Broker, Title, Recruiting Products; Margin Calls, Appraisal Delays, Sticky Mortgage Rates...

By: Rob Chrisman | Mon, Mar 9 2020, 9:04 AM

As everyone grapples with changing the clock in their car… The world's shortest horror movie? At 14 seconds, here you go. (Thanks to Kevin K. for that one.) I was surprised by a question I received in Chicago last week. "Are you hearing of home sellers holding off on open houses not wanting to have 50 strangers cycle through their house?" What I am not surprised by is the reaction to the rate moves. The "risk free" U.S. 10-year is yielding .4 percent this morning. Volatility is no lender's friend. Indeed, lender's worlds are filled with early pay off penalties, renegotiations, margin calls, servicing write downs, and lengthy appraisal delays in many areas. Our industry can't refinance $10 trillion of outstanding MBS in three months. COVID-19 is here, and it will continue to be the main driver of mortgage-rate movements for quite some time. But, as usual, mortgage rates haven't dropped as much as some would expect, and in fact have edged higher, especially for some jumbo programs. What gives? Producers should skim through the capital market section to see why some banks and lenders are holding the line on rates and not following the drop as others may be, and why it makes sense for the loan officers.

Lender Products and Services

Have you heard? Connector by Velma® added an automated NOI letter to its 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; get more information here.

It is important to think about what technology you are using to win future referrals and repeat business. HomeBinder gives Originators a way to ensure they aren't forgotten. Show borrowers how to care for their greatest asset. Give them a reason to remember you with a complete home management suite of tools. The relationship doesn't end with a closed loan for you or Agents you work with. Don't be forgotten by your mutual clients. Co-brand and share the wealth! Call 800-377-6915 to learn more or click here. Integrations with Encompass is available. Click here for a 3-minute demo video!

QLMS is always looking for the next tool to help brokers keep winning business. Seven months ago, it introduced Padlock, a groundbreaking program that provides brokers free rate lock extension days. QLMS has saved its partners' clients more than $11 million since launch! That translates to an average of $669 saved per loan that used Padlock. These savings are another way brokers can differentiate themselves from the competition. By providing clients with the flexibility of free rate lock extensions, LOs are saving them hundreds of dollars during the closing process that other brokers would not be able to offer. Padlock is just one of the many ways LOs are Stronger Together with QLMS. If you are not a partner, click HERE to see how QLMS' innovative tools can help grow your business.

Happy Birthday to Silk Title Co. who turns 18 this year. Three more years and they can (legally) drink at conferences. To celebrate early, Silk Title grew by 582% last year and only added 13 employees. Silk's President & CEO, Marc Trachtenberg said, "The growth is helpful because it is providing the capital we need to keep investing in technology for the digital closing experience. But what I care more about is we did not lose a single client as we tripled our overall client base." For 2020, the company is actively seeking strategic partners to enhance integrations. "Service at scale is remarkably difficult. We cannot do it in our own silo because it requires our lending partners and others in the tech ecosystem to build software around the right processes instead of processes around the software, which causes limitations." Feel free to reach out to Marc Trachtenberg to chat.

Attention all Marketers! BombBomb and Usherpa, two great Colorado companies, are now integrated. As the ONLY integration in the industry with compliance review built in, the power of personal video is now insanely simple and worry free. What makes it unique? Usherpa consulted with all the stakeholders before calling the integration finished. Management talked to CEO's, Marketing Directors, and of course LOs, and then to compliance folks who worried that making it easy for LOs to send personalized videos to everyone in their database might run up against some compliance issues, so they customized a compliance review system as a safeguard. This way every stakeholder can rest easy knowing that any BombBomb video going out from its LOs meets compliance standards to a tee! Curious? Ask them how it works today.

Capital Markets

The coronavirus outbreak is having an unusually strong impact because it is **hitting the global economy from two directions**. The outbreak has crippled China's ability to produce goods, while consumers' fears have sent demand tumbling elsewhere. The yield on the 10-year US

Treasury has reached another record low, increasing the likelihood the yield will hit zero. Institutional investors and some economists are now saying this might happen before year-end, as could two and five-year yields going negative.

I know I must sound like a broken record at this point, but… U.S. Treasury yields plummeted on Friday to new record lows, as they have again here Monday morning, and the stock market posted another day of huge losses due to continued coronavirus concerns, which are now spurring credit worries. The 10-year Treasury yield fell from 0.93 percent at Thursday's close to as low as 0.66 percent on Friday before closing the day -22 bps to 0.71 percent, down -45 bps over the course of the week. While the February employment report was stronger than expected, it was largely ignored as it is expected to be the last positive payrolls report for a while due to the impact of the coronavirus. **There is now a 100 percent probability priced into markets of another 50-bps cut at or before next week's FOMC meeting and over a 60 percent probability of a 75-bps cut.**

Despite the drop in Treasury yields over the last couple weeks, many sales staffs have not seen the decline in rates they were hoping for, and some have even seen an increase in rates (up to 0.5 percent in some cases, especially with jumbo investors). LOs are wondering why. Last week, I addressed why mortgage rates do not fall as fast as Treasury yields. (The two main reasons are: 1. High refinance demand due to lower rates doesn't mean lenders have to sacrifice margin for higher volumes, unnecessarily reducing profits. Pricing is the quickest and easiest way to manage capacity. 2. **As mortgage rates drop, prepayment speeds/refinances increase, hurting mortgage investors**, which then puts upward pressure on rates.) What's going on now?

