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Oct. 10, 2011: Bond markets closed; prepayments & FHA/VA loans; new mortgage company; U.S. economy trading water

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At this week's MBA conference in Chicago I have noticed conference participants doing their very best to look very busy, even when standing in a lobby, by staring at blackberry screens and squinting at name tags. There is no indication that mortgage bankers, thankfully, will be participating in races with artillery, worth two minutes to see just how many British Sailors are: <http://biggeekdad.com/2010/09/manly-men/>. Don't try this at home with the kids.

While the data last week seemed to ease fears of the US economy slipping back into a recession, European concerns remain paramount and all eyes will be on developments coming out of meetings over the weekend and this week on the handling of Greece's debt problems. But face it: this issue is going to be with us for a long time. **The Treasury/bond market is closed today - so anyone sending out a rate sheet will price "accordingly" (read: conservatively) since they have no MBS prices in the U.S. upon which to base their rates.**

Friday's positive employment (or at least not too negative) report capped off a string of better-than-expected economic data, sending 10-year Treasuries to the highest yield close in three weeks. It appears that we're not charging back into a recession, but on the other hands the economy is not doing well enough to push rates too high. Mortgage prices should be helped with the Fed's new purchase plan, relative to Treasury prices, but many, including Paul Jacob of **Banc of Manhattan**, suggest that bonds are linked pretty closely to stock market performance at this point. "So we can fuss and fume about the economy and the Fed – but if the Dow goes to 12,000 we're looking at higher yields, and at Dow 10,000 the rally's back on - period."

Prepayment speeds came out last week, and they showed a big increase. Every loan officer across the nation can tell you why: the reduction of conforming loan limits starting October 1. September was the last month where some of these high loan size borrowers, whose loans would no longer be considered conforming, could have refinanced back into an agency loan. I am sure that low rates figure in somewhere, but rates have been pretty good for quite some time. **And new borrowers seem to be the only ones who can have their loans approved under recent guideline changes, so the newer loans are the ones reaping the benefits.**

Rates are staying low, and many believe will go lower still, given the state of the economy. But as mortgage rates have improved, investors have increasingly become concerned about these jumps in prepayments on lower coupon, recently originated mortgages. However, due to the increase in annual FHA insurance premiums, these concerns have predominantly been restricted to Fannie and Freddie MBS. **But what about prepayments on FHA & VA loans impacting Ginnie Mae securities?** A look at rate sheets show that the FHA rate being offered by originators is now 25-50 basis points lower than the conventional rate. The increase in annual insurance premiums only impacts FHA prepaids. Prepayments on non-FHA loans are likely to be faster than speeds at the end of last year. Analysts point out that the impact of the net tangible benefit test fades as the loan seasons, and that in fact the most recent HUD outlook report showed that FHA-to-FHA refinancing applications jumped by 70% and that delinquencies on 2009-2010 vintage Ginnies have been increasing over the last couple of months. All of this adds up to many investors believing that FHA & VA loans will start to prepay at a faster rate. Uh oh.

In a related e-mail from a veteran loan agent: "I was able to provide great deals to my FHA clients on the streamline program even with the 5% rule. Let's face it: if you don't have at least a 5% savings, it is not worth the cost to refi. Too many lenders refi loans that really don't make sense to refi. The old rule of thumb was that you must recoup the cost with savings within 2 years, and I don't earn more than 1-1.5 points on a loan. I was able to lower their rates and cover all the closing costs. But the killer is the new PMI. Now, it is impossible to streamline. In my opinion, they should go back to the lower PMI or at least on the streamline redo at the same PMI rate as the original loan – that will save borrowers a lot of money. Where are all these people in the CFPB that are supposed to be watching out for the consumer? *They are busy redoing forms.*"

Is delinquency in the eyes of the beholder? Not only are credit unions reviewing their fee structure, hoping to pick off depositors & clients from the big banks who are raising their fees, but now NCUA will review the way it asks credit unions to track modified mortgages after some credit unions complained the current policy almost makes foreclosing the troubled loans the more practical option. In other words, **"Do modified payments mean the loan is current?"** <http://www.cutimes.com/2011/10/06/ncua-to-review-controversial-mortgage-tracking-pol>

We've all learned how long it can take for a bill to pass Congress and be signed by the president. **A bill has been introduced to allow struggling homeowners to withdraw funds from their retirement accounts tax-free to make mortgage payments.** The Home Act (that name's never been used?) would allow borrowers to withdraw up to \$50,000 from a retirement account or one-half of the current value of that account, whichever is smaller. The limit is a lifetime cap, and borrowers would be able to make multiple withdrawals until they reach the cap; the money must be used to pay on their mortgage within 120 days of withdrawal.

