



# Back to the Future

*What the mortgage crisis  
has taught us!*

*has taught us!*

11/24/2015

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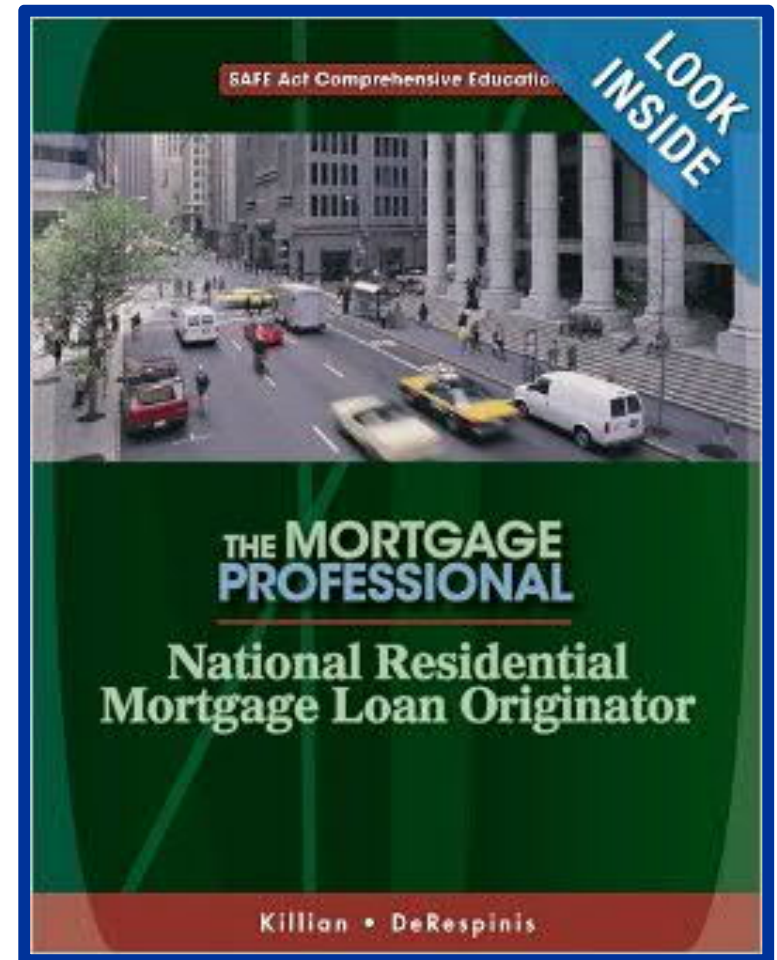
# Instructor – Debra Killian

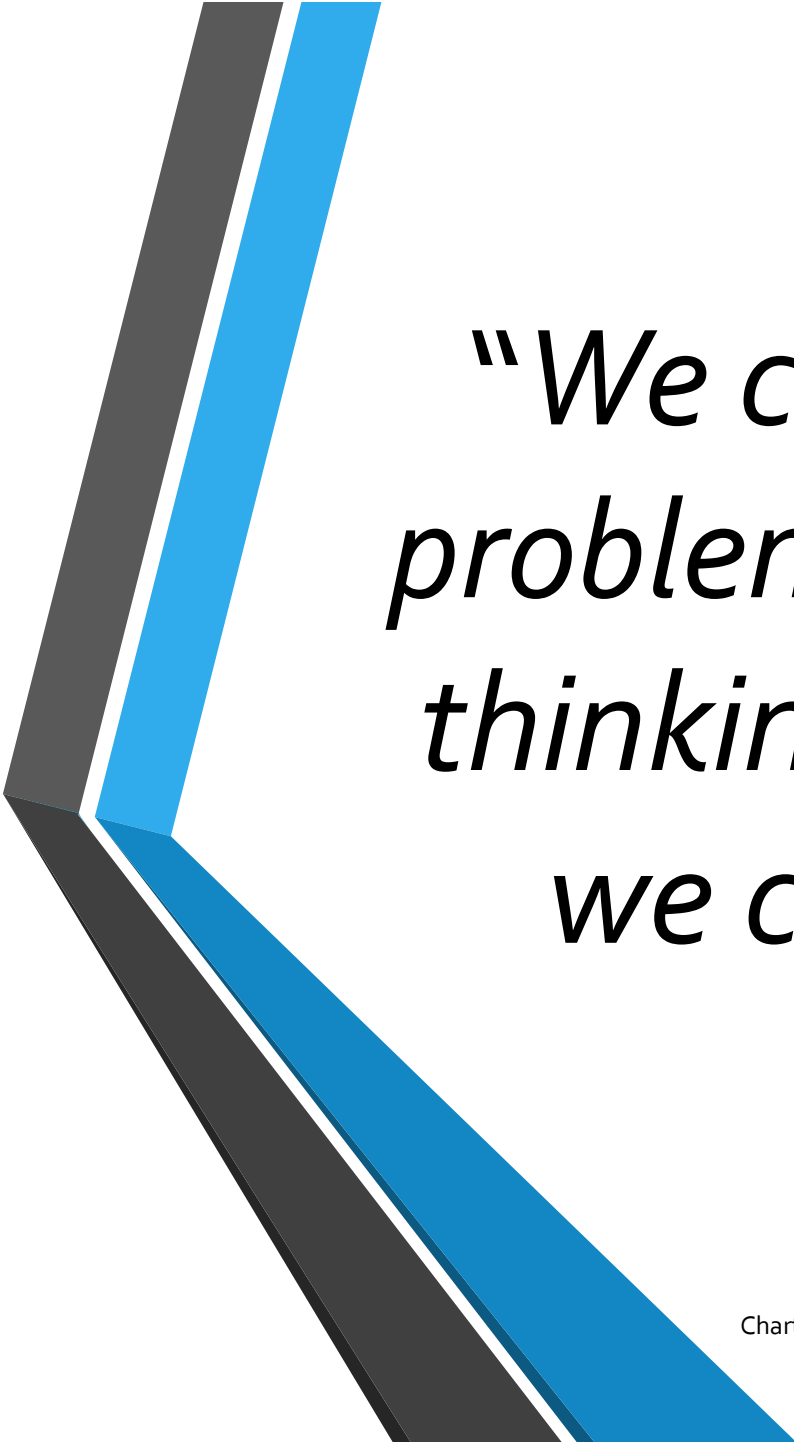
Started as MLO in 1994  
Only CRMS in CT  
22 years wholesale and retail experience  
Closed over 3500 loans = 1\$ billion  
Near 100% pre-approval to close ratio!  
Served on state and national boards  
State-Licensed Mortgage Originator  
Author all courses delivered  
Subject Matter Expert – Course Developer  
National Instructor – Real Estate and MLOs

We Wrote the Book for...

