WHOLESALE REINVENTION

Mat Ishbia is out to convince brokers the best mortgage isn’t always the cheapest
Award-winning lending solutions

crafted just for you.

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¹FHA Neighborhood Watch, Q4 2017
²Inside Mortgage Finance, Q4 2017

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Contents

16
Wholesale Reinvention
Mat Ishbia is out to convince brokers the best mortgage isn’t always the cheapest

Departments

Origination
4
Delayed maintenance on aging homes adds to inventory concerns

Secondary
6
Is GSE cap proposal an academic exercise — or a whole lot more?

Servicing
8
Citizens Bank’s deal for Franklin puts new focus on servicing

Technology
10
Blend adds Ellie integration for digital mortgage disclosures

Compliance & Regulation
14
HUD taking a closer look at ‘disparate impact’ rule

In Every Issue

2
Editor’s Desk
20
Voices
22
People
24
Screenshots
Buying Wholesale

Independent mortgage bankers posted a net production loss of $118 per loan during 1Q18, the second time in four years that originating mortgages was a losing venture.

While that figure is based on the Mortgage Bankers Association’s quarterly performance report of nonbanks, the challenges behind it are felt throughout the industry.

Anemic loan volume has exacerbated the economies of scale that lenders rely on to keep costs in check. So even as production revenue is increasing, the per-loan cost to originate a mortgage was the highest it’s been in 10 years.

Thinning profit margins have many lenders giving the wholesale channel a closer look. And the influx of new wholesalers and brokers is making the channel more competitive, as mortgage professionals seek to lower costs and better manage operations.

This month’s cover story explores United Wholesale Mortgage and its CEO, Mat Ishbia. The Troy, Mich., lender was a mainstay in the wholesale channel throughout the mortgage crisis and remains steadfast in its efforts to work with brokers. Ishbia and UWM have become the poster child for a group of wholesalers that seek to gain a competitive edge by positioning themselves as brokers’ allies in unprecedented ways. Now, as the channel gets more competitive, UWM’s model is being tested by a host of new challenges and opportunities.

Shifting gears, we’re just two months away from the 2018 Digital Mortgage Conference. The technology transformation that’s sweeping the industry continues to rapidly bring new innovations to the market. And the premiere event exclusively dedicated to these developments is no different!

This year’s edition of our groundbreaking Digital Mortgage Conference will be bigger than ever and include a number of exciting new features. First off, we’re moving the festivities to the Cosmopolitan Las Vegas and the agenda has been expanded to two full days of content.

As always, the main attraction will be demonstrations of the latest digital mortgage advances. And with three tracks of sessions, there will be no shortage of opportunities to learn and engage with your peers, no matter where you are in your digital journey.

Attendees will also have the opportunity to participate in our new Engage Roundtables, a series of small breakout sessions that explore how digital mortgage technologies are helping tackle unique industry challenges.

Lastly, we’ll cap things off with an exclusive after party to toast the end of a successful event.

For more details about the conference, visit: nationalmortgagenews.com/conference/digitalmortgage-2018

We hope you see you there!

Send your comments, questions and story ideas to Editor in Chief Austin Kilgore: austin.kilgore@ sourcemedia.com
Home Equity Gains Topped $1 Trillion in The First Quarter

As house values continued growing, homeowners with mortgages saw their equity increase 13.3% year-over-year in the first quarter, a gain of over $1.01 trillion, according to CoreLogic.

Home Sales in Connecticut Plunge Even as Prices Soar

K. Poole: “This is the same condition that significantly contributed to the Great Recession when housing prices outpaced prospective buyer’s income causing purchasers to withdraw from the market.”
“That’s the ironic underside of the housing affordability crisis — the top’s not affordable and the bottom’s not restorable,” he said.

Data about the scope of residential housing obsolescence is limited and imprecise. Industry analysts and academics rely on changes to overall inventory levels and the age distribution across the housing stock to identify trends.

The median age of owner-occupied homes was 37 years in 2015, up from 31 years in 2005, according to a National Association of Home Builders analysis of Census Bureau data.

But that’s largely due to the precipitous drop in new home construction during and after the Great Recession. Homebuilders constructed a scant 6.1 million single-family units over the 10-year stretch from 2008 to 2017, only slightly more than the 6.04 million houses built from 2004 to 2007, according to the Census Bureau.

On average, more than 1 million housing units fall out of the overall inventory every year for a variety of reasons, including multiunit properties that are consolidated or structures that are converted to nonresidential uses.

The Department of Housing and Urban Development estimates 43% of all properties that fell out of the housing stock between 2011 and 2013 were lost due to demolition, disaster, damage or condemnation. That’s up from 30% of units lost for those reasons between 1997 and 1999.

Delayed Maintenance on Aging Homes Adds to Inventory Concerns

As homes continue to age, their repair needs become greater and the gap between renovation costs and expected increase in home value widens.

By Paul Centopani

As homes continue to age, their repair needs become greater and the gap between renovation costs and expected increase in home value widens. Housing experts are concerned the home equity lost during the Great Recession made homeowners reluctant to take on renovations if repair projects cost more than the expected gain in home value. Basically, the juice wasn’t worth the squeeze.

As a result, properties are being doomed to a vicious cycle of decay, explained David Dworkin, a former Treasury Department housing policy advisor who’s now the president and CEO of the National Housing Conference, an association of mortgage lenders, homebuilders, affordable housing advocates and other industry stakeholders.

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To be sure, this trend can be inconsistent. For example, the data shows sharp increases following Hurricanes Katrina and Sandy when hundreds of thousands of housing units were destroyed or lost.

But new construction is only part of the ongoing housing inventory squeeze that’s sent home prices soaring and put
Origination

a damper on mortgage volume. Existing homes account for about 90% of the roughly 6 million home sales that happen each year, according to data compiled by the National Association of Home Builders.

It’s inevitable for the nation’s housing stock to continue to age because new construction will never produce enough units to maintain a constant average age of homes, said Laurie Goodman, vice president of housing finance policy at the Urban Institute.

And even if the rate of obsolescence remains constant, as the housing stock grows, the number of actual homes that fall out of usability keeps going up.

