MLO Resources; Credit Product; Intro to the Prime Jumbo Securitization Market

By: Rob Chrisman | Wed, Jun 19 2019, 8:51 AM

Good loan officers pay attention to demographics. For example, according to a new report from the United Nations, the population of the planet could rise from its current 7.7 billion to 10.9 billion by the year 2100. This is a downward adjustment from the last U.N. prediction due to a decrease in the global fertility rate. In the U.S., where are the less-populous metro areas that are gaining the most people? Cities among the 10 largest metros by numeric growth since 2010, but not among the 10 most populous, include Phoenix (third), Seattle (seventh), Austin (ninth), and Orlando (tenth), according to U.S. Census Bureau. Phoenix, has gained an estimated +665k people since 2010, primarily attributed to domestic migration, much like Austin (+452k). Seattle (+500k) and Orlando (+439k) saw more of an international influx of residents.

Lender Products and Services

July is going to be a big month for the industry as we head into the third quarter of the year. This month, the Informative Research team will be at a few conferences to talk about how you can decrease your upfront credit spend by at least 40%, avoid getting your leads poached by competitors, and help reduce your non-recoverable fees. So if you'll be in the Big Easy for the Ultimate Mortgage Expo, get in touch with Informative Research's VP of Client Success Damon Paxson so he can talk you through our full-proof spend strategy. Not going to New Orleans? Informative Research will also be at the Western Secondary Market Conference in San Francisco from July 15-17th! Reach out to meet up and discuss how you can take the pressure off your expenses with one vendor, fewer fees, and better service.

Capital Markets

The news yesterday that Pretium is acquiring Deephaven Mortgage from Värde Partners reminded me that it would be a good time to look at the securitization market.

Since the financial meltdown of the subprime mortgage market from 2007 to 2008, we have seen very little private equity purchases of mortgage backed securities (MBS) and the federal **government now invests in over 90% of mortgages in the U.S?** As jumbo, ARM, and non-QM go into the books, and owners avoid the cost of securitization, other funded mortgage loans are pooled with other mortgages of the same rate and term (e.g. 30-year fixed at 4.25% would end up lumped together), packaged as an MBS, and sold to an investor like Fannie Mae and Freddie Mac. Or insurance companies, pension funds, banks. The investor sets guidelines for how the loans they buy should be underwritten. It's common for a single MBS to have multiple investors, similar to how a stock has many owners.

(Let's not confuse the selling of MBS with the selling of loan servicing. The lender or broker that closed the mortgage is often not the company where the monthly payments are sent. The holder of the servicing rights did not finance the full amount, with the financing still coming from the secondary market. The investor pays the servicer for collecting the loan payments, receiving the interest income on the loan.)

A mortgage backed security works the same way as a traditional bond, with the rate moving inversely to the price. A higher rate MBS pays more to the investor, as it is more likely to pay off early through a refinance. Conversely, a lower rate mortgage, while paying less, is more likely to be held all the way to maturity, making it a more valuable asset to a mortgage servicer. Any time a loan pays off, the servicer loses the fee income from the investor.

Mortgage rates balance between what a borrower can afford to pay for his or her loan, and what the investment community is willing to accept as a return on investment based on the perceived risk of the borrower. Post-subprime crisis, the Federal Government stepped in to fill the void in the secondary mortgage market as individual investors grew unwilling to risk their capital on mortgage backed securities with low rates. This prevented rates from rising to the point of crippling affordability, though it remains to be seen whether the government will be able to gracefully exit the mortgage market and private investment can return to fill the void.

But what about the **prime jumbo securitization market?** Non-lender investors still want to own the securities, although the actual securitization procedures took a little break in 2008 and 2009 until it started back up in 2010 with Redwood Trust. Since that time lots of high-quality collateral has been securitized in annual amounts ranging from $4 billion to $17.5 billion, depending on demand by investors.

