Construction, Broker, Reno Products; Closer Look at Stearns' Deal; Ginnie and SOFR

By: Rob Chrisman | Wed, Jul 10 2019, 9:59 AM

There are still, surprisingly, people who deny that climate change is occurring. There are plenty of low-lying areas of this country that are threatened now or will be in the coming years. And just think of all those jumbo loans along the coast, like in California. Owners can spend millions to add more sand to a beach (which will wash away in a few years), build a seawall (roughly 30% of Southern California's shore is already behind an expensive seawall, and they destroy public beaches), or retreat. The South has plenty of coastline, and what cities there have experienced a surge in population growth between 2017 and 2018? Well, they are all in Texas or Florida, with Austin (12,504), Jacksonville (12,153), Frisco, TX (10,884), McKinney, TX (9,888), and Miami (8,884) topping the list, per the U.S. Census Bureau.

Lender Products and Services

"Galton Funding continues to be the premier one stop investor for all of your Non-Agency lending needs with the recent addition of a new Jumbo product as well as enhancements to existing programs. Galton's new Jumbo program for Full Documentation loans from $100k-$2mm, LTVs to 95%, Investor and Interest Only options, creates one of the broadest product offerings in the Non-Agency space. Enhancements to our current Prime and Near Prime programs allow for more flexibility on mortgage history and lower reserves on other financed properties… all designed to increase borrower reach. Whether you are looking for loan amounts up to $3MM, higher LTVs with no MI, unlimited cash out, or even bank statement programs, Galton is your go-to investor, with new higher premiums to improve profitability. Eliminate investor fatigue by partnering with Galton Funding for the most diverse, dynamic and competitively priced programs in non-agency correspondent."

Technology may be the fuel for every successful loan originator, but inefficiency is the flat tire. Salesforce-based mortgage CRM platform, Jungo, announced an Ellie Mae Encompass Digital Lending Platform integration this week. This partnership strengthens Jungo's focus on automating and improving the loan origination process by creating a dual-direction sync of data between the two platforms. In addition to preventing the need for double data entry on the part of the LO, the integration allows automatic email updates sent to all the interested parties in the loan process. Less time juggling multiple logins and thinking about data entry, means more time focusing on the client and closing loans. To see this integration in action, check out its product demo.

"Strong history. Bold Future. Stearns Holdings announced in partnership with Blackstone terms of a comprehensive financial restructuring plan that is expected to significantly improve the financial structure of the firm setting the Company up for future growth opportunities, enhanced profitability, and long-term success. Blackstone pledged nearly $100 million as part of the balance-sheet restructuring, which also includes commitments of $1.5 billion from warehouse lenders. CEO David Schneider notes, "Stearns will come out of this process stronger than before and we are committed to moving as quickly as possible through this process. Stearns will continue to originate, lock, underwrite and fund loans with the same best-in-class service we have always provided. Our 2,700 Wholesale, Retail, Joint Venture, Preferred Partner and Corporate employees are focused on supporting business partners and helping homebuyers find the best loans for their current and future needs as they always have." Stearns' joint venture and preferred partner entities are not subject to the court-supervised restructuring process and continue to operate in the ordinary course of business. Stearns enters its 30th year providing residential home financing and this event will position our firm for the next 30 years."

Build your business with loanDepot Wholesale's Renovation Lending Suite, that includes programs designed to accommodate both large and small home improvement and repair projects. Therefore, giving you more options for your real estate partners and clients to meet their homeownership needs. Flexible solutions that include FHA 203k Limited and Standard as well as FNMA HomeStyle®. loanDepot Wholesale – proud sponsor of improving homes across America. Contact us today to learn more! Rates, terms, and availability of programs are subject to change without notice.

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.

There are many construction lending risks that initially fly under the radar during the life of a project. Problems are often realized when it is too late. To help lenders navigate this field and prepare for any potential problems, Land Gorilla has compiled these key risks that must be mitigated for a successful construction loan program. Download this ebook, 11 Construction Loan Risks and How to Protect Your

Investment, to discover the common mistakes that put construction loans in jeopardy; they may surprise you.

Wholesalers Continue to Make News

As noted above, Stearns Holdings, LLC, the parent company of Stearns Lending, LLC (wholesale, retail and strategic alliances) reached an agreement with its majority equity holder, "funds affiliated with Blackstone," on the terms of a comprehensive financial restructuring plan. The voluntary filing of Chapter 11 involves its majority equity holder, Blackstone, Glenn Stearns, and the 2,700 employees.

It has been four years since Blackstone took down a majority share in Stearns. There are many in the industry that will tell you that traditional, day in and day out, mortgage banking is not for high-flying venture capital, hedge funds, or money managers. One industry vet wrote to me asking, "Do large funds ever wildly succeed in investing in mortgage companies?"

Stearns said it will consider bids from other investors who might want to replace Blackstone. For now Blackstone will provide a $35 million bankruptcy loan to keep the company running and pledged to invest $60 million of new money. Stearns said it also lined up $1.5 billion of warehouse financing to keep its mortgage business operating.

Pimco owns about 67% of the company's 2020 notes and was approached about a restructuring. Stearns proposed a partial paydown of the debt, a maturity extension and relief from a requirement to use $42 million in proceeds from the sale of mortgage servicing rights to tender for the notes. Pimco rejected that offer and others, insisting it would consider a $50 million capital infusion into Stearns from Blackstone, or taking control of the business.

