New financing options and better inventory have bolstered the manufactured housing sector. Is this the answer to lenders’ purchase-market woes?
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**The Complete Package**
New financing options and better inventory have bolstered the manufactured housing sector. Is this the answer to lenders’ purchase-market woes?

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Getting in on the Ground Floor

It’s rough going for mortgage lenders these days, and it doesn’t look like it’s going to get any easier anytime soon. At the Mortgage Bankers Association’s recent Annual Convention in Washington, D.C., economists projected a 4% year-over-year increase in purchase mortgage origination dollar volume for 2019. But the increase will come entirely from rising home prices, not an uptick in loan count.

What’s more, the MBA estimates housing starts will increase by 2.5% from 2018 to 2019, less than half the 5.3% annual growth from 2017 to 2018. According to MBA Chief Economist Michael Fratantoni, labor shortages and land development costs are hindering further growth in traditional site-built housing, along with tariff hikes that have prompted lumber and steel prices to soar. But relief for lenders is starting to emerge from an unconventional source.

As this month’s cover story explains, the convergence of new financing, better inventory and evolving borrower demands has given new rise to mortgage opportunities in manufactured housing. Driven in part by new programs from the GSEs and the industry at large, successful in this endeavor, the end result will be higher-quality homes, the cost of which will be largely offset by more affordable loans for consumers. Savvy lenders should begin strategizing now on how to capitalize on this opportunity.

This is our last print issue of the year. But as always, the National Mortgage News website is your destination for the most up-to-date news, analysis and opinion from across the entire industry. Make sure to check out our end-of-year coverage in December, including our 2018 ranking of Best Mortgage Companies to Work For rankings will be revealed online and in the next print edition of the magazine.

Send your comments, questions and story ideas to Editor in Chief Austin Kilgore:
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Acquisition Gains Offset Shrinking Mortgage Margins at Lennar

Homebuilder Lennar Corp.’s purchase of CalAtlantic’s financial services operations early this year has offset declines in refinancing and per-loan profits in the company’s mortgage unit.

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People are talking about...

Lenders Fear Worst from Rent Control Measure on California Ballot

A. MAULSBY: “I would want to know where the actual studies are that suggest that this would have an impact,” he said. “They don’t exist, they’re simply theoretical.” It’s called the “Wealth of Nations” and was written by Adam Smith in the 18th century.
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Credit hit
A big provision tied to CRE took a bite out of Bank OZK’s third-quarter profit

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Source: The company

Alarm Bells for CRE Lenders After Bank OZK’s Bad Quarter

The company is facing criticism after a big chargeoff on two properties, showing that investors have little patience when a risky business model shows signs of distress.

By John Reosti

Bank OZK in Little Rock, Ark., did more than stub its toe when it reported lower profit tied to two big chargeoffs.

The $22 billion-asset company may have lost the confidence of investors for the foreseeable future, even though management used an earnings call to passionately defend its heavy reliance on commercial real estate lending, where the chargeoffs took place. At least that was the view of several analysts who cover Bank OZK, which has faced criticism in the past for its CRE exposure. Shareholders also responded negatively to the news.

“With defenses penetrated, no matter how small a breach, confidence in the OZK mystique [has] evaporated,” Michael Rose, an analyst at Raymond James wrote in a note to clients.

The lesson for other banks is clear: Expect investor angst if a risky business such as CRE shows any sign of credit cracks at this stage of the economic cycle. The fact that one of the chargeoffs is tied to a Sears-anchored shopping center in South Carolina could serve as a warning for other banks that have similar loans outstanding.

The other loan is tied to a residential development in North Carolina. In all, Bank OZK charged off nearly $46 million in the third quarter to partially write down the loans. The chargeoffs contributed to a 23% decline in Bank OZK’s third-quarter earnings from a year earlier, to $74.2 million.

“It is very easy to make the case that these are one-offs ... and the rest of the portfolio looks nothing like this,” Catherine Meal-
Origination

Millennials Drive Mortgage Origination Rises In 2020 and Beyond: MBA
By Brad Finkelstein

While mortgage volume is expected to shrink next year, it should increase during the following two years and beyond as millennials start buying homes, the Mortgage Bankers Association forecasts.

Originations should finish this year at $1.636 trillion and decline in 2019 to $1.63 trillion, the organization announced at its annual convention in Washington.

That is a change from September’s outlook of $1.606 trillion in total production this year and $1.592 trillion for next year.

“The unemployment rate is at its lowest level in almost 50 years, resulting in faster wage growth and more confident homebuyers,” Chief Economist Mike Fratantoni said in a press release.

“While the Federal Reserve is expected to increase short-term rates further, 30-year mortgage rates should rise only modestly from here. We are seeing some deceleration in the rate of home price growth, but believe this is a healthy pause for the market, as it will allow income growth to catch up to the recent run-up in home values.” Home purchase originsations are expected to increase in each of the next few years, going from $1.143 trillion in 2017 up to $1.308 trillion for 2021. This increase is expected even as new-home construction remains constrained going forward, Fratantoni said.

Refinancings made up 35% of the revised $1.76 trillion originated last year. They are expected to fall to 28% this year and 24% in each of the next two years, before slightly rising to 25% in 2021.

There was an increase in the 2020 projection to $1.683 trillion from September’s $1.631 trillion. The initial projection for 2021 is for $1.74 trillion. The 10-year Treasury yield should finish this year at 3.2% and rise to 3.4% by the second quarter next year, where it will remain throughout 2020. This should bring the 30-year fixed rate to 5.1%, Fratantoni said.

But those rising rates are affecting consumers’ housing market outlook.

“While the macroeconomic and housing market backdrops are, and should remain quite favorable, the mortgage industry continues to be challenged by the drop in origination volume, coupled with significant margin compression,” said Fratantoni.

“Lenders of all types and sizes are seeing elevated costs, coupled with intensely competitive pricing, to capture more volume. This in turn is depressing revenues.”

