Shifting demand for mortgages will dictate winners and losers in key areas of the industry.
We’re Driving Innovation Home.

Join us on the journey to a true digital mortgage.

At Ellie Mae, we’ve always been guided by innovation. And that’s why we’re the only LOS provider with a true digital mortgage solution that covers the entire loan lifecycle, from beginning to end. Encompass® can help you to originate more loans, lower costs, reduce time to close, and ensure the highest levels of compliance, quality and efficiency.

Find out how Ellie Mae is driving innovation that gets people into homes faster at ellie Mae.com/innovation.
Contents

16

Ripple Effects
Shifting demand for mortgages will dictate winners and losers in key areas of the industry
BY ELINA TARKAZIKIS

Departments

Origination
6
HMDA denials don't tell the whole story about mortgage discrimination

Secondary
8
This GSE plan may go nowhere, but it still matters

Servicing
10
More flippers seek financing as sale profits decline

Technology
12
Mortgage exec gives struggling bank a digital makeover

Compliance & Regulation
14
Will federal control of Fannie and Freddie ever end?

In Every Issue
2
Editor's Desk
21
Voices
23
People
24
Screenshots
Anticipating Change

A dearth of available for-sale inventory continues to plague the housing market, hampering would-be homebuyers and keeping the purchase mortgage market from realizing its full potential. At the same time, rising interest rates have eliminated the incentive to refinance for a significant segment of existing homebuyers.

The industry has faced these challenges for well over two years and the dilemma shows no sign of improving any time soon. This month’s cover story explores the implications of the shift in demand for mortgages on industry employment, technology investment and innovation and government-sponsored enterprise reform.

There have been a number of high-profile mortgage companies making cuts to their staff this year. However, overall employment among nonbanks remain higher than it was a year ago. But as more firms increase their investment in new digital mortgage tools, it appears likely that traditional job functions will evolve and both lenders and servicers will try to do more with fewer employees.

Likewise, market fluctuations also stand to influence both policymakers and stakeholders amid new attempts at developing a plan to end the conservatorship of Fannie Mae and Freddie Mac. For example, the GSEs’ financial performance — and thus, how much they pay in dividends to the Treasury — is dictated in part by the volume of loans they are able to acquire from lenders.

But one aspect of GSE reform that hasn’t gotten as much attention is how Congress will fill the revenue hole in the federal budget that will result once Fannie and Freddie stop turning over their profits to the Treasury.

Since the conservatorship began in 2008, Fannie and Freddie have cumulatively drawn $191.4 billion from the Treasury and paid nearly $280 billion in dividends through the second quarter of 2018. The return on the bailout averages out to about $8.83 billion per year, an amount equivalent to the expected fiscal year 2020 budget for the U.S. Marshals Service.

While it’s unlikely this budget gap will prevent a GSE reform plan from coming to fruition, it nevertheless creates an additional layer of complexity for policymakers. Whether dealing with internal operations or industrywide utilities, situations like these require a forward-looking approach to the market that ensures organizations remain nimble in times of uncertainty.

Send your comments, questions and story ideas to Editor in Chief Austin Kilgore: austin.kilgore@sourcemedia.com
DocMagic has a new look.

Fig. 1 (Star)
Magic... sophisticated technology made simple.

Fig. 2 (Check Mark)
Trust... we get it right every time.

Our new logo represents DocMagic's core values, mission, and expanded suite of offerings.
What’s going on at nationalmortgagenews.com

Nonbank Mortgage Lenders May Need To Brace for More Cuts

Intensifying margin pressure could spur another wave of cost-cutting at nonbank mortgage lenders, unless other strategies, like consolidation or a mortgage servicing book that could increase in value, offset it.

Treasury, FHFA Chiefs Are Preparing For Freddie CEO’s Exit

Prudent Underwriter: “Stop trying to put Humpty Dumpty together again. Slay the two headless horsemen. 1. Receivership 2. Sell assets to the cooperative Federal Home Loan Banks.”

Events

Oct. 3-4
The Most Powerful Women in Banking
New York, NY
bit.ly/2wTaQ29

Oct. 14-17
MBA Annual Convention & Expo
Washington, DC
bit.ly/2oMAIIu

Oct. 23-30
NRMLA Annual Meeting & Expo
San Diego, CA
bit.ly/2KgzK3L
picture and highlights the need for greater exploration of the large differences in credit profiles among different racial and ethnic groups,” said an Urban Institute report.

The organization’s method separates owner-occupied purchase borrowers into two groups — higher credit profile applicants (strong candidates with virtually no chance of denial) and lower credit profile applicants (weaker candidates with some chance of denial) — and then compares the number of denials to the number of lower credit profile applicants, according to the organization.

Putting the methods to the test, observed denial rates for black households are 2 times that of whites, 1.4 times that of Hispanics and 1.2 times that of Asians, while real denial rates suggest the denial rate for blacks is only 1.2 times that of whites, and 1.1 and 1.4 times that of Hispanics and Asians, respectively.

While differences still exist between races, the gaps are considerably smaller, which can help policymakers better confront issues in the industry.

“Mortgage discrimination shown by the real denial rate arms policymakers with a more accurate and powerful tool to understand and address current problems in the housing market,” according to the Urban Institute.

The black homeownership rate has dropped more than any other group since 2001, falling 5% compared to 1% for whites. The homeownership rate has since grown for Hispanics.

The Urban Institute’s analysis illustrates “how the generally lower credit scores among blacks and Hispanics borrowers is a significant factor in their higher denial rates. Policy solutions need to focus on this disparity,” according to the organization.

While the Urban Institute’s method helps account for applicant creditworthiness, it still requires the simplification of complex data and trends; it analyzes credit scores, loan-to-value ratios, debt-to-income ratios and product and documentation types, but does not consider income or income variability because the organization only has access to DTI. NMN
Origination

Millennial loans
Bay City had the largest share of closed loans to single millennials, while Aberdeen had the largest for married couples

<table>
<thead>
<tr>
<th>Location</th>
<th>Total closed share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bay City, Mich.</td>
<td>70%</td>
</tr>
<tr>
<td>Aberdeen, S.D.</td>
<td>68%</td>
</tr>
<tr>
<td>Victoria, Texas</td>
<td>66%</td>
</tr>
<tr>
<td>Williston, S.D.</td>
<td>64%</td>
</tr>
<tr>
<td>Austin, Minn.</td>
<td>64%</td>
</tr>
<tr>
<td>Watertown, S.D.</td>
<td>60%</td>
</tr>
</tbody>
</table>

Source: Ellie Mae

Many Millennials Not Waiting For Marriage to Buy a Home
By Brad Finkelstein

Nearly half of July’s millennial homebuyers were single, a sign that they are not waiting for certain milestones like marriage before deciding to become homeowners, Ellie Mae said.

