

Share: [Email](#) [Link Here](#) [Widgets](#)

BY: [ROB CHRISMAN](#)

Primer on Servicing's CPR Calculation; MBA Speaks Out

Mar 30 2015, 6:31AM

[Text](#)

In like a lion, out like a lamb? Usually folks say that about March's weather, not the economy. But economic data so far in the first quarter have pointed to an economy **more like a lamb** than a lion. There are a number of factors likely weighing on U.S. growth this quarter - like the weather, slow economies overseas, and a strong dollar hurting the export picture. But speaking of calendars, we end this week on Good Friday but we have about 88 business days until August 1. Warn those Realtors who only do a deal or two a year about what is going to change. Tick tock...

More than six years after **Lehman Brothers Holdings** collapsed creditors will receive \$7.6 billion. Lehman said its general unsecured creditors will have received nearly \$100 billion after the distribution this week, more than **32 cents on the dollar**. In 2012, creditors were expected to get less than 20 cents on the dollar. The bulk of the latest payout, some \$6.3 billion, is earmarked for third-party claimants, which include Lehman affiliates that are being wound down separately from the New York-based holding company.

Plenty of entities are trying to influence politicians and regulators...

The Mortgage Bankers Association [filed two letters](#) with the Basel Committee on Bank Supervision expressing concerns over the Committee's proposed risk weights of credit exposures and its design of a capital floors framework. It also sent a letter to the Federal Housing Finance Agency observing that proposed changes to [Fannie Mae/Freddie Mac capital and liquidity requirements](#) are calibrated too high and that FHFA should adopt a lower liquidity requirement that reflects different demands of each type of mortgage servicing.

A number of ICBA leadership bankers met with Treasury Secretary Jack Lew recently and, to no one's shock, expressed their **frustration with excessive regulatory burden** that is harming consumers and stifling economic activity in their communities. Lew invited the bankers to participate in an informal roundtable to discuss economic conditions and the challenges and opportunities facing community banks. The community bankers included ICBA Chairman Jack Hartings, ICBA Chairman-Elect Rebeca Romero Rainey, ICBA Vice Chairman Scott Heitkamp and several others. Among the issues the bankers raised: the impact of Consumer Financial Protection Bureau regulations on mortgage lending; Basel III capital rules, especially related to commercial real estate lending; and call report and examination burdens. The bankers urged Treasury officials to support legislation and other measures to roll back the excessive regulatory burden and promote additional lending, economic growth and jobs in communities across the nation.

In a twist, a while back the Credit Union National Association (CUNA) thanked the Consumer Financial Protection Bureau (CFPB) for supporting CUNA-backed changes in its regulations on residential mortgage loans. President and CEO of CUNA, Jim Nussle, released the following statement: "CUNA is very pleased the Consumer Financial Protection Bureau is proposing significant changes regarding its "small creditor" and rural and underserved exemptions to its mortgage rules. Raising the origination limit from 500 first-lien mortgage loans to 2,000, excluding loans held on portfolio, and several other proposed changes announced today all represent significant improvements to the rules. CUNA fervently advocated to the Bureau to take another look at these areas, and we thank them for listening to the concerns of credit unions. More work still needs to be done, but this is an important step in the right direction.

Switching gears to servicing (does anyone really make much money servicing loans?) Eileen O'Grady, Elliott Bay Associates, writes "Perhaps I've missed it - is anyone discussing the **industry ramifications of the OCWEN meltdown?** I'd love to know what folks are thinking about that development, and what impact it's having on MSR trades, Servicer Certification processes (Fan, Fred, Ginnie and Rating Agencies,) servicing costs. My theory is that servicing costs, along with other costs, are going to continue to increase before they stabilize. I also believe that some game changer technology is going to build a much more elegant, and cost-effective, servicing platform than what the industry is living with today. I would love to know others' thoughts on this."

A while back I received an email from a loan officer inquiring about **prepayment rates on mortgage pools**, and its significance to rate sheet pricing. "It's very important," I wrote from my phone, as I watched Pete Carroll snatch victory away from anyone with an 8 and 1 square in a Super Bowl pool. In order to price a pool of loans, loans which are to be securitized, the buyer normally runs a cash flow analysis against the pool characteristics (30yr, high FICO, low DTI, etc.) in order to arrive at what minimum bid needs to be offered to the seller. If mortgagees did not have the ability to pay-off the mortgage early, by selling or refinancing, cash flow analysis would be an easy exercise; however, the difficulty resides in the fact cash flows are unknown due to the exercisable nature of a mortgage. So what do buyers do? Well, they will normally assume some prepayment rate on the pool of loans in which they're securitizing; one such method is known as the Conditional Prepayment Rate (or CPR for short). The CPR is an assumption that a percentage of the principle balance of loans in the pool, or pass-through security, will prepay each month; as you can imagine this number changes from deal-to-deal, as it reflects the type of loans being securitized along with future expected economic conditions or anomalies. It's typically expressed with a single digit which represents the capped percentage, such as CPR 6%, the security will historically realize.