Time to Save for a Down Payment at Highest Point Since the Housing Bubble
By Paul Centopani

With home values nearly doubling income growth in the last 20 years, it’s now taking homebuyers 7.2 years to put together a down payment, according to Zillow.

For the typical consumer making the median income and saving 10% each month, it’s the longest amount of time to gather a 20% down payment since 2008. Fears of another housing crisis heighten with parallels to a decade ago. It took 5.5 years in 1998, but home values jumped 98.6%, while income grew 52.6% since then.

“The simple fact that home values have far outpaced income growth, lengthening the time needed to save for a down payment, contributes to millennials’ struggles to enter homeownership,” Skylar Olsen, Zillow’s director of economic research and outreach, said in a press release.

“Saving up for a down payment can be tough, especially when the cost of everyday life outpaces the money you put into the bank. It requires good budgeting and long-term planning. It’s one reason why more and more first-time homebuyers are looking to family and friends for financial help when coming up with their down payment.”

With rents decelerating and a higher percentage of consumers opting for renovations instead of looking for a new home, potential homebuyers could be deterred from entering the market with how long and how much it will take to save for a down payment.

“Slower rent growth in recent months should create some more breathing space in renters’ budgets, but rents remain high by historic standards. Even if you don’t have plans to buy a home in the next year or two, it’s not a bad idea to start setting aside savings for a future home purchase. It’s also important to remember that there are many options for mortgages requiring less than 20% down,” Olsen said.
Despite that, if the government, and I mean government very broadly, is spending time on housing finance reform of the future, we have a brand as the best technical advisers around town, because it’s a very complicated business, so a priority would be to help them.

Competitiveness is built into our DNA — I just have to keep it going. We’re starting to think a little bit about the down cycle. It’s been a great run up. I don’t think there’s going to be a strong down cycle, but we have to be prepared for it.

Whatever we can do to help to land [the proposed rule on enterprise capital] and bring that to finality is important to us. We’re an expert on that, we care about it a lot and we developed the kind of father to the system that eventually came out. The comment period ends the middle of next November. The finalization of it should tie in … with my retirement.

It’s been an exciting five years. The last five years and the next five years is very exciting in the mortgage business. It’s a very contorted and old-fashioned business that’s become modernized in all these ways. It’s great. If you go talk to someone who’s in a major mortgage company, they’ll tell you there’s been more change and innovation in the last five years than in the last 25 years.

How has Freddie Mac changed as a company since you started?

Remember, I took this as public service; I already had my career. I was not trying to burnish my resume.

Simple fact is Freddie Mac, the GSE system, which I experienced back as a banker, was not very competitive, not very commercial. It’s a very policy-driven, ex-government agency style and I’m not an apologist for the old system. They did some good stuff, and they did some things that eroded confidence. They made themselves political issues because of the unlimited investment portfolios being used.

It became, “Help build something that we can be proud of,” where you took the

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"We Do Not Determine Our Destiny": A Sit-Down with Outgoing Freddie CEO

Donald Layton, who has run the mortgage giant since 2012, discussed the busy agenda leading up to his departure and says Freddie can serve as a “technical adviser” in GSE reform talks.

By Hannah Lang

Donald Layton has just under a year before he retires as CEO of Freddie Mac after more than 40 years in the financial services industry, but the coming months are shaping up to be some of the most formative at the company since Layton joined in 2012.

In June, both Freddie and Fannie Mae are slated to roll out a uniform mortgage-backed security, which experts have highlighted as a key move in any housing finance reform plan.

And in November, the comment period will close on a proposed capital framework for the two government-sponsored enterprises. These policies will be looming as both Freddie and Fannie search for new CEOs, and as the public awaits President Trump’s appointment of the next head of the GSEs’ regulator, the Federal Housing Finance Agency.

Layton sat down with National Mortgage News during the Mortgage Bankers Association annual conference to talk about what he has learned from his experience and what to expect before he retires.

This interview has been condensed and lightly edited for clarity.

What is in store at Freddie between now and your retirement?

DON LAYTON: Obviously, there’s the priority of succession. I’d like to point out that we have triple succession, not just me. There’s me, there’s going to be a new head of the FHFA, and how much that’s a change, we don’t know. We’re going to find out. The third is, just by coincidence, our board chair.
core value that you’re there for as a mission and operate it well. That’s what led to credit risk transfer, the capital system — all those things. That’s largely done.

I have said this before: History books like to declare eras. My era was the era of: Make the companies work well in conservatorship. Prior to when I got there, they were still dealing with the foreclosure crisis and were not able to focus on solutions at all. And the foreclosure crisis kind of peaked, and it’s still around, but the thought process was moving away. … It was make quality companies that can do the job well.

**What role should Freddie play in housing finance reform?**

We do not determine our destiny. We should be great technical advisers to everyone working on it and we should execute well, and that’s the role of the company. We’re not supposed to be in there lobbying for one solution or another. The only thing you’re supposed to be lobbying for is something that works over something that doesn’t work, because you have good technical. It’s not like you have a big conflict of interest. The FHFA’s in charge and you get paid in a way that doesn’t make it a conflict of interest.

**Part of Freddie Mac’s mission is to make homeownership more affordable. How has Freddie Mac done that so far, and how will it continue to do that?**

There’s a big squeeze. House prices bottomed out in 2011, and depending on your index, have grown about 5% since then. That is higher than nominal incomes, which means on average in America, housing is more expensive relative to your income, and this is usually most visible in renters paying larger percentages of their income to rent. It’s easier to see than the cost of owning a home, which has lots of components, and so the percentage of people’s income that they’re spending on their residences are going up and up and squeezing everyone else. That’s not good. Ideally, we’d like the cost of housing nominally to go up with the nominal incomes, certainly not higher, the way it has been. We are a policy organization.

There are laws about us. We should be helping affordability; we’re not supposed to be a honey pot for politicians to raid and give money away. The FHFA direction is clear. There should be quality credit … and it should be sustainable. … Now then what the FHFA wants us to do, which we love, is be creative about how to create more housing, which we can finance a little bit, more in the multifamily space, and work some of these programs to help affordability. I don’t pretend they’re going to be the giant solution to years of house-price growth being part of income, but definitely at the margin it can help.