Furthermore, 53% of the single millennial buyers were male, while 40% were female; for the other 7% the gender was unspecified, Ellie Mae noted.

Single millennial homebuyers had an average loan amount of $172,904 and an average credit score of 720. Their married cohorts had a higher average loan balance, $277,651, and a 729 average credit score.

Housing Market to Favor Homebuyers in 2020
By Paul Centopani

After home prices soared due to a lack of inventory and a recovering economy, over three-quarters of experts believe the shift to a buyer’s housing market should come in two years at the earliest, according to Zillow.

While the tide takes some time to turn, industry trends already signal the coming change. Home value appreciation is decreasing and the latest monthly data showed the percentage of listings with price cuts was up year-over-year at 14.2% nationally.

“The most prominent driving force that would shift the market dynamics would be a nationwide recession. In the previous iteration of the survey, we asked the same group of respondents when they expect the next nationwide downturn to occur, and they all pointed to early 2020. Those two things would coincide,” Aaron Terrazas, senior economist at Zillow, said in an interview.

The deficit of housing inventory has driven demand and prices. It’s declined on a year-over-year basis for 42 straight months. However, the declines are decelerating.
Secondary

This GSE Plan May Go Nowhere, But It Still Matters

The proposal by Reps. Jeb Hensarling and John Delaney is a sign that a bipartisan consensus is building on how to move on from Fannie Mae and Freddie Mac.

By Hannah Lang & Neil Haggerty

The legislative path is extremely narrow for a new housing finance reform plan by House Financial Services Committee Jeb Hensarling, but it injected a dose of hope for progress on an issue that is more often stuck in neutral.

The plan, co-drafted with Democrats John Delaney and Jim Himes, won some praise but several lawmakers said it lacked specifics. Yet the bill, which envisions Ginnie Mae stepping in for Fannie Mae and Freddie Mac, could help form the consensus for a future reform push as both sides of the aisle now agree there should be some continued government backing for the mortgage system.

Hensarling’s plan continues to mark a shift in the retiring lawmaker’s thinking on the government-sponsored enterprises. After previously touting a GSE plan that would effectively end the government’s involvement, his bill shares some characteristics with the bipartisan framework developed by Sens. Bob Corker, R-Tenn., and Mark Warner, D-Va., that retained a federal backstop.

“I applaud Chairman Hensarling and Representative Delaney on their bipartisan proposal,” said Corker in an emailed statement. “It is long past time to end the failed model of private gains and public losses, and I am glad to see that the House framework shares significant similarities with the proposals we have laid out on a bipartisan basis in the Senate. I am hopeful that this will help continue to grow support to address this last unfinished business of the financial crisis.”

The latest bill also keeps the spotlight on Ginnie Mae as a potential alternative to Fannie and Freddie in providing support for mortgage-related assets. A 2014 bill by Delaney and other House Democrats included a larger role for Ginnie, as did the Corker-Warner framework.

Warner noted common characteristics between the House and Senate plans, but sounded skeptical that the Hensarling-Delaney-Himes plan would sufficiently maintain access to housing finance options.

“There are ideas in the draft that are similar to those Sen. Corker and I discussed in the Senate,” he said in a statement emailed through a spokesman. “But the draft contains limited specifics on how mortgage access and affordability would be protected in the proposed system, which is one of the more challenging issues involved in housing finance reform.”

Hensarling announced the plan during a hearing on the 10-year-old conservatorships of Fannie and Freddie Mac. The proposal would repeal the GSEs’ charters and transfer some of their responsibilities to Ginnie Mae.

The bill, titled the Bipartisan Housing Finance Reform Act, would still seek to preserve key components of the current system, such as liquidity and the 30-year, pre-payable fixed mortgage.

“This bipartisan proposal is a bold reform to the current model,” Delaney, a Maryland Democrat who has declared himself a candidate for president in 2020, told reporters. “In my judgment, it will make the housing finance system in this country much safer and much more stable.”

According to a summary of the draft, their approach would “harness the benefits of the existing framework of Ginnie Mae and the government guarantee it pro-
vides, while providing options for how to finance mortgage lending so that we maximize choice for borrowers, loan originators and investors.”

Such an idea has surfaced before. In 2014, Delaney and Himes, of Connecticut, along with other House Democrats unveiled the Partnership to Strengthen Homeownership Act, which proposed winding down Fannie and Freddie and establishing an insurance program through Ginnie Mae.

Ed DeMarco, former acting director of the FHFA, also co-wrote a paper on a plan that emphasized utilizing Ginnie Mae. The paper was written with Michael Bright, who has been nominated to run Ginnie.

At the hearing, DeMarco noted there is increasing support for increasing the backing of private mortgage market participants but still keeping a role for the taxpayer.

“Now with the chairman’s announcement, there certainly seems to be broad consensus about establishing a single mortgage-backed security that has a catastrophic guarantee from the taxpayer but is backed by substantial private capital in a first loss position,” said DeMarco.

However, Hensarling is set to retire at the end of the year and the legislative session is quickly coming to a close, leaving almost no time for the new proposal to move forward. The House Financial Services Committee hasn’t held hearings on the bill, and the approach in the proposal lacks broader support, wrote Jaret Seiberg, an analyst at Cowen Washington Research Group, in a note.

“With just a handful of legislative days left in the year, the clock has expired,” Seiberg wrote. NMN
More Flippers Seek Financing As Sale Profits Decline

Average profits fell to a two-year low of $65,520, down from $69,500 for the first quarter and $69,000 for 2017’s second quarter.

By Brad Finkelstein

More flip-and-fix property buyers seek financing for their purchases as fewer distressed homes come on the market and sales margins narrow, according to Attom Data Solutions.

