Anti-fraud, DPA, HMDA Products; Non-QM News in Primary and Secondary Markets

By: Rob Chrisman | Thu, Jul 2 2020, 8:59 AM

Lenders continue to count the piles of doubloons they booked during another record-breaking month; will July be another? M&A deals are still simmering out there, but when profits are "en fuego" and July is looking strong with full pipelines, it can be tough for a fortunate owner to sell. Think of all of those unfortunate folks who bought fancy/expensive dresses or suits in February or early March: They probably won't need them in 2020 due to the pandemic crisis. Now all one needs is a Zoom blouse or shirt. Speaking of a crisis, TBD Marketing put together a Crisis Flowchart that is easily downloadable. I hope none of you will ever need it, but we know that someone will from a PR perspective. When the health crisis began 3 ½ months ago, since no one was on vacation, the daily "out of office" replies that I received after sending out my commentary plummeted. They've ramped back up again, which means that some are taking some much-deserved time off, and hopefully wearing masks & washing hands. Seen outside a bar: "When this is all over, we're throwing the biggest St. Pats Easter de Mayo Bash of July End of Summer Halloween party ever!"

Lender and Broker Services and Products

"In case you missed it, Richey May's 2019 HMDA Market Share Dashboards are out! We've organized the raw data into easy-to-use dashboards to help mortgage leaders and industry service providers find insights. See the dashboards on our new website! If you have any questions or would like to discuss the data please reach out to us."

"Overlays" & shuttered programs are reactive; exclude solid, underserved borrowers; overweight the past & credit scores; and weren't a magic bullet in the GFC. Overstated (and understated) scores, forbearances & defaults will increase with such a volatile socio-economic backdrop, regardless. Get "proactive" with the actionable Mortgage Risk & Fairness Score, a predictive, data-driven "intelligence" tool to understand borrowers, holistically.Then, use that deep insight to originate, underwrite, fulfill, buy, sell, and monitor more inclusively & efficiently. It's plug-n-play and enables quick deployment of advanced risk & behavioral/attitudinal analytics (propensity, segmentation, ability, and "willingness" to pay) that are validated (top 10 bank) & vetted (CFPB, OCC, Fed). "The Score" doesn't require change to existing tech or processes. But, used up-front, and as an adjunct to underwriting, secondary, and servicing, it will increase volume, inclusion, confidence, margins, efficiency, and capacity, while decreasing risk. Click for info.

"Chenoa Fund demonstrates how responsibly run national DPA programs benefit the consumer. Innovative financial solutions, such as our CRA Note Exchange, have allowed us to offer the Rate Advantage program, which offers rates competitive with standard FHA loans, even with DPA included. Also, by running mortgage banking in-house vs. outsourcing operations through large bankers, we have brought costs down to consumers, while helping lenders avoid losses on DPA. Additionally, through careful monitoring of our loan defaults, we added overlays to mitigate risk without eliminating offerings to underserved populations. Independent financial/operational audits are conducted throughout the year to assure partners our compliance with all industry requirements. We constantly strive to improve our offerings, pricing, and service. These measures allow us to serve significantly more minority homebuyers than any other DPA program (54% of borrowers are minorities). We sincerely thank each of our amazing correspondent lenders, making our program available where most needed."

FundingShield's services have processed $110Bn+ YTD 2020 in transaction value, an increase of 700%+ compared to YTD 2019 due to client growth in addition to a surge in product interest due to WFH (Work-from-home). The industry continues to seek cost reductions, efficiencies in automation (utilizing cognitive AI/ML) to free up critical middle & back office resources while eliminating wire & title fraud and losses. Lenders are now able to very quickly get comfortable with new closing agents that can execute with the realities on the ground using RON, digital and e-closings where FundingShield's transaction level vetting, verification and validation facilitates lenders to adapt, adopt and in result be protected. Ike Suri, Chairman & CEO shared, "The industry is embracing cloud-based, single-click, secure and malleable technology to improve customer experience, eliminate the risk of the growing epidemic in wire, title & synthetic fraud while driving higher asset quality to investors who demand further validation through the origination process." Contact Sales@Fundingshield.com.

News About the Non-QM Sector

Last week the CFPB put out a proposed extension and new definition of non-QM, much of which goes along with industry thinking. Given that it would appear that non-QM loans will account for somewhere between 1 to 5 percent of overall production, and the huge majority come from three states (CA, FL, and NY), plenty of lenders either don't care about the product or aren't even licensed in those states. And a large percentage of non-QM loans flow directly into the portfolios of credit unions and banks who often price it very competitively and like owning the asset. But it is still a good idea to see who is doing what, and what the trends look like.

First, a look at existing securities. S&P Global reports, in its Assessing the Credit Effects of COVID-19 on U.S. RMBS, that the non-QM sector was “expected to show relatively increased credit pressure given the greater presence of lower FICO borrowers and the higher proportion of self-employed borrowers. As expected, the reported delinquency levels rose the most (on an absolute basis) for non-QM compared to other sectors, such as credit risk transfer (CRT) and prime jumbo.”

