Briefing

Weak origination volume and higher mortgage rates in 2010

On Jan. 12, the Mortgage Bankers Association (MBA) released a revised forecast for 2010 that shows residential origination volume weakening substantially from the level posted in 2009. The new forecast calls for $1.278 trillion in home lending this year, with 39 percent of the loans coming from refinancings.

That is a steep drop from the $2.113 trillion posted last year when refinancing counted for 65 percent of home loans, and it is also down from an earlier forecast for 2010 released in October. The earlier forecast called for total residential origination volume to reach $1.556 trillion in 2010, with a refi share of 48 percent.

The good news, according to Jay Brinkmann, MBA chief economist, is "there are no signs we will slip into another recession." He says the forecast anticipates that gross domestic product (GDP) will slow in the first half of 2010. MBA sees second-quarter growth coming in at 2.3 percent and the unemployment rate peaking in the first quarter at 10.3 percent. But Brinkmann does not expect a double-dip recession to materialize, according to comments made at a state of the industry press briefing in Washington, D.C.

FHA raises MIP, sets minimum FICO scores and steps up enforcement

On Jan. 20, Federal Housing Administration Commissioner David Stevens announced some dramatic steps to rebuild the capital reserves of the FHA program. In announcing the moves, he was clear to underscore his awareness of the critical role the FHA is playing currently in providing mortgage funding to the housing market.

Stevens said in making the new policy choices three priorities had to be balanced: 1) the changes had to get the capital reserves for FHA's insurance fund headed back toward the legislatively mandated 2 percent; 2) the changes should not negatively impact the market at a sensitive time; and 3) the changes should not adversely affect FHA's fulfillment of its mission to help serve underserved first-time buyers and be a source of liquidity when other capital providers are unavailable.

The first change Stevens addressed was the increase in the upfront FHA mortgage insurance premium (MIP) for all forward FHA mortgages by 50 basis points to 2.25 percent, which would be effective by mortgagee letter in the spring. He said FHA planned to pursue legislative authority to raise the FHA annual insurance premium. He added that once that legislative authority was secured, FHA could begin to look at ways to lower the upfront premium and raise the annual premium.

December HAMP report card pushes for faster progress

On Jan. 15, the Obama administration released the latest numbers on the Home Affordable Modification Program (HAMP), and while the numbers are better, they still show only modest progress against a relentless wave of foreclosures. The latest report covers modification efforts through December 2009.

The report found that the number of total permanent modifications approved by servicers had reached 112,521 (however, 46,056 still awaited a borrower's signature to become final). The total number of active trial and permanent modifications under HAMP had reached 853,696. But trial mods made up the overwhelming majority (787,231).

Seeking to offer some small measure of encouragement to servicers while signaling more progress was still needed, Chief of Treasury's Homeownership Preservation Office (HPO) Phyllis Caldwell simply said, "Treasury is committed to working with servicers and borrowers to sustain this improved pace."

Department of Housing and Urban Development Senior Advisor for Mortgage Finance William Apgar was quoted in the release announcing the latest HAMP results. Apgar said, "HUD will continue to work with our administration partners and utilize our broad network of housing counseling agencies to increase the number of borrowers receiving sustainable and affordable modifications under HAMP."

LPS reports one in 7.5 properties delinquent or in foreclosure

On Jan. 11, Lender Processing Services Inc. (LPS), Jacksonville, Florida, released its latest *Mortgage Monitor Report,* which found one in every 7.5 homeowners is behind on mortgage payments or in foreclosure. The report reflected data collected as of Nov. 30, 2009.

Foreclosure inventories climbed to new highs in this edition of the report, with November's foreclosure rate hitting 3.19 percent, according to LPS. That represented a month-over-

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month increase of 1.46 percent and an annual increase of 81.41 percent.

The report noted that compared with 2005 levels, "foreclosure inventories across all loans are now nearly seven times higher, while jumbo loan foreclosure inventories are nearly 100 times more than levels four years ago."

The report found that total delinquencies, excluding foreclosures, increased to a record-high 9.97 percent. LPS said that loans rolling to a more delinquent status totaled 5.01 percent compared with just 1.52 percent of loans whose performance improved.

Moody's projects worsening cumulative losses for subprime/alt-A pools

Moody's Investors Service, New York, continues to revise upward its loss projections for pools backed by both subprime and alternative-A mortgages placed in securitizations during 2005 through 2007. The numbers project excessive losses for these pools that worsen significantly for loans originated in 2007.

Moody's reported on Jan. 15, in its publication *Moody's ResiLandscape,* that it is now projecting cumulative losses of 48 percent of original pool balance for pools backed by subprime mortgages in 2007 securitizations. For subprime pools in 2005 securitizations, cumulative losses are now projected to reach 19 percent, and for 2006 subprime securitizations cumulative losses are pegged at 38 percent of original pool balance.

The updated loss projections by Moody's were accompanied by notice that 5,698 subprime bonds and 10,330 alt-A bonds were put on review for possible downgrade.

For alt-A pools, Moody's now expects cumulative losses to be 14 percent for 2005 securitizations, 29 percent for 2006 securitizations and 35 percent for 2007 securitizations.

