

Non-Agency Product; Fannie/Freddie Updates; VA IRRRL Reminder/Clarification

By: Rob Chrisman | Fri, Jun 21 2019, 9:06 AM

That mortgage prices change every day, and often during the day, is about as surprising as sheriffs finding marijuana on Willie Nelson's tour bus. Price changes have an immediate impact, and I knew that I'd receive plenty of phone calls from "the street" when a CEO told me to increase prices when the market hadn't moved. Correspondent and wholesale investors have ratcheted up margins in the last month or so in order to slow volume down due to capacity constraints. Freddie Mac and Fannie Mae can easily encourage, or discourage, lenders from originating certain products. Now the jungle drums are saying that Freddie Mac will tweak its pricing for some lenders in order to lessen its competitiveness, pricing that it put in place leading up to the implementation of the UMBS (Uniform Mortgage Backed Security) this month. But hey, don't take my word for it – ask your Freddie rep. Maybe it's just a rumor. More F&F news below.

Lender Services and Products

If you're planning to attend the MBA Western Secondary in San Francisco, July 15-17, be sure to set up a meeting with the TMS CAREspondent Team. Learn how using Ellie Mae Compass Investor Connect with TMS can help you save time and money and how eMortgages can grow your business. Reach out to your Carespondent VP or email carespondent@themoneysource.com to set up a time!

Join John Gibson, EVP of Wholesale Lending at [Caliber Home Loans, Inc.](#), for an in-depth look at the new Caliber Smart Start! This tool is considered a game-changer when it comes to originating non-agency loans. Smart Start allows our broker partners to grow and move their pipelines faster by validating loan parameters against Caliber Portfolio Lending program guidelines. Join Caliber on Tuesday, June 25th from 1:00-1:30 CST. Click [here](#) to register now.

VA IRRRL Clarity: A Good Thing

Surprisingly some lenders have been doing IRRRLs that they think are exempt from [the 36 month recoupment](#) (the date of the loan note) because the term was reduced. Perhaps the VA regional loan centers have been giving different guidance? Don't give the industry another black eye by skirting the issue. Regardless, with refi pipelines brimming the Mortgage Bankers Association issued the following clarification to its members yesterday. "It has come to our attention that there is some confusion in the industry regarding the fee recoupment requirements for VA IRRRLs. Questions have arisen as to when the 36-month fee recoupment requirement is applied to VA IRRRLs, and whether an increase in the principal balance of the loan or the monthly payment (e.g., because of a reduced term) impacts this requirement.

"In response to some of the inquiries we have received, we reached out to VA Loan Guaranty Service staff for clarification. Below, we are sharing the input that we were provided by VA Loan Guaranty Service staff. In their view, the 36-month recoupment requirement must be met for all VA IRRRLs.

"To give a little more detail, we were told that this requirement is in place regardless of whether the principal balance on the loan increases, decreases, or remains flat. With respect to monthly payments, we were told that IRRRLs must result in lower regular monthly payments so as to allow the borrower to recoup costs/fees within 36 months. If there is an increase in monthly payment, recoupment of any costs/fees cannot be satisfied.

"While an earlier VA circular (26-18-1) did provide an exemption from fee recoupment in certain situations (such as term reduction), we were told that the more recent [VA circular \(26-18-13\)](#) is the binding constraint in this case. We understand that VA is in the process of consolidating its IRRRL guidance, which we hope will provide further clarity for the industry shortly."

Conventional Conforming Updates

Don't forget that the GSEs announced that the optional use period for the URLA will NOT begin July 1, 2019. The effective date of the form will be revised, and an updated version will be provided at a later date. Over the coming weeks, FHFA will engage with appropriate stakeholders and agencies to finalize issuance of an updated URLA form, corresponding datasets and a new implementation timeline. Word has it that the FHFA is trying to head off borrower confusion regarding the language portion of the form. After all, when someone checks "Norwegian" will they expect the lender's docs, and the servicer's, and the Agencies, and the bank's if a checking account is established, documents all to be in Norwegian? I think not.

The Homeownership for DREAMers Act, legislation was passed to clarify that Deferred Action for Childhood Arrivals (DACA) recipients

cannot be denied mortgage loans backed by FHA, Fannie Mae, Freddie Mac or the U.S. Department of Agriculture (USDA) solely on the basis of their DACA status. This bill was introduced by Rep. Juan Vargas (D-CA). It was passed by a bipartisan vote of 33 to 25. This bill was passed in response to a recent HUD clarification in a letter sent to Representative Pete Aguilar (D-CA) that stated that "DACA recipients remain ineligible for FHA loans." HUD policy, [currently reflected in HUD Handbook 4000.1](#), provides that "on-U.S. citizens without lawful residency in the U.S. are not eligible for FHA-insured Mortgages."

Plaza's all new [High Balance Access](#) program will now allow gift funds per Fannie Mae guidelines, including the allowance of all funds for down payment or closing costs to be gift funds for 1-unit primary residences, regardless of LTV.

SunWest is offering the Fannie Mae Student Loan Cash-Out Refinance Program to its Wholesale and Correspondent Channels. This program is a cost-effective alternative to use existing home equity to payoff student loan debts, potentially reducing borrower's monthly debt payments. Unlike Standard Cash-Out refinance, this program allows no Loan Level Pricing Adjustment (LLPA) for cash-out refinance. Program guidelines are available in AllRegs ([Wholesale](#), [Correspondent](#)).