Without going into the tall weeds of securitization, if we assume a 100 PSA (which is a conversation for another cocktail), a CPR = 6 means there will be an additional 0.2% each month of prepayments on the remaining mortgage balance, until month 30, when it is assumed that an annual conditional prepayment rate of 6% is realized. So...in the first month 0.2% of the balance is reduced, in the second 0.4%; in month 5 1.00%, and by month 10 2.00% Month 30 to 360 (assume 30yr amortization) is a 6% reduction in the remaining mortgage balance. It is this assumption of cash flows which determine your secondary marketing's sell price, and

Start your Two Week Free Trial Today

- Live Streaming MBS / Treasury Prices
- Best-in-class Data Stream
- Live Chat w/ 100's of Mortgage Professionals
- Email / Text Message Alerts
- Mobile App

MBS Live

sometimes a key determining factor in rate sheet pricing up and down the note rate stack.

Speaking of servicing deals, let's check out some characteristics of pools from the last month or so to see what's been on the market through brokers. Yes, interest rate movements, along with supply and demand market conditions are making for an especially interesting and dynamic MSR market.

MIAC offered a \$174 Million GNMA II MSR portfolio; the seller will be providing full representations and warranties for the loans included in the offering. The package had a \$180k average loan size, is 99.63% FRM, 100% GNMA II, 3.98% WAC, WaDEL of 13.33%, 100% Retail. Bids were due February 27th. **Phoenix Capital** had two pending sales; the first, Project Pluto, is a \$963 Million pool of Ginnie Mae mortgage loans. The package was 98% 30 year, 2% 15 year, 3.93% WAC, 695 WaFICO, 94% WaLTV, 59% purchase, 26% refinance-no cash out, 15% refinance-cash out, 78% wholesale, 22% retail originations, geography dispersion: 56% CA, 6% NJ, 6% FL; the second, Project Patriot, was an \$871M Fannie Mae and Freddie Mac MSR package. Pool characteristics are: \$282k average loan, 87% 30 year, 13% 15 year, 4.28% F30 WAC/3.43% F15 WAC, 747 WaFICO, 73% WaLTV, 36% purchase, 35% refinance-cash out, 28% refinance-no cash out, <1% refinance-property improvement, geography dispersion: 71% CA, 8% MA, 5% FL. Bids for both packages were due in early February.

Not to be outdone, **MountainView Servicing** had two packages out for bid as well; the first was a \$1.1 Billion FHLMC/FNMA non-recourse servicing portfolio; the package was 88.4% fixed rate and 100% 1st lien product, 750 WaFICO, 72% WaLTV, 4.25% WAC, average loan size of \$252,577, and top states: California (59.3%), Nevada (9.1%), Colorado (8.0%), and Minnesota (4.8%). Bids were due in February. The second was a \$426 million FNMA non-recourse servicing portfolio. The package was 99.8% fixed rate and 100% 1st, 747 WaFICO, 87% WaLTV, 4.13% WAC, \$221k Avg loan size, with top states: California (78.3%), Washington (5.0%), New Mexico (4.2%), and Texas (3.3%). Bids were due earlier this month.

Harken back to Friday's news...The final revision to fourth quarter GDP came in at 2.2%, flat with the second revision and below the 2.4% street estimate. Personal Consumption was revised upward to 4.4% from 4.2%. The core Personal Consumption Expenditures Index (the preferred measure of inflation for the Fed) came in at 1.1%, well below their 2% target. The University of Michigan Consumer Sentiment index rose to 93 in March.

But that was all last week. For me this week "only" includes Arizona and Texas but more importantly this is a new week with two days of crammed closings but swollen pipelines pointing to good a decent April and May. Fundings aside, we have plenty to cogitate about with regard to economic news. Today we will have Personal Income and Consumption (now labeled Spending), along with a set of PCE numbers (where I always have to look up what PCE stands for) and Pending Home Sales. Tomorrow is a bevy of S&P/Case-Shiller numbers along with the Chicago Purchasing Manager's Index and Consumer Confidence. Wednesday is Construction Spending and an ISM number. Thursday are the Trade Figures and the usual Initial Jobless Claims, and then Friday is the whole set of employment data.

For numbers the 10-year closed Friday at 1.95% and this morning we're at 1.96% with agency MBS prices worse a few ticks (less than .125).

Yes, the Realtor and loan officer population is aging. And with aging comes complications. "Who are those people?"

Jobs and Announcements

In company personnel news **Castle & Cooke Mortgage LLC** is expanding and actively seeking highly skilled and experienced branch managers and their teams. "We're looking for branch managers and their teams that are seeking a platform that provides the support, technology, and advances needed to be an industry leader in today's marketplace. We have the key to your castle. The position reports directly to the SVP of Sales & Marketing and requires at least 2 years in branch management experience. Candidates being considered for this position will be subject to additional background checks as required." CCM is a direct Fannie/Freddie/Ginnie seller & servicer. Please contact Christopher Jensen (801-461-7132) for further information or click on the link above. EEO Statement - All qualified applications will receive consideration for employment without regard to race, color, sex, national origin, protected veteran status, or disability.