“If the average unit is 37 years old, next year it will be 38 years old. However, about 0.75% of the nation’s 135 million housing units will have exited the housing stock,” Goodman estimates. “To keep the housing stock at 37 years old, you need to add 3.6 million units.”

The problem is builders aren’t creating enough homes to keep up with the pace of new household formation, let alone the growing replacement rate.

While there were 1.4 million new households in 2017, builders completed only 1.15 million single-family and multifamily units and manufactured housing shipments totaled 93,000, according to the Census Bureau.

Among its many casualties, the Great Recession swallowed up homebuilders and the labor around it. The acute shortage of workers, combined with increased land and lumber costs contributed to the underproduction of homes, said Sam Khater, chief economist at Freddie Mac. It’s going to take a significant increase in homebuilding to reverse this multiyear trend. Demand for buying has picked up in recent years, but supply hasn’t kept pace.

“It’s led to continued price growth and limited inventory. Home sales have legs to grow this year as long as inventory conditions improve enough to meet demand,” he said.

Mortgage lenders can feed this growing demand by expanding financing options to builders, as well as existing and prospective homebuyers.

Already, lenders and the government-sponsored enterprises have added new low down payment options and taken other steps to improve access to credit. But there’s more room for lenders to grow without taking excessive risk, Dworkin said.

“The lenders can seek the extra volume responsibly, learn from the crisis, and be appropriately cautious in stretching the credit envelope,” Dworkin said. NMN

Originations to Benefit from Fewer Cash Sales

By Brad Finkelstein

A declining share of cash home sales will drive purchase home originations higher than previously expected through 2019, according to Fannie Mae.

The government-sponsored enterprise’s June forecast for 2018 and 2019 raised total volume for each year to $1.71 trillion in its latest economic outlook. In May, Fannie Mae had projected volume of $1.67 trillion for each year.

The expected drop in cash sales is accompanied by a cut in its forecast for existing home sales this year. Fannie Mae now expects a 2% year-over-year increase in total home sales, compared with expectations of a 2.5% increase in May. It cut the forecast for existing home sales to a 0.8% year-over-year gain from May’s 1.5% projection.

“As the Federal Reserve contemplates additional rate hikes this year and next, and the United States moves beyond the heated rhetoric of protectionism and toward the actual application of tariffs, the downside risks become more pronounced. Lean housing inventory, a strong labor market and positive demographics bode well for single-family homebuilding,” said Fannie Mae Chief Economist Doug Duncan in a press release.

“But builders continue to face headwinds from rising costs, which, along with rising interest rates, are also contributing to affordability concerns.”

Fannie Mae also cut the projections for new home sales, to an 11.2% year-over-year gain in June from 11.9% in the prior month.

While the Federal Reserve said it now expects to make four hikes of short-term interest rates in 2018, Duncan still only expects one more hike this year going forward, but there is an increased possibility that the second rate hike will occur.

Mortgage rates should remain flat through the end of 2019, at 4.6%; in May Fannie Mae expected rates to rise to 4.7% by the end of next year.

Fannie Mae increased its purchase volume expectations in June in all four quarters of 2018 and 2019. It now projects $1.23 trillion in purchase volume for 2018, compared with $1.19 trillion in the May forecast.

There was $1.18 trillion of purchase volume in 2017.

Purchase volume in 2019 is expected to top $1.27 trillion in June’s forecast versus a projection of $1.23 trillion in May.

The refinance origination projection for the next two years was unchanged, although Fannie Mae did reallocate volume for the first three quarters of 2018. NMN

nationalmortgagenews.com
"It really does provide a sort of blueprint for the kinds of things we ought to be thinking about legislatively," Parrott said. "Even if we defer to the regulators ultimately, at least we see at the end of the day what a rich capital regime should look like, and then we can decide then and our legislators can decide then what role they want to play in setting guardrails around what a regulator ought to do."

But some said the proposal could have a less positive effect, since — in contrast to the FHFA’s description — the framework could point to differences in the capital structures between large banks and the GSEs that might give policymakers pause.

"Although FHFA says its new approach is ‘generally’ like that governing large banks, it’s in fact strikingly different, especially in comparison to the largest U.S. banks," said Karen Shaw Petrou, managing partner of Federal Financial Analytics. "As a result, under these rules, Fannie and Freddie will remain the prime movers of U.S. mortgage finance. Their combination of size and capital advantage means that they’ll beat banks every time, every way, every day."

While the FHFA has attempted to move the ball forward administratively on GSE reform, long-term housing finance reform by Congress still appears to be going nowhere.

"There just seems to be a general consensus that [reform] is not going to happen this year, and we think it might not happen for longer," said Brian Harris, senior vice president of Moody’s.

The new proposal would target the GSEs’ combined capital at $180.9 billion, assess credit risk for different mortgage categories, and include components for market risk and operational risk. The FHFA also asked for public comment on two different minimum leverage ratio requirements for the GSEs. Under one possibility, the GSEs would have to hold capital equal to 2.5% of assets and off-balance-sheet guarantees. The second option would require Fannie and Freddie to hold capital equal to 3.5% of assets and off-balance-sheet guarantees.

"It seems like a reasonable compromise in terms of numbers, but obviously it’s theoretical," said Bose George, a managing director at Keefe, Bruyette & Woods. "It’s a framework people can use for the future."

Others saw the proposal as having a more substantive impact, both for the good or bad.

Jim Parrott, a fellow at the Urban Institute, said the proposed capital framework "is largely the one [the GSEs] use today" with regard to pricing and counterparty risk management. That will help policymakers outside the FHFA and the GSEs understand the companies better the next time Congress tries to reform them, he said.

As with anything in housing finance reform, analyzing a proposed capital framework for Fannie Mae and Freddie Mac starts with these massive caveats: the government-sponsored enterprises are still in conservatorship, and long-term reform is still way out of reach.

To some observers, therefore, the proposal released by the Federal Housing Finance Agency — outlining risk-based capital and minimum leverage ratio requirements similar to those imposed on banks — was somewhat of an academic document. Indeed, the proposal states prominently that the capital rules will not be implemented as long as Fannie and Freddie are still controlled by the government.
Fannie Mae Makes Mobile Home Loans Cheaper to Boost Affordable Housing

By Bonnie Sinnock

Fannie Mae is lowering down payment requirements and lender fees on manufactured housing loans to improve affordable housing access.