“The nonqualified mortgage (non-QM) RMBS sector may be particularly sensitive to the economic freeze that has gripped the country because it is characterized by (1) lower relative FICO scores, (2) the use of alternative income documentation, (3) self-employed borrowers, and (4) concentration within three states (California, New York, and Florida). Examining non-QM pool concentrations by metropolitan statistical area (MSA), we found that roughly two-thirds of non-QM loans are to borrowers in the top-15 MSAs (of which there are 399 in the U.S.), and 12 of these are located in either California, Florida, or New York.”

S&P continued. “Self-employed borrowers may face business cash flow strains arising from mandatory lockdowns. We find that loans to borrowers in California make up 50% of the closing principal balance in the S&P Global Ratings-rated non-QM RMBS universe, with 28% underwritten to self-employed borrowers. California has the largest share of self-employed borrowers at 56%. The state's non-QM loans, however, exhibit FICO scores and loan-to-value (LTV) ratios that are stronger than the respective national averages. Florida's non-QM loans stand out as having the lowest average FICO score and the highest average LTV ratio. New York and Florida both have greater exposure to debt service coverage ratio (DSCR) loans (i.e., investor property loans underwritten to rental cash flows) than California. New York has the highest FICO and lowest LTV ratio among these three states.

“At this early stage in the economic downturn, we have seen DSCR loans exhibit about the same credit performance as self-employed borrowers, except in New York where they have performed worse. The higher degree of COVID-19 exposure in New York may be having an impact on the residential rental market to a greater extent. DSCR borrowers, however, tend to have substantial equity in their properties and might therefore be disinclined to default strategically. In addition, they tend to also have cash flow diversification via multiple rental cash flow streams, which could also be a factor supporting DSCR loan performance.”

Sprout Mortgage has announced enhancements to its recently unveiled suite of non-QM programs that are designed to provide additional home finance options to creditworthy borrowers. The new enhancements include: A new Max 85% LTV on most loan programs. Reduced rates across the entire program offering. Increased maximum Loan Amounts at lower Loan-to-Value levels on the Select program series. Sprout's loan programs are accessible through many widely used mortgage product and pricing engines including Optimal Blue, Loan Sifter, EPPS LoanNex and Mortech. Full details are available to mortgage professionals through the Sprout Client Portal, while Sprout's easy-to-use iQualifi app provides scenario eligibility and pricing.

Luxury Mortgage has announced that it has resumed funding on its entire suite of Simple Access non-QM products (full doc, alt doc, and investor/DSCR) through all origination channels: retail, wholesale, and correspondent. Luxury Mortgage was the 2nd largest contributor into Starwood’s recent non-QM securitization, which was the largest post pandemic issue. Luxury Mortgage also noted that, in anticipation of the relaunch, it has maintained the entire TPO workforce through the pandemic. If you are interested, click here to inquire about becoming an approved broker or correspondent seller with Luxury Mortgage.

Angel Oak Mortgage Solutions informed its clients that lender paid compensation is back, and highlighted its Bank Statement Program with lower rates and expanded LTVs: 85% down to a 720 score, personal bank statements are now available, 100% of deposits on our Personal Bank Statement loan (call AE for details).

LoanStream posted an article titled, “Lenders Broaden Non-QM Offerings, Loosen Credit as the Market Stabilizes.” And LoanStream posted various updates including FNMA & HomeReady Product Guideline Updates, Matrices for Government and Non-QM, and Communications Related to COVID-19.

Mortgage Solutions of Colorado is offering products such as hobby farms on 20 acres, homes on 100 acres, or other unique specialized products for Ag land loans, farms, and ranches. “In addition, as many borrowers struggle with impacted credit from the pandemic, we also still offer our unchanged FHA and VA products with the same Agency driven guidelines. See what is available that you may be missing with the Ag and Rural Residential products that we offer, as well as our still popular government guideline driven FHA and VA products. (Questions can be directed to Richard Eampietro.)

Redwood’s Select QM and Choice QM Program Eligibility Guides have been updated; effective dates are specific to each change.

PRMG announced the release of the Choice Non-Agency Product Suite offering two non-QM first trust deed products with loan amounts ranging from $100,000 to $2,000,000 or $3,000,000 (depending on the product). The Choice Conforming and Jumbo product is more like a traditional jumbo product and the Choice Plus Conforming and Jumbo is a near-miss jumbo. They both allow for non-warrantable condos and LTVs to 95%. The near-miss option also allows reduced seasoning and credit scores down to 600. PRMG offers live webinar training on this new product suite option.

Capital Markets

Liquidity continues to be the name of the game! Chris Bennett from Vice Capital sent, “GNMA 2.0s have struggled from a liquidity standpoint without any support from the Fed like UMBS 2.0s or GNMA 2.5s have, but there is real end-buyer interest there. We recently put out a larger pool of GNMA 2.0s and got bids that ranged from 24/32 below Tradeweb screens to 10/32 above them – in the end they traded well into the 104s. Seems a little crazy to think you can offer 2.25% on a 30yr FHA loan and get 4 points in cash plus keep the servicing for free, but if you’re an issuer that’s where things have evolved to. Wild times.”