Freddie Mac issued the Single-Family Seller/Servicer [Guide Bulletin 2019-13](#) about the deferred June 10, 2019, effective date of the mandatory cash contract extensions in Loan Selling Advisor®. Additionally, [Guide Bulletin 2019-12](#) was issued regarding updates to DIL of Foreclosure, STOS and Escrow.

Fannie Mae has created two new job aids to help lenders use Desktop Underwriter® (DU®): [the Debt-to-Income \(DTI\) Ratio](#) and [Total Expense Ratio < Housing Expense Ratio Error](#) job aids.

Fannie Mae published [SVC 2019-04](#) with updated information that simplifies and clarifies requirements for release of property requests and investor reporting requirements.

Freedom Mortgage Wholesale has faster and easier Condo approval with its [Condo Advantage](#). Plus, FMW will pay the Condo Questionnaire fees (available for a limited time).

US Bank Correspondent/HFA [updated](#) its Seller Guide SEL-2019-018 to reflect Home Possible® and Home Ready® Financed Properties changes from FHFA. Additionally, it has [issued a bulletin regarding Upcoming Changes with AllRegs Modernization](#).

Capital Markets

As this U.S. expansion nears the longest ever, we examine the indicators that define a recession. (Certainly European and Asian economies are not doing as well as ours, contributing to the low rates here.) A U.S. recession is coming, it's just a question of when but probably not this year, and it impacts asset allocation by investors. Dating the economic cycle is not easy as there have been 12 U.S. recessions since 1945 that have lasted, on average, 11 months. Which if you do the math, since WWII, **more than 85% of the time the economy is in expansion.**

If the U.S. economy is still in expansion in July as we expect it to be, this will become the **longest U.S. economic expansion on record**, surpassing the one that lasted 120 months ending in 2001. In the lead-up to the financial crisis in 2008-2009, there were very few economists calling for recession, let alone the worst contraction in output since the Great Depression. Some economists may have been reluctant about calling a recession, as though imbalances in the economy can be identified in advance, pinning down the precise date for when those imbalances lead to recession requires advance knowledge of what the initial spark will be. There is little upside for economists, as if the call does not go your way, you are accused of "crying wolf," and if 85% of the time the economy is in expansion, why chance it? Well, it's their job.

The length of this expansion alone implores a hard look at when the next recession may strike. Risks are mounting and early warning signals of a recession keep popping up with global growth slowing, the Fed teetering on **restrictive monetary policy**, the leading economic index (a key yardstick for the direction of the economy) losing momentum, and perhaps most ominously, an inverted yield curve, which has preceded each of the past seven recessions. It turns out the official call of "recession" is up to the National Bureau of Economic Research whose dating committee determines the start and end dates for each cycle. It considers recession to be "a significant decline in economic activity... normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales." The next recession is coming, it is just a question of when. Eventually those predicting it will be right. But they aren't now.

U.S. Treasuries continued to rally yesterday, but intraday action stalled near the day's opening levels despite geopolitical uncertainty rising with reports Iran shot down a U.S. drone that was conducting surveillance over the Strait of Hormuz. The 10-year broke below 2 percent before pulling back to close -3 bps to 2.00 percent. Adding to the uncertainty were reports the U.S. may impose sanctions on Turkey if the country follows through with its plan to purchase a missile defense system from Russia. Thursday also saw a slew of central bank news, with the Bank of England voting unanimously to leave its bank rate and the purchase program, as expected, though the central bank

lowered its forecast for Q2 GDP growth in the U.K. Reserve Bank of Australia Governor Philip Lowe said it is not unrealistic to expect another cash rate cut. And the Bank of Japan made no changes to its policy stance, **but one dissenter called for more easing.**

Today finally sees the resumption of Fed speakers as the Boston Fed releases the text of remarks by President Rosengren on the causes of the Japanese financial crisis, and we have already had Bloomberg interview Fed Vice Chair Clarida in Washington. Fed Governor Brainard and Cleveland Fed President Mester also speak at a Policy Summit, and San Francisco President Daly will host a podcast. Later this morning, Markit will release flash June readings for their Composite PMI, Manufacturing PMI and Services PMI. At the same time, May existing home sales will be released with markets expecting a slight increase from April. We begin today with Agency MBS prices a shade higher versus Thursday's close and the 10-year yielding 2.02%.

Jobs

“[Bayview Loan Servicing, LLC](#) is an industry-leading, top-rated residential mortgage loan servicer and we are hiring! We have openings in our Originations Fulfillment team. If you are ready to take your career to the next level, we want to hear from you. We are seeking Consumer Direct processors in Horsham, PA, Charlotte, NC, and Tucson, AZ. If you are a closer or an underwriter, we have positions available in Tucson, AZ, and will accept remote underwriters. Contact us today to learn more.”

“All loan officers want to work with amazing, collaborative Operations teams. So what makes our Citizens Bank Home Mortgage Operations team so special? We work in pod structures – with a loan officer, processor, underwriter and closer – all in one pod, from start to finish for every loan. Our regionalized Ops hubs are never far from our loan officers who get to the. Our Ops teams are led by leaders with deep industry experience. If you care about Operations as much as your sales career, apply at Citizens Bank today. If you're looking to build your future with a company that is winning in the mortgage marketplace, apply at [Citizens Bank](#) today! For questions, please email Home Mortgage Recruiting.”

Out of New York comes news that independent mortgage lender Nationwide Mortgage Bankers, Inc. brought on Jodi Hall as President to the organization to lead and direct the day-to-day operations of all departments within the company.

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