In the second quarter, 32.5% of properties purchased were acquired via a distressed sale (foreclosure or real estate owned), down from 35.8% in the first quarter and 38.7% in the second quarter last year.

The states with the highest share of second-quarter home flips purchased via a distressed sale were New Jersey (64.1%), Delaware (60.3%), Indiana (55.4%), Maryland (52.8%) and New York (48.4%).

The all-time high was in the first quarter of 2010, at 68.2%.

Meanwhile, 48,768 single-family homes and condos were flipped in the second quarter, 5.2% of all sales. This was down from a 6.6% home flipping rate in the first quarter and 5.4% one year prior.

Average profits fell to a two-year low of $65,520, down from $69,500 for the first quarter and $69,000 for the second quarter of 2017.

“Fewer distressed sales are limiting the ability of home flippers to find deep discounts even while rising interest rates are shrinking the pool of potential buyers for flipped homes,” Daren Blomquist, Attom’s senior vice president, said in a press release.

“These two forces are squeezing average home flipping returns, pushing investors to leverage financing or migrate to markets with more distressed discounts available to achieve more favorable returns.”

To address the squeeze, a greater percentage of home flippers have been turning to financing for their purchases in recent years.

In the second quarter, 38.6% of flippers used financing, up from 36.8% in the first quarter, although down from a 10-year high of 39.6% one year ago.

Between the third quarter of 2009 and second quarter of 2013, less than 30% of flippers sought financing.

“Acquisition prices have been creeping up, and it’s now more difficult for investors to buy with cash than previously, but high prices are not the only reason flippers are turning to financing,” Robert Greenberg, chief marketing officer with Patch of Land, a peer-to-peer lending marketplace for real estate investors, said in the press release.

“We see many borrowers coming to us simply for the ability to make more money. Financing can be the answer to making more profit overall: an investor that nets $30,000 per flip after paying $5,000 to $10,000 for financing costs can make $90,000 on three flips with the same amount of cash required to make $40,000 on a single flip.”

States with the highest share of flips purchased with financing were Rhode Island (63.8%), Colorado (57.1%), New Hampshire (53.4%) Minnesota (50.2%) and Washington (50%).

The Colorado cities of Fort Collins and Colorado Springs had 66.7% and 66% of flips purchased using financing, while in Greeley, it was 59.6%. NMN
Servicing

Mortgage Delinquencies Fall to a 12-Year Low

By Paul Centopani

The mortgage delinquency rate dropped to its lowest level in 12 years despite foreclosure starts and active foreclosures both increasing in July, according to Black Knight.

Mortgage delinquencies fell by 3.35% in July from June, and now sit at 3.61%. The decline stemmed from those unable to pay their loans from damage inflicted by Hurricanes Harvey and Irma getting cured. The rate is down 7.5% year-over-year.

There are now 1.861 million properties delinquent on their mortgage, down nearly 64,000 from June.

Properties late by 90 days or more on their mortgage payment but not yet in foreclosure reached its lowest post-recession count of 528,000, which is down 20,000 from June.

There were 48,300 foreclosure starts in July, up 11.03% from June’s 17-year low but down 9.38% year-over-year.

For the second time in the past three years, active foreclosures had a monthly increase, rising by 0.73%. However, it remained below the 300,000 threshold, going to 293,000 properties from about 291,000 in June.

Tappable equity also had a historic month, clearing $6 trillion for the first time ever.

“There is now $636 billion more tappable equity available than at the start of 2018, and nearly three times as much compared to the bottom of the market in 2012,” Ben Grboske, executive vice president of Black Knight’s data and analytics division, said in a press release. NNM

Leadership means listening.

At Cenlar FSb, the nation’s leading mortgage subservicer, we take the time to sit down and understand your organization’s unique goals and objectives.

Find out more about how our leadership can deliver a solution custom tailored to your needs.

Call or visit us today

www.cenlar.com
1-888-SUBSERVE (782-7378)
Technology

Hands-on buyer
Casey Crawford has made several big changes to a southern Virginia bank he bought last year

- Rebranded First State Bank as Movement Bank
- Hired veteran banker Tom Smith as CEO
- Signed Q2 as its core vendor; planned tech upgrades
- Improved credit processes
- Opened loan production offices in three cities
- Added commercial lenders

Mortgage Exec Gives Struggling Bank a Digital Makeover

Casey Crawford, CEO of Movement Mortgage, bought First State Bank in Virginia last year. He has since injected more capital into the bank in an effort to reinvent it.

By Hilary Burns

Movement Bank in Danville, Va., finally seems to be moving in the right direction.

Casey Crawford, CEO of Movement Mortgage in Indian Land, S.C., bought a majority stake in the former First State Bank in June 2017. He also invested $10 million to recapitalize the $44 million-asset bank, helping rescue what had previously been a minority-owned institution.

The nearly century-old bank was operating under a consent order. Its balance sheet was hamstrung by problem loans.

Crawford, a former professional football player, hired a new CEO, head of risk and chief financial officer to help turn the bank around. His new team has been working quietly over the last 15 months to improve credit processes, implement new technology systems and clean up the balance sheet.

The bank now has updated technology, which will allow it to expand beyond its hometown.

It is focusing on Charlotte and Greensboro in North Carolina, along with Virginia Beach, as key growth markets after opening loan production offices and hiring lenders in each city. Movement Bank also recruited a team of mortgage originators from Movement Mortgage.

Crawford said he expects the bank to reach $100 million in assets in the next year. In a recent interview, he also discussed Movement Bank’s progress and plans to build a “largely digital” bank.

Here is an edited transcript of the interview.

What are your top priorities for the next 12 months?

CASEY CRAWFORD: We are getting this great technology launched. What we really want to start doing is serve customers and tell stories. Right now, we need to grow deposits, so we’re going to look for small businesses and consumers we can serve in Charlotte, Greensboro, Danville and Virginia Beach. Our commercial bankers are actively working on relationships right now. The gun just went off and the race is starting now that we have a technology platform that is up and ready to serve all of these clients.

Do you plan to operate without many branches?

We don’t plan on being infrastructure heavy. We’re going to be a largely digital bank. We just completed our online account-opening platform so we can open accounts remotely online. That just got implemented, so we’re going to start adding accounts. We set up an account-opening drive here in South Carolina in the spring and I think we opened 400 accounts in one month, which was more accounts than the bank had opened in the previous 10 years.