**A Senate hearing scheduled for Oct. 18, which was postponed, had been expected to look at so-called mission creep concerns about the GSEs. What were you planning on saying at that hearing?**

In terms of the Senate [Banking] committee’s angled attack, we would have told them as we have said to other venues … our job is not to spend our time worrying about what the new system could be. It’s to make the current system as best it can under existing laws. That’s our job in conservatorship.

We think we’ve done a great job of that. That means following the congressional initiative given to us in the charter [and] that means adhering to limitations on the charter.

This is not a minor, quick, superficial process. Everything’s charter-compliant, everything goes directly to the mission, which we summarized in three words: liquidity — we buy from the primary market, stability — we have the system being more stable, and affordability — we try to keep this process possible. The FHFA does not let us do stuff just to aggrandize or buy a market. It has to have that mission social value to it — we have money away. The IMAGIN is a classic. It solves stability issues, it solves affordability issues [and] it’s cheaper to the borrower in the long run.

**How much of a say do you have in the hiring process for the next CEO?**

The answer is I have a modest say. The hiring is a triple-level hiring: board, FHFA and Treasury as opposed to a normal corporate board. I am a member of the board, so I get a kind of say … I help them construct the process. There’s a search committee on the board, and I’m not on that. It’s all subject to FHFA approval at the end of the day.

**What advice do you have for your successor?**

Build up what we have. Remember the people and the management team at the core, because you can’t do it all. The easiest thing about being a CEO is you’re not in charge of the business, you’re in charge of people who are in charge of business.

It’s high-quality team first — by the way, that is going to be an issue, because we do have a lot of people who are older at the top. Ages begin with a 6. The next person is going to have to review management teams, your internals and your externals.

**What’s next for you?**

When this is over, I’ll be 69 years old. I’m not going to work full time again. I was already retired. This is my third retirement, so now I’m old. I’ll do what’s called a portfolio of activities, where you have a life. I may join a board or two although my age may be involved in there in terms of term limit. Maybe do some nonprofit work, which has been hard for me with the back-and-forth between New York and here, and some investing.

I am highly likely to try and stay involved as an outsider in housing finance policy. I find the gap in knowledge between an insider versus the general outside policy community to be quite large, and so at least for a few years, I will be in a position to really help the debate, I think.

I’m examining everything from writing a book, to doing the blog posts, to joining a think tank — those are not mutually exclusive. In this job, I’m restricted in what I can say outside, but once I’m out, then I can help. NMN
The Federal Housing Administration is seeking to narrow disparities between mortgages insured by the government and conventional loans, said FHA Commissioner Brian Montgomery.

For example, the FHA is planning to streamline its single-family loan servicing requirements in order to align them with industry standards. These efforts are part of the Trump administration’s objective to ease regulatory burdens, Montgomery said during a speech at the Mortgage Bankers Association’s annual conference in Washington last month.

“We remain cognizant of the challenges for servicers, which HUD generally relies upon to carry out such functions, and are committed to identifying reforms that would help relieve some of the cost burdens,” he said, referring to the Department of Housing and Urban Development.

The Federal Housing Administration is also taking steps to reduce technological disparities, which has become a main priority under Montgomery. Unlike the conventional market, the FHA still relies on paper case files and an outdated legacy information system. The FHA’s foreclosure fee schedules also deviate from other types of mortgages.

During his remarks, Montgomery repeatedly emphasized the need to modernize technology at the FHA, which he has pinpointed as one of his top priorities as commissioner.

The Federal Housing Administration relies on a COBOL (common business-oriented language) computer operating system that was invented in 1959, which is mainframe-based.

Increasingly, more government agencies are moving to a cloud-based system, which offers more security and allows a single operating system to move seamlessly between computers.

The Department of Housing and Urban Development has been lobbying for years to receive funding to update its computer systems, but Congress has failed to provide it.

“Some of our key systems are over a quarter of a century old,” Montgomery said. “They’re very expensive to maintain, and some are based on programs and languages built for obsolescence years ago.”

If the Federal Housing Administration cannot utilize shared technology between other agencies like the Department of Agriculture or the Department of Veterans Affairs, the agency will move to using “modern, off-the-shelf software that is commonly used in the conventional market,” Montgomery said.

This software would cost $80 million over a four-year period, he said.

According to Montgomery, the agency is looking to adopt three key features based on industry best practices to improve its technology: an automated underwriting system, paperless processing capabilities and an automated collateral valuation system to manage appraisal quality and valuation risk.

“We already have a track record of success with building these modernized systems, including the electronic appraisal delivery system and the loan review system, which have allowed many lenders to do business with FHA that’s easier,” Montgomery said. NMN
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New UltraFICO Score Stokes Concerns About Data Privacy

A new credit score that includes consumers’ cash flow alongside their credit score is winning praise for its potential to help expand access to credit, but some worry it gives the credit bureaus even more data that could be compromised.

By Penny Crosman

FICO announced in late October that it is testing a new credit score with Experian and data aggregator Finicity that draws on several months’ worth of data from consumers’ bank accounts. The idea, according to FICO, is to create a “second chance” score that could allow consumers who’ve been denied credit due to the traditional model another shot at obtaining it. But some observers saw an immediate potential problem — namely with credit bureaus getting unfettered access to bank account data.

“If the credit bureaus want to start routinely accessing our bank accounts, they should be subject to bank-like regulation,” said Sheila Bair, a former chairman of the Federal Deposit Insurance Corp. “I’ve been a critic of big U.S. banks in certain areas, but I do believe their information security systems are substantially superior to the credit bureaus and that is due, in large part, to their regulated status.”

Bair sees a potential upside in that it could help expand credit access, but wonders if it’s worth the risk.

“The privacy and information security issues could easily outweigh those benefits.”

Bair isn’t alone. Gary Reeder, vice president of innovation and policy at the CFSI, is concerned about risk on a systemic level around companies like credit bureaus that the entire financial services industry depends on so heavily.

