, if you want to scale in sync with fluctuating call volumes, improve agent productivity and debt recovery, and ensure compliance, consider Sourcepoint.

Stearns Wholesale announced the release of a powerful new feature in SNAP 2.0 that makes it possible for brokers to **calculate borrowers' income.** Brokers simply input a few docs into the Calculate My Income Tool in SNAP 2.0, hit submit and Stearns notifies you when the income is processed in a short, easy to read, breakdown. Brokers can use this tool to help qualify more borrowers under Stearns' vast array of product options. For 30 years, Stearns has empowered their brokers with tools to help them work smarter, more efficiently and close more loans. Learn more about this tool by watching this quick video.

Sierra Pacific Mortgage is hosting a free Market Power webinar on Sierra Elite. This jumbo product is so hot and can help you grow your business. Register for Thursday, April 25 at 1:00 pm PDT. You will learn about some of the amazing features of this program and how it can help your next borrower purchase up to $3.0 million or one who needs a cash-out loan up to $2.0 million. This is the loan program for them, including self-employed borrowers. Register now.

Simplify your underwriting process with Loan Product Advisor® asset and income modeler (AIM). Through the expertise of third-party service providers, AIM automates the manual processes of assessing borrower assets and income. AIM reduces the burden of traditional documentation, speeds up the loan origination process and helps you close loans faster. Freddie Mac is working hard to bring you solutions that create efficiencies for your business and improve the borrower experience - giving you a competitive edge. These capabilities are available now. Gain greater efficiency in your underwriting processes with AIM - get The Freddie EdgeSM.

Hey Loan Officer! Don't you wish you could have an underwriter on speed dial to answer all of your loan application questions on the spot, 24/7? What if your underwriter could be shrunk to fit in your pocket for when you need him? What if I told you that is possible? Well, not literally… we are not into shrinking people. We are into creating software that provides loan officers with underwriting knowledge at the tip of their fingers. The Rule Tool was made to make your job easier by providing agency guidelines that have been transcribed into easy to understand terms. Just select the agency you need, type in a keyword, and The Rule Tool will give you the rule, tips and more! It's also updated daily by our underwriting experts. No more wasting time searching for answers. Get answers quick so you can get loans approved! Sign up now!

Capital Markets

Remember Quantitative Easing, in its various forms? At its peak the Fed had added $1.8 trillion to its balance sheet. The Fed's quantitative easing stimulus efforts employed to support the economy, in which the Fed stated it would continue to support the economy by increasing its purchase activity of fixed-income securities per month, split between MBS and US Treasuries caused MBS prices to rally, sending mortgage rates lower and lower.

Those new highs in MBS prices meant that investors were taking on more and more premium risk. Because of the additional prepayment risk, as rates drifted lower, investors were willing to pay more for "call protection," i.e., loans that don't pay off early. Many investors prefer to hedge their specified pools with To Be Announced (TBA) securities, so as long as the interest they earn on the long (specified) position is greater than the cost of maintaining the short (TBA) position, it is in their favor to continue to do so.

But now the balance sheet is being allowed to run off, up to $50 billion per month. As the Fed slows and ultimately ends quantitative easing, investors could **see the potential for lower dollar prices and higher mortgage rates**, unless demand can be found from another source. This will diminish the need for prepayment protection, putting further pressure on call-protected specified pools.

Capital markets folks know that for over 8 years the Fed has been the "trash heap" of the mortgage market: the worst of the worst pools were delivered to them. This means high WAC (weighted average coupons), fast paying, poorly serviced pools ended up on their balance sheet. Fortunately this isn't a huge issue as it greatly improved liquidity the mortgage market, which helped to elevate rolls. Now that they are no longer the buyer, anything that is in existence currently in the market, or that will be created in the future, will have to go somewhere else, creating less demand for the roll and increasing the demand for high quality pools.

Into the end of 2018 we saw this come to fruition, where rolls faded across almost all coupons and good clean bonds evaporated of the street. While some of this had to do with year-end constraints of dealer balance sheets, one would expect this trend to continue. As a caveat, even if the Fed were to change their stance on balance sheet normalization, there is chatter that **this would likely be in the form of purchasing Treasuries rather than mortgages** like they had in the past.

