Servicing Primer and Prepayment Speeds; Retention, Reno, Non-QM Products

By: Rob Chrisman | Wed, Dec 11 2019, 9:41 AM

Aloha! As any servicer with borrowers in Hawai'i knows, if you're going to ask, "Is Ms. Keihanaikukauakahihuliheekahaunaele* home?" or "Do you live on Kaalualu Waiohinu Rd.?", you'd better be able to pronounce them. In the 1960s, fewer than 2,000 people spoke Hawaiian fluently, just a handful of whom were children. That changed over the next two decades, and now the number of Hawaiian speakers is about 18,000, half of whom are fluent, thanks to the creation of immersion schools dedicated to saving the language from extinction. And customer service-focused functions, like loan servicing & debt collection, hire their share. More on servicing below. (*A real name.)

Shifts in servicing

A major component of rate sheet pricing is mortgage servicing rights (MSRs). For the uninitiated, servicing is bought and sold just like mortgage-backed securities, with values determined by a number of factors, not the least of which is interest rates and prepayments. Due to lower rates the second half of 2019 has seen the lack of servicing liquidity help the aggregators like Wells, AmeriHome, and PennyMac.

For example, mortgage prepayments, a gauge of refinancing volume and housing market demand, rose to a six-year high in October, according to Black Knight. That is keeping a cap on servicing and premium pricing: who wants to discount eight years of servicing cash flows back to determine the MSR price, and have the loan pay off in six months?

Values of servicing (mortgage servicing rights, or MSRs) fluctuate all the time based on prepayment speed, geography, supply and demand, cross-selling opportunities, and so on. I am still being asked about the wholesale price war early in 2019, and if the major wholesalers were "paying up" for servicing and how that value has fared with the decline in rates (and corresponding increase in early payoffs). There is no way that the MSRs increased in value with all of the refinance activity. Portfolio retention was, and is, the name of the game. For how much they declined, well, you can ask your AE.

But one assumption is that any wholesaler that would plan on keeping its servicing for a year or more would have greatly reduced its cycle time and be selling it within a month or two. If that is the case, it would diminish the tax advantages of holding an asset longer, and could also lead to diminished liquidity. In October it was rumored that roughly $8 billion in Ginnie servicing traded hands, much of it from a major wholesaler and values were negatively impacted. But like I said, ask your AE if you have questions about any wholesaler's MSR strategies. For example, Caliber and United Shore (UWM) are heavily rumored to be selling GNMAs, and Quicken Loans has sold servicing this year from their non-retail channel this year. Rumors!

Those in the servicing biz talk about "conditional prepayment rate" (CPR, aka constant prepayment rate) is a loan prepayment rate equivalent to the proportion of a loan pool's principal that is assumed to be paid off ahead of time in each period. After cresting at 21.6 CPR in October (up three-fold since January), the refi wave in the MBS market slowed with an aggregate speed of 18.3 CPR in November, down 15% on a month over month basis due to fewer business days, a tick up in rates, and seasonal slowing. Early payoffs, also known as prepayments, fell last month for all loan products.

It is common industry knowledge that Provident Funding, Freedom Mortgage and Quicken are by far the fastest prepaying servicers, with a speed of nearly 60 CPR compared to 39 CPR for the overall cohort for 100bps of incentive. On the flipside, PNC Bank, Regions Bank, BB&T, and Bank of America all have speeds near the slowest end of the range, with Regions setting the standard at 20 CPR for 100bps of incentive.

Not surprisingly California, Colorado, Utah and Arizona are the four fastest prepaying states in the country. New York is among the slowest prepaying states with an average speed that is 59.7% slower than the national average, and states in the Southeast tend to prepay first liens more slowly than other parts of the nation. For those keeping score, total "tappable" equity is at $6.2 trillion, which is the largest Q3 volume on record, but still down 1% from Q2.

And get this! Are you spending a lot on portfolio retention? While refinances have risen throughout the year, fewer and fewer borrowers are staying with their servicers after they refinance. A new report from Black Knight shows that servicers' retention rates fell in the third quarter this year. That decline came as refinance lending hit its highest point in nearly three years, Black Knight says, up 94% over the last three quarters. Despite refinance volumes hitting their highest point in nearly three years, retention rates fell in Q3 2019 dropping to 22% post-refinance, Black Knight said.

