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Thoughts and Observations On The Market

2014 Prep - ATR/QM

Know Your LO!!!

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November 26, 2013

This Friday is Black Friday which has been defined as the day after Thanksgiving, or National Shopping Day. This national event is late this year, leaving a very short window to close out the year and prep for 2014. The countdown continues to ATR/QM changes in January and November may be the last month many lenders operate in the black for a while. So, who wants to read the matchbox newsletter instead of strategically planning their course around the shopping mall?

Tired of the ATR/QM webinars, news flashes etc? Here's our take - as always, we promise a different perspective for the real world.

Also, anyone still trying to figure out how or why secondary hedging gains have eroded? Or how to increase net revenue with a new norm for volume without cutting fixed costs or personnel? Look no further than knowing your LO.

And for those of you that just can't wait to overeat, drink and shop this week and cannot read all the way to the bottom of our newsletter, we wanted to take this chance to thank all of you for being a part of our growth and success this year. We know that you receive a lot of information on a daily basis and we appreciate that you continue to read what we have to say. We wish you and your families a happy and healthy Thanksgiving.

We will be attending the Independent Mortgage Bankers Conference in Miami next month; please reach out if you would like to connect!

We strive to keep you all well-informed, as we share our views. Staying a step ahead and running a tight operation are the keys to success in the mortgage banking world, and we are here to help bankers do so. We hope you find our newsletter useful, and if there is anything you want us to cover, please let us know.

Are Your REALLY Ready For ATR/QM?

We are not going take this time to explain the ATR/QM rules, there has been enough written about that already. What we are going to speak about is how lenders should be handling the approaching changes. Similar to the months leading up to the Loan Officer Compensation changes a few years back, we are seeing firms approach the coming regulations in a variety of ways. Some have their plans confirmed and are just waiting to implement, some are asking what everyone else is doing and others are still hoping that things will get delayed and have yet to do much of anything. We are strongly advising that all lenders come up with a real, all encompassing strategy on ATR/QM some time between holiday feasts. Too many are still asking, "What's everyone else doing?" That's scary. The changes are real and are not to be taken lightly. They are also not ones that should be interpreted in a very liberal fashion until someone gets fined and then look to make real updates. Policies and procedures need to be stress-tested and pass the "sniff" test. Plans should be well documented, allowing lenders to confidently present the ATR/QM strategy to others. To that point, here are the items every lender should have in place over the next 30 days:

-**LOS updates:** Most LOS's should have their QM updates released already and ready for testing. Encompass did so in early November and if anyone needs assistance in interpreting please let us know. Compliance, Secondary, and Closing departments should understand the LOS's capability of supporting and documenting the ATR/QM and build policies and procedures around them.

-Fees: How will lenders manage the 3% max? Have wholesale comp policies been revised? How will wholesale and lender "junk" fees play a role? Have an affiliated business? What impact will their fees have and how will they be incorporated? How will bonafide discount points be documented and managed? We're pretty confident that a lenders definition will vary from investors. Have these fees been stress-tested? What's the policy for loans above the 3%? Who's getting cut first? Secondary margins beware!!!

And since purchase transactions are the future, so are seller credits. This begs the question of accounting for sellers concessions and itemizing the charges as finance charges or non finance charges. This all needs to be part of implementing corporate policy via accurate disclosures, closing documents, and loan level documentation.

-Investors: As we all know, everyone has a different interpretation and risk tolerance. Anyone lending in NY with the wonderful subprime testing knows how this game can play out. Great, more overlays. Perspective on DTI, 3% calculations, rebuttal presumption,...not to mention post-closing updates/revisions kicking loans out of QM need to be fully understood to limit risk and accurately shape policies and execution strategies. Not only will interpretations differ, but so will documentation requirements.

And of course everyone wants to know what investor will buy non-QM loans and/or what will come of jumbo loan guidelines moving forward. Secondary departments better have a few outlets and appreciate the exposure of hedging and delegated underwriting strategies.

-**Documentation:** ATR/QM policies & procedures should be fully documented and added to the CMS. What's a CMS? You haven't been reading our newsletters have you? In addition to documenting policies, loan level documentation and testing should be stored in every file - we know investors, agencies and auditors will be on the hunt.

-**Training:** Every employee should understand these updates and receive at least a few hours of training on corporate implementation. Does five hours of training sound like a lot? We get to visit with lenders every day and between daily birthday celebrations and kitchen talk of the latest Miley Cyrus embarrassment, we can honestly say that everyone right now has 60-90 minutes per week to learn about these significant industry changes. If processing or post closing has spent more time on attending birthday parties than ATR/QM training, there's a significant issue. Every department from origination to post closing should understand the new rules as they will have an impact on all!

-**Third party vendors:** Every LOS, PPE, document providers, compliance software, etc., has made significant functionality upgrades over the last 30 days. If they haven't there is reason to be nervous. Take the time to ensure that third party vendors are leveraged for efficiency and documentation. Their interpretation of the new rules should not conflict with yours.

Hey 2ndary - Know Your LO!!!

We have seen tremendous rate/pricing volatility since June and many Secondary Managers and owners have been looking to answer two questions...How and why did my hedging execution take such a hit? and How can we get back to black (i.e. profitability?) Margins and volume are too low and staffing levels have already been cut razor thin. What's missing? The answer for some, at least partially, is really knowing your Loan Officers and Branches. It's truly a matter of Secondary understanding it's pipeline.

Most hedging strategies rely heavily on pull-through. So much modeling and careful care is given to historical performance, and data integrity and how it will be used to forecast the future pipeline. Well, we haven't seen volatility like this in a long while. The volatility isn't just in the markets, it's in the workforce too. We haven't seen streams of LO's and Branches leaving / joining lenders in droves like this since 2008.

Are pipelines reliable if LO's are actively seeking other employment?

Are pipelines reliable if they consist of loans from new LO's or wholesale accounts who are just learning the operational and underwriting nuances of the lender?

Are pipelines reliable if even the best of LO's are now on edge and locking scared? With rates so volatile, loans are being locked earlier in the origination process than usual and so many are quick to lock, scared that rates may jump again, before the file is "real."

How about re-negotiations and float downs? We call it reno-fever, it's been going around lately. Almost all lenders claim, 'not us' but every lender we're able to have an honest conversation with, it becomes clear that float downs are much more common than originally thought. We've yet to see a lender clearly flag these occurrences and report them with consistency. No wonder so many claim 'not us' but it's simply 'not true'. Renegotiations and float downs are fallout and the reno-fever has many lenders sick. If lenders cannot accurately report on this, they cannot accurately report their pull-through.

With so much volatility, is 'reported' historical performance really a great indicator? Probably not, at least not as good as it has been over the last few years. At a minimum, secondary departments need to keep a much closer eye on how their pipeline and sales perspective has shifted from say Q1 or 2012. Know your LO and know your pipeline. Historical norms are shifting and being proactive is the only way to stay ahead of the curve, rather than behind it, and protected from volatility exposure.

About Us:

Matchbox is a collection of gritty industry veterans who decided to create a company aimed at helping mortgage companies ignite ideas that are outside the box to realize their true potential. We have years of real life, hands on experience in the business, and we want to offer our keen insight to others as they take on the challenges before them.

As individuals, we each contribute unique perspective and expertise. Collectively we provide a true roadmap to success, regardless of your current situation. Like any master craftsman, we are very passionate about our work and we approach each client as if your company were our own. In the end, we help you, be a better you.

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