Mortgage lenders can immediately start submitting the new manufactured housing loan product to Fannie Mae. The new MH Advantage loans require a 3% down payment, down from 5% in Fannie’s existing manufactured housing loan offerings. In addition, Fannie is not charging the 50-basis-point loan-level price adjustment that typically applies to manufactured housing loans.

MH Advantage loans give lenders more leeway to fund loans secured by manufactured housing that have higher loan-to-value ratios. To qualify for a MH Advantage loan, the manufactured home must be “designed to meet specific construction, architectural design and energy efficiency standards,” Fannie said. The new offering builds off of Fannie’s existing HomeReady program, which allows borrowers to get a mortgage with a 3% down payment.

The loans can be delivered to Fannie’s automated underwriting system and submitted as whole loans or in securitizations. The loans can be sold into mortgage-backed securities with pool issue dates after May 1.

MH Advantage borrowers can also obtain a second-lien loan under Fannie Mae’s Community Seconds program, which allows for a 105% combined loan-to-value ratio.

Both Fannie and its main competitor, Freddie Mac, are expanding support for manufactured housing, affordable housing preservation and rural housing under Duty to Serve, a directive issued by their regulator and conservator, the Federal Housing Finance Agency. NMN
Servicing

That's exactly what Citizens wanted, and what many other banks need. Borrower demand, especially for commercial and industrial loans, has been tepid across the industry despite December’s corporate income tax cut.

Citizens, meanwhile, has been trying to generate more fees for years, focusing on wealth management and adding a robo-advisory service. The effort has been a struggle; first-quarter noninterest income fell 2% from a year earlier, to $371 million, because of lower capital markets fees and a decrease in customer service charges.

“In our fee-income businesses, we were underinvested prior to the IPO three years ago,” John Woods, the company’s chief financial officer, said during a May 15 investor conference.

Franklin American helps Citizens move away from the side of the mortgage business that is harmed by higher interest rates. There was “general market softness” during the first quarter, Bruce Van Saun, Citizens’ chairman and CEO, told analysts during an April 20 conference to discuss earnings. “There was a shift away from refis, rates have gone up and so it was just a tougher quarter than we expected.”

Adding Franklin’s $41 billion portfolio of mortgage servicing rights will help, said Brad Conner, Citizens’ vice chairman and head of consumer banking.

Homeowners tend to make fewer prepayments as interest rates rise and monthly payments increase, which reduces a bank’s income. But they continue to make payments, which increases the underlying value of servicing the loans.

“Mortgage servicing rights are a natural business hedge,” Conner said in an interview. “MSRs become more valuable as rates rise and originations fall. We’re balancing our exposure.”

And Citizens will handle mortgage servicing for the assets that it’s buying from Franklin in its existing Richmond, Va., operations center.

Citizens Bank’s Deal for Franklin Puts New Focus on Servicing

Citizens Bank’s acquisition of Franklin American Mortgage will beef up the bank’s servicing portfolio and diversify its origination business at a time when higher interest rates have put a damper on refinance volume.

By Andy Peters

On its face, Citizens Financial Group’s decision to buy a large mortgage lender seems to be a case of swimming against the tide. Several banks have recently dialed down, or outright exited, large-scale mortgage lending as rising interest rates put a damper on refinancing activity.

A closer look shows the logic behind the $154 billion-asset company’s deal for Franklin American Mortgage. For starters, the $511 million acquisition, which is expected to close in the third quarter, will dramatically boost Citizens’ fee income at a time when all banks are struggling with weak loan demand.

And Franklin American’s specialty — servicing homeowners’ monthly loan payments — is the part of the mortgage industry that typically performs well in a rising-rate environment.

While banks like Flagstar Bancorp, MB Financial and Capital One Financial have tapped the brakes, others have quietly stepped up to fill the gap, said Peter Winter, an analyst at Wedbush Securities, adding that the acquisition should help Citizens form deeper relationships with consumer clients.

“If you’re a traditional bank, mortgage is a key product,” Winter said. “You get deposits. It’s a good opportunity for cross-selling and it helps build customer relationships.”

Because Franklin American sells most of its originations to Fannie Mae and Freddie Mac, the bulk of its profit comes from fees.
GSEs Vying to Help Lenders Manage MSRs

By Bonnie Sinnock

Government-sponsored enterprises Fannie Mae and Freddie Mac are in a race to offer services and technology that help mortgage bankers raise cash from mortgage servicing rights.

Freddie Mac, for example, recently launched technology that helps manage the transfer process for mortgage bankers that are selling MSRs as its upgrades automation supporting loan and servicing sales.

“You have to take that servicing, all the data and documents, and move them onto [a new] system physically. That tends to be a messy process,” said Hakan Beygo, senior director of single-family secondary execution strategies at Freddie Mac, in an interview. “So we said is there a way to address and make this process easier?”

At the same time, Fannie Mae is making plans to take services and technology that supports MSR sales a step further in June through improvements to the funding process.

“For lenders who want to sell us a loan and sell the servicing to a buyer we’re trying to improve that,” Andrew Bon Salle, executive vice president at Fannie Mae, said in a separate interview.

The technology improvements and additions the GSEs are implementing are a response to thin lending margins that are driving some mortgage bankers to sell or secure financing against their mortgage servicing rights as well as implement cost cutting measures.

In addition to simplifying servicing processes, the GSEs are continuing to test drive pilot projects aimed at doing the same for origination operations, but some of these may take time to materialize.

Efforts to test the use of consumer bank information traditionally used to validate assets to also verify income and employment for W-2 employees, for example, are still due to be rolled out by Fannie to the full market this year, but the project is not ready for prime time yet.

Among hurdles that have to be addressed in automating the process are differences in the data sets different banks deliver, Desmond Smith, senior vice president and head of customer delivery at Fannie Mae, said during a session at the MBA’s National Secondary Market Conference in New York.

“Banks don’t have the same or similar ways to submit the data,” said Smith.

