LO Jobs; Pooling, Non-QM, Appraisal Products; CFPB, Audit, Exams, and Compliance News

By: Rob Chrisman | Thu, Feb 27 2020, 8:57 AM

I was telling my cat Myrtle that U.S. lenders are continuing to bask in the glow of a great 2019 and a start to 2020 (with March and April now looking very good, given rates), but that one of the big worries is about branches and referral partners being picked off, either through acquisitions or by competitors. She seemed disinterested. But she is particularly seemingly interested in is what regulators and Agencies, from the CFPB and HUD through to state "mini-CFPBs," are doing. For example, just this week we saw a plethora of acronyms in one sentence: The Federal Housing Finance Agency (FHFA, overseer of FNMA and FHLMC) issued a request for input (RFI) related to non-bank membership into the Federal Home Loan Bank System (FHLB). Bank or non-bank, we lend in a very regulated world: more below.

Lender Products and Services

Appraisal tech company, Reggora, announced that it has raised $10 million in Series A funding from Spark Capital and other investors. With the funding, Reggora will focus on adding to its engineering, sales, and operations teams, expanding its nationwide presence, and continuing to innovate in the real estate valuation space. Reggora is a modern appraisal technology company that provides mortgage lenders and appraisal vendors with a two-sided software that streamlines the appraisal process from A to Z. Through advanced and customizable workflows, Reggora's core features include payment processing, algorithmic appraisal ordering, automatic rule-based reviews, appraisal delivery, status updates, and more. Lenders using Reggora today experience significantly reduced appraisal turn times, lower internal overhead, and an improved buyer experience. For more information, please contact demo@reggora.com.

Super Jumbo and non-QM wholesale lender FundLoans announced the release of its Million Dollar Mortgage Experience podcast episode, The Art of Negotiation. In the highly anticipated episode, FundLoans CEO, Jon Maddux sits with former FBI hostage negotiator and best-selling author, Chris Voss, to discuss communication tactics that are a must in any sales toolbox. FundLoans, a leader in exception-based lending, is paving the way in Jumbo and Super Jumbo lending by offering 48-hour turn times for loan amounts $1.5 MM and greater. To find out more about FundLoans, email info@fundloans.com.

While the coronavirus might pose a threat to public health, the rise of the super virus has had a curious effect on the mortgage market. Maxwell explores the impact of epidemics on the lending industry in their new blog, Market. "For a heads up on what to expect if the coronavirus continues to spread, read the blog here.

Have you heard about the FHFA's proposed changes to pooling practices? Do you know how they could affect pricing and liquidity in the secondary market? After responding to the FHFA's Request For Input (RFI) in January, MCT's Bill Berliner has prepared a handy overview of the proposed changes, including their objectives and implications. Read the white paper and stay informed about regulatory developments that may impact your business.

We Live in Regulated World

Despite the change in administration in Washington DC in January 2017, the CFPB has not gone away. In fact, it is very active, and to pretend it has gone away, or been defanged, is a mistake. The good news is that most companies have made the changes necessary to comply with regulations. (Yes, I realize that some have made changes to comply with holes in the regulations, but that is a different topic.) There's a lot of stuff going out in the regulatory world, and any lender who says, "I'm not worried, my vendors will tell me what to worry about" needs to up their game. Besides that, vendors involved in technological innovation are also coming **increased regulatory scrutiny.**

For example, the Consumer Financial Protection Bureau, the South Carolina Department of Consumer Affairs and Arkansas Attorney General Leslie Rutledge have filed a lawsuit accusing several companies of helping to broker contracts that offered high-interest credit to disabled veterans and other consumers. The case built on several previous bureau actions and charged the defendants with four counts of deceptive acts and one count of unfair acts.

As mentioned above, the FHFA issued an RFI related to non-bank membership into the FHLB. Responses will be collected through June 23. Capital markets folks know that mortgage REIT access to the FHLB window is important since FHLB financing could strengthen both the earnings and risk management of the stocks. KBW tells us that access for the small handful of REITs that were grandfathered in (NLY, RWT, STWD, TWO, IVR, and LADR) will lose access as their existing advances expire (although generally over multiple years).