***The Mortgage Professional Book, National Residential Mortgage Loan Originator***

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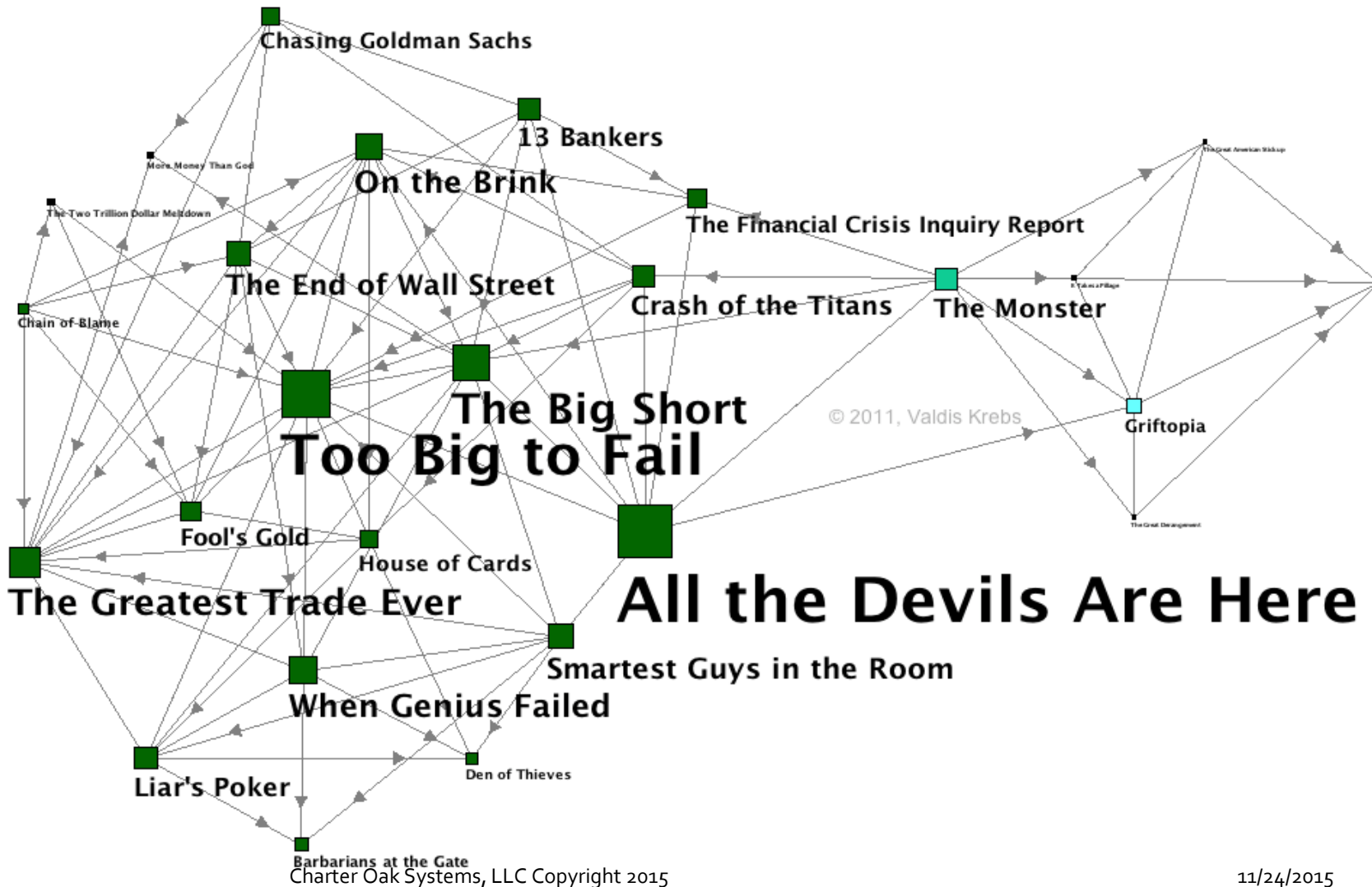




*“We cannot solve our problems with the same thinking we used when we created them.”*

***Albert Einstein***

# Interconnectivity



**Yeah, I Had A**



**Subprime Mortgage**

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# SUBPRIME THEN!