“It is absolutely our goal to bring this out to all lenders,” he said, but added, “I don’t think I can give you a date right now.”

Freddie Mac also has a similar pilot project in place, and also does not have a definite roll-out date yet, Senior Vice President Kevin Palmer said at the conference. In its testing, Freddie is looking at issues like, “How do we instill the confidence that this is done in a very safe and secure way?” Palmer said.

Bill Would Strengthen FHFA Oversight of Servicers

By Neil Haggerty

Rep. Maxine Waters, the ranking Democrat on the House Financial Services Committee, has introduced a bill intended to increase protections for homeowners facing possible foreclosure.

The bill would increase the Federal Housing Finance Agency’s oversight of mortgage servicers that conduct business with Fannie Mae and Freddie Mac. The bill comes on the heels of legislation that the California Democrat unveiled in April aimed at helping Federal Housing Administration borrowers.

“Despite the lessons learned during the foreclosure crisis, we continue to uncover evidence of bad behavior by our nation’s mortgage servicers,” Waters said in a statement. “Borrowers can’t choose their servicer so it’s especially important that Congress provide strong protections to prevent servicers from taking advantage of borrowers and to protect borrowers from foreclosure.”

Aside from increasing FHFA oversight of borrowers working with Fannie and Freddie, the bill requires documentation of servicer behavior and FHFA evaluation of the services provided to borrowers.

The legislation would also require penalties for servicers that fail to meet minimum standards established by the FHFA. It is being supported by consumer and housing groups, including the National Consumer Law Center and the National Fair Housing Alliance.

The FHA bill issued in April would require the Department of Housing and Urban Development to increase its oversight of FHA mortgage lenders in an effort to strengthen compliance with the FHA’s loss mitigation requirements. It would also establish a complaint and appeals process to provide borrowers the ability to adequately voice their concerns about unfair treatment.
Technology

Climbing costs
The cost to originate a mortgage loan hit $8,475 in 4Q17

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Source: MBA

Blend Adds Ellie Integration for Digital Mortgage Disclosures

A new integration between Blend and Ellie Mae seeks to improve the use and accessibility of electronic mortgage docs, the latest in an industry effort to create a more simplified and consistent borrower experience.

By Elina Tarkazikis

Improving the borrower experience — and making it more consistent — is one of the primary motivations behind the recent development and adoption of digital mortgage technology.

Blend, developer of a consumer-direct point of sale system that enables automated borrower self-service mortgage applications, is introducing electronic disclosure delivery to its borrower interface in an effort to provide a more seamless, simplified and uniform user experience.

The new feature was developed through an integration with Ellie Mae’s Encompass loan origination system. Essentially, a lender that uses Ellie Mae’s document preparation software can generate electronic disclosures within Encompass and deliver them to the borrower through Blend’s consumer-facing portal.

The integration will support a seamless flow of loan data and documents between parties and provide an enhanced experience for e-signing, reviewing and submitting disclosures, while also supporting full compliance tracking on each disclosure.

This type of collaboration between an LOS, doc prep software and borrower portal is by no means brand new to the mortgage industry, but it remains essential as lenders adopt more digital mortgage capabilities, while also maintaining compliance with regulatory requirements. For example, Blend’s new feature helps lenders abide by the TILA/RESPA integrated disclosure rule by creating a digital audit trail and hastening the process to more easily fulfill time-sensitive requirements.

“We’ve identified a particular gap around disclosures. Due to various rules in regulation that exist at the federal and state level, lenders have to deliver these documents to borrowers with certain time constraints,” Nivi Jayasekar, a Blend product manager, said in an interview with NMN. “What we really end up with issues around is that lenders end up having to deliver disclosures through physical mail, and the other area is that this can really add a lot of time to the loan origination process.”

The Blend borrower interface is designed to be easy to use on both desktop and mobile devices, said Josh Pratt, vice president of technology at Veritas Funding, a Utah-based mortgage lender and Blend customer using the new disclosure functionality. The system also helps borrowers explain the importance of various loan documents and the benefits of receiving them electronically.

“The interface is more modern, more intuitive, it’s easier to navigate; it fulfills the needs of those younger millennial borrowers who want to do everything on their phones, plus it works for other less technologically savvy borrowers,” Pratt said.

Blend estimates the new functionality can save lenders $15 per each set of loan disclosures compared to an entirely paper-based process. While that amount is small next to the nearly $8,500 it costs to lenders to originate a mortgage, the cost savings accumulate with scale. More important is the time savings from electronic delivery and the peace of mind of a digital audit trail for regulators.

Electronic signature laws require borrowers to opt in to receive paperless documents and Blend estimates its lenders enjoy a 99% borrower opt-in rate. The San Francisco company intends to create similar document-delivery partnerships with other loan origination software and document preparation vendors in the future. NMN
Technology

Technology, Regulatory Relief Creating a ‘Nexus of Change’ in Mortgage Lending

With regulatory technology being outdated, specifically in mortgage lending, the Department of the Treasury finds it necessary to rethink digital approaches to compliance.

By Elina Tarkazikis

Reducing unnecessary compliance burdens will pave the way for economic growth, larger job creation and greater wage increases, and re-evaluating technology will play an important role in doing so, according to Craig Phillips, counselor to the secretary at the Department of the Treasury.

Phillips hosted a session at the recent Mortgage Bankers Association’s National Secondary Conference in New York.

To make businesses more competitive and create more opportunities for workers, the regulatory system needs to be more effective and efficient. And with regulatory technology being outdated, specifically in mortgage lending, the Department of the Treasury finds it necessary to rethink digital approaches to compliance.

“Today is truly an exciting time to be working on financial services policy. In many ways it feels we’re at the nexus of change in witnessing the industry evolve like some other industries from a brick-and-mortar branch focus to the imperative in having a strong digital footprint and vast technological capabilities,” said Phillips.

With these changes come many, many opportunities both for established players and many new entrants, but it also brings challenges. One of these challenges will be to navigate a regulatory system that was designed in and for a different era,” he continued.

