Jumbo, Non-QM, ARM News; Rates (and Stocks) Plummet in Thinly-Traded Market on Covid Variant News

By: Rob Chrisman | Fri, Nov 26 2021, 10:39 AM

As millions of Americans convince themselves that loading and unloading the dishwasher counts as exercise, while we are reminded that rates are impossible to predict when based on headlines risk like the COVID news out of South Africa, and while residential lenders (including jumbo and non-QM segments) wait for the annual setting by the FHFA for Freddie and Fannie conforming loan limits, unfortunately we are reminded that layoffs aren't confined to wholesalers around the nation. For example, Chicago's Interfirst notified authorities of a round in Charlotte. (Anyone looking for a job can post their resumes for free on www.LenderNews.com and employers can sign up for a nominal fee to view them.) The American Trucking Association warned that 2.5 million drivers will quit their jobs if the Biden administration does not reverse its coronavirus vaccination mandate, which has been suspended by the Fifth Circuit Court of Appeals. While we're discussing working, in Portugal, it's now illegal for your boss to call outside work hours! (The podcast engineering staff took today off, but normally the day's audio version of the commentary is available here; those interested in sponsoring it, or being interviewed for an upcoming show, should contact Robbie Chrisman.)

Non-QM, ARM, and Jumbo Trends

How's your company's adjustable-rate mortgage (ARM) offering? ARMs have been dormant for quite some time, although borrowers with ARM loans originated years ago have reaped the benefit of their rate moving lower. The latest numbers from the MBA's survey show that, of all applications last week, ARM share increased to 3.4 percent of total applications. (The refinance share of mortgage activity increased to 63.1 percent of total applications from 62.9 percent the previous week.)

In the jumbo sector, rates aren't much higher than conforming. The MBA tells us that, "The average contract interest rate for 30-year fixed-rate mortgages with conforming loan balances ($548,250 or less) increased to 3.24 percent from 3.20 percent… The average contract interest rate for 30-year fixed-rate mortgages with jumbo loan balances (greater than $548,250) increased to 3.28 percent from 3.26 percent…"

Residential lenders originated roughly $168.0 billion of non-agency jumbo mortgages in the third quarter, up 6.3% from the April-June cycle, according to a new tally from Inside Nonconforming Markets.

On the non-QM (Qualified Mortgage) side of things, non-QM loans had a small market share before the pandemic and was creeping higher prior to March 2020. When COVID-19 hit, as we all remember, the non-QM market crashed, providing ammunition to those who argue against reliance on private label securities. Non-QM loans are certainly not subprime, but certain attributes are reminiscent of that arena. For example, companies offering non-QM loans often call that product by different names, and offer different LTVs, pricing, underwriting guidelines, and processing from each other. But wholesalers and correspondent investors often advertise that lenders can use non-QM mortgages as an alternative when Conventional rates are rising.

Plaza Home Mortgage® expanded its Jumbo lending options with Jumbo AUS 2. Like its original Jumbo AUS, (now called Jumbo AUS 1) Jumbo AUS 2 leverages Agency AUS findings for streamlined documentation requirements, has DTIs to 45% and minimum FICOs to 680.

Check out both Plaza's Jumbo AUS programs, and its Jumbo 1.

PCF Wholesale offers a variety of loan options for your borrowers. Conventional, FHA, VA, Jumbo & Non-QM. 12–24-month Bank Statement Options, 1099 Only, Asset Utilization, P&L only. Foreign National and DSCR with FICO Down to 600. Browse the PCF Wholesale website to find out more.

Wells Fargo Funding increased the maximum DTI ratio for ARMs to 43% aligning with the DTI ratio for Non-Conforming fixed rate mortgage Loans. Effective for loans purchased on or after October 25, 2021.

Fairway Wholesale Lending announced the release of the 15 Year Fixed Rate option on the Jumbo Non-Agency AUS Program effective for locks on and after 10/22/2021, including loans in process. This option is available in addition to the current 20- and 30-year fixed rate options. As a reminder, the Non-Agency AUS Program is an additional jumbo option providing various flexibilities that the Jumbo QM Program may not permit.

LendSure Mortgage Corp has a New Product, Fix N Flip Loans. Designed for investors who are in the business if buying distressed homes. Contact Kelly Brown – Kbrown@Lendsure.com for details.

Capital Markets

Few are locking loans today, but it is still good to check in with what was moving mortgage rates Wednesday especially with the slew of data (jobless claims, reaching their lowest level since 1969, Q3 GDP, revised slightly higher, Durable Goods Orders, with their continued growth in business spending, below-consensus New Home Sales, Personal Income gains being wiped out by inflation in October, and the final Michigan Consumer Sentiment Index for November revised up). Oh, and don't forget the minutes from the November FOMC meeting which noted that the committee sees downside risks to growth and upside risks to inflation. Of particular interest was initial claims hitting their lowest mark since 1969: expect it to factor into the thinking that the Fed is going to need to be more aggressive with its tapering plans.

Of interest to folks in our biz was the increase in new home sales… but at an annual rate that was less than expected. On a year-over-year basis, new home sales were down over 23 percent… The growth in new home sales is concentrated in higher-priced homes. At the lower end of the home price scale, inflation pressures, exacerbated by supply constraints and labor shortages, hit hard and squeezed affordability for lower-income buyers who would buy low-priced homes.

Looking at today, with no scheduled economic news, and its early close, and whether anyone is going to lock a loan in… well, mortgage-backed security prices are .5-.75 better versus Wednesday's close. (Recall that the 10-year yield, although traders don't base MBS trading on 10-year yields, closed Wednesday at 1.65 percent and is down to 1.53 percent.) It is a thinly traded, illiquid market here in the U.S., but the pandemic news a) with Belgium and Austria's lockdown measures, and b) the mainstream press grabbing on to a new variant in South Africa (where only 35 percent of the population is vaccinated), is driving the "risk off" trade. Equity prices are down considerably, and bond prices are up, driving rates down.

Will it last? The Fed is in a tight spot, one the one hand being pushed by inflation news, but subject to the same headline risk that we all are. After only one day of pandemic news analysts are already pushing back expectations of rate hikes. Kneejerk reaction? We just don't have answers, and this once again proves that when markets are driven by headlines rather than fundamental news it is impossible to predict rates.

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