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Is QRM a PITA *(pain in the....)*?

Just when everyone thought the Loan Officer Compensation regulations were going to be a strain, now a Dodd-Frank bill has required that banks and other financial institutions that issue mortgage backed securities retain a 5% ownership of the loans they bundle to sell. As Warren Buffet so eloquently stated, this will present a more "skin in the game" mentality for lenders. The intent is to minimize the amount of junk mortgages. However, this will likely translate into higher costs for these institutions and therefore the consumer costs will also rise.

An exception to the rule would be Qualified Residential Mortgages (QRM), which would be exempt from the requirement. To sum up how the current proposal defines a QRM:

- Requires a minimum of 20% down (Purchase max 80% CLTV, r/t refi max 75% CLTV, cash out max 70% CLTV)
- No Bankruptcies, foreclosures or deeds-in-lieu within the last three years
- Must be a Closed End 1st lien
- Only owner occupied [Purchase or refinance of a 1-4 unit residential property. Condos, co-ops and manufactured homes. Also, if 1-4 units at least one unit must be owner occupied by the borrower]
- Max 30 year terms
- Leaseholds > 99 year term
- Credit: currently 0 x 30 on any debt, 0 x 60 last 24 months
- Fixed rates and ARMs (ARMs must have 2% annual adjustment cap and 6% life)
- Debt ratios no greater than 28%/36%
- Refinance acceptable with an existing junior lien as long as the CLTVs do not exceed threshold
- No interest only, balloons, bridge loans, negative am, prepayment penalty, piggybacks, or Reverse mortgage loans

As you can see, by the limiting factors on down payment, credit, occupancy requirements, debt ratios, CLTVs and product, the number of affordable options for borrowers will be extremely limited in an already stressed real estate market. Since few borrowers will meet these new underwriting guides, ultimately, borrowing costs for 60 to 70% of consumers (non-QRM loans) will be at least 1% higher. However, regulators are still in the process of debating the rules surrounding risk retention and are considering lowering the down payment requirement to 10% instead of the original 20%.

The Qualified Residential Mortgage proposal isn't up for comment until June 10.

Hedging

While there are many out there who'd like to think hedging is an outdoor activity involving bushes, the financial world has a slightly different definition. At its core, hedging is the act of balancing out bets or investments with another negatively correlated bet or investment designed to minimize risk. If done in the correct way, hedging slightly resembles an insurance policy. If things don't go according to plan, you have a security net. However, there is always a direct tradeoff between level of risk and profitability. Want to lower your risk? You'd better lower those expected returns as well.

Within the mortgage industry, there are a few different opportunities to hedge. One of the easiest methods we can use to try and minimize risk is by giving borrowers the option to lock or float their rate. However, the use of this method assumes two things: First, that our consumer is well-versed in the language of loans and informed enough to make an educated decision. Secondly, understanding that you run the risk of getting trapped in a rate "squeeze" or a situation where they decide to lock when the market is moving.

While we have the ability to lock whenever we desire, it's not always in our best interest. For example, if our client locks in early and the market worsens, we lose, but if the market improves, we win. The fundamental problem with this method is that if the market gets better, what incentive does the client have to stay with us? Zip, zero, zilch.

The management of risk is vital. One simple method to do this is by mirroring the client. If they lock, we lock. You want to float? We'll float too. While not a very complex strategy, it is safe, so long as you don't get caught in the "squeeze."

Several mortgage secondary desks choose to leverage technologies that help to hedge their pipeline against market conditions. By taking an entire pipeline of loans and analyzing risk against interest rate movements, mortgage businesses can reduce fallout risks.

Learn more about secondary desk and hedging technology solutions.

Credit Reporting

Ever take your borrower's word on what their credit score is just to find out the borrowers were a tad inaccurate? Or perhaps they really did think they had a stellar credit rating but there's an identity or fraud issue? Either way, we all know accessing the most information about a prospect before moving forward during the sales process is the best strategy.

While there are a myriad of different techniques to access and pull credit, think about how you're currently collecting credit reports and ask yourself a few questions:

- How long does it take you to access the report?
- Are you getting the required information from borrowers early enough?
- Are you getting the full report too late in the sales cycle?
- What details does your current credit reporting strategy include?
- Does your current process produce the type of credit reports required by HUD, Fannie Mae and Freddie Mac?
- Do you really have enough data to make informed decisions?
- Is it possible to pinpoint those loans not eligible earlier and eliminate countless hours spent trying to locate a program that will work when it's too late?

Once you have the actual credit report from a potential borrower these questions would no longer be a concern. With a process that allowed you to get instant credit reporting data early on in the point-of-sale process you'd be able to yield higher results.

Solutions are available that can be accessed directly from your pricing engine technology and can auto-calculate debt, detect the number of late payments and adjustments, locate bankruptcies and determine the Loan Representative Score. You'd be able to avoid "uncloseable" loans and tailor your loan program accordingly. If you could rely on a technology that automatically finds all pertinent data from your preferred credit reporting agencies and implement a strategy that avoided duplicate data entries by conducted system-to-system recording, originators could spend more time closing more loans.

Traditional Mortgage Lending vs. Online Lending

The Mortgage Banker's Association predicts that refinance mortgages will make up just 41% of the origination volume in 2011, down from 69% in 2010. It might be time for a refresher course in how to merit leads the "old-fashioned" way.

Sure the internet is an excellent source to aggregate and capture mortgage leads but let's not bow to its mortgage might just yet. "Traditional" lead- such as leads garnered through standard channels like, newspaper ads and customer referrals - still constitute the majority of leads available to mortgage lenders.

In today's one-touch world of texts, tweets and constant online collaboration, Customer Relationship Management reigns king, while acting as the bridge between inquiries and closed loans.

A common misconception among people in the mortgage industry is that online leads typically come with a price tag, while leads merited through traditional paths are that 4 letter "F" word we never get enough of: F-R-E-E.

Of course, there is no such thing as free anything, so it's important to realize that walk-in-traffic and other traditional lead sources have costs too, meaning the same principles we apply to online leads should be adhered to in these situations as well.

Because all leads come with a price tag, the more of them we close, the more profitable the organization will be. While not exactly rocket science, it does raise a valid query: How can we effectively track these leads?

In the cut-throat mortgage industry, Post-It notes won't suffice. As such, it is vital to implement a method that can get the lead data in the system, assigned to an originator, priced accurately, and followed up on (e.g. Rate Tracker, Drip Marketing Campaigns, etc.).

While just speculation, a system comprised of these components will benefit users in two ways: conversion rates will mirror online lead conversion rates and we'll witness an increase in closings per originator, leading to an increase in the bottom line.

With a sound strategy and system in place, customer satisfaction will soar and, over time, referrals will increase and your staff and originators will be happier, more productive, and, ultimately, a bigger asset to the organization.

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