New developments in technology will help maximize access to credit while also reducing the cost of credit by improving operating models, and improving credit flows will also help improve the economy. “Credit is plentiful, but not uniformly available, and not available in the best possible terms — which can be achieved if the regulatory burden was recalibrated. Far too many qualified consumers, especially homebuyers seeking mortgages, find it still too difficult to get credit,” said Phillips.

In addition to growing credit access, technology can also increase the country’s competitiveness internationally.

“If we don’t take steps to improve our technology we will fall behind compared to other countries in the world. With mortgage originations in capital markets, there’s tremendous opportunity for innovation,” said Phillips.

As far as specific recommendations for regulation, Treasury has suggested changes to regulatory overlap, fragmentation and duplication.

Treasury was largely focused on midsized and regional banks since they play such a vital role in regulating the economy. But, many rules in regulation have trickled down to community banks and created hurdles for these smaller financial institutions.

Some proposed changes from Treasury include relieving some of these pain points by streamlining regulation for community banks.

Tailoring is an overused word but accurately depicts a persistent problem in regulation, according to Phillips.

Regulatory requirements from the Consumer Financial Protection Bureau are also sour topics for mortgage professionals as they significantly impact the industry. But, reforming these guidelines remains an issue.

“There’s no magic bullet to relieve this challenge. We very much want to protect consumers but we have to have a balance in mortgage lending in particular that maintains high standards but does not prohibit the access to credit,” Phillips said.

Acting CFPB Director Mick Mulvaney recently issued a report to Congress with proposals for legislative changes for the bureau. Among those, Treasury saw eye-to-eye with Mulvaney on two main suggestions: the CFPB should be subject to congressional appropriation and a single director structure should be accountable to the president.

Still, Treasury’s vision didn’t align entirely with the bureau’s.

“We found that the CFPB relied excessively on enforcement actions rather than notice and rulemaking, which has resulted in an unstable and unpredictable regulatory environment for market participants,” Phillips said.

This was also a belief heavily cited from both the largest and smallest of financial institutions that typically comply through regulators or the Federal Deposit Insurance Corp. NMN
Fig. 1 (Star)

Magic... sophisticated technology made simple.

Fig. 2 (Check Mark)

Trust... we get it right every time.

DocMagic has a new look.

Our new logo represents DocMagic's core values, mission, and expanded suite of offerings.
Compliance & Regulation

HUD Taking a Closer Look at ‘Disparate Impact’ Rule

By Hannah Lang

The Department of Housing and Urban Development has launched a process to amend its use of the “disparate impact” standard in fair lending rules. The legal standard, which can be used to punish lenders for discriminatory effects even if none were intended, has long been unpopular with banks. In 2015, the U.S. Supreme Court decided that such a standard does apply under the Fair Housing Act, but the left it to HUD to determine if changes were to its disparate impact rule was necessary.

HUD released six questions for public comment in an advance notice of proposed rulemaking. Among the queries were whether the prior rule, which was written in 2013 and revised in 2016 under the Obama administration, could be changed “that could add to the clarity, reduce uncertainty, decrease regulatory burden, or otherwise assist the regulated entities and other members of the public in determining what is lawful?”

While the court ruling was seen as a victory for supporters of disparate impact, it placed the burden of proof in disparate impact cases on the plaintiffs. HUD’s disparate impact rule is currently independent of the Fair Housing Act, and the department is reviewing the rule to decide if any changes are necessary in light of the court’s ruling.

“As HUD conducts its review, it is soliciting public comment on the disparate impact standard set forth in the final rule and supplement, the burden-shifting approach, the relevant definitions, the causation standard and whether changes to these or other provisions of the rule would be appropriate,” HUD said in the ANPR.

In October, the Treasury Department released a report calling for HUD to reexamine its use of the disparate impact rule, questioning whether it is consistent with state law and the McCarran-Ferguson Act, which gave states freedom to regulate the business of insurance without federal interference.

“HUD should also reconsider whether such a rule would have a disruptive effect on the availability of homeowners insurance and whether the rule is reconcilable with actuarially sound principles,” the report stated.

In its notice, released June 19, the department asked the public to weigh in on the clarity of the rule, components of the burden-shifting framework, the definition of “discriminatory effect” and whether the rule should provide defenses or safe harbors to claims of disparate impact liability. The public will have 60 days to comment.

Before he was the current HUD secretary, Ben Carson wrote an op-ed in 2015 noting “unintended consequences” from disparate impact policies.

“These government engineered attempts to legislate racial equality create consequences that often make matters worse,” he wrote in an op-ed in the Washington Times. “There are reasonable ways to use housing policy to enhance the opportunities available to lower-income citizens, but based on the history of failed socialist experiments in this country, entrusting the government to get it right can prove downright dangerous.” NMN

"Courts have validated the legal theory behind punishing lenders for unintentional discrimination, but the Trump administration has shown interest in revising the Obama-era policy."
Feds Arrest 74 People, Alleging Real Estate and Wire Fraud

By Brad Finkelstein

Federal law enforcement authorities have arrested 74 people in this country and abroad, accusing them of participating in a wire fraud scam whose victims included real estate attorneys and settlement service providers.

The government was able to seize $2.4 million of alleged ill-gotten gains as well as disrupt and recover $14 million in fraudulent wire transfers as part of Operation Wire Wire, an operation undertaken by the Department of Justice, the Department of Homeland Security, the Department of the Treasury and the U.S. Postal Inspection Service.

But that is just a drop in the bucket in the dollars lost to what the federal government classifies as business email compromise schemes and its variant, email account compromise.

Victims have reported over $3.7 billion stolen since the Internet Crime Complaint Center started keeping track of these frauds in late 2013.

Of the 74 people arrested, 42 were in the U.S., 29 were in Nigeria and one each in Canada, Mauritius and Poland.

“I want to thank the FBI, nearly a dozen U.S. Attorneys’ Offices, the Secret Service, Postal Inspection Services, Homeland Security Investigations, the Treasury Department, our partners in Nigeria, Poland, Canada, Mauritius, Indonesia and Malaysia, and our state and local law enforcement partners for all of their hard work,” said U.S. Attorney General Jeff Sessions in a press release. “We will continue to go on offense against fraudsters so that the American people can have safety and peace of mind.”