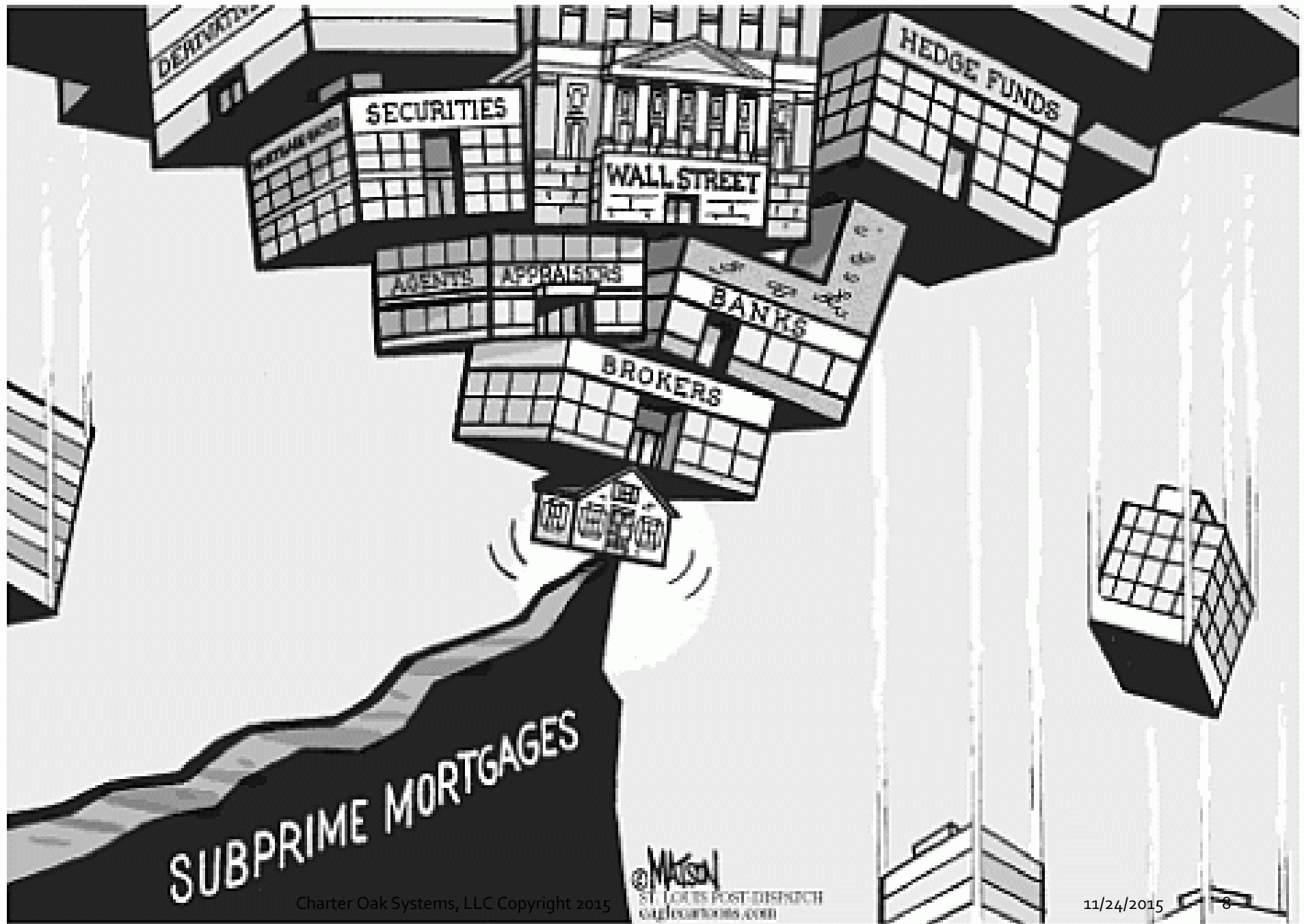


- Teaser rates on ARMS (1.00% Start Rate!) Really?
- Interest Only/Neg AM increased demand or loans
- NO Income-NO Asset-NO Employment VERIFICATIONS
- Lenders loosening credit standards – toxic risk layering
- More borrowers qualified

# SUBPRIME THEN!

- RE Investors Profited from flips
- Securities so complex nobody can question us!
- Credit Rating Agencies to “AAA” rate them! (Paid by lenders)
- Until it disappeared...
- And then the lawsuits started...





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**"I THOUGHT WE WERE JUST BUYING A HOUSE!"**



# SUBPRIME NOW?



- INTEREST ONLY *still*
- NIV/NAV/NEV - **OUTLAWED** or is it?
- NEGATIVE AMORTIZATION – **GONE!**
- **REVERSE MORTGAGE FOR PURCHASE**
- BELOW MARKET Teaser rates – **AT MARKET ARMS**
- Loose credit standards? **580 FICO 96.5% financing???**
- No CDS – CDOs to sell
- Credit Rating Agencies do their job!
- *The FED - rates too low for too long? INCREASE?????*
- Loans designed to prevent borrowers from suing

# 3 MONTHS AUGUST 2015 FLYER BANK STATEMENTS

- 70% MAX LTV to \$1MM
- Max loan amount: \$2MM at 60% LTV with 700 MIN FICO
- Eligible Borrowers: U.S. Citizens, Self-employed, Permanent Resident Aliens, Non-Permanent Resident Aliens
- Available: Purchase, Rate/Term, & Cash-Out
- Cash-Out to \$400,000
- 5/1, 7/1 Available
- Property types: Owner, 2nd home, SFR, PUD

**RATES  
STARTING  
AT 4.50%**

## HIGHLIGHTS

- 700 MIN FICO
- 70% MAX LTV/CLTV
- **NO 4506-T Required**

# Elizabeth Warren



*Has  
Anything  
Really  
Changed?*



# CONSUMER PROTECTIONS!!!

- Game changers with financing
- All about consumer protection
- The theory behind the numbers!



First We Got SAFE



# “State-Licensed” or “Registered” MLOS

- July 31, 2008 – The SAFE Act passed:
  - *Secure and Fair Enforcement Act*
  - Just days prior to fall of Lehmann Bros
  - Financial system on the brink of collapse
  - Regulators keep track of ALL MLOS

# Mortgage PROFESSIONALS?

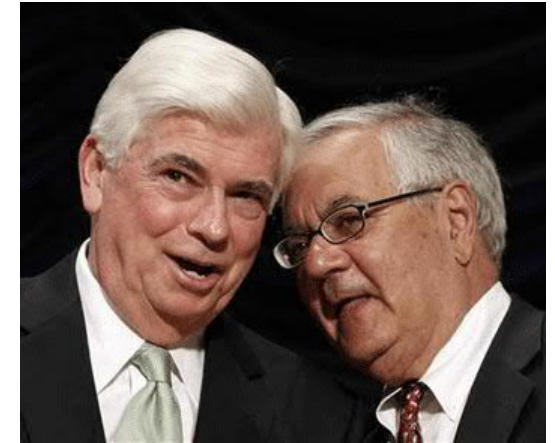
## Functions of SAFE Act

- Designed to protect consumers and reduce fraud
- Gave all states one year to pass licensure of MLOs
- Created the NMLS&R to keep track of all MLOs
- Defines “taking a mortgage application\*”
- **DEPOSITORIES EXEMPT FROM EDUCATION & TESTING!**

*\*TRID REDEFINED “APPLICATION”*



Then We Got DODD-FRANK

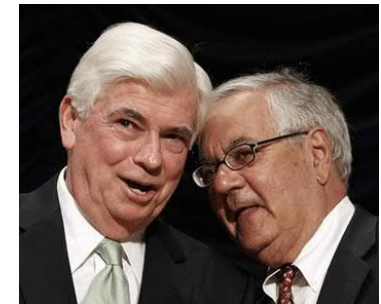


T'was the Night Before Dodd-Frank  
Through the Senate and House  
Pass Consumers Protections?  
So many said... "HOW?"