Existing-home sales plunge in December

Existing-home sales for December 2009 dropped 16.7 percent from November to a seasonally adjusted annual rate of 5.45 million units, according to the National Association of Realtors® (NAR), Chicago. The plunge was attributed at least partly to the fact November numbers were pumped by buyers rushing to get in under the wire for the first-time homebuyer tax credit that was due to expire in November before it was extended.

NAR reported that total existing-home sales in 2009 were 4.9 percent higher than the total posted in 2008. The home-sales number includes transactions involving single-family homes, townhomes, condominiums and co-ops. For all of last year, 5,156,000 existing homes changed hands, up from the 4,913,000 existing-home sales in 2008. NAR noted that it was the first annual sales gain since 2005.

Existing-home sales in December—even though down from the prior month—were still 15 percent higher than the 4,740,000-unit level posted in December 2008.

NAR's practitioner survey shows that first-time buyers purchased 43 percent of homes in December. That was down from 51 percent in November 2009. The trade group said 42 percent of sales were to repeat buyers, with the balance being to investors.

FHA borrowers eligible for help even before missing payments

On Jan. 22, the Department of Housing and Urban Development announced new help is available for Federal Housing Administration borrowers who are facing "imminent default" but who have not yet missed payments. Previously FHA borrowers needed to have missed mortgage payments before being eligible for loss-mitigation assistance.

In a January press release, HUD announced that effective immediately,

Business Barometer

EXISTING-HOME SALES (SEASONALLY ADJUSTED)

	No. Homes Sold
December 2009:	5.45 million
December 2008:	4.74 million
Year-Over-Year Change:	15.0%

SOURCE: ***National Association of Realtors® (NAR)*** the loss-mitigation options of forbearance and FHA's Home Affordable Modification Program (HAMP) would be available to FHA borrowers facing imminent default. Expanded authority was given to HUD under the Helping Families Save Their Home Act of 2009 to extend the use of loss-mitigation tools to help FHA borrowers avoid foreclosure.

Servicers must document the basis for a determination that a payment default is imminent, and retain all documentation used to reach that conclusion. The documentation must also include information on the borrower's financial condition.

The borrower must be able to document the cause of the imminent default, and HUD provides guidance on the types of hardship(s) that may be acceptable (including a reduction or loss of income, unemployment, reduced job hours, reduced pay, a decline in self-employed earnings, a death in the family, chronic illness, permanent or short-term disability, etc.).

Past-due home loans could hit 18 percent in 2010

A New York–based specialty research firm that follows bank and financial stocks released its mortgage finance outlook for 2010, and it predicts the percentage of home loans in delinquency or foreclosure could potentially reach 18 percent this year. Keefe, Bruyette & Woods (KBW) also predicts residential production volume will fall to $1.6 trillion in 2010, mainly driven by declining refinance activity.

KBW predicts housing sales "will pick up moderately in the spring of 2010, [but] we expect purchase activity to taper off later in the year after the expiration of the housing tax credit in April 2010." On the commercial real estate side, KBW expects "very limited origination volume."

The rise in the percentage of loans in delinquency or foreclosure will be driven by "the weak economy, increased foreclosure activity and an increase in delinquencies in the FHA book of business as that book seasons," the report said. KBW noted that it expects a similar increase in commercial mortgage delinquencies.

Nevada shows steepest annual price decline in 2009

The dubious honor of being the state with the worst annual home-price performance through November 2009 goes to Nevada, according to First American CoreLogic, Santa Ana, California. If you include distressed sales, Nevada saw its home prices drop by 22.5 percent for the period from November 2008 to November 2009. If you remove distressed sales, the annual price decline improves slightly to -19.7 percent.

First American CoreLogic and its LoanPerformance Home Price Index (HPI) found a few tiny rays of hope in the data released on Jan. 21. National home prices (including distressed sales) declined by 5.7 percent in November 2009 compared with a year earlier. That was better than the showing in October 2009, when national home prices dropped by 7.6 percent from October 2008. Yet, national home prices declined in November 2009 compared with the month before by 0.2 percent.

The HPI nationally fell by 30 percent through November 2009 from its peak in April 2006, if you include distressed sales. Removing distressed transactions, the HPI drop is 21.8 percent during this period.

The five states posting the worst annual home-price performance through November 2009 were: Nevada (-22.5 percent), Arizona (-14.9 percent), Florida (-13.7 percent), Michigan (-12.6 percent) and Idaho (-11 percent). Those percentages include distressed sales.

Mortgage banking profits slip in third quarter

The good news is that independent mortgage banking firms were profitable in the third quarter of 2009. The bad news is they weren't quite as profitable as they were in the second quarter of last year. Those were some of the findings in the Quarterly Mortgage Bankers Performance Report released in mid-December by the Mortgage Bankers Association.

Independent mortgage bankers and subsidiaries earned an average profit per loan of $902 in last year's third quarter, according to the report. In the second quarter, profits per loan originated averaged $1,358.

Marina Walsh, MBA associate vice president of industry analysis, said, "For lenders in our study, average production volume dropped 33 percent in the third quarter 2009, along with a drop in the refinancing share of total originations. The overall decline in production volume combined with a heavier purchase share resulted in higher per-loan production expenses, which pulled down production profits."

The average production volume for firms in the study was $189.6 million in the third quarter. That was down from $280.9 million in last year's second quarter. The share of refinancings for participating lenders dropped to 44 percent in the third quarter, which was sharply lower than the 62 percent refi share in the second quarter.

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