There were 23 individuals charged in the Southern District of Florida, including eight people in an indictment unsealed June 4 for laundering $5 million from a Seattle corporation, various title companies and a law firm, the Department of Justice press release said. The indictment does not contain the victims’ names.

Sun Title Agency was one of the victims in the Florida indictments, said Tom Cronkright, the owner of the Grand Rapids, Mich.-based company. In total, the fraud spanned eight different countries and included the use of “mules” — people paid to move the stolen funds, as well as money laundering to hide this money.

“They are definitely following transactions,” said Michael Barone, a New York attorney whose firm handles closings and has been targeted for similar frauds but was not one of the victims of any of the cases brought. “They are being much more personable in their emails, much more knowledgeable in their emails, as opposed to in the past when they just said ‘we made a mistake please wire it here.’ Now they’re copying your signatures so it looks alike. It really looks like they’re assuming your identity.” NMN
Wholesale Reinvention

Mat Ishbia is out to convince brokers the best mortgage isn’t always the cheapest

By Bonnie Sinnock

When the housing crisis sent big banks fleeing from third-party originations, family-owned United Wholesale Mortgage doubled-down on the channel, investing in innovative technologies and marketing strategies to appeal to mortgage brokers. UWM became the largest wholesale lender after the channel hit rock bottom earlier this decade. Now that third-party originations are making a comeback, the company is determined to chip away at the retail channel’s market share.

At the same time, UWM must protect its position from a growing number of wholesale competitors. To do this, President and CEO Mat Ishbia has set out to be an ally to mortgage brokers in unprecedented ways, particularly when it comes to technology, referral marketing and improving operational efficiencies.

In doing so, UWM is seeking to remake a piece of the wholesale channel by encouraging brokers to think beyond getting the lowest price for a mortgage and instead, consider other factors that contribute to a successful origination.

For example, the company is working to improve mortgage brokers’ digital reach in a market where busy consumers are apt to shop and apply for loans online. These efforts are prompting debate about customer acquisition and where the long-term value of customer relationships resides.

As new entrants are drawn to wholesale lending by its lower-cost structure, it remains to be seen whether UWM’s tactics will remain relevant in the face of this rising competition and the threat of a race to the bottom if the channel becomes more commoditized.

Key to this question is whether wholesalers can rely on broker loyalties as the channel becomes more crowded. While brokers value those close relationships, they don’t want to devote themselves to any particular lender to the point that it would pose a conflict of interest with their obligations to borrowers.

But by doubling down on this approach, Ishbia is banking on UWM’s ability to meet the needs of borrowers and brokers alike, while turning a profit at the same time.
Ask Ishbia about any of his competitors and the answer is always the same: “Whatever is best for consumers is going to win at the end of the day.”

With the help of its brokers, UWM is winning the wholesale channel. The privately held, family-run lender lays claim to a 15% to 20% share of the wholesale market and is widely identified as the channel’s biggest player.

It is a far cry from the publicly traded banking giants that dominated wholesale before 2008, and in that sense, the company is emblematic of wholesale’s general state since the mortgage crisis: a lower-profile business dominated by a small number of nonbanks.

But wholesale’s profile is rising as players like PennyMac inject the channel with new capital to fund loans. And mortgage broker employment has rebounded, reaching levels not seen in a decade.

On one hand, Ishbia considers this a “rising tide that lifts all boats.” But he also acknowledges UWM may be facing more competition from companies with business models too close to his own.

Retail may still dominate the business, but among larger nonbanks, it is losing ground to lower-cost lending channels.

Large independents generated just 29% of their 2017 volume from retail lending, according to data from the Mortgage Bankers Association and Stratmor Group. The remaining 71% came from wholesale, correspondent and consumer direct.

“One of the big focuses today is to get the price of origination down,” said Bill Pearce, CEO and chairman of Maxex, a secondary market and due diligence platform.

All mortgage channels are susceptible to price wars, given the thinning volumes and margins throughout the industry. But since wholesalers must contend for business on a loan-by-loan basis, price competition is extraordinarily tough.

Emphasizing service rather than price is a way to address that concern, Ishbia said. Some borrowers want nothing but the lowest prices, but others have different priorities, he noted.

“A close on a particular date may be the No. 1 priority, the second priority may be the lowest rate and the third priority might be the cheapest closing cost,” Ishbia said.

“A close on a particular date may be the No. 1 priority, the second priority may be the lowest rate and the third priority might be the cheapest closing cost.”

— Matt Ishbia, CEO
United Wholesale Mortgage

Like many wholesalers, UWM prides itself on offering brokers distinct service that translates into a better experience for borrowers. And for now, it may have an upper hand on new competitors that haven’t seen how the relationships between wholesalers and brokers have evolved since the mortgage crisis.

Changing Dynamics

Precrisis, wholesale lenders exerted more control over customer relationships and only provided limited operational support to brokers. But post-crisis regulations have changed this.

Wholesalers today have to exert more control over brokers’ operations in order to ensure regulatory compliance. And they’re more likely to let the broker take the lead on borrower interactions.

New wholesale lenders must embrace this shift to be successful, said a number of board members from the New York Association of Mortgage Brokers.

“If a new lender wants to get into the business, they really have to sharpen their pencil because the lenders that have been serving mortgage brokers really have fine-tuned their operations quite a bit,” said mortgage broker Mark Favaloro, owner of Aamtrust Mortgage.

The time-sensitive requirements of the TILA-RESPA integrated disclosure rule and other compliance requirements have shifted interactions between brokers and wholesalers to being more relationship-oriented than transactional.

It used to be that a wholesaler could act against a broker’s interests and say, “you’ll do business with me anyway,” said Lou Borsellino, owner of Paramount Capital Services. Now, “I feel more like we’ve become partners with our wholesalers.”

A wholesaler that tries to work with brokers on a transactional basis will limit how much business it gets, said Deborah Robertson, a sales manager at wholesale lender Plaza Home Mortgage.

“If you go in with a mindset of, ‘How do I win?’ then that’s more transaction oriented,” Robertson said. “I think it is more ‘slow and steady wins the race’ today. How do I develop a relationship? How do I prove myself? How do I earn your business?”