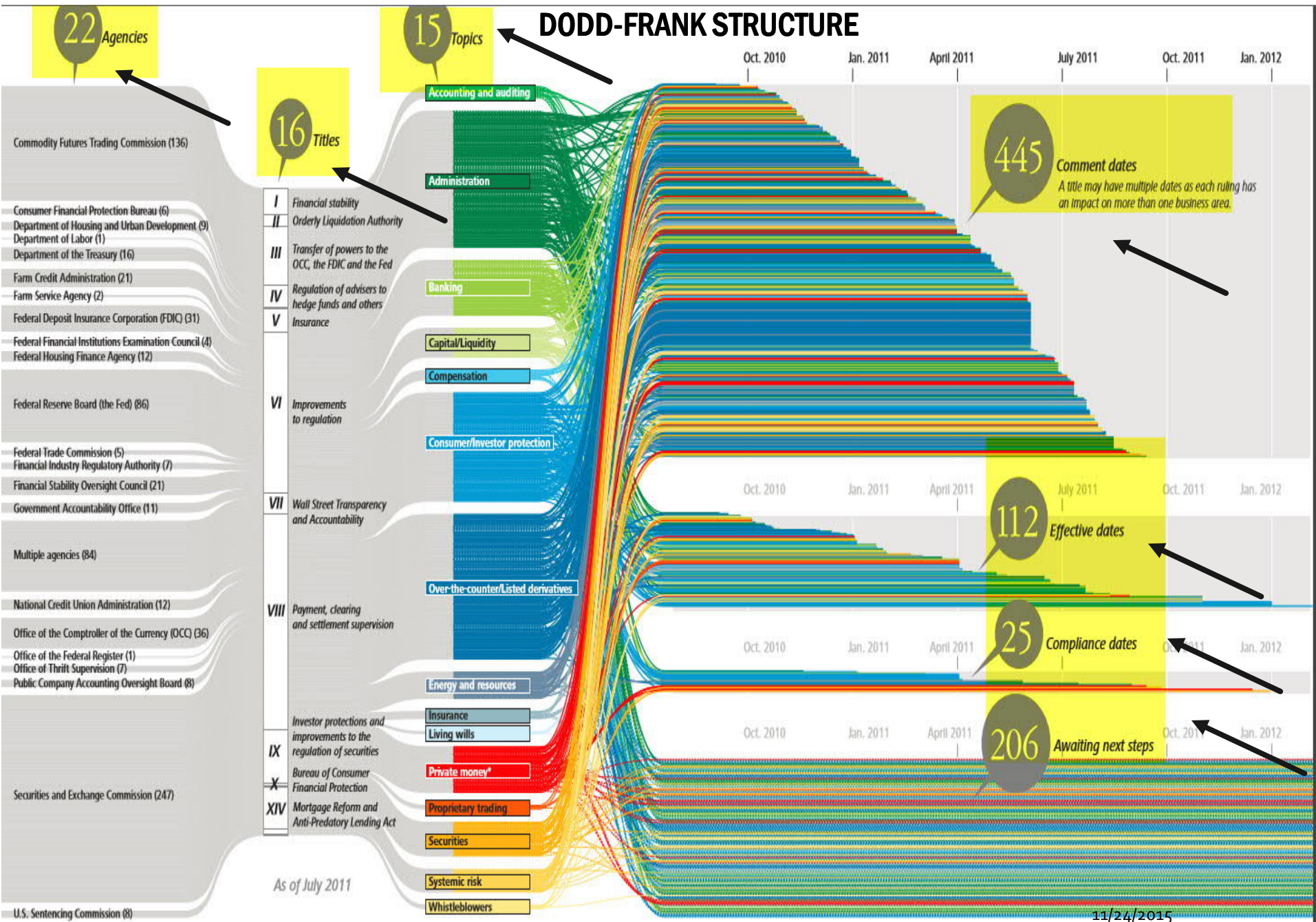


# “Dodd Frank”

- ***Wall Street Reform and Consumer Protection Act***
- July 21, 2010 878 pages – 271 new rules
- ***Consumer Financial Protection Bureau is born!!!***
- **As of 9/20/15\*:**
- 271 Dodd-Frank rulemaking requirement deadlines have passed. Of these 271 passed deadlines:
  - 193 (71.2%) finalized rules
  - 45 (16.6%) proposed not final
  - 33 (12.2%) no proposals.



# DODD-FRANK STRUCTURE



# Regulatory Affect on Real Estate



Consumer Financial  
Protection Bureau

- Credit tightening
- Dynamic and complex
- Not level playing field...yet!
- Consumers still confused about qualifying
- Consumers and real estate professionals directly affected
- Markets are still not healed...
- Depends on the political environment

# *Meet Director Richard Cordray*



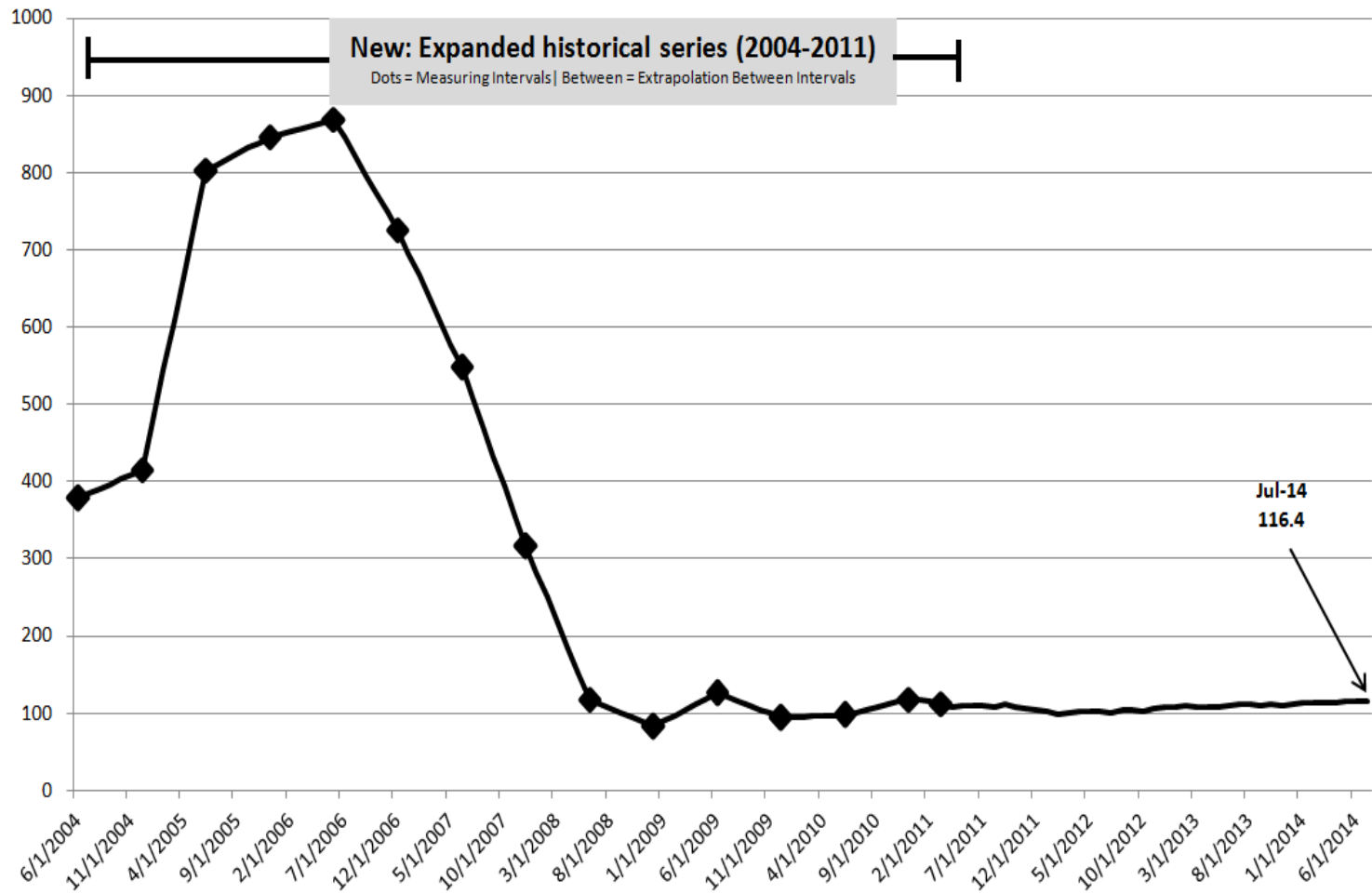
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# Is Change Coming?