The MBA is among the industry groups calling on Congress to "do no harm" to the fragile housing market. It is closely watching the deficit-reduction super committee, which has targeted homeownership tax breaks such as the mortgage interest deduction and the capital gains exemption, Bloomberg reports. Moreover, the MBA continues to oppose efforts by regulators to impose minimum standards for mortgage borrowers, such as a 20% down payment, out of concern that such a move

would not lower default rates but would prevent many home buyers from obtaining loans.

Did the folks at Fannie know about "robo-signing" eight years ago? It is alleged that it knew about allegations of improper foreclosure practices by law firms in 2003 but did not act to stop them. An unnamed shareholder warned Fannie Mae of alleged foreclosure abuses in 2003, the inspector general for the agency that regulates Fannie said in a report:

<http://finance.yahoo.com/news/Govt-report-Fannie-knew-of-apf-3965362442.html?x0§opStories&pos1&asset&cocode>.

There are indeed new mortgage banks being formed. **Bexil Corporation has agreed with the John Robbins Group to develop Bexil American Mortgage Inc.**, a new mortgage origination company that will focus on the wholesale and retail market. Many folks know Mr. Robbins from his days as CEO of American Mortgage Network and past Chairman of the Mortgage Bankers Association. In the PR piece John Robbins, now president of Bexil American Mortgage, said, "This is a perfect time to build a new nationwide mortgage bank. I have always felt real opportunity is born in the vacuum created by the bottom of a cycle. While many lenders are busy dealing with problems arising from a deep housing slump, we have the opportunity to create a nimble, efficient company not burdened with legacy loan repurchase issues."

If you ever want to see what the Fed is up to with its new program of buying more mortgage-backed securities, go to: <http://www.newyorkfed.org/markets/amb/>

Friday's bank closures only had two on the roster: in Minnesota the RiverBank's depositors now see Central Bank on their statements. And down in Missouri Sun Security Bank wasn't secure enough and is now part of Great Southern Bank as part of the agreement.

Fifth Third got the word out to clients that for conventional loans, "Fannie Mae (DU) loans with an LTV > 80% now only require a 3% minimum borrower contribution from the borrower's own funds for 1 unit primary residences only. (High balance product not permitted, and MI requirements must be met of course.) Freddie Mac (LP) loans will continue to require a 5% minimum borrower contribution from the borrower's own funds for mortgages with an LTV > 80%.

Things quiet down this week, economic news-wise. **Today's a holiday for many, certainly for bonds in the US.** Tomorrow we'll have the FOMC minutes, Wednesday the MBA app numbers. Thursday things "hot up" a little with Jobless Claims and some trade balance numbers. Friday we have Retail Sales for September, import & export prices, and a University of Michigan Sentiment number. Really, aside from the FOMC minutes and Retail Sales, it is a pretty ho-hum week.

An eye witness account from New York City, on a cold day in December, some years ago: A little boy, about 10-years-old, was standing before a shoe store on the roadway, barefooted, peering through the window, and shivering with cold.

A lady approached the young boy and said, "My, but you're in such deep thought staring in that window!"

"I was asking God to give me a pair of shoes," was the boy's reply.

The lady took him by the hand, went into the store, and asked the clerk to get half a

dozen pairs of socks for the boy. She then asked if he could give her a basin of water and a towel. He quickly brought them to her.

She took the little fellow to the back part of the store and, removing her gloves, knelt down, washed his little feet, and dried them with the towel.

By this time, the clerk had returned with the socks. Placing a pair upon the boy's feet, she purchased him a pair of shoes.

She tied up the remaining pairs of socks and gave them to him. She patted him on the head and said, "No doubt, you will be more comfortable now."

As she turned to go, the astonished kid caught her by the hand, and looking up into her face, with tears in his eyes, asked her, "Are you God's wife?"