Referral Resources

One way that wholesale-only lenders like Plaza Home Mortgage and UWM do this is by championing brokers’ interests in referral business from existing customers.

“Since we don’t have a retail platform, if we get a call from someone who wants to refinance their loan, it’s sent back to the original originator,” Robertson said.

Brokers appreciate this, but don’t depend on it. They can always stay in touch with borrowers and compete for referral business on their own. Any loyalty to a wholesaler for the next loan has to take a back seat to the borrower’s needs.
While brokers would like to stay loyal to the wholesalers that have stuck with them long term, they also need to ensure borrowers are aware of all their options, regardless of the source. Lenders also need to stay compliant with anti-steering rules. “You have to weigh all the factors first, discuss with the customer, and let the customer decide,” Borsellino said.

Borrower-facing technology is also becoming more important to brokers, and wholesalers that can facilitate this have a competitive edge. While sharing technology with brokers isn’t new, the tools have gotten much more sophisticated.

Most digital consumer-direct loans are done by retail lenders, but brokers are still better suited for helping borrowers with unique needs find a lender. “When you deal with some of the online lenders, if you don’t fit their cookie-cutter mold, you don’t get the loan,” said Rich Biondi, the owner of brokerage RJB Financial Consultants.

With the battle for borrowers increasingly playing out online, digital-savvy mortgage companies are dedicating significant resources to ensuring their marketing message appeals to both prospective borrowers and the algorithms that power search engines. Larger organizations can leverage their scale and sizeable marketing budgets to improve their search engine optimization, often at the expense of small, local lenders and brokers.

UWM is trying to close that gap with a number of initiatives, including Blink, a consumer self-service point of sale system that brokers can private label, and FindAMortgageBroker.com, a directory for consumers to search for local brokers.

Blink helps UWM and brokers compete with new digital mortgage self-service systems, while the website is designed to collectively give brokers more visibility in search engine results than they could otherwise achieve on their own.

UWM takes this a step further by helping brokers manage their operations, too. The company employs more than 50 loan processors to help brokers coordinate tasks like getting insurance, title services and other disclosures documented and ready to go before closing.

Likewise, UWM also plans to discontinue its employees-only retail channel in favor of its staff working with brokers — even if that means a broker pairs a UWM employee with another wholesaler.

“We said, ‘Even though you work for our company, work with one of our local brokers, and our local brokers will use us or one of my competitors. Whatever is best for the consumer,’” Ishbia said. “I really believe in brokers that much that I want them to originate my own team members’ loans.”

UWM services most of the loans it funds and after closing, the broker’s name appears on servicing statements as the borrower’s contact for refinance or new loan inquiries. When it does sell servicing rights on seasoned loans, it takes measures to help brokers stay connected with borrowers by requiring the new servicer to sign nonsolicitation agreements that are in effect for one to three years.

The move is not without its downsides for UWM. The nonsolicitation agreements are hard to enforce and could potentially affect mortgage servicing rights pricing. But the agreements have so far been respected and Ishbia said they’re worth their weight in relationship building with brokers. “There are people that won’t buy our servicing because of it and that’s OK. People could pay me a little worse price because of it, potentially,” Ishbia said.

And the strategy could become a more significant distinction between UWM and depositories that often get into wholesale lending because of the opportunity to cross-sell to borrowers. Citizens Bank, for example, recently purchased Franklin American Mortgage (see page 8), a nonbank lender and servicer active in both the correspondent and wholesale channels.

But overall, banks are still largely staying clear of wholesale. The channel represents only 3% of large banks’ origination volume, according to the MBA and Stratmor.

“The economics make a lot of sense for banks. The tricky part is the regulatory pressure,” said Stratmor Senior Partner Garth Graham. “Brokers are independent contractors. You can have rules, you can have guidance, but it’s very hard to manage the risk.”

Indeed, some lenders are experimenting with wholesale and then later finding that they are “not sure they want to be in the business,” said Tyler House, manager of advisory services at mortgage industry consultancy Richey May.

For now, though, the prospects for wholesale lending look strong. “We believe the market consolidation is going to result in a few things. Smaller, lightly capitalized mortgage bankers are going to take their capital off the table or they are going to sell out to larger players,” said Graham.

“And I think some of the big aggregators are looking at the wholesale channel and saying, ‘I like the variable cost model.’”

Ultimately, the increased competition won’t be easy for UWM to contend with, but Ishbia does see an upside.

“It’s not about UWM thriving, it’s about the channel thriving, and if the channel thrives, UWM will thrive.” NMN
Voices

Digital Mortgage Era Requires New Path to Tech Collaboration

To make its technology more relevant to the mortgage industry, Fannie is taking a new approach developing tools to make lending more efficient.

By Henry Carson

“If you build it, they will come” was an assumption that worked out well in the movie “Field of Dreams,” but it’s not an assumption we make here at Fannie Mae when delivering technological innovation in the mortgage finance industry. At Fannie Mae, we want to be sure that if we build a product, customers will actually use it.

So, we are asking our customers to help us innovate. A large part of my job as head of Fannie Mae’s Digital Products team is nurturing an internal culture that fosters innovation through collaboration. Increasingly, that cultural change is being driven by close collaboration with our customers and partners, who are working side by side with us as we develop new technology, products and processes.

This shift has led us to “co-create” technology and processes that look to improve the mortgage origination and closing processes so that loans can be underwritten more quickly, less expensively, and more safely.

Co-creation — or the process of pairing the developer of a product with an end user of the product as the product is designed — is nothing new for many industries. But, it has taken on greater importance in housing finance. At Fannie, it has helped us tailor innovation for the mortgage industry’s needs as part of our series of Day 1 Certainty initiatives first introduced in October 2016 and updated last fall.

Co-creation has helped us re-engineer not just the underwriting side of lending; it has helped us with streamlining the sale of master servicing rights with our Servicing Marketplace. And, this collaborative spirit helped us understand why introducing application programming interfaces, or APIs as they are better known, for our lender partners was so important. As our partners in the industry take on and process hefty gigs of data, these APIs allow them to better manage data internally and with us.

Our partnerships with lenders mean that they can implement technology that is smart and more user-friendly at a time when the housing finance industry is managing a shift from a market dominated by refinancing to one dominated by purchase lending.