How did you get so many people to sign up so quickly?

I think it was a lot of enthusiasm around a new option for banking. In Charlotte, most of the local deposits are held by Bank of America and Wells Fargo. They are good, but not that good. People look around and see the Movement Foundation and Movement Schools, and they know that Movement Bank is an institution that is deeply invested in the community where they live, so we have had a lot of business owners and people reaching out and saying, “Hey, how can I do business with this bank?” So up until this month we haven’t been able to take them on as clients if they couldn’t drive to Danville. Now we’re going to be able to serve them with online account openings.
Technology

How will you build awareness without branches?
A lot of people are familiar with the Movement Mortgage brand and we certainly plan to leverage that. What we have always had a culture of doing is serving people really well and then telling stories using social media. Social media really forces you to serve people well and then get them to recommend you to their friends and family. That’s a deep expertise that we have from Movement Mortgage. We started as a four-person organization; we have 4,000 employees now. We are really excited to leverage that same philosophy. We don’t have a large paid-media strategy. What we want to do is lead with thoughtful financial products that impact people’s lives and then build enthusiasm in the community for the bank and encourage our customers and clients to retell that story via social media.

Could you tell me more about the new technology?
We landed on Q2 for our core banking system. They were implementing some really thoughtful mobile-banking technology that we’re really excited about. The big opportunity for community banks is to leverage new technology. There are technology providers out there that really give you the ability to serve your consumers at least as well, if not in a superior fashion, as the biggest banks and you’re not saddled with all of the legacy infrastructure. NMN

SUBSCRIBE. ENGAGE. DISCOVER.

National Mortgage News
www.nationalmortgagenews.com

National Mortgage News is the resource mortgage professionals trust most for essential news and analysis, data and events that help them make smart, informed business decisions.

A standard subscription to National Mortgage News includes:
• Breaking news, features and analysis across the entire mortgage industry
• Full access to premium content on NationalMortgageNews.com
• 13 issues per year of National Mortgage News magazine in print

Upgrade to a PREMIUM subscription, and you’ll also receive full access to MortgageStats.com

MortgageStats.com is a comprehensive data service derived from a quarterly survey of mortgage lenders and servicers and aggregate public data, broken down by production channel and servicer type, loan product, investors and other categories.

Start your 30-day free trial:
nationalmortgagenews.com/subscribe
Will Federal Control of Fannie And Freddie Ever End?

Maybe political winds or another downturn will spark housing finance reform. But 10 years after the conservatorships began, the companies are still in perpetual limbo.

By Hannah Lang

Ten years ago on Sept. 7, then-Treasury Secretary Henry Paulson referred to the unprecedented government action at that time to keep Fannie Mae and Freddie Mac afloat as a “time out.”

“We will make a grave error if we don’t use this time out to permanently address the structural issues presented by the government-sponsored enterprises,” Paulson said at a press conference on Sept. 7, 2008, one day after the GSEs had been placed in conservatorship.

But a decade later, nothing about the federal takeover of the mortgage giants seems temporary. It is the status quo. Efforts for comprehensive housing finance reform keep getting derailed, leaving many to wonder if it will take a disruptive event — a sudden change in political power, another crisis or something else — to force policymakers to set the GSEs on a permanent path forward.

“If you told us back then that we would have been stuck in this limbo for this long, I think there might have been more of an appetite to tackle Fannie and Freddie” reform, said Jim Parrott, a fellow at the Urban Institute and a former housing adviser to President Obama.

The 10-year limbo has been eventful. With the companies stabilized under the watch of Treasury and the Federal Housing Finance Agency, lawmakers have mounted concerted efforts to pass GSE reform, but all have failed. The FHFA has taken steps at administrative reform. Meanwhile, the chaos of the 2008 crisis have been replaced with debates over the necessity of the conservatorships, how the takeover has affected the GSEs’ capital and whether the government should simply let go of the GSEs.

While it is hard to see any end in sight for this “time out,” experts have placed bets on a triggering event that could bring more certainty. Predictions that the Democrats could retake the House in November leave some hopeful that congressional leaders will break their stalemate over GSE reform. Others point to the Trump administration soon being able to pick its own FHFA director as a reason for optimism.

But none of those are sure bets, leaving open the possibility of more uncertainty and even that another crisis could arrive before long-term GSE reform.

“Housing prices are rising annually and that is a worrying recollection of similar price hikes in the run-up to the financial crisis,” said Thomas Wade, the director of financial services policy at the American Action Forum. “I don’t feel prepared to bet on that, but certainly those are worrying signs despite the economy doing so well.”

What was supposed to be temporary became a ‘long slog’

Few if anyone believed that the conservatorships of Fannie and Freddie would last nearly this long.

“The conservatorship was always intended to be a temporary measure and that has demonstrably shown to not be the case,” said Wade.

If anything, the FHFA’s grasp of the two mortgage giants has grown stronger over the past 10 years.

Scott Olson, the executive director of the Community Home Lenders of America, originally thought that within three to five years, Fannie and Freddie would be released from conservatorship. It was only in 2012 that Olson realized how unshakable the federal takeover had become. That was when the third amendment to the “preferred stock purchase agree-
Compliance & Regulation

ment” between Treasury and the mortgage companies — which lays out the terms of the government’s assistance and how it is repaid — effectively required the GSEs to hand over nearly all quarterly profits.

“That was to me the pivotal moment, and when that happened then I think a lot of people believed that was a signal that this was going to be a long slog,” Olson said.

FHFA has made meaningful reforms

But Olson shares the view of others that the federal takeover and the FHFA’s oversight of the companies have brought meaningful reforms, which he says supports the argument that they should be able to hold on to more of their capital.

“They’ve been predominantly reformed except for the one most critical thing, which is to make sure they have capital to weather the storm,” he said.

In fact, some experts argue that GSE reform isn’t urgent at all right now, and the mortgage giants have sufficiently paid back the government.

“If you look at what the GSEs are intended to do, they’ve actually been doing it very well in conservatorship and they’ve stopped doing many of the pernicious activities they were doing that arguably got them into conservatorship,” said Libby Cantrill, the head of public policy for PIMCO, an investment management firm.