Sept. 30, 2015 - House Financial Services Committee – [passed the Financial Product Safety Commission Act of 2015 \(H.R. 1266\)](#),

- **The bill would remove the CFPB from within the Federal Reserve System AND**
- **Re-establish it as a standalone agency governed by a five-member, bipartisan commission**

## Expanded Historical Series: *Total* Mortgage Credit Availability Index, Index Level by Month (NSA, 3/2012=100)

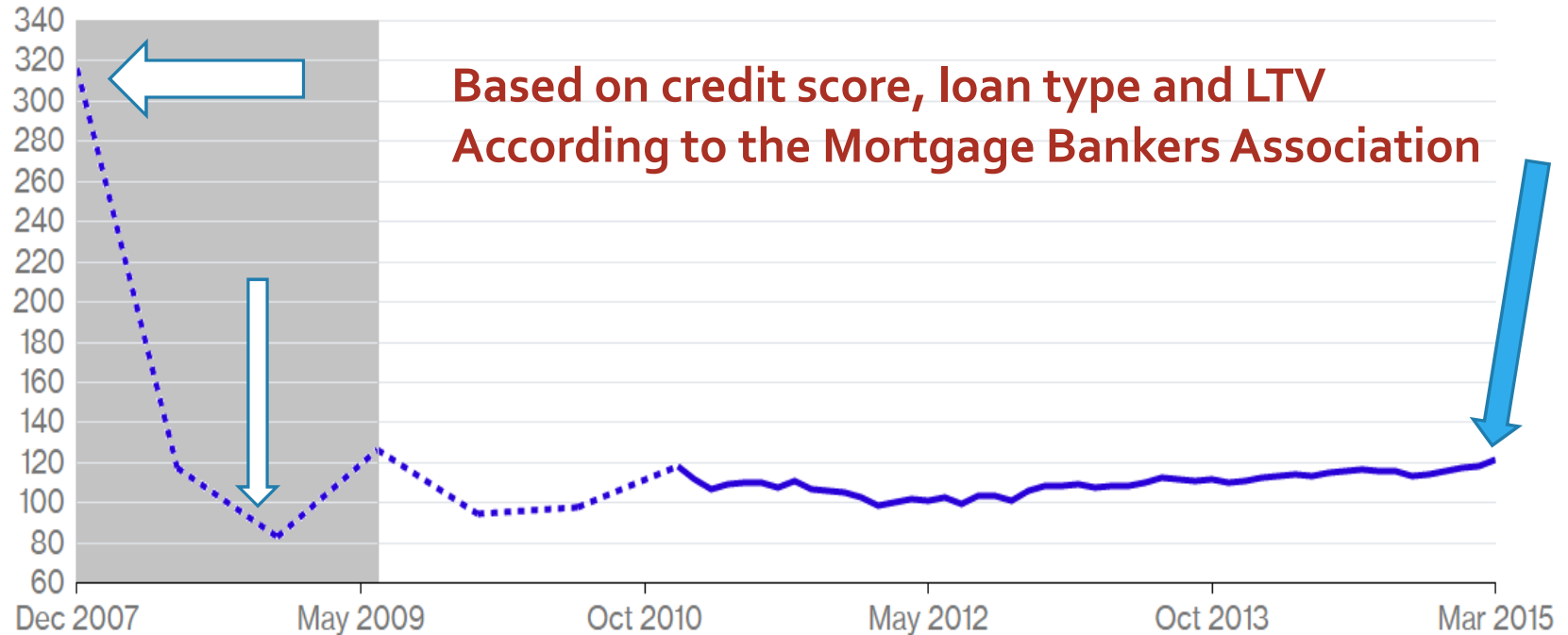


**Source:** Mortgage Bankers Association; Powered by AllRegs® Market Clarity®  
Data prior to 3/31/2011 was generated using less frequent and less complete data measured at 6-month intervals and extrapolated in the months between for charting purposes.



## Slow-Motion Rebound

Credit availability on the rise, while nowhere close to the loose standards at start of last downturn



Notes: Gray denotes recession period. Mortgage Credit Availability Index was compiled twice a year until March 2011, when releases became monthly. The gauge is based on borrower eligibility factors including credit score, loan type and loan-to-value ratio. Source: Mortgage Bankers Association data powered by Ellie Mae's AllRegs® Market Clarity®


