Underwriting Products; Credit Trends; Coronavirus and World Events Moving Rates

By: Rob Chrisman | Mon, Jan 27 2020, 8:23 AM

Remember when there actually was an “average,” and you weren’t afraid to say that someone was average? Now everyone is “above average.” (Did my sarcasm font come across?) I remember when they weren’t, and also remember when underwriters learned “the five Cs of credit”: capacity, capital, conditions, character, and collateral. In the “capacity” category the press picked up Fair Isaac changing its credit scoring model to FICO 10 later this year. Unless I missed something, the new FICO hasn’t been reviewed yet by Freddie and Fannie, nor the major correspondent nor wholesale investors, nor the major retail lenders. Millions will see their FICO scores decrease, millions will see them increase and thus improve loan program options, fees, and rates. That is all months away; for now just make sure your borrowers actually have the ability to repay the loan. And there are other, very viable credit scoring models such as VantageScore. More on credit below.

Lender Services and Products

Have you heard? Connector by Velma now has an ECOA-Adverse Action compliance workflow solution for Ellie Mae’s Encompass Digital Lending Platform. The new ECOA workflow tracks loans nearing the 30-day notification window and automates the LO file update. Multiple manual steps for the loan officer and the operations team are eliminated and no loans are missed. Best of all, no time is spent by anyone logging into Encompass! Exciting stuff; obtain more information here.

Calling all non-QM originators and investors attending MBA’s upcoming Independent Mortgage Bankers Conference! Don’t miss your chance on Wednesday, February 5th to see a live demo of LoanScorecard’s Bank Statement Analyzer tool that automatically collects and verifies bank statement data and calculates income for non-QM mortgages. LoanScorecard’s non-QM AUS engine enables mortgage lenders to have the same experience in originating and underwriting their portfolio loan programs as DU & LPA provide. in agency lending. Contact Raj Parekh to schedule a meeting & learn how LoanScorecard can increase underwriting accuracy and efficiency.

I’m seeing a lot of discussion about the merits of down payment assistance programs (DPA) and it’s clear that there’s more to it than meets the eye. One important consideration is that many white families count on their relatives for assistance when coming up with a down payment to buy their homes. Average wealth among African American families is far less than for their white counterparts. So when it comes to seeking family support in the purchase of a residential property, those families typically don't have the resources that white families do. This disparity holds back minorities in the housing market. The thinking is that down payment assistance can help bridge the gap by providing the cash families need to buy a home. Check out some interesting data on wealth disparity and how down payment assistance can level the playing field in the 2019 State of Down Payment Assistance Report from the Chenoa Fund.

Credit and Underwriting Shifts

“It’s not about how much money you have, it’s about how much money the bank will give you!” Ah, “the good ol’ days!” Are we heading back down that way? Perhaps. There are shifts in lender’s guidelines, and some are saying that the **“ability to repay” rules are being stretched**. There are also shift in broader credit measures that loan officers should be aware of.

As mentioned in the opening paragraph, Fair Isaac is launching a new scoring model this summer, called the FICO Score 10. **Lenders and investors will have several months to evaluate the new algorithm.**

Per the Mortgage Bankers Association Mortgage credit availability fell in December (-3.5 percent) for the first time in four months. Joel Kan, MBA AVP of Economic and Industry Forecasting, said it was “Driven by drops in both conventional and government supply…most noteworthy was a 6 percent drop in government credit supply because of changes to the Veterans Administration loan program, which eliminated loan limits for certain borrowers as of Jan 1, 2020. This likely prompted many investors to remove VA programs in high cost counties from their offerings. There was also a reduction in streamline refinance programs, as slightly higher rates slowed the refinance market at the end of 2019.”

The report showed lending standards are tightening, evidenced by a lower Mortgage Credit Availability Index (MCAI) headline score of 182.2 as well as lower scores across all four components (Conventional, Government, Conforming and Jumbo). For context, index readings are still looser than when the Mortgage Credit Availability Index was benchmarked to 100 in March 2012. The MCAI is calculated by the MBA using several factors related to borrower eligibility (credit score, loan type, loan-to-value ratio, etc.) and underwriting criteria from around 100 lenders/investors to indicate the availability of mortgage credit at a point in time.

Capital Markets

More countries have reported cases of the coronavirus and the Center for Disease Control has confirmed multiple domestic cases. China, meanwhile, is struggling to contain rising public anger over its response to the outbreak as it restricts travel for 40 million people during a major holiday.

Less than a month after the first reported case, the outbreak is still in a relatively early stage, but the virus's spread has already drawn comparisons to the severe acute respiratory syndrome (SARS) outbreak that originated in China in 2002. Fears of a SARS pandemic in 2003 led to widespread flight cancellations and brought retail to a standstill in many parts of Asia, as fear of contagion began to outweigh the desire to travel or shop. Fears of a new outbreak are already roiling financial markets, but is the economic impact of a potential epidemic worth being worried about?

Estimates of the true economic impact of the SARS outbreak vary, but one report from the Brookings Institution **suggests annual GDP growth was reduced by roughly 1 percentage point in China for 2003**. Though the Chinese economy grew 10 percent in 2003, the reduction was still quite large considering there were only 5,327 cases in the country of 1.3 billion people. Though the SARS epidemic's appearance in macroeconomic statistics was large, it was relatively short-lived, as GDP figures bounced back quickly. The outbreak resulted in hundreds of deaths and a loss of at least $40 billion for the global economy, but didn't have an impact on GDP figures for more than a couple months.

