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Finally a Glimmer of Hope For Mortgage Market Chaos

The last few newsletters paint an incredibly interesting and volatile picture for the mortgage market. Just as the industry was coming to terms with unprecedented market volatility due to coronavirus, the details of the CARES Act (the coronavirus rescue/stimulus/relief bill) presented their own set of challenges. For some lenders and borrowers, these challenges are an even bigger deal than the recent market movement.

What's the big deal with the rescue bill?

The biggest issue is that the CARES Act allows homeowners to skip payments for up to 360 days due to coronavirus-related hardship but does not allow mortgage servicers (the place you send your payment) to verify the hardship. In other words, anyone can request a forbearance, whether they need it or not. Unfortunately, too many homeowners exercise this option, it will cause a domino effect that cripples the mortgage industry.

Indeed, several types of loans are **already dead**--essentially overnight. Other sectors saw massive increases in rates and loan standards. This has nothing to do with lenders trying to make life harder for people who need help and everything to do with mortgage investors repricing the moral hazard introduced by the CARES Act.

What does that mean? Lenders can objectively forecast forbearance needs based on economic data, but only if forbearance is limited to those who truly need it. If forbearance is open to everyone, we have a problem. Lenders cannot perfectly predict how the homeowner's crisis mindset will increase forbearance uptake. That means mortgage investors were quickly forced to reconsider the value they assign to certain types of loans and borrowers. That might have been a relatively quick and less painful process if the CARES Act included a protection for mortgage servicers. As it stands, the bill effectively says anyone can skip a payment and mortgage servicers simply won't be paid or protected on those loans.

At the same time, servicers are on the hook for those payments. In many cases, they are scheduled to be passed through to a separate mortgage investor whether homeowners pay or not. Under normal circumstances and even under recessionary circumstances, servicers have enough of cushion to front that money while they take steps to collect. But the **unprecedented** glut of joblessness is creating a situation that no stress test could ever account for. It makes very little sense for mortgage investors to put their money in a

MBS and Treasury

	Price / Yield	Change
MBS UMBS 6.0	99.56	+0.46
10 YR Treasury	4.9328	-0.1108
30 YR Treasury	5.3162	-0.0900

Pricing as of: 11/20 4:10PM EST

Recent Housing Data

		Value	Change
Mortgage Apps	Nov 11	199.8	-2.35%
Building Permits	Oct	1.3M	-7.5%
Housing Starts	Oct	1.31M	+7.21%
New Home Sales	Sep	676K	-1.17%
Pending Home Sales	Oct	63	-4.69%
Existing Home Sales	Oct	3.99M	+0.25%
Builder Confidence	Nov	25	-13.79%

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box that might not open up for 360 days--especially when the average investor wants fast access to cash and liquidity right now (loans in forbearance cannot be easily or profitably sold).

Again, no one in the mortgage industry is making a conscious decision to make things harder for consumers/homeowners. Mortgage investors are simply hesitant to buy until the uncertainties are sorted out. That hesitation translates directly to higher costs/rates for certain mortgage programs and the outright demise of others. The **situation was so bad** that it was even affecting rates for the best of the best conforming, conventional scenarios.

The powers that be are well aware of the issues. Treasury has formed a task force specifically to address them. **Fed Chair Powell** said he is watching mortgage servicers carefully as a key market. The Mortgage Bankers Association has consistently advocated for logical treatment with officials. And several senators penned an urgent letter to Treasury Secretary Mnuchin that mostly hit the nail on the head.

All of the above has created some hope for progress. After weeks of messy, inconsistent, counter-intuitive shifts in mortgage rates, we're **finally** starting to see things move in more measured steps and in more logical directions. This is primarily happening for mortgages with the fewest risk factors right now, but the sooner we gain clarity on the size of the forbearance tsunami and the efficacy of any official relief/backstop efforts for mortgage servicers/investors, the sooner consumers will see rates and availability return in other programs.

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Recent Economic Data

Date	Event	Actual	Forecast	Prior
Wednesday, Apr 08				
7:00AM	w/e MBA Purchase Index	185.9		211.7
7:00AM	w/e Mortgage Refinance Index	3853.1		4781.1
Thursday, Apr 09				
8:30AM	Mar Core Producer Prices YY (%)	1.4	1.2	1.4
8:30AM	w/e Jobless Claims (k)	6606	4606	6648
10:00AM	Apr Consumer Sentiment	71.0	75.0	89.1
Friday, Apr 10				
8:30AM	Mar Core CPI (Annual) (%)	2.1	2.3	2.4
Tuesday, Apr 14				
8:30AM	Mar Import prices mm (%)	-2.3	-3.2	-0.5
Wednesday, Apr 15				
7:00AM	w/e Mortgage Refinance Index	4242.7		3853.1
7:00AM	w/e MBA Purchase Index	182.6		185.9
8:30AM	Mar Retail Sales (%)	-8.7	-8.0	-0.5
8:30AM	Apr NY Fed Manufacturing	-78.2	-35.00	-21.50
9:15AM	Mar Industrial Production (%)	-5.4	-4.0	0.6
10:00AM	Apr NAHB housing market indx	30	55	72
10:00AM	Feb Business Inventories (%)	-0.4	-0.4	-0.1
Thursday, Apr 16				
8:30AM	Mar House starts mm: change (%)	-22.3		-1.5

Event Importance:

No Stars = Insignificant
☆ Low
★ Moderate
★★ Important
★★ Very Important

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Date	Event	Actual	Forecast	Prior
8:30AM	Mar Build permits: change mm (%)	-6.8		-6.3
8:30AM	Mar Housing starts number mm (ml)	1.216	1.300	1.599
8:30AM	Mar Building permits: number (ml)	1.353	1.300	1.452
8:30AM	Apr Philly Fed Business Index	-56.6	-30.0	-12.7

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