“We’re getting to where we have larger sets of data housed in institutions that the entire financial services industry rests on, and they don’t have the same regulation and security protocols a regulated bank would have,” he said.

Though credit bureaus are overseen by the Consumer Financial Protection Bureau, the regulator focuses on consumer protection. It doesn’t impose capital requirements to prepare for a possible data breach or failure.

“As you concentrate data and more people use that data to make decisions, there’s a liquidity and capital question that comes to the fore because people can say they have liability, but without capital that’s meaningless,” Reeder said. “I can say you’re liable, but if your pockets are empty, there’s nobody to pay for that liability. The banks know that at the end of the day they are the only ones that have deep pockets, they’re required by law to have them.”

But Mike Pecan, head of data strategy at Experian, argues that the firms involved take security and data privacy seriously. He notes that the model is opt-in — consumers have to give permission for Experian to collect their bank account data. As a result, the credit bureau is unlikely to become an alluring honey pot of consumer bank account information.

Steve Smith, CEO of Finicity, said that his company has gone through extensive information security reviews to obtain data-sharing agreements with banks. It has also obtained third-party information security certifications for financial data, including PCI and SOC2. The company also uses the tokenized authentication methods in the FDX’s Durable Data API standard.
Reeder says he’s not opposed to the new score, but says there needs to be better safeguards.

“With the right controls and the right clarity for consumers about what they’re giving up, it could help people who are starting out their credit lives, particularly as they come to the U.S.,” he said. “There are large numbers of people who come who have good credit histories, but they can’t transport their score; their bank account data would probably be sufficient to tell you their creditworthiness.”

How the new score works

When a consumer applies for credit at a lender that supports the new score, they will be given the chance to opt in to the use of UltraFICO. The consumer will also be allowed to decide which of their accounts should be considered in the score.

Finicity, which has data-sharing agreements with several large banks but works with all 15,000 financial institutions, will then be given the go-ahead to draw several months’ worth of data from those accounts in whatever manner it normally would — through an API, screen scraping, or some other method.

Finicity will provide that cash flow data to credit bureau Experian, which will mix it in with its usual credit report data and pour it into the UltraFICO score model.

Banks will be able to slip the new score into their underwriting engines the same way they use other FICO scores like FICO 8 or 9.

According to FICO, some lenders plan to use UltraFICO as a “second chance” score.

“As opposed to a consumer being declined for the credit or terms they’re seeking, a lender has an opportunity to reach out to the consumer and say hey, if you’re willing to share additional information with me, I may be able to give you the credit you’re looking for,” said David Shellenberger, senior director of scoring and predictive analytics at FICO. “By leveraging checking, savings and money market accounts, information not found in a traditional credit file, we can show positive financial management experience and that correlates nicely with positive credit risk.”

The goal for UltraFICO is to promote financial inclusion, letting people who haven’t built up much in their credit report yet and people who have had temporary financial setbacks due to loss of a job or ill health, qualify for credit.

Online lenders have been considering bank account data in their underwriting decisions for years and have found it to be predictive of creditworthiness.

According to FICO, a handful of banks and credit unions are piloting the new score and many fintech lenders, banks and credit unions have expressed interest in it. The pilot should go live in the first quarter of 2019 and the score should be generally available to lenders in summer 2019.

Who will benefit?

According to FICO, consumers who haven’t had a negative balance in a checking account for the past three months and have maintained a balance of $400 or more should see their credit score increase with UltraFICO.

“The greatest increase we see is for is for those consumers that are probably having the hardest time trying to establish credit,” Shellenberger said. “Those would be consumers with young or thin credit files and consumers who may have experienced previous financial distress.”

In FICO’s tests, 80% of consumers who have thin and young credit files but can maintain an average balance of $400 or more in their bank accounts see at least a 20% increase in their score.

“That can be significant for consumers that are trying to obtain credit at reasonable terms,” Shellenberger said.

Among consumers that have had financial distress, evidenced by a charged-off account or a collection account on file, one in ten see an increase of 20 points or more in the new score, the FICO tests found.

“There are 53 million unscorable consumers today — they cannot be scored by FICO 8 or 9,” said Pecan with Experian. “With inclusion of this consumer-permissioned data, we believe we could reach up to 90% of those people.”

Pecan also said that older people who have paid off their mortgage, car loans and other debt and want to get a retirement RV often struggle to get credit.

“They manage their finances, but they haven’t used credit in a long time and can’t get a loan,” Pecan said. “This opens opportunities for them.”

But younger people, who haven’t had time to build up a strong credit file, may benefit most from the new score.

“This appears to be a shift to address how younger people use money,” said credit expert John Ulzheimer, who formerly worked at FICO and Equifax. Millennials and Gen Zers are less likely to use credit cards and loans than their parents were but do have bank accounts. Ulzheimer also argued that only a narrow slice of consumers will benefit from the new score.

“This won’t turn someone with a traditional FICO score of 500 into an A+ credit prime,” he said. “This will push someone who is along the margins risk-wise over the finish line.” Such a person might be subject to high rates, he noted.

Will banks consider it?

One advantage banks may have from UltraFICO is a step toward better competing with online lenders.

“This seems to be a way to help slow-moving, dinosauric lenders be more nimble and compete with these cutting-edge online lenders that didn’t grow up married to FICO and therefore don’t have this dependence on FICO when they build their risk management platform,” Ulzheimer said.

UltraFICO lets banks modernize their underwriting decisions without having to make major changes to their loan systems.

Smith said that the world is changing and banks need to change with it. NMN
Compliance & Regulation

Lending thaw
A Mortgage Bankers Association gauge of the credit supply suggests that standards have loosened since 2012

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Source: Mortgage Bankers Association

Mortgage Credit Still in a Post-Crisis Funk? The Data Begs to Differ

Despite recriminations about how the crisis and ensuing regulations have tightened loan access, an actual assessment of mortgage credit availability finds the situation is more complicated.