A positive effect of the conservatorships is that the GSEs are much less risky than before the takeover. Administratively, the FHFA has taken steps to establish a common securitization platform for the two companies. In general, the FHFA, which was launched a month before it seized Fannie and Freddie preserves taxpayer risk.

“If you look at all the GSEs are intended to do, they’ve actually been doing it very well in conservatorship and they’ve stopped doing many of the pernicious activities they were doing that arguably got them into conservatorship,” said Libby Cantrill, the head of public policy for PIMCO, an investment management firm.

A positive effect of the conservatorships is that the GSEs are much less risky than before the takeover. Administratively, the FHFA has taken steps to establish a common securitization platform for the two companies. In general, the FHFA, which was launched a month before it seized Fannie and Freddie preserves taxpayer risk.

Unfinished business

But others point to a lot of unfinished business with housing finance policy. In particular, there is still no answer to the major question of what happens to the system after the conservatorships cease. In the immediate aftermath of the 2008 takeover, broad consensus emerged that the two companies should be wound down and replaced with a new housing finance vehicle.

Parrott said with the hindsight of knowing how long the conservatorships have lasted, it would have made sense to include GSE reform “as part of Dodd-Frank or at the very least [take] a more aggressive approach to pivoting to Fannie and Freddie after Dodd-Frank.”

At the top of the list today for reform includes reducing reliance on the GSEs’ taking credit risk as well as reducing reliance on the management of the securitization infrastructure. The FHFA has already taken steps to implement a common securitization platform, the second phase of which is set to be released next year.

Observers are hopeful that the FHFA’s plans to continue work on a risk transfer policy and common securitization framework offer hope for real reform that does not require congressional action.

“The risk transfer and the common platform standardization is actually reform in all but name and in all but legislation,” said Mark Zandi, chief economist of Moody’s Analytics.

But there are bigger questions that spark intense debate and disagreement across the markets and the political spectrum.

Olson said the question of the net worth sweep and whether or not Fannie and Freddie should be allowed to keep their profits might be “the most difficult thing to resolve.”

Political developments could trigger greater focus on GSEs

Yet observers say a resolution to such tough questions could be more likely if the Trump administration becomes more engaged in the GSE debate over the next year.

Although Wade says he hasn’t seen any indication that GSE or housing reform more generally have crossed the mind or the desk of President Trump,” he is encouraged by Treasury Secretary Steven Mnuchin’s promises that GSE reform is a priority.

The term of FHFA Director Mel Watt — an Obama appointee — is winding down. He is due to depart in January 2019, and some have speculated that he could depart sooner amid an investigation that he sexually harassed an employee.

Wade believes that Mnuchin, rather than Trump, will select the next director of the agency and could pick someone with a bull-ish attitude toward reform. “To say that the future is starting to look promising I don’t think is an overstatement,” Wade said.

The midterm elections in November could also determine if Congress decides whether or not to tackle the issue of housing finance, some observers said.

Up until now, bipartisan GSE reform proposals in the Senate have found it difficult to win the necessary support to become law. More partisan solutions have also failed to gain traction. House Financial Services Committee Chairman Jeb Hensarling’s bill to mostly privatize the housing market cleared his panel but stalled afterwards.

Progress is no sure thing

However, Zandi said that he wouldn’t “expect much of anything on GSE reform” if Democrats were to win the House, and that hope for reform lies instead with Republicans in the House.

“If the Republicans maintain control of Congress and maintain control of our government, they might take a crack at GSE reform,” he said. “I don’t hold up a lot of hope that they’ll actually get legislation through for lots of different reasons, but they may take a crack at it.”

Zandi said the lack of a long-term GSE reform plan could begin to have broader economic consequences, particularly since the government’s continued backing of Fannie and Freddie preserves taxpayer risk.

“Not passing a piece of legislation has costs, and they’re not going to be borne today and they’re not going to be borne next year, but at some point they will be borne and so it makes little sense to wait until that day to do this,” he said. NMN
Ripple Effects

Shifting demand for mortgages will dictate winners and losers in key areas of the industry

By Elina Tarkazikis

Two years into a housing drought and the mortgage industry is thirsty. Limited inventory has put upward pressure on home prices and stifled home sales activity, keeping would-be homeowners on the sidelines and forcing sellers to stay put out of fear of not being able to afford another place to live.

Homeownership tenure has nearly doubled what it was in the early 2000s, further withholding existing home inventory from the market, according to Attom Data Solutions. Homebuilders, meanwhile, face ongoing challenges with labor, land, laws and lumber — aka the “four Ls” — and are struggling to increase production of new, and in particular, entry-level, homes.

As a result, property values have surpassed housing bubble peaks and continue rising as demand for a limited number of homes has not backed down. All the while, average mortgage rates are on the rise, slowly creeping toward 5%, resulting in a mortgage market more reliant on purchase transactions than refinance activity.

“We're in a new normal and here's why. We have systematically, over the last two or three decades, abandoned certain affordable segments of the market,” said Freddie Mac Chief Economist Sam Khater.

The problem, Khater said, is the depletion of both new and existing starter-home inventory and neglect of the manufactured housing market, which boomed and busted between 1993 and 1998 and never quite recovered.

The implications of these changes in loan demand go far beyond the bottom line for mortgage lenders and servicers and will influence the direction of several key components of the industry. In some cases, companies will seek to invest more heavily in technology to develop more efficient processes or improve the borrower experience. Institutions may also beef up or cut back on their headcounts in kind.

And given the outsize role Fannie Mae and Freddie Mac play in the industry, shifts in loan demand will no doubt reverberate with policymakers grappling with the future of the government-sponsored enterprises.

What follows is an examination of how changes in the demand for loans — both purchase and refi — create distinct outcomes for technology investment and innovation, industry employment and GSE reform.
Innovation and Investment

With mortgage rates on the rise, home prices skyrocketing and homeownership tenure redefining what it means to "age in place," a new era has emerged in mortgage lending, one where long-held assumptions may no longer apply.

Lenders are learning to navigate the rebirth of a purchase market as rising mortgage rates eliminate the incentive to refinance for many current borrowers. But affordability and inventory challenges are keeping this purchase market from living up to its full potential. Servicers, dealing with borrowers likely to hold onto their mortgages longer, may actually see their side of the industry become more valuable as loan durations are extended.