Less than a week ago the CFPB issued a Supplemental Notice of Proposed Rulemaking (NPRM) to amend Regulation F, which implements the Fair Debt Collection Practices Act (FDCPA), to require debt collectors to make certain disclosures when collecting time-barred debts (the "Supplemental Proposed Rule"). Buckley tells us that, "The Supplemental Proposed Rule adds to the CFPB's proposed rule, issued May 7, 2019, to amend Regulation F to broadly implement the FDCPA, with respect to third-party debt collectors (the 'Proposed Rule'). The Bureau noted when releasing the earlier Proposed Rule that it was contemplating additional disclosure requirements for time-barred debt, and reserved space for such disclosures within Regulation F, as then proposed. The CFPB released several documents related to the Supplemental Proposed Rule, including a fact sheet discussing the Supplemental Proposed Rule and a report on the disclosure of time-barred debt and the right of revival, providing findings from quantitative disclosure testing that the CFPB conducted."

If you're interested in TRID, which is not going away but is being refined and hopefully improved, and have questions about corrected Closing Disclosures (CDs) and the 3-Business Days waiting period before consummation, Model Forms, construction loans, providing Loan Estimates (LEs) to consumers, and Lender Credits, you're in luck as "The Bureau" has posted Frequently Asked Questions related to the TRID Rule and lender credits.

Recall that late last year the Fed released proposed rules that would ease Dodd-Frank regulations for banks $100B to $250B in assets. The press is calling these "smaller banks" but we will let you be the judge of that one. According to the Financial Times, bank mergers have not been nearly as plentiful as before the crisis, partly due to increased regulatory scrutiny pushing excess capital into dividends and buybacks vs. mergers.

I don't know if this will make you feel better or worse, but most banks are ill-prepared for complying with the regulatory requirements of an internal audit. Many issues can be found in an internal audit. From being understaffed or undereducated, to a disregard for standard procedures, negligence and breach of fiduciary duty by directors, and even a failure to conduct a timely audit, the list goes on and on. Audits normally look for internal control weaknesses, including weaknesses relating to loan underwriting and credit administration, or repeated deficiencies, where the financial institution ignored findings or left them in an unresolved status. Audit reports should provide at least a description of the scope of work performed, a determination of the underlying causes, a judgment about the significance of the findings, and conclusions regarding the severity and pervasiveness of findings.

Auditors should always have the necessary knowledge and training to conduct certain audits effectively. In general, audits should be performed on time and concluded within reasonable timeframes, and have a scope size sufficient to ensure reliable findings. Internal auditors should not be charged with both audit and operational responsibilities in several areas, which diminishes their respective independence and may lead to governance violation for management. Audit risk analysis and planning must ensure that the audit's scope covers the range of criteria commensurate with the level of risk in the different areas of the audit.

The Lenders Compliance Group reminds us that a bank's internal audit department should be tracking exceptions identified by outside entities, including recommendations made by regulators and other third parties, to ensure that such exceptions are appropriately corrected or scheduled for corrective action. It would benefit all banks to develop and implement a comprehensive corporate-wide risk assessment program, enhance their audit exception tracking, better monitor corrective action plans, revise internal audit policies periodically, and fortify the oversight of the Audit Committee.

Lenders Compliance Group posted an article on its Mortgage FAQs website, titled Compliance Management System – Exam Readiness. One of their subscribers got cited for a deficient compliance management program and asked for some urgent guidance. Jonathan Foxx, LCG's Chairman, wrote a response that you should read. He lays out the dangers in not being prepared, provides a whole set of important questions for self-assessment, and, as a solution, offers the CMS Tune-up!™ – one of many "mini-audits" that the compliance firm has pioneered – which LCG says is cost-effective, done relatively quickly, and offers "actionable findings." The article has links for presentations and appointments as well as for scheduling calls and audits.