Bloomberg



# Back to the Past!

*It wasn't meant to be this way...*





***Uncle Billy....Where's that money, you silly stupid old fool? ...Do you realize what this means?***

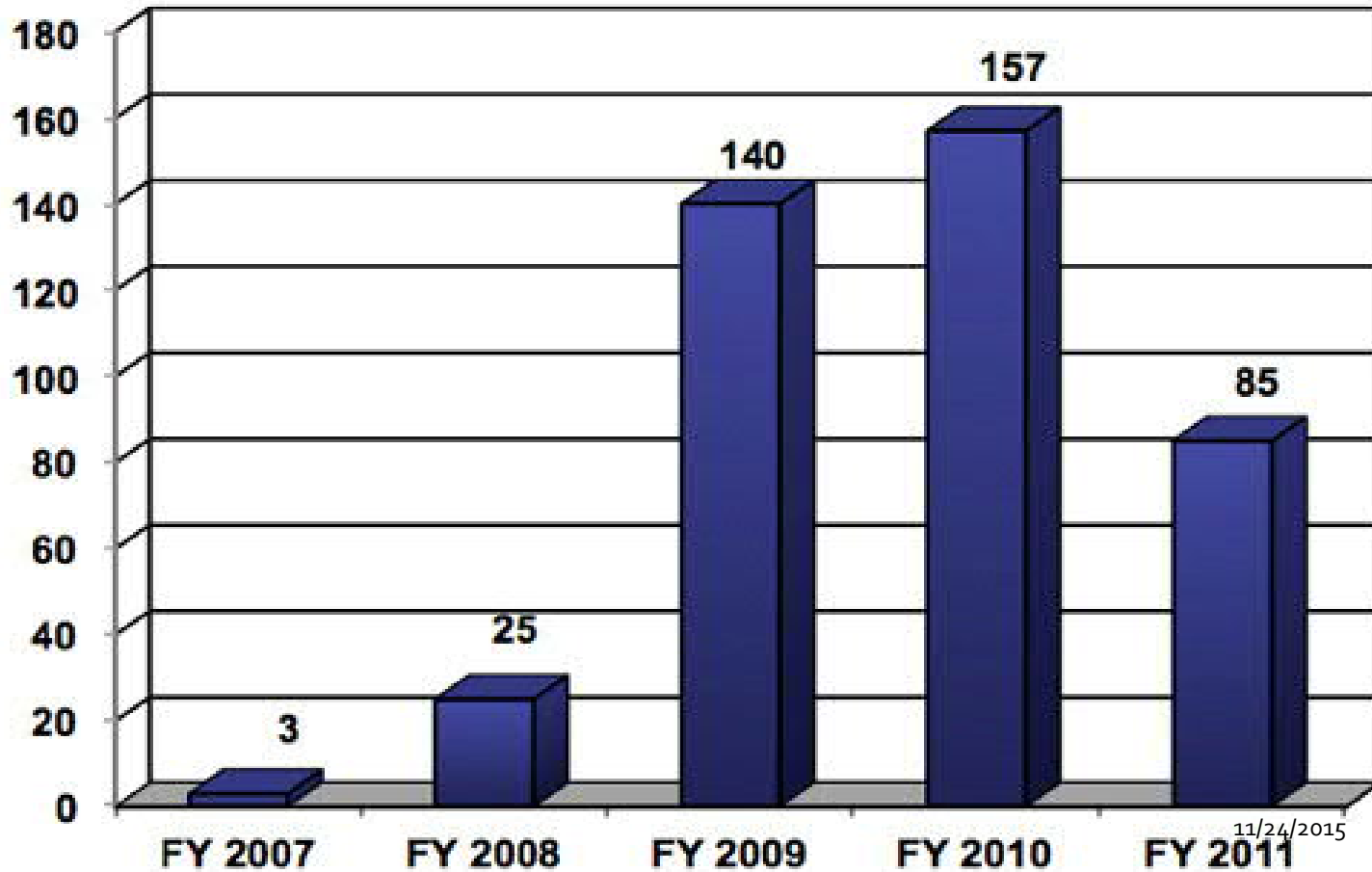
***It means bankruptcy and scandal and prison! That's what it means!***

***One of us is going to jail; well, it's not gonna be me!***



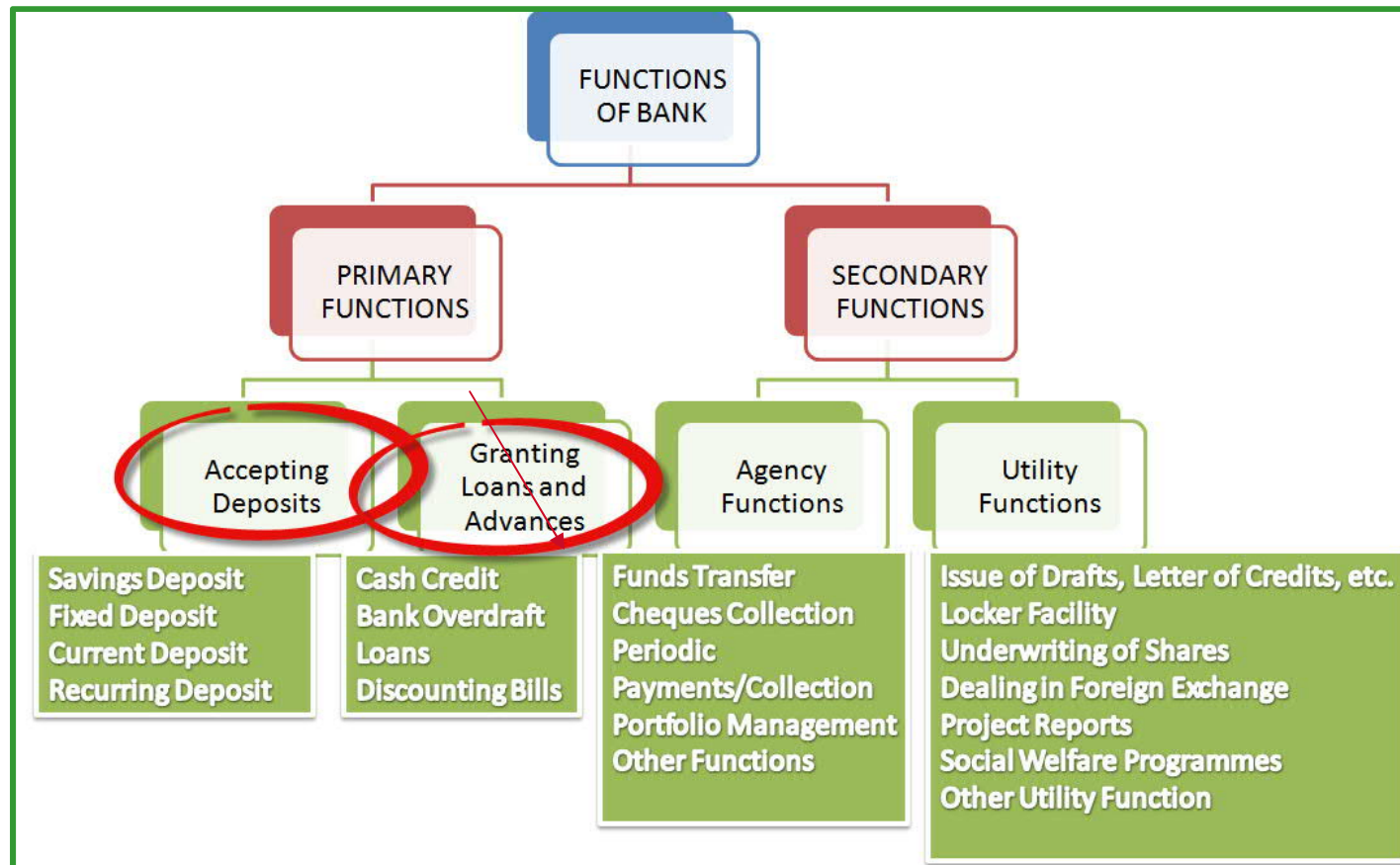
# Where did all the lenders go?