As loan volume dwindles, lenders have more time to streamline processes and invest in enhancements that often get put off when an organization is busier. But lenders may also be skittish about committing the necessary resources to fund those improvements when less revenue is coming in the door. It's a delicate situation, but successfully navigating it can position lenders for greater success when volumes return.

"The players who survive in a low-volume environment are those that have the capacity to invest in technology," said Ten-dayi Kapfidze, chief economist at online loan marketplace LendingTree.

And when technology investments result in more efficient operations, lenders are better equipped to weather periods when business is down.

What's more, the lenders that can effectively leverage their technology strategies in a down market are often able to grow their business through acquisitions of smaller entities that aren't keeping up. But the real winners are those companies that prioritize investment in innovations, even when demand thrives.

"If demand goes up, meaning lots of business for everybody, if you're smart and you're playing the long game, you would still focus on tech," said Kapfidze.

For companies that both originate and service mortgages, changes in loan demand can also influence which side of the business should get more of their technology resources.

"I think it's a bit cyclical. When the demand is high people focus more on origination technology; 'How do I get more borrowers into more homes?' " Joe Dombrowski, director of product management and chief mortgage strategist at Fiserv, explained.

"Countercyclical to that is servicing loans. When demand is low, people look at 'How can I squeeze more efficiency out of my servicing staff?' In other words, 'How can I contain servicing costs?""

People Power

A mortgage company's workforce is one of its most costly expenditures, not to mention one of the hardest to manage in a period of market uncertainty.

Mortgage companies often lay off workers when volumes fall, but it's a blunt strategy that can affect morale and productivity of the workers who remain employed and leave lenders understaffed when demand starts to rise.

"There are only really two ways to do things in a less expensive way, and they are kind of the same thing: less people, more technology — and you get cheaper," said Kapfidze.

Savvy lenders are increasingly relying on borrower self-service tools that improve efficiency and allow more flexibility in how workers are hired and deployed. But managing headcounts isn't just a concern for the origination sector. Servicers must also be mindful of staffing, particularly as loans are staying in servicing portfolios longer.

"Whenever there's a major swing like during the crisis in 2008, companies will often throw a lot of people at the problem. But then they have to figure out how to limit the cost of those folks," said Robert Lux, executive vice president and chief information officer at subservicer Cenlar FSB and the former CIO of Freddie Mac.

The ability to quickly scale an operation in response to market shifts may give subservicers an upper hand against smaller firms that manage loans themselves, Lux said.

"There's always this mentality that servicers can do things better in-house than by subservicing. I think that it's a matter of scale," Lux said. "Subservicers have an advantage in the way we invest in and deploy technology, and frankly, take bets on emerging technologies, because of our scale."

While a number of high-profile companies, including Ditech, Guaranteed Rate, Movement Mortgage and Wells Fargo, have announced layoffs this year, industry employment among nonbank lenders and mortgage brokers remains above year-ago levels, according to the most recent Bureau of Labor Statistics data.

But as companies adjust staffing levels, it is essential for them to plan ahead and ensure the right tools and processes are in place to support a smaller workforce. That way, when volumes return, operations can scale more efficiently.

"It's often better to make that decision quickly as opposed to having to be forced to do it, because in this environment, you also as a company need to stay liquid. If you're paying out for your fixed costs and sort of eating into your cash on hand, then that's not a good outcome," said Michael Fratantoni, chief economist and senior vice president of research and industry technology at the Mortgage Bankers Association.

While job cuts aren't typical when business is booming, certain roles may be de-emphasized and workers may get reassigned to new tasks as technology improvements take hold.

"I think staffing will continue to move with volume. You need staff in different places, though. Ideally, you'd be getting more productivity out of more of your employees, but to get that maybe you need to hire more in the tech space, or maybe you need to hire more processors, for example," said Fratantoni.
"If through a technology investment you’ve made the process more efficient, you may not need those multiple layers of compliance personnel or GSE personnel in the same way that you did before, but you may not have them doing the same thing, even if you had the same number of bodies," he added.

Regardless of the direction of demand, staffing efforts overall call for a reimagining of roles as the industry continues making digital mortgage strides.

"Job qualifications become less about being order takers and more consultative types of jobs: ‘How can I help you understand this?’ as opposed to ‘Yes, we got your payment,’” said Dombrowski. “The nature of the job changes.”

Rethinking Reform

The effects of market swings may be more pronounced for individual companies in areas like technology and staff, but they also influence broader issues, like GSE reform.

To be sure, GSE reform is not explicitly tied to fluctuations in the demand for mortgages. But the current political climate, headed by a Trump administration poised to name a new Federal Housing Finance Agency director to replace Mel Watt next year, may offer a unique opening for Republicans to steer the mortgage market from government control.

“When you’re thinking of making changes to something that’s at the center of a $10 trillion market, you want to be thoughtful about it because there could be unintended consequences that could disrupt the world economy,” said Lux. “I think GSE reform is going to be something that is evolutionary and not revolutionary.”

It’s unclear to what extent changing levels in the demand for mortgages can kick-start GSE reform. A slower market may help maintain the status quo, particularly given Fannie and Freddie’s mandate to shrink their size.

Alternatively, policymakers may see it as an opportunity to implement a new system during a time that presents less risk of disrupting broader financial markets. But the same argument could be made about the prospects of implementing changes while the market is on an upswing.

“The general sense is that absent a consensus and absent a crisis, the system is working reasonably well and therefore there isn’t a lot of impetus that’s going to create the tailwinds to get reform,” said Scott Olson, executive director at the Community Home Lenders Association. However, “you shouldn’t wait until the next crisis to complete the reforms; that’s a bad way to do it.”

House Financial Services Committee Chairman Jeb Hensarling, R-Texas, has been advocating to reduce the government’s role in the mortgage market. His latest proposal would repeal Fannie and Freddie’s charters, while relying on Ginnie Mae to preserve some functions in the current system. However, Hensarling is not running for re-election in the upcoming midterms and it’s unclear who will take up the torch for his plan after he’s gone, or perhaps champion another proposal altogether.