Lender products & services

Spring EQ Wholesale, the industry's premier second lien lender, offers 95% combo, 100% CLTV stand-alone and pays Lender Paid Compensation (LPC) up to $10,000. Spring EQ is excited to announce the addition of Michele Turcich, who joins the company as a Senior AE covering the Midwest region. Spring EQ is currently offering a free drive-by appraisal promotion (for loan amounts <= $175,000) through the end of 2019, and encourages its clients to take advantage of the Experian Boost™ product which can increase a client's FICO® score instantly at no cost by giving your clients credit for the utility and mobile phone bills they are already paying. Until now, those payments did not positively impact their score. Remember that Spring EQ currently offers fixed rates that are comparable to wholesale HELOC lender's rates, creating a fiscally responsible, budget friendly way for clients with needs to tap their available equity. Please contact your Account Executive or visit Spring EQ Wholesale here.

Ski goggles can help bring your vision for a profitable 2020 into focus at the SimpleNexus User Group (SNUG) conference. Held February 9-12 at the picturesque Snowbird Ski Resort, SNUG 2020 will bring together expert guidance and hands-on sessions to help attendees maximize their ROI from digital mortgage technology. From increasing LO productivity, to delivering a top-tier borrower experience, to converting buyers' agents into long-term partners, the SNUG 2020 agenda ensures that attendees will acquire impactful strategies and skills from the best and brightest in the industry. Get your tickets today! Save $100 using promo code CHRISMAN100.

"2019 will be remembered as the year of the mortgage broker. With Wholesale market share continuing to rise, Stearns Lending continues to show our commitment through unique products coupled with unparalleled technological innovation. Tools that help brokers win more business. New and unique products added such as Interest Only Conforming & High Balance, Accelerator, and FLEX Non-QM series. The broker portal has been enhanced with tools such as Calc My Income, MI Price It, and LO Portfolio accessible on-the-go to offer a faster borrower experience and easier broker experience. If you'd like to be contacted by an Account Executive, Click HERE."

Non-QM is one of the fastest growing sectors in the mortgage industry. In fact, $40 billion is forecasted to be funded in 2019, quadruple the amount that was funded last year. And there is much more room to grow. Unmet mortgage demand is estimated to be roughly $200 billion annually. Not only that, non-QM delinquency rates are less than those for conventional mortgage products. Isn't it time to add non-QM to your loan portfolio? Verus Mortgage Capital is the largest securitizer of non-QM assets in the industry and is committed to helping correspondents succeed in this dynamic sector. To learn more about the benefits of partnering with Verus, email Jeff Schaefer and schedule a meeting with him at the MBA Annual Convention in Austin.

Forget the worries about a low inventory of homes and low volumes in 2020, there's an abundance of houses in existence that could benefit from a renovation loan, allowing borrowers to repair or remodel their current or future home. Start taking advantage of this hidden inventory. While these products can seem more complex, the right correspondent partner can provide expertise and efficiency to make these loans happen with no delays or problems. As a go-to resource and expert in renovation loans, TMS offers a full suite of renovation loan products to help lenders lock in more business.

What are you missing by not scheduling a demo with Sales Boomerang? If you ask lenders like USA Mortgage, Sovereign Lending Group, Residential Home Funding, Southwest Funding, and Northpointe Bank, they'd probably start by telling you about how Sales Boomerang's Automated Borrower Retention Systemhas delivered them over $5B in originations in the last 8 months alone. They might even tell you about the hours they're saving every day, now that Sales Boomerang is putting their data to work. But they definitely won't be able to tell you what sort of loan volume you're missing. Schedule a demo today and see for yourself. Your team will thank you!

Capital markets

No one is expecting any changes from the Federal Open Market Committee when its meeting lets out later today. Remember that the FOMC delivered its third consecutive 25 bps rate cut at its October meeting, reducing its target range 75 bps since July, but what will the future hold?

