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Sep. 11, 2009: Signs of life in mortgage banking; tis the season for float-down policies

Rob Chrisman

In a roundabout way, this is may be a sign of further good news about the economy or real estate markets: Flagstar added only four areas to their declining markets list: Honolulu, Kalamazoo, Manchester, and Niles-Benton Harbor. In turn, they removed over a dozen areas from their declining market list, including Akron, Atlanta, Chicago, Cincinnati, Cleveland, Dayton, Minneapolis, Tacoma, etc.

How is HAMP doing? Approximately 85% of eligible mortgages are covered by HAMP participating servicers, which include the 47 servicers that have signed servicer participation agreements to modify loans. (These participants service loans owned or guaranteed by Fannie Mae or Freddie Mac, loans held in portfolio, or loans serviced on behalf of other investors.) Approximately 2,300 participants service loans owned or guaranteed by Fannie Mae or Freddie Mac. These servicers automatically participate in HAMP. Out of all that, roughly 360,000 modifications were started out of 571,000 offers that were extended, which came from the 1.9 million requests for information. Servicing really is a numbers game!

Yesterday, once again, both stocks and bonds rallied. We were helped, in part, by a decent \$12 billion 30-yr auction by the Treasury. The bid-to-cover ratio was 2.92, with an indirect bid of over 46%, judged to be strong results. On top of that, Treasury Secretary Geithner was in the news suggesting that as they see signs of strength, the government will not be hesitant in reducing its role in the markets. In addition, he said that unemployment is still too high, but that the recovery will be gradual. Fannie 4.5% securities, which contain 4.75-5.125% mortgages, are being bought and sold in the secondary markets at a price above 101! And when you add a point or two of servicing on top of that, yahoo! This morning we find the 10-yr down to 3.33%, and mortgages roughly unchanged from Thursday afternoon but better than Thursday morning.

How is the reverse mortgage biz doing? The industry publication Reverse Market Insight published its industry trends for July 2009 and shows that reverse mortgage volume in New York is up 47.1% for the year. Other states, however, are lagging. Florida, for example, is down 29% compared to last year, probably because it is "a little oversaturated". Generally speaking, most analysts feel that HECM business will be down slightly this year versus last year, attributed to the loan amount increase that happened last October and the resulting rush in business. There is some debate about a more permanent maximum reverse mortgage loan size of \$625k versus \$417k, which would obviously help the business.

There continue to be signs of life out there in the mortgage business:

Housing Wire reports that an investment fund will be starting soon to provide upfront cash to home buyers in exchange for a stake in the future value of the property. I don't know what the differences are, but it sounds very familiar to the old Rex & Co.'s business plan. (Rex is no longer with us...) "Buyers Equity Fund will provide buyers with up to 15% of the home's purchase price in cash as an equity sharing payment, the firm said in a release. Properties must be pre-qualified before the sale is complete to be eligible for the fund, but the agreement with the fund isn't consummated until after the home sale transaction is complete." If at the time of sale, the property hasn't increased in value, the borrower isn't responsible for the repayment; if it has gone up in value Buyers Equity Fund receives a chunk of the appreciation.

CMG Mortgage, a mainly-wholesale lender, is re-introducing their Home Ownership Accelerator loan. Its heyday was between 2005 and 2008, and works by combining a first-lien line of credit and a full-service checking account into one instrument. Over time borrowers can save interest costs and pay off their loan much more quickly, by depositing their paychecks directly into the loan, instead of into a traditional bank account, reducing the loan balance on which interest is computed. Until the funds are needed, they lower the principal balance, and thus lower the interest costs. The "HOA" is coming out through approved brokers in 5 states: CA, WA, AZ, CO, and MN, with the ultimate investor being Ameriprise. www.homeownershipaccelerator.com

Wells Correspondent came out with new policies for documenting and qualifying income on prior approval loans which take effect in October. They impact borrowers who are re-entering the workforce, income tax return requirement for self-employed borrowers (regardless of whether or not the self-employed income is used to qualify), document requirements for commission, bonus, overtime or income from a second job, and document requirements for alimony, child support or separate maintenance payments. For example, the income for borrowers who are re-entering the workforce and currently have less than a two-year employment and income history may be used to qualify, if the borrower has been at the current employer for a minimum of six months, and previous employment history has been evidenced. Wells Correspondent channel states that if a borrower is self-employed and self-employment income is not used to qualify, "sellers must obtain the borrower's individual federal tax returns. If a business loss is reported on the borrower's individual federal tax returns, the Wells Fargo underwriter may require additional documentation in order to fully evaluate the impact of a business loss on the income used for qualifying." And so forth. It is the best policy to read their guideline changes, which are much more comprehensive.

Wells also addressed "higher-priced mortgage loans" (HPML) which occur when the annual percentage rate (APR) exceeds the Average Prime Offer Rate (APOR) for a comparable transaction, as of the date the interest rate is set, by 1.5% or more for first lien loans and 3.5% or more for subordinate-lien loans. (Try explaining that to a borrower!) "Loans sold to Wells Fargo Funding must comply with all TILA requirements and the changes to Regulation Z, effective with initial applications dated on and after October 1, 2009." Wells also implemented additional restrictions, such as not allowing HPML loans in conjunction with FHA Streamline non-credit qualifying streamline refinance, VA IRRRL, or conventional prior-approval 3/1 and 5/1 ARMs product.

Since rates have tumbled, Flagstar reminded clients of their float-down policy. "All loans in valid lock status are eligible to float down under the following terms: New interest rate must be lowered by at least 0.125% compared to original rate lock, New price is calculated as current

30-day price less 0.500, capped at original lock price, Loans status must be either Approved With Conditions or Final Approve. This restriction will not apply to correspondent loans that are delegated underwritten, and a new lock expiration date will be set to 15 days from float-down. Fee-based lock extensions on loans that float down are permitted for 5, 10, or 15 days, with a subtraction of .375, .5, and .625 respectively from the new price after float-down. In an interesting note, FHA Jumbo and VA loans are now eligible for their own float-down pricing.

Rob

(For archived commentaries, check www.robchrisman.com, or to subscribe/unsubscribe write to rchrisman@robchrisman.com. The commentary is produced every business day, but there always seem to be vague e-mail "issues", so if you don't receive it, let me know.)

Rob Chrisman began his career in mortgage banking 24 years ago in 1985 with First California Mortgage, assisting in Secondary Marketing until 1988, when he joined Tuttle & Co., a leading mortgage pipeline risk management firm. He was an account manager and partner at Tuttle & Co. until 1996, when he moved to Scotland with his family for 9 months.

He returned to the United States in mid-1997 and ran Secondary for Standard Financial, a sub-prime lender in northern California. In late 1997 Rob was hired by CrossLand Mortgage to start, and be the president of, a sub-prime company named OnCall Mortgage (a division of CrossLand). OnCall Mortgage was in existence until Wells Fargo purchased First Security Bank (the owner of CrossLand) at the end of 2000.

Rob then joined CMG Mortgage, a wholesale mortgage bank, as the Director of Secondary Marketing. In early 2003 and re-joined Tuttle Risk Management Services, Inc. TRMS (now Compass) provides mortgage pipeline risk management for mortgage companies and thrifts that seek to originate and sell loans into the secondary mortgage market. In November of 2006 Rob left TRMS to become the Director of Capital Markets for RPM Mortgage, a retail residential lender. Rob also publishes a widely read daily market commentary on current mortgage events.

Rob holds a BS from Cal Poly, San Luis Obispo, and an MBA from UC Berkeley.

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