“It’s like mystery meat; nobody knows what it is,” said Kapfidze. “People like to point out the problems that they see with the GSEs, but I don’t know that anybody that has an actual idea that it’s going to get done.” NMN
LEAD THE CONVERSATION

Our Twitter feed keeps you connected to more than 40,000 influential and engaged mortgage professionals — strategic thinkers and creative operators — from the industry’s origination, servicing and regulatory compliance sectors.

Follow us @NatMortgageNews and stay up to date on news and analysis on the most important developments in the mortgage industry.

Stay informed
Stay engaged
view this next period as a ‘time out’ where we have stabilized the GSEs while we decide their future role and structure.”

Ten years on, the enterprises are still in timeout. But unlike other institutions that received government aid during the crisis, the GSEs can never repay their debt to the government. According to the 2012 modifications of the original financial aid agreements, all Fannie and Freddie earnings will be sent to the Treasury in perpetuity. After receiving $187 billion in aid from the U.S. Treasury from 2008 to 2012, returning to profitability and stabilizing the broader mortgage market, they have cumulatively repaid more than $280 billion and counting. As one architect of the 2012 modification said, “They can never escape.”

The GSEs now support 60% of the mortgage and housing market while guaranteeing more than $5.4 trillion in global mortgage obligations. They do all this with just $6 billion in real capital. While they do have a $180 billion credit line from Treasury, their paltry capital levels leave them, the housing market, and taxpayers vulnerable to future market failures. If the GSEs were a bank, they would be shut down for being critically undercapitalized. Of course, American taxpayers would be on the hook for that as well.

The United States has laws and rules that enable our capital markets to function properly. When Treasury and government agencies ignore those laws and trample on the rights of shareholders, we are no better than a banana republic given to arbitrary government expropriations.

The impact of the Great Recession was disastrous, but a decade is long enough. While certain structural reforms are needed Fannie and Freddie have more than repaid their debts and should be permitted to recapitalize and be released from government control.

Ron Haynie is senior vice president of mortgage finance policy for the Independent Community Bankers of America.

Continuing GSE Conservatorship Is a Bad Deal for Taxpayers

The federal conservatorship of Fannie Mae and Freddie Mac was never supposed to be permanent. Leaving the situation unresolved keeps the agencies undercapitalized and taxpayers exposed to their risk.

By Ron Haynie

It’s been 10 years since the Wall Street financial crisis launched the Great Recession and the government took over Fannie Mae and Freddie Mac. But while the economy has recovered and is experiencing rejuvenated growth, and Fannie and Freddie have put back into government coffers nearly $100 billion more than they received in assistance, their conservatorship continues. To promote stability in the housing market and reduce the risk of additional taxpayer bailouts, we must end the federal takeover of these stockholder-owned enterprises.

The conservatorship of Fannie and Freddie was never supposed to be permanent. The U.S. housing market, accounting for nearly 20% of the gross domestic product, was imploding 10 years ago as prices plunged by more than 50% in some areas and homeowners defaulted on their loans in record numbers. To help stem the tide and calm the fears of global investors, the Treasury Department and newly created Federal Housing Finance Agency took control of the government-sponsored enterprises. As then-Treasury Secretary Henry Paulson put it, “policymakers must
MARKETPLACE

SUBSERVICING

There’s Midwest
And Then
There’s Subservicing...

For Further Information Please Contact:
Email: investorbanker9@gmail.com
Number: (860) 800-6906

There’s Subservicing...
And Then
There’s Midwest
Subservicing

Looking to switch subservicers?

PHH Mortgage Loan Subservicing offers:
• Transactional Transparency
• Regulatory Compliance
• Attentive Service

PHH Mortgage Loan Subservicing
(609) 949-4456
brian.head@mortgagefamily.com
www.phhmortgage.com/subservicing

For Classified Rates
and Information Call
Kimberlee Baker
212-803-8475
and
kimberlee.baker@sourcemedia.com

THE NATION’S
LEADING
SUBSERVING.

DOVENMUEHLE
847-550-7550
www.dovenmuehle.com

CENLAR®
CENTRAL LOAN ADMINISTRATION & REPORTING

The Name You Can Count On in Loan Servicing
www.cenlar.com
1-888-SUBSERVE (782-7378)

SUTHERLAND
MORTGAGE SERVICES, INC.

Customized Mortgage Solutions

Expert and Client-Focused Component Servicing Solutions

1-800-388-4557 ext. 2812 | NMLS#131062
sgsmortgage@sutherlandglobal.com
www.sutherlandglobal.com/mortgage

MMS
MORTGAGE SERVICES

Single Fee Subservicing Solutions
• Transparent Servicing and Reporting
• 24/7 Online Account Access
• Full Service On-shore Staffing
Toll Free (800) 945-4506

NATIONAL MORTGAGE BANKER LOOKING TO PARTNER WITH LIKE-MINDED PROFESSIONALS

National mortgage banker in over 40 states looking to partner with like-minded professionals. We can explore joint ventures, co-ownership, branches, real estate partnerships, investor participation in servicing, etc. 24 years in business, we offer every product on the market, no legacy issues, large warehouse lines, 100 employees, great processing systems, and social media reputation. Need a bigger platform and volume to start servicing for additional revenue growth.

For Further Information Please Contact:
Email: investorbanker9@gmail.com
Number: (860) 800-6906

For Buyer’s Guide and Information Call
NMLS #131062
08-18-2

GO TO NATIONALMORTGAGENEWS.COM/SUBSCRIBE/MAIN.HTML
THERE IS NO RISK; UNSUBSCRIBE AT ANY TIME.

In addition to Top Stories, Headlines, features, and opinions allowing users start discussions with other industry experts.

DAILY BRIEFING
Our award winning editors shaping the mortgage industry, offering their perspective on late breaking news.

For Further Information Please Contact:
Email: investorbanker9@gmail.com
Number: (860) 800-6906

TOLL FREE (800) 945-4506
NATIONALMORTGAGENEWS.COM/SUBSCRIBE/MAIN.HTML
THERE IS NO RISK; UNSUBSCRIBE AT ANY TIME.

The Daily Briefing is a free e-mail newsletter that offers our engaged audience a morning roundup of the latest news, analysis, data and opinion spanning the entire mortgage industry.