By Kate Berry

In all of the recent 10-year commemorations of the financial crisis, a common theme has emerged among analysts and commentators: Mortgage credit is just too tight.

Lenders point to the effects of regulation that they say is overburdening lenders and leading to some borrowers losing out on homeownership. Others say the memory of mortgage lenders done in by easy-credit policies during the boom is still vivid, leading to today’s lenders remaining cautious.

But an actual assessment of mortgage credit availability is more complicated. The conventional wisdom that the crisis and ensuing regulations have kept mortgage credit out of reach for the vast majority of borrowers is not backed up by the data.

“There are loans for almost every borrower in the marketplace if they want one,” said Christy Bunce, the chief operating officer at New American Funding, a lender based in Tustin, Calif.

Although credit definitely tightened in the immediate aftermath of the crisis, several data points show it has loosened considerably in the years since, and lenders on the ground portray a mortgage credit market with a diverse array of products for borrowers of varying financial backgrounds.

New regulations, such as underwriting requirements established by the Consumer Financial Protection Bureau, have probably made it harder to lend to borrowers with poor credit, but not impossible. And analysts say that while the affordability gap has gotten worse, that may be due to skyrocketing home prices more than anything else.

Data points to mortgage credit availability having taken a huge leap since 2012, in part because of access to low-down-payment loans.

“If you look from 2012 to today, credit has gotten looser, particularly with respect to greater availability of low-down payment loans,” said Mike Fratantoni, chief economist and a senior vice president at the Mortgage Bankers Association.

Still, experts agree that following years of ballooning teaser rates and stated-income loans leading up to the 2008 meltdown, mortgage credit will likely never be as loose as it was back then — and that is a good thing.

“Nobody wants to get back into the mess that everybody was in during the meltdown,” said Bunce, a former vice president of underwriting at Countrywide Financial, which was sold to Bank of America in 2008. “We don’t want stated-income loans back or those kind of exotic loan programs. The credit box is pretty much where it should be.”

Just by origination volume alone, mortgage lending has made a dramatic recovery since the crisis.

In 2005, during the real estate boom, home purchase loans reached $1.5 trillion, according to data by the Mortgage Bankers Association. The market began to crater in 2008, bottoming out in 2011 at $505 billion, but then began a dramatic recovery in 2013. By last year, the volume of purchase loans hit $1.1 trillion, the same level reached in 2007.

“It’s the loosest credit since 2007, but nowhere near 2005 or 2006, which was unhealthy,” said Lionel Urban, a vice president and product manager for bank solutions at Fiserv, a technology provider. “There’s tons of liquidity in the conforming space and that’s where everybody is competing, and they are competing hard now because volume and margins are compressing.”
Compliance & Regulation

Other data suggests that mortgage credit access may never get back to where it was at the height of the boom, but has still made a sharp rebound since the aftermath of 2008. The MBA tracks access to mortgage products with an index measuring the overall supply of credit based on a wide range of products that investors are willing to buy. The “mortgage credit availability index” suffered a sharp downturn from 868.7 in June 2006 to 92.6 in June 2011. But the index came back to 181 in June of this year, reflecting a loosening of down payment and credit score requirements since 2012.

“Yes, we’ve seen some loosening but we’re nowhere close to where we were in 2006,” said Fratantoni of the MBA.

Others note that while industry practices and regulatory decrees have forced lenders to significantly bolster documentation, corresponding improvements in technology have allowed companies to make those changes and still make credit available.

“Relative to the last housing boom, it’s hard to get a loan, but it’s probably much easier relative to long-term norms since you have to provide the same documentation but now there are ways you can do it more quickly with technology,” said Daren Blomquist, a senior vice president at Attom Data Solutions.

Evidence of the gradual loosening of credit over the past few years can be found in the slight uptick in foreclosure start numbers to 1.26% in vintage 2014 Federal Housing Administration loans, Blomquist said, compared with the long-term average of 0.7%.

“It’s a sign that a modicum of risk has returned to lending,” he said.

For less creditworthy borrowers and those with hard-to-document credit profiles, there is no subprime or Alt-A market anymore. But there are more than 200 down payment assistance programs that allow low- and moderate-income borrowers to get into a home provided they have decent credit.

Data shows that a range of factors, from down payments to loan-to-value ratios to debt-to-income ratios, have all loosened dramatically since the crisis.

In 2017, the median down payment for a purchase loan was 6.5%, up from an average of 4.5% percent in 2007, according to Attom Data Solutions.

The FHA’s guidelines remained unchanged during and after the crisis, with borrowers able to obtain a home loan with only 3.5% down.

Both Fannie Mae and Freddie Mac currently offer low-down-payment programs that require as little as 3% down.

The FHA’s guidelines remained unchanged during and after the crisis, with borrowers able to obtain a home loan with only 3.5% down.

In a handful of states with high home prices — including California, Colorado, Hawaii, Oregon, Massachusetts, New Jersey and New York — some lenders required a median down payment of 10% in 2017.

Meanwhile, in the first half of 2018, 11% of purchase loans had LTV ratios of 95% or higher, a tenfold increase from 2014, when a mere 1.2% of purchase mortgage loans were originated with LTVs of 95% or more.

To be sure, the regulatory environment has made aspects of mortgage origination more challenging, and the industry continues to push for changes to the CFPB’s “Qualified Mortgage” rule and other regulations.

Bill Dallas, whose former company Own- it Mortgage Solutions became the first high-profile mortgage lender to close during the crisis in 2007, said regulations such as the CFPB requirements are keeping some self-employed borrowers, small business owners and borrowers with assets but no income, from getting a loan.

“We turn down potential borrowers all the time,” said Dallas, now the president of Finance of America Mortgage. Yet “from an overall credit perspective, credit is not tight,” he added.

“The income guidelines are restrictive. So credit is available but getting people to fit that box is difficult because the underwriting rules restrict income and assets,” Dallas said.

Under the Qualified Mortgage rule, lenders must document a borrower’s income, assets, savings and debt using eight criteria known as Appendix Q, which the industry wants changed.