Capital Markets

Financial markets have been **rattled by the spread of the coronavirus outside of China** this week, with U.S. Treasury rates recording their fifth consecutive day moving down yesterday. The coronavirus outbreak is on track to become a pandemic with most new cases now arising outside China. Norway has its first case as does Brazil, Croatia, France, Finland, and Georgia. While there are only 15 confirmed infections in the U.S. so far, emergencies are being declared in California and almost 100 people on New York's Long Island are being monitored for signs of the pathogen. So far, the global death toll is approaching 3,000 with more than 81,000 ill.

Rates fell again yesterday, the 10-year Treasury yield ended the session -2 bps to 1.31 percent, though the fall was not as drastic as the beginning of the week. The coronavirus has added uncertainty into U.S. structured finance, which has been humming along since the start of 2020 on low rates and strong investor demand, but uncertainty has been added to the sector's outlook for the rest of the year.

While structured products tend to lag the secondary moves seen in markets such as equities or high-yield bonds, **securitizations are not**

immune to pressures from the spread of the virus. According to Bloomberg, corporate bond sales in Asia, Europe, and the U.S. slowed considerably in recent days. Those worries have been compounded by possible regulatory changes if a Democrat wins the White House and ongoing challenges in the industry's transition away from the London interbank offered rate (LIBOR). The "uncertainty band" has widened. I prefer to look at the positives: the current drop in U.S. bond yields is both spurring refinancing in real estate and MBS issuance.

Today's economic calendar began with a laundry list of economic reports. We've had January Durable Orders (-.2% ; ex-transportation +.9%) weekly Initial Claims (+8k to 219k), the second estimates of Q4 GDP (2.1%, unchanged) and the Q4 GDP Deflator (). Later today brings January Pending Home Sales, the February KC Fed manufacturing index, $32 billion 7-year Treasury note auction results, and Fed speak from both Chicago's Evans and Cleveland's Mester. In the early going Agency MBS prices are better by a solid .125 and the 10-year is yielding 1.28 percent. As one would expect, mortgage prices are lagging in this bond market rally: prepayment speeds increase, and the credit risk as picked up slightly.

Employment

Guaranteed Rate is seeking acquisition opportunities with mortgage companies looking to maximize profitability. Guaranteed Rate, the 3rd largest retail lender in the country, experienced record growth in 2019, creating a great opportunity to partner with like-minded leaders looking to take advantage of our expertise and economies of scale. If you are an owner or CEO of a mortgage company that is looking for better pricing, increased profitability, lower risk and much less stress and hassle, we urge you to e-mail Mark Filler to learn more about integrating your business into our platform.

Spread the word! Colonial Savings, F.A. and its mortgage divisions, Colonial National Mortgage and CU Members Mortgage, are expanding in 2020! This privately owned, Fed-chartered, retained-servicing lender has been financially solid for 68 years and is highly respected! Key positions are available in Dallas/Fort Worth; Underwriting Manager, IA SVP, Servicing Financial Analyst, Sr. Fair Lending Analyst, Retail Mortgage Trainer, Loan Servicing Trainer, Retail Loan Officers and more! Colonial also has a NEW Executive Sales Consultant position in its Midwest Territory (IL, IN, IA, KY, OH, MI, MN, WV, WI). Visit ColonialCareers.com and Apply Today! Also, click here to learn more about the exciting 20 in 2020 recruiting initiative! EOE | M/F/Disability/Vet. | Equal Housing Lender | NMLS ID 401285

A Comptroller is being sought to work alongside the CFO at a strong and rapidly expanding mortgage lender due to innovative technologies and best-in-class performances. Candidate must demonstrate strong knowledge of accounting fundamentals, leadership qualities and communication skills. Incredible culture and career opportunities that make it a one-of-a-kind opportunity. Please submit resume and contact information to Chrisman LLC's Anjelica Nixt.

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