Looking at yesterday's bond market, U.S. Treasuries spent yesterday surrendering their slim gains from Monday, including the 10-year closing at 2.59% despite the release of a worse than expected Industrial Production report for March showed continued weakness in manufacturing output and markets received better than expected economic sentiment readings in Germany and the euro zone. Separately, the People's Bank of China injected liquidity on Tuesday, representing the first open market operation in 19 sessions. And in news of interest to the mortgage market, homebuilder sentiment rose to a six-month high but is still down versus a year ago as home builders navigate a shortage of construction workers and buildable lots putting upward pressure on housing costs and affordability. Finally, a "significant minority" of ECB policymakers at the last ECB meeting expressed doubt about the likelihood of a **rebound in economic activity** during the second half of the year.

Today's domestic calendar kicked off with mortgage applications for the week ending April 12 (headline -3.5%, but purchases hit their highest level in 9 years!). Next up will be international trade for February with the deficit expected to widen, followed by wholesale trade for February. At 2pm, the Fed releases the Beige Book in preparation for the April 30-May 1 FOMC meeting. We also have three Fed speakers scheduled: Philadelphia's Harker; St. Louis' Bullard; and New York Fed SVP and Deputy SOMA Manager Logan. We begin today with agency MBS prices down a few ticks (32nds) versus last night's close and the 10-year yielding 2.60%.

M&A

Mergers and acquisitions continue, big and small, involving non-depositories, banks, credit unions and other financial institutions. Things picked up in 2018, and are expected to continue in 2019, for many reasons. Let's see what's going on.

In Mortgage Land, rumors were laid to rest yesterday when Home Point Financial Corp. announced the acquisition of the wholesale division of Platinum Mortgage Inc. This includes both Platinum's sales team and its' Madison, AL based operations group. "Platinum has built a strong wholesale lending footprint focused on the customer experience. We are excited about the opportunity to integrate the Platinum team into Home Point's rapidly growing wholesale business." said Willie Newman, Home Point Financial President and CEO. "Having been in business for over 20 years, I've always been committed to my broker clients. I decided to partner with Home Point, because they share the same level of commitment." said Terry Clark, CEO of Platinum Mortgage. (The STRATMOR Group served as exclusive advisor to Platinum on the transaction, which closed on April 15th.)

Brokers were told that, "Platinum will continue to close out all your loans currently in the Platinum pipeline through May 31, 2019. April 15th was the last day to submit a new/unlocked loan to Platinum. Submit locked loans with Platinum until April 30. Lock all loans that are submitted but NOT locked till April 30. The last day to close a loan in Platinum pipeline will be May 31, 2019."

Garth Graham, Senior Partner at the STRATMOR Group, observed, “The amazing part about this deal is that they bought the sales, and hired nearly all the people, including Ops. The staff in Alabama did a good job, at a low cost, and thus were very beneficial for the buyer. We helped Platinum with the process, and they had a number of options for sale, and picked Home Point because of the long-time commitment to the channel.”

Colony Bank will be acquiring Planters First Bank’s mortgage business. Jesse Kight, who is currently president of PFB Mortgage, will become SVP of Colony and president of its mortgage division, and Teresa Gainey will become group VP and director of mortgage operations for Colony. PFB Mortgage originated more than $100 million in mortgages last year,

In depository banking land, we had some announcements in recent weeks. FirstBank ($5.1B, TN) will record a $2.5mm restructuring and severance charge and sell its third-party wholesale mortgage origination business to Renasant Bank ($12.9B, MS). In Florida Power Financial CU ($655mm) will acquire TransCapital Bank ($204mm). Up in Illinois Midland States Bank ($5.6B) will acquire HomeStar Bank ($375mm) for about $9.9mm in stock (100%) or 0.95x tangible book. Glacier Bank ($12.1B, MT) will acquire Heritage Bank of Nevada ($830mm, NV) for about $240.7mm in cash (7%) and stock (93%) or 2.39x tangible book.

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