Co-creation is a change in thinking for us at Fannie Mae. Previously, we would develop a tool for our lender customers and introduce it to the market, expecting they would immediately adopt it and see its benefits. In some cases, the result was a product of little use to our customers — suited more to Fannie Mae’s needs than theirs. In today’s fast-evolving fintech economy, where participants have to be quick to adopt and adapt to change, this old way of doing business just doesn’t work.

Today, we employ agile software development practices to collaborate with our lender partners. But we at Fannie Mae cannot go about it ourselves. That’s where all of our customers in the mortgage lending community come in. The whiteboards here at Fannie Mae are not just for us to have a collaborative work environment. They are here with all of our lender partners at top of mind so everybody can put their mark on them and dream up technology for better customer experience.

Henry Cason is senior vice president and head of digital products at Fannie Mae.
Expanded Reporting for ‘Credit Invisibles’ Could Do More Harm

Supporters say pending legislation would help consumers with little or no credit history, but it would instead roll back key consumer protections.

By Patrick Cicero

Recently, the CEO of Experian urged the Senate to take up the Credit Access and Inclusion Act to help the tens of millions of so-called credit invisibles get affordable loans.

Similarly, the sponsors of the House version of this bill have touted it as a way to help consumers with little or no credit history, sometimes called “no files” or “thin files.”

This is a well-intentioned goal, but there is a massive problem: The bill tries to achieve it by nullifying state and federal privacy protections when it comes to reporting utilities or rental housing payment information. Whatever its ostensible purpose, the actual language of the bill has one objective — to preempt state and federal laws that protect consumers.

Some states, for instance, require consumers’ consent when electric or gas utility companies, telephone companies and public housing authorities want to send their payment information to the credit bureaus. This kind of payment information can already be reported under the Fair Credit Reporting Act, but it is the individual’s choice in several states.

Of course, Experian’s CEO, Craig Boundy, fails to mention that his company, as well as Equifax and TransUnion, will benefit greatly from this bill. All three credit bureaus would be happy to vacuum up more data without having to comply with state laws that prevent certain gas, electric or telephone companies from sharing customer data without the customer’s permission. The credit bureaus would also be happy to override federal privacy protections for subsidized housing tenants that require similar consumer consent.

Limited-income families struggle to make ends meet. It is far from clear that more credit reporting will assist vulnerable households obtain credit. In particular, gas and electric companies reporting payments may result in negative marks for millions of families — disproportionately families of color — who struggle to pay huge winter heating or summer cooling bills, but catch up on their debts in subsequent months.

At present, gas and electric utility companies typically only report accounts that are seriously late, such as those that are written off or sent to collection agencies. These accounts are a small fraction of the total number of accounts with late payments.

Supporters of the bill claim monthly reporting of utility payments will help improve credit reports and have a negative impact on very few consumers. But their claims cannot be reconciled with data actually reported by utility companies.

Thus, consumers who get scores from utility companies reporting payment data may, in fact, get negative credit scores. For many low-income consumers who already have a credit score, utility reporting could harm their existing credit histories.

Very seldom do low-to-moderate income families benefit when the credit industry desires to have more information about their financial lives. We should all be skeptical when one of the biggest industry beneficiaries touts the bill in the name of helping those who have the most at stake.

Patrick Cicero is the executive director of the Pennsylvania Utility Law Project.
CALIFORNIA

LOS ANGELES

Union Bank said that Blayne Harvey has joined the firm as managing director, head of wholesale lending for Union Bank Home Loans.

Harvey comes to Union Bank from SunTrust Mortgage Corp. where she spent more than 20 years in several key leadership positions in wholesale and correspondent lending.

Most recently, she was senior vice president, national production manager of the bank’s nondelegated correspondent division, which she grew into a contributor to the SunTrust organization.

FLORIDA

MIAMI

AmTrust Title Insurance Co. said that Carlos Rodriguez has joined the company as Florida agency manager. Based in Miami, he is responsible for developing, marketing and managing AmTrust Title’s Florida agency operations as well as identifying and advancing new business opportunities.

Just prior to joining AmTrust Title, Rodriguez was in private practice providing legal counsel to clients in the areas of corporate regulatory compliance, contract negotiations and government relations matters.

Earlier in his career, he worked for First American Title Insurance Co., Fidelity National Title Insurance Co. and Greenberg Traurig PA.

IOWA

DES MOINES

LenderClose has hired Benjamin Dinkins as a sales executive who will focus on building relationships with credit unions and community banks. He joins LenderClose from SkySon Financial, where he served as regional sales manager.

Prior to his position with SkySon Financial, Dinkins held a variety of roles, including risk management, procurement, data analytics and relationship management with Nationwide, Syngenta and Morelity.

UTAH

SALT LAKE CITY

TRK Connection, a provider of mortgage quality control services, has hired Jeremy Burcham as executive vice president of sales.

Prior to joining TRK Connection, Burcham served as chief strategy officer and, most recently president of The Compliance Group, where he was responsible for driving the firm’s recent growth.

Additionally, Burcham has held executive level roles at ACES Risk Management Corp. (ARMCO), Interthinx and American Home Mortgage.

NEW YORK

NEW YORK

Greystone has named George Kenny managing director, institutional sales for lending operations.

He brings three decades of mortgage and securitization experience to Greystone as it expands its lending capacity across a range of platforms including Federal Housing Administration, Fannie Mae, Freddie Mac and CMBS.

Kenny joins Greystone from Starwood Property Trust, where he served as head of new business development for real estate investing and servicing.

George Kenny
New York, NY

Benjamin Dinkins
Des Moines, IA

Carlos Rodriguez
Miami, FL

Blayne Harvey
Los Angeles, CA

Jeremy Burcham
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Housing market conditions are leaving prospective buyers with far less purchasing power than they had even a couple of years ago, but certain cities are bucking the national trend with more favorable circumstances for house hunters.

Here’s a look at the 12 best cities for housing market purchasing power. The data, from the March First American Real Home Price Index, measures home price changes, taking local wages and mortgage rates into account “to better reflect consumers’ purchasing power and capture the true cost of housing.”
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