MSR, Conversion, EPO Products; Public Company Snapshots; LO and UW Jobs

By: Rob Chrisman | Fri, Aug 21 2020, 10:13 AM

RCIII writes, "I don't know about you, but I'm ready for some precedented times." But Tom Petty wrote, "Well, the good old days, may not return… And the rocks might melt, and the sea may burn." Let's hope that doesn't happen, aside from the occasional volcano, as there are plenty of other volatile, unpredictable human-related events occurring around the world. (You'll notice that I didn't quote Tom's "Don't do me like that!") So, let's end this opening paragraph, and traditional workweek, with something fun. I don't know where I was last week, or how to even track errant socks coming out of the dryer, but here's a cool map of tracking an eagle's path over twenty years, racking up those frequent flyer miles!

Lender and Broker Services and Products

With record low rates and refis booming, EPOs are plaguing lenders. In mid-July 2020, the 30-year fixed rate hit an all-time low of 2.98%, and that was the 7th time this year. You better believe borrowers are shopping! Fear not, for there is a cure! On average, a Sales Boomerang lender's database triggers at least 17 EPO alerts per month with each EPO costing lenders an average of $11,500. That's almost $200,000 a month in penalties alone! Sales Boomerang has created a new and HIGHLY valuable alert that notifies mortgage lenders the moment when someone in their database is in danger of becoming an EPO. Now you can save 100% of those EPOs! "Look at the opportunity cost you have by not having Sales Boomerang. Last year we closed over $72M in loans that we would have lost from not having Sale Boomerang." (Stephen Barton, Eustis Mortgage) Schedule a demo today!

If Amazon were a mortgage lender, do you think their pre-approval letter would look like yours? Probably not. I bet it would let the borrower do all sorts of cool things like compute payments and calculate closing costs. I bet they'd use the data from those interactions to develop all kinds of actionable insights. If Amazon would do that, why aren't you? With QuickQual by LenderLogix you can swap out your boring PDF pre-qual letter and supercharge your conversion rates. The best part is it just plugs right into your LOS and you can be up and running in a few days without any expensive conversions or implementations. Head over to the LenderLogix website and they'll text a free demo right to your cell.

Market volatility in 2020 has had material effects on servicing portfolios. MCT's Phil Laren, Director of MSR Services, analyzes these affects in his whitepaper, MSR Assumptions Q2 2020. In this whitepaper, he reviews mortgage bond interest rates, forbearance, and modeling of the primary/secondary spread. After that, dive deeper with MCT's servicing portfolio valuations. You can get a first-hand look at how market volatility, forbearance, prepayment speeds and other factors have affected your MSR portfolio. MCT's MSR Services team can also help lenders develop their retain-release strategy with MCT's Enhanced Best Execution (EBX) tool. Brett Hively, SVP of Mortgage and Finance at Ameris Bank, says "Having [MCT] as part of the underpinning for our risk management and MSR asset valuation and management has been critical to navigating a challenging rate market. Phil, Susi. Natalie, and the entire MCT Team are great!" Contact MCT's MSR services team today for more information.

Companies: Measuring the Health of the Industry

KBW came out with predictions for several players in the mortgage space as we move into the second half of 2020. Although much of this information has already been mentioned in this Commentary, it is good to hear KBW's analysts discuss the news to gain a sense of industry trends.

Mr. Cooper (COOP) reported that its **net cost related to the 50 bp FHFA fee increase was $20 million** (about $0.22 a share pre-tax and $0.16 after tax).

(Speaking of last week's FHFA fee hike on refinances, and not purchases, a bipartisan group of Senators sent a letter to Mark Calabria, Director of the FHFA, asking that the 50 bp fee on GSE refinances be rescinded. The White House also expressed concern about the fee. While it remains unclear whether there will be any change, even a modest change (such as an October 1st implementation date vs September 1st) would be helpful.