Reports suggest that this coronavirus is not as deadly as SARS. For the United States, at this time it is unlikely that the current outbreak will have any material effect on the macroeconomy. The outlook is not as clear for countries across Asia, particularly China. And even if it does, using the SARS epidemic as a guide, any economic impact from the current coronavirus is likely to be temporary. So, wash your hands more often, but don't go and sell your stocks just yet.

This past week's rally sent the 10-year yield lower **1.68 percent, a level not seen since early November**, and the 30-year yield fell to a level last seen in early October. It's difficult to make the case that the retreat in yields is sending a meaningful signal about the economic backdrop. Even with the bond market in a tizzy, expect the Fed to hold course this week, possibly because stocks aren't far from all-time highs. Additionally, there are plenty of potential non-economic reasons for the strong start to the year for sovereign debt.

Anything else of note happen Friday? Treasury Secretary Mnuchin said that issuing an ultra-long bond is no longer in the Treasury's near-term plans. The Bank of Japan's December Minutes noted that consumer inflation expectations have declined since the sales tax hike in October. And Markit Manufacturing PMI missed expectations domestically, but Germany, Australia, the Eurozone, the U.K., and France's flash January Manufacturing PMI all beat their respective expectations.

Notable overseas releases this week include Australian CPI, German unemployment and CPI, and China PMI, CPI and GDP. This week's highlights **also include central bank decisions from the FOMC** with the accompanying statement and press conference on Wednesday, and the BoE Thursday, where odds of a 25-bps rate cut are near 50/50 ahead of Friday's Brexit. This week's U.S. January FOMC meeting should be considered a snooze. Not only has the FOMC signaled it is comfortable with its current policy stance, but on balance, risks to the outlook have subsided and recent economic data has been consistent with the Fed's outlook. The statement and press conference will be scrutinized for any guidance on how the Fed's response to recent funding pressure may change.

Despite a new crop of voters for this meeting as part of the regional Federal Reserve Banks' regular rotation, policy outlook shouldn't change as reduced risks and soft inflation should keep the FOMC in a holding pattern. Following its last meeting in December, the committee stated that the policy rate was "appropriate," a sentiment that has since been echoed in inter-meeting speeches and interviews. Even the FOMC's most dovish member, Minneapolis' Kashkari, who is a voting member of the FOMC this year, has said he is comfortable with the current stance of monetary policy.

While risks to the outlook including trade policy, geopolitics and weak global growth remain elevated, they have subsided to some extent since the FOMC's last meeting. The U.S. and China signed Phase I of a trade deal on January 15, **reducing the risk of further escalation in the trade war and taking some uncertainty off the table**. Even with heightened tensions in the Middle East in recent weeks, oil prices are well within the past year's range and are far from posing a threat to real consumer spending. Global growth remains subdued, but even the most recent PMIs continue to hint that activity is stabilizing. Recent readings on the U.S. economy have also indicated little need to change course. Hiring continues to be strong on trend and the unemployment rate remains at a 50-year low.

Today's calendar New York Fed President Williams delivering remarks. December new home sales are due, followed by the Dallas Fed Texas Manufacturing Outlook Survey for January. Treasury conducts several auctions on the day, including $40 billion 2-year notes followed by $41 billion 5-year notes. Between the treasury auctions, the Desk will purchase up to $377 million GNII 3 percent ($253 million) and 3.5 percent ($124 million). Tomorrow's economic calendar includes December Durable Orders, the November S&P Case-Shiller Home Price

Index, and January Consumer Confidence, before Wednesday brings December advance indicators, December Pending Home Sales. Thursday sees the usual claims figures and advance Q4 GDP before the week closes with December Personal Income and Spending, PCE Prices, and the final January Michigan Consumer Sentiment Index. We begin today with fixed-income prices rallying, Agency MBS prices better .125-.250, and the 10-year down to 1.62 percent on coronavirus fears & a perceived flight to quality.

Employment and Transitions

Towne Mortgage continues to add talent to its TPO sales force and is very pleased to welcome Amy Ellenburg (Tennessee), Kim Jolivette (California), Mary Bulman (Pennsylvania) and Yvonne Weiss (Texas) to the Towne Family. "Adding top talent is critical in this competitive landscape. Relationship is still a very important part of the business and we are extremely excited to have attracted this type of talent and expertise to the Towne team," said Mark Zierott, SVP TPO National Sales. AEs at Towne can sell all three channels of TPO business including delegated and have access to a full FNMA/FHLMC/GNMA agency product set, renovation (203K & FNMA Homestyle), Construction, Jumbo, Non-QM, no minimum FICO FHA, manual underwrites and manufactured housing loans. "And at Towne we service most of our loans! If you are an AE interested in learning more about opportunities at Towne, please send confidential inquires to Mark."

Veritas Funding, LLC announced that Tom Glendhill has joined the company and accepted a position as its Regional Sales Manager, responsible for expanding the Veritas footprint in the western United States, including Washington, Oregon, California, Idaho, Arizona, and Colorado. With more than 20 years of experience in the mortgage industry, 14 years of experience as a regional manager, and an established passion for leadership, Tom has proven himself to be the ideal candidate Veritas Funding was searching for. Congratulations, Tom, and welcome to the Veritas family!

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