For Further Information Please Contact:
Email: investorbanker9@gmail.com
Number: (860) 800-6906

For Buyer’s Guide and Information Call
NMLS #131062
08-18-2

GO TO NATIONALMORTGAGENEWS.COM/SUBSCRIBE/MAIN.HTML
THERE IS NO RISK; UNSUBSCRIBE AT ANY TIME.

In addition to Top Stories, Headlines, features, and opinions allowing users start discussions with other industry experts.

DAILY BRIEFING
Our award winning editors shaping the mortgage industry, offering their perspective on late breaking news.

For Further Information Please Contact:
Email: investorbanker9@gmail.com
Number: (860) 800-6906

TOLL FREE (800) 945-4506
NATIONALMORTGAGENEWS.COM/SUBSCRIBE/MAIN.HTML
THERE IS NO RISK; UNSUBSCRIBE AT ANY TIME.

The Daily Briefing is a free e-mail newsletter that offers our engaged audience a morning roundup of the latest news, analysis, data and opinion spanning the entire mortgage industry.

For Further Information Please Contact:
Email: investorbanker9@gmail.com
Number: (860) 800-6906

TOLL FREE (800) 945-4506
NATIONALMORTGAGENEWS.COM/SUBSCRIBE/MAIN.HTML
THERE IS NO RISK; UNSUBSCRIBE AT ANY TIME.

The Daily Briefing is a free e-mail newsletter that offers our engaged audience a morning roundup of the latest news, analysis, data and opinion spanning the entire mortgage industry.
Trez Forman Capital Group has hired veteran banker and real estate lender Russ Holland as a managing director. Holland will be opening an Atlanta office and be responsible for creating new business relationships for the private commercial real estate lending firm headquartered in Palm Beach.

Immediately prior to joining Trez Forman Capital Group, he served as chief credit officer at Fieldpoint Private in New York.

Holland also served as the chief lending officer at Union Bank in Florida, the chief banking officer and chief lending officer at Seacoast Bank, and led the commercial real estate finance team at Bank of America in Atlanta.

Appraisal Logistics has hired Steven Rouse to serve as its regional account manager in the Midwest. Before joining ALS, Rouse held various positions in the industry, most recently as regional sales manager for Pendo Management.

Prior to that, he was vice president of correspondent sales for Verus Mortgage Capital and a regional sales director for both Interthinx and Mortgage Cadence.

Lima One Capital, a national specialty finance company that focuses on investment property lending, has named Andrew Shook head of commercial lending. In this new role, he is charged with managing large accounts, including multifamily and single-family portfolios for Lima One Capital.

Shook will also focus on expanding and optimizing customer relationships and national partnerships across the company’s lending network.

Most recently, Shook served as managing partner at Bright Light Commercial Real Estate where he focused on a wide variety of commercial real estate financing.

Mortgage tech provider Pavaso has named Brenda Clem executive vice president of capital markets. Clem is a mortgage industry veteran with over 30 years of experience in operations and secondary markets.

She has long been an industry advocate for e-note, e-mortgage and e-warehouse adoption in the secondary market.

Seroka Brand Development, a brand development, digital and strategic communications agency specializing in the mortgage industry, has promoted Amy Hansen to vice president public relations and strategic planning.

Hansen has been with Seroka since 2002 and has served as director of client service and public relations for the last 11 years.

She has over 20 years of experience in public relations and advertising, and has managed accounts on a national, regional and local basis across a variety of industries. NMN
Housing market conditions are prompting many older homeowners to age in place and renovate, rather than sell and purchase another home. And while some may opt to rebuild with savings or home equity lines of credit, larger projects have homeowners utilizing home improvement loans to fund their remodels, according to LendingTree.

Growing property values, rising mortgage rates and limited home inventory continue extending homeownership tenure to nearly double levels seen since the early 2000s, according to Attom Data Solutions.

Here’s a look at the 10 housing markets using the most home equity loans. The rankings, derived from a LendingTree report, are based on an analysis of 2017 Home Mortgage Disclosure Act data to measure the 50 largest cities by the volume of home improvement loans as a percentage of the total housing units in a city.

**No. 1**
Oklahoma City, Okla.
Rate of home improvement loans: 0.77%
Median loan amount: $15,000
Median income: $64,000

**No. 2**
San Jose, Calif.
Rate of home improvement loans: 0.75%
Median loan amount: $374,000
Median income: $144,000

**No. 3**
Salt Lake City, Utah
Rate of home improvement loans: 0.72%
Median loan amount: $130,000
Median income: $77,000

**No. 4**
Pittsburgh, Pa.
Rate of home improvement loans: 0.70%
Median loan amount: $28,000
Median income: $69,000

**No. 5**
Boston, Mass.
Rate of home improvement loans: 0.65%
Median loan amount: $70,000
Median income: $104,000

**No. 6**
Portland, Ore.
Rate of home improvement loans: 0.64%
Median loan amount: $199,000
Median income: $83,000

**No. 7**
Denver, Colo.
Rate of home improvement loans: 0.60%
Median loan amount: $184,000
Median income: $81,000

**No. 8**
Minneapolis, Minn.
Rate of home improvement loans: 0.59%
Median loan amount: $60,000
Median income: $86,000

**No. 9**
Virginia Beach, Va.
Rate of home improvement loans: 0.56%
Median loan amount: $16,000
Median income: $67,000

**No. 10**
Sacramento, Calif.
Rate of home improvement loans: 0.55%
Median loan amount: $173,000
Median income: $89,000
Millions of potential borrowers are locked out of today's conventional mortgage market.

Deephaven Mortgage is shining the light on Non-QM lending by providing products specifically designed to address the needs of millions of borrowers who are unable to obtain a traditional mortgage. In return, this allows originators to expand their business by reaching out to a broader group of borrowers.

Help shine the light on Non-QM for your potential borrowers. Contact us by visiting www.deephavenmortgage.com and selecting either Correspondent or Wholesale. We look forward to you getting in touch with us today!
GREATER CERTAINTY IN ALL CONDITIONS

We're boldly positioned for the future.
Computershare Loan Services brings together unparalleled experience, products, services and solutions for the mortgage industry. Our unified strengths help customers achieve a strong and steadfast position in the market, no matter the conditions. See what we can do for your business at ComputershareLoanServices.com.