## Bank Failures



# Bank Functions

## Bring it In...Lend it Out...Service it!



# Why That Worked....



- PRIMARY MARKET
- Early 1900s local banks lent depositors money
- Customers deposited money in savings
- Banks paid interest on those funds
- Customers borrowed money for homes
- Banks charged interest on those loans
- Banks kept & serviced loans...

## They knew the customers!

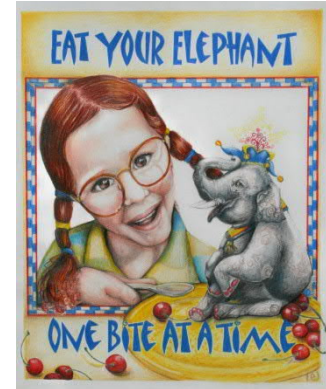
"The nine most terrifying words  
in the English language are:  
'I'm from the government  
and I'm here to help.'"

-Ronald Reagan



# Government Steps in to Help!

- Offer tax incentives or take them away
  - First time homebuyer credit
- Pass new laws
  - Dodd Frank
- Change regulations
  - GFE/TIL rules
- Money available or scarce
  - Fed raising or lowering interest rates



*CFPB Director, Richard Cordray*

# Government Support



- **Support liquidity through the Secondary Market**
  - Creation of Fannie Mae, Freddie Mac, Ginnie Mae
  - Implicit/explicit government guarantee of GSE MBS
- **Two markets of the mortgage industry:**
  - Primary—originating mortgages directly with consumer
  - Secondary – primary market sells to investors
    - GUIDELINES





**GETTING TO APPROVED...**

***THEN GETTING  
CLEARED TO CLOSE~***

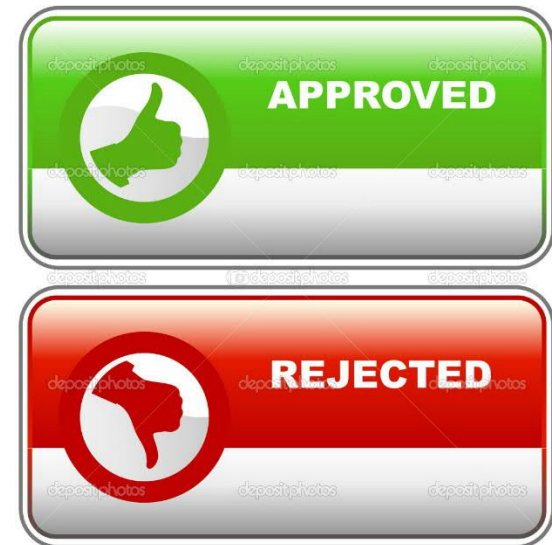
# Technology – Manual Underwrite?

**Man vs machine**  
**Reliance on machine**  
**Quality underwriting**  
**Sale-ability of loans**  
**Repurchase issues**



# Origination and Underwriting

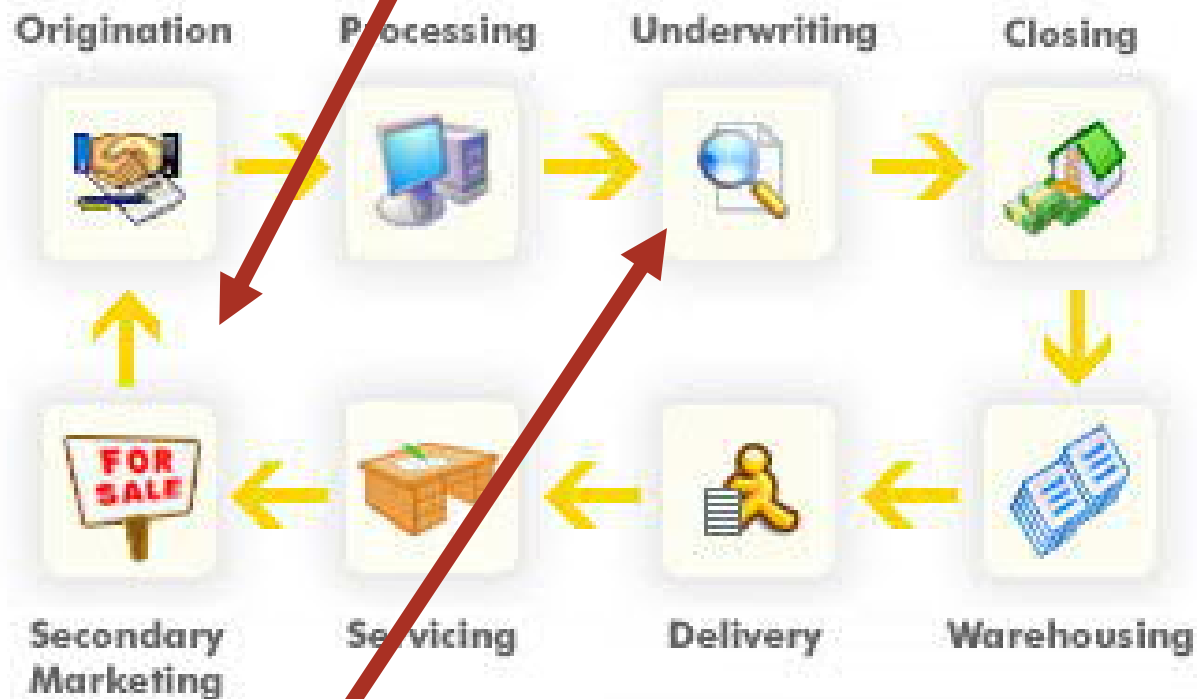
- Underwriters simply assess risk
- Automation promises
  - Better decision making
  - Less risk - more objectivity
  - More efficient - lower costs