It was a bit of a **volatile session for MBS and U.S. Treasuries yesterday**, though the latter ended the day only pulling back a couple bps across the yield curve, moved by an opening rally in stocks, no positive coronavirus news as more states were forced to delay re-openings, and reminders of a worsening relationship with China (this time over sanctions for the Communist Party's abuse of Muslim minorities in Xinjiang).

Data from the day showed construction spending declined 2.1 percent month-over-month in May when it was expected to increase 1.1 percent. That comes on the heels of a downwardly revised 3.5 percent decline in April and shows total construction spending has decelerated to only be up just 0.3 percent from a year ago. The ISM Manufacturing Index for June rose to 52.6 percent, indicating expansion in the sector, which comes as a welcome surprise as it was still expected to contract for the fifth straight month. The figure also represents the largest month-over-month increase since August 1980 and reflects a clear bounce back from the super depressed conditions seen in April and May… but how sustainable is the bounce back?

Today’s early close calendar has already had a whole slew of releases. June Nonfarm Payrolls (+4.8 million, better than expected), Unemployment Rate (13.3 percent down to 11.1 percent!), Hourly Earnings fell, May Trade deficit ($54.6 billion), weekly Initial Claims for the week ending June 27 (-55k), and Continuing Claims for the week ending June 20 (+59k). There are only two other scheduled releases (ISM New York business conditions and May Factory Orders) before the early 1PM ET bond market close. After the payroll data we begin the day with Agency MBS prices worse/down nearly .125 and the 10-year yielding .70 after closing yesterday at 0.68 percent.

Employment and New Hires

“Caliber Home Loans and our employees show our patriotism in numerous ways, one of which is through active support of our Military Veteran Employee Resource Group (MVRG). ERG members have raised funds and volunteered countless hours with several military support organizations such as Wreaths Across America and Patriot PAWS, as well as assembled hundreds of Caliber Cares Packages for active-duty service members. Caliber and the MVRG recognize the contributions and sacrifice of military and veteran communities annually through military t-shirt sales, support of the USO, and participation in the Carry the Load campaign. We celebrate and honor National Military Appreciation Month each May though these efforts and with a special place in our hearts at Caliber. If you have an interest in one of our posted job opportunities, please contact Jonathan Stanley for consideration. If you are interested in a sales opportunity at Caliber, please contact Brian Miller for immediate consideration. Visit the Caliber Careers website for opportunities across the organization!”

Amazing opportunity with unlimited career potential for the right accounting/finance leader who would report directly to the CFO: A nationally recognized IMB is searching for a Controller to join its legendary team. A company where culture is number one, they consistently prove strong annualized YOY growth with first-to-market innovations, implementing leading technologies, and growth in expanding markets. Teamwork, leadership, and advocacy of the company’s vision are essential to the role. Experience with AMB and Encompass are ideal. Interested candidates should reach out to Chrisman LLC’s Anjelica Nixt to submit a resume and begin the interview process.

“We’d like you to meet RON. No, RON isn’t a new Evergreen Home Loans associate. RON is short for Remote Online Notarization and we’re well acquainted. In fact, Evergreen closed 15 loans in April with RON. Combine that with almost 86% of customers previewing their closing documents before signing, plus 65% of eligible customers eSigning, and we said hello to a record month in April. Next up? Introducing our customers to eNote. Customers in select markets can eSign the Note before meeting with a notary (including RON). And some customers have already closed with eNote and RON! That’s just another way we’re streamlining and improving the closing process. If you’re interested in working for a company that welcomes innovation and creates happy customers, check out our careers page or contact Chuck Iverson. We’d love to meet you.”

Angel Oak Home Loans is excited to announce its expansion in the Western U.S., specifically California, Arizona, Nevada, and Washington. “We are hiring a Regional Sales Manager to be based out of California or Arizona. As well, positions are available for a West Regional Operations Manager and experienced Loan Officers. This is a great time to join Angel Oak Home Loans as we have had stellar mid-year growth and originations. Continued growth for the remainder of 2020 is projected along with plans for expansion. If you are interested in career opportunities with a growing team at Angel Oak Home Loans, please contact Lee Williams, Mac Cregger, or Drew Church.”

“Home Point Financial was a start-up in 2015. In just five years, we have grown to be the second largest wholesale lender and the #13 largest correspondent lender. We've experienced 400% year-over-year growth in wholesale and expect to fund over $55 billion in 2020. How did we grow so fast? Because we are committed to being true partners to mortgage brokers and correspondent lenders. To meet our continued demand, we’re hiring 75 underwriters at every experience level and 105 fulfillment positions. Visit our website, check us out on social media and learn what being a part of the Home Point family is all about. For immediate consideration please send your resume directly to John Eite.”

The Community Home Lenders Association (CHLA) announced that Craig Thomas would be joining CHLA as its Communications Director after a 30-year stint at Freddie Mac in a number of external relations and public policy roles (most recently as part of its Congressional relations team and as supervisor of Freddie's state relations function).

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