Pimco would later refuse an offer to take ownership of Stearns and demanded to have its notes cashed out, or else it would insist on a liquidation.

Although other wholesalers (Freedom, Quicken, loanDepot, or United Wholesale jump to mind) have grabbed the spotlight, Stearns has its fans. From a broker in San Jose I received, "I hope they can save it. Stearns is a great niche lender, and has really good employees & excellent customer service every time I've closed a loan there." Other comments I received included, "Ditech didn't miss a beat. Hopefully Stearns is the same." "I wonder how that joint venture with SoFi from three years ago will fare." "We've heard plenty of rumors about liquidity issues and declining earnings. Blackstone probably wasn't seeing the returns or control it required. Is Blackstone interested in contributing more equity capital without some major debt relief? Maybe Blackstone only agreed to contribute more capital because the business looks pretty good right now?" [Editor's note: as if every other lender is prospering?]

A highly-placed insider told me that, "Stearns discussed other options, but this '90-day' plan seemed the best. Employee moral is very good, namely because Blackstone has a considerable amount of capital. The 'sponsored plan' that will be rolled out ensures that the existing reps and warrants will be honored for investors and the Agencies, and that any licensing will remain intact. The primary target of the move is to reduce the senior debt."

Glenn Stearns still owns 30% of Stearns Lending, is still on the board, is active in management, but his future involvement is reportedly unknown. "Through this restructuring, Blackstone has agreed to serve as plan sponsor and contribute substantial new capital to Stearns in return for acquiring substantially all of the ownership of the Company." Mr. Stearns, well known for his admiration of Gilligan's Island, has embarked on a new TV project titled "Undercover Billionaire" premiering August 6. A good acquaintance of Glenn's noted that, "He was looking to sell a large stake in the company. He was smart to cash out and lock in his gains. Today he is enjoying his fortune."

Capital Markets

Ginnie Mae's first REMIC transaction with a tranche indexed to the Secured Overnight Funding Rate (SOFR) was well received by investors when it went to market in April. Since then, many questions about the transaction have been posed to which Ginnie Mae provided an explanation of the SOFR transaction. Ginnie has also added disclosure bulletin "Loan Liquidations File Republishing for June 2019."

Economically things are good – here. The start of July marked the 121st consecutive month of economic expansion in the U.S., making this the longest period of continuous economic expansion in American history. So naturally there is plenty of speculation about **when we will see a downturn.** Economic data thus far this year, however, has pointed more towards moderating (but still growing) economic conditions rather than a contracting economy. Nonfarm payrolls for June showed 224,000 jobs added for the month, well above market expectations. And while the average job gains through the first six months of the year are lower than the last six months of 2018, the economy continues to add jobs at a good pace.

Tariffs continue to pressure manufacturing activity as the ISM manufacturing index was barely in expansion territory at 51.7 and the new orders component was at 50.0, a three-year low. Businesses will exercise caution until there is more certainty around the future structure of trade between the US and China. Many importers have likely re-routed their foreign supply chains as evidenced by the fact that since the trade war with China began, imports have increased and the trade deficit has widened.

Looking at rates yesterday, U.S. Treasuries again experienced limited movement yesterday, including the 10-year hitting a high of 2.07 percent before closing +2 bps at 2.05 percent, as markets waited in anticipation ahead of Fed Chairman **Jay Powell's semiannual monetary policy testimony today.** Mr. Powell will appear before the House Financial Services Committee and the Senate Banking Committee today and tomorrow, with markets waiting to hear if the Fed Chairman changes his tone in a way that could reduce expectations for a rate cut at the July 30/31 FOMC meeting. The Fed Funds futures market remains certain that the fed funds target range will be reduced by 25 basis points while the implied likelihood of a 50-bps rate cut now sits below 3 percent.

Today began with MBA mortgage applications for the holiday-adjusted week ending July 5 (-2.4%). As I am sending this out, Fed Chair Powell’s prepared comments before the House Financial Services Committee have just been released ahead of his appearance later this morning. Later today, **markets will digest Wholesale inventories and sales for May**; the minutes from the June 18/19 meeting; and Fed speakers including Kansas City’s George and St. Louis’ Bullard. We begin the day with Agency MBS prices improved by .125 and the 10-year yielding 2.06%.

Jobs

Mountain West Financial, (est. 1990) is “seeking a highly motivated leader to join our executive team as the SVP of Retail Lending. This person will oversee all aspects of the Retail Production Channel. Responsibilities include developing, motivating, and providing value to our existing team as well as growing our footprint in the western U.S. You will be joining a dedicated group with a strong work ethic and a commitment of doing the right thing. We owe our 30-year longevity to strong relationships, commitment to our staff and the communities we serve. All applicants must have a proven track record of developing, managing and growing a retail team. For a confidential interview, contact Gary Martell (909 557-2246).

“NEXA Mortgage is one of the nation's fastest growing mortgage broker, 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. Many of our LOs have doubled their production within the first 3 months due to NEXA's solid 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 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 (480.643.9161). Currently in 9 states, submitted in 14 more and will add any requested. NEXA Mortgage, the leader in WHY Brokering is Better!"

Cloudvirga appointed Maria Moskver as Chief Legal and Compliance Officer. With over 20 years of experience in compliance and regulatory matters for financial services technology companies, Moskver has a strong track record of establishing a culture of compliance. Congrats!

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