Don White, the chief credit officer at PennyMac, said documentation of self-employed income in the QM rule “is particularly onerous, especially for small businesses.”

But the impact of the QM rule on mortgage credit availability is also limited. Technically, the QM stamp of approval requires that a borrower must have a debt-to-income ratio of 43% or less. Lenders have complained loudly that that cutoff has disproportionately impacted low- to moderate-income borrowers. However, the CFPB rules carve out a seven-year exemption for loans backed by Fannie and Freddie, which expires in 2021.

Fannie and Freddie “have their QM ‘patch,’ and they don’t have to abide currently by Appendix Q requirements in order to be QM,” said White.

And many agree that the CFPB rules are still in flux, and the bureau could make changes to QM that will provide more flexibility to lenders. Acting CFPB Director Mick Mulvaney — a Trump administration appointee focused on easing rules developed in the Obama administration — has shown a willingness to revise QM. But even former CFPB officials under Mulvaney’s predecessor, Richard Cordray, are open to some changes.

“Appendix Q could be tweaked to allow a borrower to qualify if their assets support the monthly mortgage payment,” said Patricia McCoy, a law professor at Boston College Law School and a former assistant director for mortgage markets at the CFPB.
The Complete Package

New financing options and better inventory have bolstered the manufactured housing sector. Is this the answer to lenders’ purchase-market woes?

By Bonnie Sinnock

Lending on manufactured housing is more complicated and risky than originating mortgages for traditional single-family homes. But a dearth of entry-level housing, along with new Fannie Mae and Freddie Mac initiatives, are prompting mainstream mortgage lenders to venture into the sector as it is being revitalized by new competition and higher-quality inventory.

Manufactured homes account for almost 10% of housing Starts nationally and can represent an even larger share of existing inventory in some regions, like the Pacific Northwest. Their numbers can grow rapidly because producing and installing manufactured homes is less labor-intensive and faster-paced than site-built new homes.

That’s attractive to the mortgage lenders, retail loan officers and mortgage brokers seeking new sources of purchase originations to make up for the significant decline in refinance lending volume over the past year.

And while many issues that constrain growth in the stick-built market are absent from manufactured housing, the sector comes with its own unique set of challenges.

For example, it might be tough for a traditional mortgage lender to assess risks that are unique to the factory-built housing process, like those involved in financing the installation of the home after it is manufactured. But there is less concern about factors like bad weather that hold back production timelines for site-built homes and their financing.

Along with Fannie and Freddie, the Federal Housing Administration is developing its own plans to increase financing offered through its manufactured housing programs. But even without greater involvement from the FHA and government-sponsored enterprises, the market for factory-built homes is growing in size and quality, making it a more viable entry-level housing alternative for lenders to serve.

“It is part of the future, and there are several reasons why it is good for affordable lending, and for first-time homebuyers,” said David Battany, the executive vice president of capital markets at San Diego-based Guild Mortgage. “But the mortgage industry is still catching up to it.”
Higher-quality, factory-built homes are catching on with consumers because they fill a need for housing that costs more than a manufactured home without land, but less than a site-built home.

“It fills the gap that is between $89,500 and $220,000, which site-built homebuilders aren’t filling,” said Lesli Gooch, executive vice president of government affairs at the Manufactured Housing Institute, a trade group for the sector.

While some manufactured housing companies prefer to keep their costs and prices low, others are increasingly competing in this niche. The most notable is Clayton Homes, a builder owned by billionaire Warren Buffett’s Berkshire Hathaway conglomerate.

The trend is significant for mortgage lenders because it bridges differences between manufactured and traditional housing in ways that could make the product more accessible to them.

“If you look at pictures of these homes, they look comparable to site-built housing,” said Gooch.

That should make these houses eligible for financing at the same interest rate as traditional single-family homes, she said.

“Just because it was built in the factory, that doesn’t necessarily mean it should be that different than the financing for a house that’s built on site,” said Gooch.

Historically, the GSEs have charged a premium that deducts from the price they pay for manufactured housing loans based on the view that the collateral is riskier than a single-family home. But that’s changing.

Fannie is testing a manufactured housing loan that omits that premium if the home has verified features that make it more comparable to site-built homes. Freddie also is readying new pilots in response to this trend.

“One thing we are looking at is how we can support that type of home,” said Dennis Smith, an affordable lending manager at Freddie Mac.

Fannie’s new program, MH Advantage, prices manufactured housing loans at the same rate as traditional residential mortgages as long as the homes have features like energy efficiencies, attached garages and a pitched roof.

“If the manufacturer produces a home that includes those amenities, then they are going to offer financing at a rate on par with site-built homes,” Gooch said.

“That’s huge for us.”

Traditional mortgage companies are starting to see these higher-quality, factory-built homes as a market that could benefit them as well.

“It’s a way to get inventory in the market,” said Mike Fontaine, chief financial officer and chief operating officer at Plaza Home Mortgage, a company that is considering buying MH Advantage loans.

This form of housing is marginally displacing some other alternatives considered by entry-level homebuyers and downsizing retirees, but increasing affordable housing stock overall, according to Battany.

“It will allow companies to build more houses, more quickly,” he said.

There were more than 92,000 manufactured homes shipped in 2017, up from almost 50,000 when the market bottomed out in 2009. For traditional mortgage lenders starting to become more active in the sector, this is the source of an incremental gain in volume rather than a notable one, but every little bit helps in a market with fewer lending opportunities, and more competition for loan officers.

“With interest rates going up, and volumes going down, more and more people are looking for programs and products that will fill the gap,” said Jim Loving, director of national sales for Planet Home Lending’s correspondent channel. Planet Home has increased its involvement in the manufactured housing sector due to growing demand from third-party originators, and is considering offering MH Advantage loans, according to Loving.

While manufactured housing loans currently represent a mere 1% to 2% of the company’s overall volume, it is growing.

“It is not going to replace all the volume mortgage lenders have lost, but for companies that want to hire and retain loan officers, it’s another arrow their LOs can add to their quiver,” Loving said.