A year ago, when volumes were dropping, lenders cut margins in an effort to spur business and keep volumes up. Currently, the drop in rates has lenders overloaded with new files. With loans flowing through the door management views it as easier to widen margins, remain below capacity, and make more basis points per loan, rather than hiring, training, and paying more people to handle the volume. Leaving staff alone, margins can be increased and loans will still flow, especially from existing servicing portfolios. The thinking is that because of all the refinance demand, if borrowers don't like an offered rate, they can go somewhere else and the lender's bottom line will still be fine.

Yes, there are trillions of dollars of outstanding mortgage debt that can now be refinanced into a lower rate, but given that we fund about $2 trillion per year, **there is no way to keep up with demand**, especially in the next couple months. Rounding, we can't fund $11 trillion in three months. It allows lenders to be selective in their lending, letting problem clients go elsewhere while still exceeding volume targets off of the "low-hanging fruit." The challenge is for sales staffs to reframe how they think, giving up some loans they "would have done," instead of processing them.

The other part of the equation is what investors are willing to pay for loans. Let's look at a very simple pricing example. If an investor paid a premium (ex. $102k for a $100k loan, or a price of 102), they are expecting to collect monthly principal and interest payments for a long enough duration to justify the upfront expenditure. When rates drop, borrowers refinance more quickly than investors anticipated at the time they purchased the loan from a lender, meaning the investor makes less on the loan than expected as interest payments cease.

When rates drop, investors preemptively offer lower prices to lenders under the assumption the borrower won't stick around in that loan long enough to generate many months of interest payments. That downward pressure on MBS prices means mortgage lenders in turn need to either charge borrowers higher upfront costs for a specific rate, or keep the same upfront costs and opt for a higher rate. The bottom line is that when investors pay lower prices, mortgage rates will not be able to fall as fast as Treasury yields. To investors, the value of investing in mortgages is always thought of in relative terms to a risk-free benchmark like Treasuries.

As rates fall investors need more and more yield in order to be compensated for the risk the borrower refinances faster than they currently expect. If the bond market stabilizes with less volatility around these current Treasury yield levels, mortgage investors will get more and more comfortable making assumptions about borrowers' predisposition to refinance, allowing mortgage rates to gradually move down closer to Treasuries.

Volatility is the key player here. It increases costs lenders pay to do business, to ensure lenders can honor the rates being locked by consumers, and to offset the money they lose when consumers break a lock agreement due to market volatility. As volatility decreases, lenders can tighten up margins between the rates they're offering and the rates implied by what investors are paying for mortgages. But in recent weeks lenders have been increasing margins to offset the increased costs associated with volatility. And with lower rates, costs increase to maintain a servicing portfolio: **think of it as running in place.**

"Regular" economic news matters little these days, and there is none today. And Tuesday only has the NFIB Small Business Optimism Index for February. Wednesday sees the usual MBA Mortgage Applications, as well as CPI figures for February and Treasury Budget for February. Thursday brings a very-revealing ECB Policy Decision in the wake of last week's emergency 50 bps rate cut by our Federal Reserve and February PPI figures. The week closes with Import/Export prices for February and the Preliminary University of Michigan Consumer Sentiment for March. We begin today with Agency MBS prices better .250-.750, depending on coupon, and the 10-year yielding .42 percent.

Employment

A leading real estate technology company is searching for a VP-Product Manager to lead the expansion of its Single Family Residential for Rent business. 10+ years of mortgage industry/real estate finance experience is required, with an intrinsic knowledge of the mortgage value chain (including, but not limited to loan origination, processing and underwriting, closing & funding, regulatory/compliance frameworks, and capital markets). Proven strategic planning skills including the translation of strategic ideas into executable actions is a must. Product management experience with P&L responsibility is essential. Interested candidates can reach out to Chrisman LLC's Anjelica Nixt to submit a resume and begin the interview process.

“Black Knight, Inc. is a leading fintech looking to grow our team with forward-thinking, collaborative individuals who want to make a difference. Black Knight recently acquired, Compass Analytics, a leading provider of cutting-edge mortgage pricing and risk management technology and advisory services to the mortgage industry. We are currently hiring for a Capital Markets Account Executive to work with all existing Compass Analytics (Black Knight) clients nationally as a relationship manager to ensure client satisfaction, build product awareness and adoption, and identify strategic solutions and cross-sell products. The successful candidate will be able to efficiently manage projects and work closely with sales, account management, product managers and implementation teams.” If you’re interested in learning more about this role, the job description and application can be found here, and any additional questions can be relayed to Megan Goulette.

Valuation Partners, a leading nationwide appraisal management company, is expanding its sales force. The AMC had a record year in 2019, has been in business for over 35 years, and has a best of class reputation. Valuation Partners is looking for a VP of Sales for the Northeast Region. Our ideal candidate possesses mortgage sales experience in the northeast (NJ, PA, NY, MA, MD, CT, RI, ME, DC and DE). A background in correspondent, mortgage insurance, and/or mortgage vendors sales experience is desirable. Compensation is a combination of base plus commission, health and dental, and 401(k). Join a team with a full suite of valuation products, a commitment to exceptional customer experience with senior leadership that understands the appraisal business. If you are interested, please send your confidential resume to sales@valuationpartners.com.

“Time is money and that means you count on your operations team to move your loans through underwriting as fast as possible. At Castle & Cooke Mortgage, we’re so awesome that nearly half of all loans in underwriting come out ready to close the first time. If that’s not enough, the rest average just 4 conditions. Our processors are some of the best in the business and they know how to get it done. Giving your borrowers and referral sources a stellar experience is your number one priority, which makes it our number one priority. Industry-leading turn times is just one way we help you delight your customers. Want to learn about the other exceptional things we do for you and your clients? Contact Christi Fullerton today.”

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