And those investors, with well over a hundred known buyers of prime jumbo securities, encompass a broad group and buy pools ranging from $1 million to over $100 million. They include regional banks, insurers, and pension funds. The number of investors has led to consistent, usually predictable pricing with investors preferring simplicity (versus the complexity of 2006 and 2007's esoteric pooling). Interestingly, issuers report that not only is the rep & warranty work paying off, which investors appreciate, but 90-100% of loans have had due diligence done on them. It is possible that over time sampling will increase to decrease review costs for established issuers, but we know where that got us ten years ago. And **delinquency and foreclosure rates are very low.**

And don't forget high balance conforming production. Agency MBS cap pools at 10% of this product, so what happens to the rest? Excess high balance loans that don't go into TBAs (generic to-be-announced securities) go into other delivery vehicles that often trades like jumbo securities. The Agency Gfees are still high, and private label securities offer better execution, especially if loans have other loan level pricing adjustments less than Agency hits. LLPAs for agency product can go to 2 points or more, and so some larger lenders are doing private securitizations and taking advantage of the execution arbitrage.

Looking at the recent interest rate market, recall that last week set the stage for activity this week. U.S. Retail Sales increased 0.5 percent in May, and when accounting for inflation, retail sales were up 1.4 percent from May 2018 – not much. Industrial production reversed April's downturn and improved 0.4 percent in May and Capacity utilization also increased to 78.1 percent, but is still off the peak of 79.6 observed in November 2018. Inflation data remains below the Fed's target with both consumer and producer inflation up 1.8 percent year over year in May. At the core level, consumer inflation was up 2.0 percent year over year while core producer inflation was up 2.3 percent. The recent economic uncertainty and been a blessing for mortgage rates and total mortgage applications were up 26.8 percent for the week ending June 7, led by a surge in refinance apps. There has been plenty talk lately about the **Fed potentially lowering interest rates this year** and markets will be looking for guidance as to that possibility following this week's FOMC meeting. While no change in monetary policy is expected this time, perhaps the Fed will alter its language from "patience" to potential change.

Yesterday the European Central Bank's Mario Draghi got things rolling when he said the **ECB would provide further stimulus** if inflation does not head towards target. An unnamed ECB source said that a rate cut would be the central bank's preferred way of providing stimulus. It was actually the President's tweet regarding a "very good telephone conversation with President Xi" and an "extended meeting" they would have at next week's G-20 meetings that kicked equities higher and pulled back bonds. U.S. Treasuries ended Tuesday hanging on to their rally despite a pullback from highs that were notched during the initial 30 minutes of the session, the 10-year closed yielding 2.06%.

Today's calendar kicked off with mortgage applications from the MBA for the week ending June 14, down -3.4 percent from last week. The prior week's 27 percent jump in refinances only dipped -4 percent in the most recent report, meaning the mini refi boom is alive and well. There is no scheduled news until the June FOMC Rate Decision, due out this afternoon. While a rate cut is not expected, odds of a 25 bp July cut are over 80 percent, which the Fed will need to validate or expect further curve-flattening. We begin today with Agency MBS prices worse nearly .125 and the 10-year yielding 2.08%.

Jobs and Promotions

Thrive Mortgage has strengthened its position as a growing national lender in the Midwest and Eastern states. Industry veterans Adam Galbraith and Loren Riddick have taken over management leadership positions in key growth states. Galbraith is well known for building successful teams throughout the Midwest and will join Thrive as the Regional Manager covering Michigan, Illinois, Indiana, Ohio, and Kentucky. Riddick, renown as a national speaker in both the Reverse and Forward marketplaces, will spearhead Thrive's growth in the Reverse Mortgage market nationwide. When asked what prompted his move, Riddick replied, "For me, the leadership, the amazing model, and the culture of Thrive were the most attractive assets of the company. My team and I are thrilled to be a part of such exciting growth." For more information on available positions or to speak with members of our leadership and recruiting teams, please visit join.thrivemortgage.com.