**Barriers to entry**

Housing inventory shortages, the convergence between factory- and site-built homes, affordability pressures, and new forms of GSE financing are coming together to give lenders unprecedented access to the manufactured housing market.

But lenders do face headwinds. Most of the country’s manufactured housing inventory is ineligible for traditional mortgages. The homes are treated as personal, rather than real, property, because they’re not built permanently affixed to land. In those cases, consumers obtain chattel loans, a type of secured debt similar to an auto loan. The home is titled in public records, which the lender holds until the debt is paid.

The GSEs have pledged to experiment with chattel lending in high-needs areas as part of their “Duty to Serve” legislative mandate. But in the meantime, their manufactured housing activity remains concentrated in real property.

Chattel lenders, on the other hand, do engage in some competition with real-property lenders and may have in-house connections with manufactured housing builders.

The advantage mortgage lenders have is that borrowers can get a much more favorable rate if they are willing to work with a lender that will help them convert their home into real property.

Chattel loans tend to have 10- or 20-year terms and rates ranging from around 6% to a little over 10%, depending on underwriting considerations like credit score, down payment and home size, according to Gooch.
When the land as well as the home is purchased, the rate may be lower, even if the land remains personal property. In this case, rates tend to be in the 5.75% to 8% range, depending on the term and underwriting considerations involved.

In cases where manufactured loans are secured by real property, and a program like MH Advantage is in play, qualifying borrowers and properties may be able to obtain 30-year rates slightly below 5%.

But chattel lenders can give consumers access to a home with a lower price point and underwrite a loan more quickly. They also may be quicker to offer a loan to a borrower with a lower credit score, albeit at rates that could go as high as 12%.

While there is some competition between the two markets due to the convergence between the traditional site-built and factory-built homes, both largely continue to coexist, according to Battany.

“People can still always buy the lower-quality manufactured home if price is the most important driver of their decision,” he said. “Also, a high-quality manufactured home qualifies for better-priced financing through a GSE program will actually result in a homebuyer getting a lower interest rate than on a traditional manufactured home. So the lower monthly cost of the interest savings will offset some of the higher cost to purchase the home.”

Another issue is that lenders are still waiting for units that qualify for MH Advantage to be produced.

“I do see an emerging, potential market, but I don’t know how long it is going to take,” said Brad Waite, president of Land Home Financial Services, a mortgage lender that has an established sideline in manufactured housing that’s grown from 5% to as much as 10% of its business in the past year or so.

What’s more, there’s no guarantee that manufactured housing builders will all start producing inventory that meets the MH Advantage specifications, particularly among firms that sell lower-priced homes.

“We’re a little bit concerned that it may drive up some costs that would be passed on to the consumer, but anything that begins to get the agencies comfortable with the manufactured home, we’re definitely behind that,” said Bill Packer, chief operating officer at American Financial Resources, a mortgage lender that specializes in manufactured housing and derives more than one-third of its business from it.

Still, MH Advantage is starting to catch on with builders. Land Home has a development affiliate that is building model homes with MH Advantage in mind. It plans to market them as a way to quickly replace traditional single-family structures damaged by wildfires.

Commodore Homes of Pennsylvania and Colony Factory Crafted Homes are also endorsing MH Advantage, as is Clayton Homes.

“We are encouraged by the development of MH Advantage. As our industry evolves, it is important that homebuyers are offered more diverse opportunities to access affordable housing,” Clayton spokesman Ryan Wilson said in an email.

The learning curve for mortgage lenders that want to offer manufactured housing loans is not as steep as it was. Lending programs today are “friendlier for a lender that’s not in the market” than past efforts like MH Select, a program similar to MH Advantage that had the bad fortune to launch around the time market turned in 2007, said Waite.

But manufactured home lending still has nuances that could trip up mortgage lenders less experienced with it, he said.

“The quality of the manufactured home has improved immensely over time,” said Loving. But the product is still a little more complex than a traditional home loan for a mortgage lender, “especially on the appraisal,” he said.

With new types of higher-quality manufactured homes going into production and manufactured housing often found in more rural areas with fewer homes, it is tougher to find comparable properties to base valuations on, said Loving.

Being aware of differences in what foreclosure properties sell for in the market is also important to understand, said Waite. The fact that MH Advantage, unlike MH Select, permanently validates the structural standards that homes are built to with a sticker should help uphold their values, he said.

In addition to understanding the nuances involved in valuations, lenders will have to initially find a way to learn how to help fund the installation of homes that qualify for Fannie’s new financing.

If there already were existing MH Advantage units, installation loans would be less crucial, noted Battany. Guild is using construction lending technology to help it surmount that obstacle. Another option is to partner with other experienced lenders in the sector, he said.

Manufactured housing historically has had higher depreciation and loan delinquency rates than traditional mortgages. This may not be the case when it comes to newer homes built to higher standards, but lenders like Planet that are considering expanding into manufactured housing are still being cautious about drawing up underwriting overlays.

Established players hope newer entrants properly size up the manufactured housing risks correctly, because not doing so has hurt the sector in the past.

“I don’t mind other lenders coming in, I just hope they don’t blow it,” said Waite.

If traditional mortgage lenders find ways to appropriately underwrite and make more manufactured home loans to support it, the increased production of higher-quality manufactured homes could have a net benefit for home-finance companies, said Battany.

“It could replace some existing forms of manufactured housing, but it also will expand the housing market for lenders,” he said.
Within the fintech space, there is a broad range of companies with ideas to support various lender business models and automation needs. Some of these products are designed to deliver a collaborative borrower experience, with an emphasis on supporting the lender’s online and mobile channels. Others function primarily as integrators of data and services across the mortgage supply chain, providing a one-stop shop while removing the need for lenders to manage multiple external integrations.

Collectively, they all electronically capture, organize, and present data drawn from trusted sources — and then link such data to underwriting and other consumers of the data to drive automated workflow and lender decisioning. The result is a faster, paperless, more efficient process that delivers a vastly improved borrower experience.