Then the Committee has characterized the labor market as "strong," and economic activity rising at a moderate rate, but both the overall rate and the core rate of consumer price inflation are running below the Fed's two percent target. Causing uncertainty for markets is the FOMC does not appear to have a preconceived notion of how policy should evolve from here.

The committee's recent language is in "wait-and-see" mode, and a pause on rate cuts may be warranted to assess how the economy is responding to the delayed effects of previous easing. Real GDP is expected to again grow at a sub-2 percent rate in Q4, paving the way for the committee to potentially cut rates in 2020. But if real GDP growth edges a bit higher in the Q4 reading, the consensus is the committee will decide that no further easing is needed for now.

The two previous policy meetings saw two dissenting votes, championing leaving rates unchanged, and two nearly identical FOMC statements following those meetings. Those dissents indicate that the committee is not unified in the belief that additional easing is necessary at this time. I should reiterate that a Fed rate cut does not necessarily translate to a direct decrease in mortgage rates, as expectations are already priced into current rates. This places additional weight on upcoming economic releases to dictate Fed policy and mortgage rates.

Speaking of rates, Treasuries and agency MBS treaded water yesterday ahead of today's Fed events, while a more pronounced yield-curve flattening than Monday weighed on lower coupons. It was expected that investors would pull back to open the week ahead of the Fed rate decision (today at 2PM ET), tomorrow's UK election and the December 15 China tariff deadline. Reports say China sees Trump delaying his scheduled trade war tariffs. White House Chief of Staff Mulvaney said that the decision on tariffs will depend on the amount of progress made. Separately, China's November CPI and PPI both beat estimates yesterday.

On a different part of the trade front, the House of Representatives will vote on the U.S.-Mexico-Canada Agreement next week, according to House Speaker Pelosi. House Democrats embraced Trump's U.S.-Mexico-Canada trade agreement after securing key revisions, though Senate Republican Majority Leader McConnell said that his chamber won't hold a vote until after any impeachment trial.

Remember QE? With reports that banks and hedge funds fueled the September mayhem in the U.S. repo market suggesting there is a structural problem in this vital corner of finance, Credit Suisse came out saying that the Federal Reserve should launch the next round of quantitative easing before the end of the year due to insufficient relief from daily repurchase operations.

The highlight of today's calendar will be the latest FOMC decision at 2PM and Fed Chair Powell's press conference at 2:30pm ET, though the consensus is there will be no change from the prior range of 1.50 percent to 1.75 percent on the Fed Funds Rate. Ahead of the Fed events, markets have already received the weekly MBA mortgage applications for the week ending December 6. Mortgage applications increased 3.8 percent from one week earlier. The Refinance Index increased 9 percent from the previous week and was 146 percent higher than the same week one year ago. November Consumer Prices showed manageable inflation: CPI +.3% and core CPI +.2%, about as expected. We begin today with Agency MBS prices roughly unchanged and the 10-year yielding 1.84 percent after closing yesterday unchanged at 1.83.

Employment

NAN (Nationwide Appraisal Network) is continuing its trajectory as one of the nation's fastest growing AMCs, and is once again growing its Sales team to keep up with demand. NAN's usage of advanced data and analytics, along with performance-based appraiser incentives, has allowed it to raise the bar on turn times and report quality, and the industry is taking notice, as more and more top lenders continue to make NAN their preferred AMC. NAN is seeking a motivated Western Regional Account Executive to join the team to foster the relationships with new and existing clients to deliver world-class service and profitably grow sales throughout the western territory. Mortgage industry experience is required, as well as established lender and broker contacts throughout the western territory, willingness to travel 25-50%, and a minimum of three or more years' experience in direct business to business sales. Please send a cover letter and resume directly to VP of Sales Steve Sussman.

Impac Mortgage Corp. announced that Michael Falce has rejoined the company as Director of National Correspondent Sales to oversee the Company's Correspondent Lending channel with a focus on expanding bulk and delegated Non-QM business. (Mr. Falce was in Impac's Correspondent channel in 2012 as SVP of Correspondent and Capital Markets.)

Is this an example of elder abuse? Or merely poor forethought?

View this Article: https://www.mortgagenewsdaily.com/opinion/12112019-mortgage-sevicing