ClearEdge Lending continues to grow its Sales team in the Southeast and on the West Coast! The company recently added Monique Chevalier to their West Coast team (South Orange County) and Rust Hilsman in the Southeast (South Carolina). Both bring over 30 years' experience and will help continue to expand the company's Non-QM presence. ClearEdge is growing at a rapid pace and both talented leaders bring extensive experience and knowledge in the wholesale lending industry. "We are excited to have Monique and Rust join the ClearEdge team and see them deliver service beyond expectations in every aspect of our business," notes Steve Skolnik, CEO.ClearEdge Lending is service driven and sets itself apart by focusing on simplicity and speed at point-of-sale. Those interested in a growth-oriented career with ClearEdge Lending should email John Burns for outside sales positions in GA, FL, NC, TN and Matt Shaw in CA & AZ.

Caliber Home Loans, Inc. is Scotsman Guide's #2 lender for Top Overall Volume (2018) and home of the modern mortgage originator. On top of providing its Loan Consultants with a product portfolio for today's housing market, Caliber equips its Loan Consultants with proprietary technology resources to support all aspects of their business! From automated marketing campaigns to streamlined VOE, VOI and VOA to mobile apps that enable business on-the-go, Caliber Loan Consultants can communicate with today's borrowers and get their loans to closing. Caliber builds technology that puts its producers ahead of the competition, and is positioned for success in 2019 and beyond. Producers who want to join a modern mortgage lender like Caliber can email Jeremy DeRosa or visit their website.

GSF Mortgage Corporation (GSF) is proud to announce Robert Stephens has joined the Construction Lending Division as SVP of Sales and will have a focus on growing GSF's Single Close Construction program. Robert will be responsible for driving revenue for GSF's Construction Lending Division, through its various channels of origination. Prior to joining GSF, Robert held a role at American Financial Resources (AFR) where he specialized in one time close and renovation loans. Robert is an expert in product training, relationship building and promoting homeownership within the growing area of home construction. As GSF continues to grow its Single Close Construction program, Robert will play an integral role in GSF's ongoing success and with its home construction programs. If you are an LO interested in learning more about GSF Mortgage Corporation's Construction lending philosophy, products, or culture, please reach out to Managing Director of Construction Lending, Rudy Marquez.

If you're a Branch Manager or Loan Originator and you're generating your own business, then you get to pick your own compensation level when you originate for MortgageRight! In addition to an immediate pay raise, we also offer upfront marketing funds, a high-performance personal assistant, and a dedicated in-house production team - all designed to help you skyrocket your income even further! If you've been losing loans due to pricing and getting stuck micro-managing your files with no time to go develop new referral relationships, give us a call to see how you could leverage our proven systems to help you double your income this year! MortgageRight is the home of the aggressive compensation platform for producers who are looking to 2X their income. If you're a producer whose business is completely self-generated, call Alvaro or Mike at (800) 603-1450 or check out the opportunity post here to learn more about this unique opportunity to run your mortgage business on a true P&L.

"NEXA Mortgage is the nation's fastest growing Mortgage Broker. We are leading the way out of retail with growth across the country. If you are a LO, BM, or TL, contact NEXA now to experience why brokering is better. Loan Officers can double their production within the first 3 months. Best in industry support, compensation, underwriting (you don't really believe brokers lose control), rates, products, leadership, marketing, technology and processing (you will love our processing). Mark your calendars now to join our weekly 'WHY NEXA' Zoom meeting, Thursday at 11am PST. Login on to NEXA Support; www.NEXAmortgage.com/support and our support staff will place you in the meeting. If you can't wait to learn more, login now and ask for Michael Neill. Currently in 9 states, submitted in 14 more, and will add any requested. NEXA Mortgage, the lender in WHY Brokering is Better!"

Congrats to Michael Powell. He is Arkansas Simmons Bank's new mortgage division president overseeing all aspects of Simmons' mortgage process.

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