With digital, real-time views of collateral and capacity now enabled, there is growing awareness among lenders that they can benefit by gaining more visibility into the investor’s assessment of risk at the point of sale. By accessing the results of both government-sponsored enterprises’ automated underwriting systems early in the process, lenders can get a clearer picture of all the options available to them and to the borrower. And they can also maximize loan fungibility and secondary market execution, and drive down their cycle times and costs.

This idea of running both GSEs’ automated underwriting systems is an inevitable workflow innovation. Until recently, it wasn’t possible to do this efficiently. But now there is an expanding list of lenders and mortgage technology partners building the first generation of automated systems to support this concept. Fintech-driven innovation is ushering the mortgage industry into a new era. For lenders, exploration and adoption of new technologies is imperative for achieving strategic goals and satisfying the needs and expectations of borrowers.

Andy Higginbotham is SVP of strategic delivery in Freddie Mac’s single-family business.
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COVINA

LERETA LLC has tapped Eric Christensen as its chief strategy officer. He is responsible for product development, corporate strategy, marketing and M&A transactions.

Christensen, who most recently was the founder and managing director of Credit Data Solutions, has spent his career developing knowledge around financial software, predictive modeling and analytics, credit risk technology and decisioning software.

Before Credit Data Solutions, Christensen held executive positions at several financial services companies, including Interthinx/Strategic Analytics, FICO, Fannie Mae and LoanPerformance/CoreLogic.

GEORGIA

ATLANTA

Franklin Street, a commercial real estate firm, has named Brett Price as director in its capital advisors division in the firm’s Atlanta office.

In this role, he will specialize in loan origination, negotiation, and structuring of debt and equity investments for all asset types.

Most recently, Price served as an adjunct instructor of real estate development finance at Columbia University in New York.

He previously served as asset manager for a REIT operated by Clipper Equity, a New York Stock Exchange-traded residential landlord and development firm.

IOWA

DES MOINES

Fintech startup LenderClose has named Dan Davis as its new director of technology.

For over 17 years, Davis worked in the IT departments of three Midwest credit unions, culminating in a vice president position with Financial Plus Credit Union in West Des Moines.

For the credit unions, he supervised IT staff, contributed to strategic planning, negotiated vendor contracts, and managed technology budgets and procurement.

In 2014, Davis became a product manager and consultant for CUTEK Inc., which provides custom programming services to credit unions.

MICHIGAN

TROY

Flagstar Bank has hired Scott Bristol as senior vice president and national production manager of its retail mortgage business.

He brings to Flagstar more than 20 years of industry experience, exclusively in the retail mortgage sector, most notably from New American Funding, where he was national sales manager, and from PrimeLending, where he was president and national sales manager.

In his new role, Bristol will partner with Susan McHan, president of distributed retail for Flagstar, to create a growth strategy for retail, develop and execute a technology roadmap for Flagstar’s national retail operation, and optimize its platform to support its loan officers.

NEW YORK

NEW YORK

Greystone has hired Jennifer Cherney as a managing director as part of the firm’s ongoing effort to expand the firm’s lending operations across the Northwest.

Based in Seattle, Cherney is focused on national multifamily real estate lending across a range of sectors.

Before joining Greystone, she most recently was executive director, commercial term lending and multifamily finance for JPMorgan Chase in Seattle.

Cherney has also served as the vice president of strategic finance at Extell Development Co. and as a managing director at Meridian Capital Group.
The national median rent decreased 0.2% in September, the first year-over-year decline since July 2012, according to Zillow. In the home purchase market, prices increased 7.6% nationwide year-over-year, a slower pace than in previous months.

Here’s a look at the 12 cities with the slowest home price growth in September 2018. The data, from Zillow, is based on data for home value, rents and housing inventory, with comparisons based on year-ago figures.

While no markets experienced a decrease in home purchase prices, median rents were flat or down in all but two markets. Meanwhile, the inventory of for-sale homes dropped in only three markets.

**No. 1**
Washington, D.C.
Median home price: $401,000 (3.7%)
Median rent: $2,133 (-0.9%)
Change in for-sale inventory: 0.8%

**No. 2**
Baltimore, Md.
Median home price: $265,600 (4.5%)
Median rent: $1,740 (-0.2%)
Change in for-sale inventory: -0.2%

**No. 3**
Median home price: $229,300 (4.7%)
Median rent: $1,566 (-1.7%)
Change in for-sale inventory: -8.7%

**No. 4**
Sacramento, Calif.
Median home price: $400,600 (4.8%)
Median rent: $1,842 (1.8%)
Change in for-sale inventory: 17.2%

**No. 5**
Portland, Ore.
Median home price: $391,400 (4.9%)
Median rent: $1,833 (-2.7%)
Change in for-sale inventory: 18%

**No. 6**
New York, N.Y.
Median home price: $431,000 (5.2%)
Median rent: $2,750 (0.8%)
Change in for-sale inventory: 5.2%

**No. 7**
Chicago, Ill.
Median home price: $222,200 (5.3%)
Median rent: $1,635 (-1.9%)
Change in for-sale inventory: 2.7%

**No. 8**
L.A.-Long Beach-Anaheim, Calif.
Median home price: $647,300 (5.4%)
Median rent: $2,750 (0.8%)
Change in for-sale inventory: 29.9%

**No. 9**
St. Louis, Mo.
Median home price: $163,100 (5.4%)
Median rent: $1,139 (-1.2%)
Change in for-sale inventory: -4.3%

**No. 10**
San Diego, Calif.
Median home price: $589,200 (5.9%)
Median rent: $2,541 (0%)
Change in for-sale inventory: 47.1%

**No. 11**
San Antonio, Texas
Median home price: $187,800 (6.1%)
Median rent: $1,330 (-1.1%)
Change in for-sale inventory: 11%

**No. 12**
Boston, Mass.
Median home price: $458,000 (6.2%)
Median rent: $2,367 (-1.6%)
Change in for-sale inventory: 16.7%
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