PennyMac saw strong earnings that beat estimates driven by a jump in the gain-on-sale margin. Mortgage volume increased 6 percent quarter-over-quarter to $39 billion, and book value increased. Mortgage Servicing came in below forecasts as the negative MSR mark was only partially offset by hedge gains. Servicing advance liquidity looked strong. The company had $1.5 billion in available liquidity less $220 million in minimum liquidity required by Ginnie Mae, as of July 31st. Portfolio delinquencies peaked at 15.1 percent and fell to 14.6 percent on July 20th. The company had earlier estimated that servicing advances could range from $450 million in a moderate case to $1.7 billion in a stress case. The stress case assumes that delinquency rates peak at 20 percent. Gain-on-sale margins should remain elevated for longer than expected.

Black Knight acquired Optimal Blue for $1.8 billion as an answer to accelerating demand for digital solutions in the mortgage market, reinvigorating growth targets. This has helped drive new sales contract value up double digits from a year ago. BKI expects Optimal Blue to generate revenues of $120 million in 2020. Management is optimistic that specialty servicing could see tailwinds later in 2021, and the company is already seeing strong demand for its loss mitigation products. Q2 results were solid, driven by robust cost management and stronger revenues. Management made positive comments on momentum across the business during the earnings call. Global exchange operator Intercontinental Exchange (ICE) agreeing to acquire mortgage technology provider Ellie Mae, the largest competitor to Black Knight's origination technology suite, was a concern amongst executives.

Flagstar announced a secondary offering in which MatlinPatterson (MP Thrift) will be selling 6 million shares of FBC stock, amounting to about 10.5 percent of the outstanding number of shares. The offering will reduce MP's ownership to 25.6 percent from 36.1 percent. There is also an option to add an additional 0.9 million shares (or another 1.6 percent of outstanding). MP Thrift's initial investment dates back to the first quarter of 2009 when the bank raised capital at the onset of the financial crisis.

Two Harbors saw reduced EPS estimates to reflect guidance that levered returns on Agency MBS paired with MSR are now in the low to mid-teens. Management noted that core earnings will be ahead of their expectation for economic returns. The dividend is likely to remain unchanged, as. management noted that the dividend is likely to remain stable and economic returns are closer to the dividend despite the fact that forbearance and liquidity risk in the MSR portfolio look contained. Both Common and Preferred Dividends in 2020 will be characterized as return of capital, creating meaningful upside for shareholders since these dividends will not be subject to taxation. As a reminder, mortgage REIT dividends are not qualified and so are taxed at the individual's ordinary income tax rate.

Remember when huge companies were buying up foreclosures ten years ago? American Homes 4 Rent (AMH) priced a 13 million share common equity offering (3.7% of share count; 4.2% incl. the overallotment) for gross proceeds of $364 million. It is believed that the money will be used to repay debt and invest in single-family rental assets.

COOP, NRZ, PMT, TWO, PFSI, ACGL, RKT, ESNT, MTG, NMIH, and RDN all have a potential material impact from forbearance trends. This week, both the MBA and Black Knight reported another sequential improvement in the total industry forbearance rate. Importantly, the MBA reported the GSE forbearance rate ticked back below 5% this week. Forbearance impacts could take a long time to play out, and analysts are watching for any further signs of stress in the system given the supplemental federal unemployment insurance has ended. The industry mortgage forbearance rate is approaching 7% after peaking around 8.5-9% in June.

Capital Markets

We had a bit of a rally yesterday for Treasuries and MBS as the most recent jobless claims showed initial claims increased by 135,000 to 1.106 million, which was an unwelcome surprise. The jump means that any imminent improvement in the labor market will likely occur in fits and starts, and also tempers expectations for any gains in the August nonfarm payrolls report. The IRS forecasted there will be over 37 million employee-classified jobs lost by the start of 2021 versus at the start of this year. **In better news, the total number of Americans claiming ongoing unemployment fell to 14.8 million.** The overall report paints a picture that premature reopenings which were meant to help the economy may have instead done the opposite.