A progressive Northeast-based closed loan aggregator of prime jumbo residential loans is looking for experienced sales people to fill VP of Correspondent Sales positions with a focus on middle market and regional jumbo lenders, and relationships with Western-concentrated lenders is a plus. Please send confidential inquiries to me. (Please excuse any delays in responding as I am away from e-mail much of the day.)

Transition of personnel between companies continues at a brisk pace in many markets, and HR staffs are at a disadvantage when it comes to screening potential employees. Sandra James with **Private Eyes, Inc.** wrote in stating, "In this era of compliance-heavy regulation, **Private Eyes Inc.** has seen a dramatic increase in the use of our background checks and pre-employment screening services by all lenders. HR staffs are using our services to augment their interviewing and selection processes, allowing them to concentrate on other aspects of their jobs such as marketing opportunities and training existing staff. Believe it or not, nearly 40% of applicants that we screen have something in their background that prohibits hiring them." (If you are interested in learning more about the service, contact Sandra James.)

Are you looking for ways to enhance your value with your borrowers and networking contacts? One way that **Advantage Credit Inc.** remains on "the cutting-edge of credit reporting services is by keeping you aware of changes in the industry. Download a FREE App for iPhone, iPad or Android and receive notifications on your phone and/or tablet with real-time updates from their knowledge library, information on the latest industry trends and services designed to help you close more loans and educate your customers. View the recent article, 'Credit Reports Are About to See a Major Overhaul.' And each article allows you to easily share it with your contacts through LinkedIn, Facebook, email, etc." You can download the App from the Apple Store by searching "Advantage Credit" or at www.advcredit.com.

Congrats to Ori Lev. The Washington, D.C., office of global law firm **K&L Gates LLP** welcomed former Consumer Financial Protection Bureau (CFPB) deputy enforcement director for litigation as a partner in the firm's consumer financial services practice. Lev arrives at K&L Gates following nearly 20 years of public service at a variety of United States government agencies. Parkside Lending, a national wholesale and correspondent lender, announces it has added three industry veterans to its team to manage its rapidly growing business. And congrats to Gail Dolton who has been hired as General Counsel with responsibility for managing all of San Francisco's Parkside Lending's legal affairs, including the areas of corporate governance, contracts, and intellectual property. Parkside also welcomes Laurie Spira as Chief Compliance Officer and Jo-Ann Krueger as Closing Manager.

About the Author

Rob Chrisman



Pipeline Press, Author

Rob Chrisman began his career in mortgage banking primarily capital markets - 27 years ago in 1985 with First California Mortgage, assisting in Secondary Marketing until 1988, when he joined Tuttle & Co., a leading mortgage pipeline risk management... [more](#)

Share: [Email](#) [Link Here](#)

[More](#)

[Subscribe](#)

Comments

Follow Comments: [This Post](#) | [All Comments](#) | [Learn More](#)

[Join Now](#) or [Login](#) to Post Comments

More From MND

<< >>

MBS Commentary

MBS RECAP: Another Quiet Session With a Narrow Range...

For MBS, today was substantially similar to Friday, with a narrow but positive trading range and little fanfare surrounding any headline event. That's...

Mortgage Rate Watch

Mortgage Rates Slightly Improved Over Weekend

Mortgage rates fell moderately to begin the week, but haven't yet returned to recent lows. Even so, the improvement is a relief considering rates had only...

MBS Commentary

MBS MID-DAY: Holding Gains and Outperforming Treasuries...

The first two days of this week stand a good chance to see the momentum driven not by the events that transpire, but by the trades that must be made before...

MND NewsWire

Pending Home Sales Signal Strong Spring Market

Contract signings in the Midwest and South in February drove pending home sales to their highest level in nearly two years. The National Association of...

Pipeline Press

Primer on Servicing's CPR Calculation: MBA Speaks...

In like a lion, out like a lamb? Usually folks say that about March's weather, not the economy. But economic data so far in the first quarter have pointed...

MORTGAGE RATES: 30 Yr FRM 3.75% | 15 Yr FRM 3.05% | Jumbo 30 Year Fixed 3.62%

MBS PRICES: 30YR FNMA 4.5 109-02 (0-02) | 30YR FNMA 5.0 111-05 (0-02) | 30YR FNMA 5.5 112-22 (0-03)

RECENT HOUSING DATA: Mortgage Apps -1.26% | Refinance Index -2.94% | Purchase Index 1.88%

[Home](#) - [About](#) - [Contact](#) - [Sitemap](#) - [Disclaimer](#) - [Privacy Statement](#) - [Advertising](#) - [RSS](#)

All Content Copyright © 2003 - 2015 Brown House Media, Inc. All Rights Reserved.
Reproduction in whole or in part in any form without the express written permission of MortgageNewsDaily.com is prohibited.