There were several other economic releases on the day. The Conference Board's Leading Economic Index increased more than expected in July, the third straight monthly increase for the index following three straight monthly declines for the February-April period. (For perspective, the July index level does remain 6.6 percent below the level seen in February.) **The Primary Mortgage Market Survey from Freddie Mac for the week ending August 20 saw rates rise for the second straight week after hitting survey lows**, with the 30-year fixed rate rising to 2.99 percent. Separately, the Philadelphia Fed Survey fell more than expected in August.

According to Black Knight, **the number of mortgages in active forbearance remained flat over the past week**, with a 15K reduction among GSE mortgages offset by a 5K raise in FHA forbearances and a 10K increase among portfolio/PLS held loans. As of August 18, 3.9 million homeowners remain in active forbearance, representing 7.4 percent of all active mortgages, or $833 billion in unpaid principal. Over the past 30 days, active forbearances have declined by 202K (-5 percent), with the strongest improvement among GSE loans (-130K, -8 percent). FHA/VA forbearances have remained relatively flat, with a scant 1 percent (-11K) decline over that same period.

Today's economic calendar sees a duo of releases, both out later this morning and rarely move rates. Markets will receive the preliminary print for Market PMIs in August, and then July existing home sales shortly thereafter. The Desk of the NY Fed will again conduct **three MBS purchase operations that total up to $5 billion** starting with $765 million UMBS15 2 percent and 2.5 percent followed by $2.8 billion

UMBS30 2 percent and 2.5 percent and $1.4 billion GNII 2.5 percent and 3 percent. We begin today with Agency MBS prices up/better a few ticks (32nds) and the 10-year yielding .63 after closing yesterday at 0.64 percent on no substantive news.

Employment

Ray Brousseau, Nick Hunter, and Dan Hutzelman at River City Mortgage have been busy since they announced their partnership back in November. The firm has tripled in size, expanded its coverage to 30 states, opened a new state of the art Home Office Ops Center and opened 8 new Regional Sales Centers across the nation! Now comes the announcement of a newly created position - VP Operations. This position will be one of 8 senior executives at the table on the leadership team guiding the business forward. Position will report to ownership and will own operations from A-Z and in great part will be responsible for building the operations platform from the ground up! Position based in Cincinnati, OH. Interested parties can contact Ray Brousseau at 413-304-3010 or Jeff Bombich at 843-283-8525.

Mortgage Training Specialist: Are you a training professional seeking an exciting opportunity in the mortgage learning and technology spaces? Do you have an eye for detail and a capacity to meet and exceed deadlines and goals? If so, this may be the position for you! Indecomm is in search of a training professional to create and deliver mortgage learning with an emphasis on underwriting, along with the authorship of content in a variety of modalities supporting mortgage underwriting engagements. This is a remote, US position. Click here to learn more or email your resume to Joy Gilpin.

"Everything's Bigger in Texas – including Mr. Cooper Correspondent! And we're getting even bigger! We're proud that we continue to achieve record volumes and are preparing for an even more exciting growth trajectory for our Delegated and Non-Delegated divisions. We are significantly growing our team, specifically adding Client Relationship Managers, Suspense Representatives, and Underwriters. If you are a client-focused, experienced Correspondent professional, we want to talk to you! You'll enjoy working in our dynamic culture and be well-rewarded through our amazing benefits package including competitive salaries, amazing paid vacation policy, comprehensive medical, dental and vision packages, 401K match, flexible spending accounts and impressive career growth opportunities, and much more! If you'd like to be part of the Cooper family, please contact Pamela Peak. Mr. Cooper is a Top Correspondent Lender, proud to be certified as a Great Place to Work and the largest non-bank servicer with a portfolio of $600B+."

Regions Financial announced that after a 45-year career (17 with RF) Barb Godin, the Deputy Chief Risk Officer and Chief Credit Officer, will retire at the end of 2020.

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