# The Good Old Days...



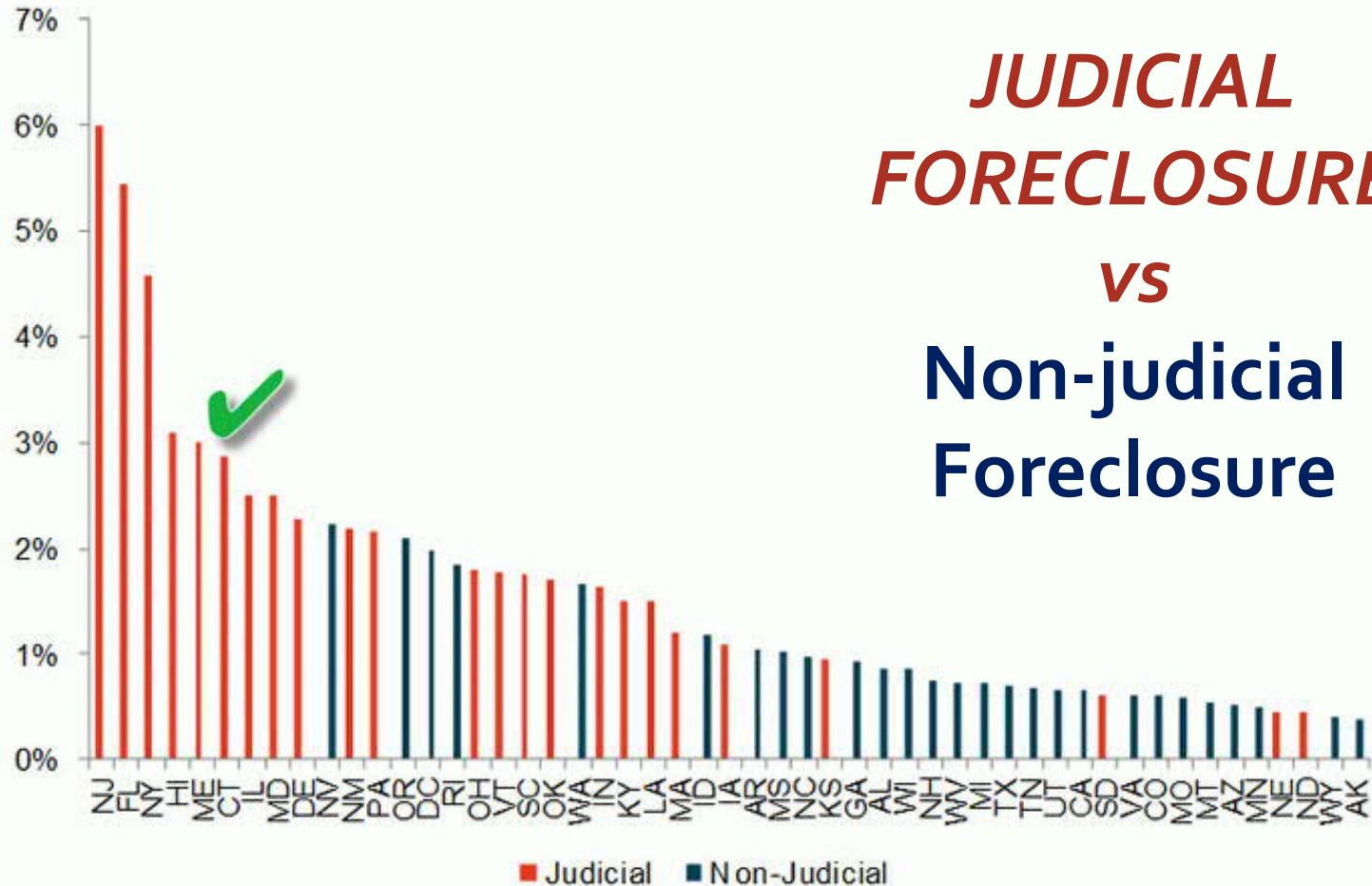
*What happens here?*



*Determines what happens here...*

# Is the Market Healing?

**Figure 2 – Foreclosure Inventory as of April 2014**  
 Judicial Foreclosure States vs. Non-Judicial Foreclosure States



Source: CoreLogic April 2014

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# What's Slowing the Recovery?

- State regulations
- Federal regulations
- Lenders
- Technology
- Consumers
- Real estate agents
- Lobbyists



# Who is in Charge?

- State Departments of Banking/Finance
- CFPB-Consumer Financial Protection Bureau
- FTC-Federal Trade Commission
- HUD-Housing and Urban Development
- VA-Veteran's Administration
- USDA-US Department of Agriculture
- FHFA-Federal Housing Finance Agency





# Getting Different Answers? Different Rates and Guidelines?

- **Employed by Mortgage Broker:**
  - must have unique NMLS ID and be state-licensed
- **Employed by Mortgage Banker/Lender:**
  - must have unique NMLS ID and be state-licensed
- **Employed by Depository/Bank:**
  - must have unique NMLS ID and be Registered



Nationwide Mortgage Licensing System & Registry

# Brokers, Bankers and Banks!

- Mortgage brokers
  - Originate through wholesale
  - Can NOT approve, fund or service loans
- Mortgage bankers
  - Originate through correspondent line
  - Fund loans using a warehouse line
  - CAN approve, fund and service loans
- Banks/Depositories
  - Originate using own funds or wholesalers
  - Can approve, fund and service loans



# Any One of These Parties....

- Buyer
- Buyer's Originator
- You
- Buyer's Attorney
- Buyer's Title Co.
- Buyer's M.I. Co.
- Buyer's Insurance Co.
- Underwriter for buyer
- Appraiser for buyer
- Seller
- Seller Originator
- Seller's Agent
- Seller's Attorney
- Seller's Title Co.
- Seller's M.I. Co.
- Seller's Insurance Co.
- Underwriter for seller
- Appraiser for Seller



# Pre-approvals in a TRID World

- Anticipated closing delays *can ABSOLUTELY be avoided*
- GIGO=Garbage In, Garbage Out
- Buyers need to offer their docs BEFORE shopping
- **Application redefined: 3 days for Loan Estimate once 6 pieces obtained**
  - Buyer name, address, social security number
  - Property address, value and mortgage amount
- When can contingency be released?
  - When Cleared to Close? (CTC)

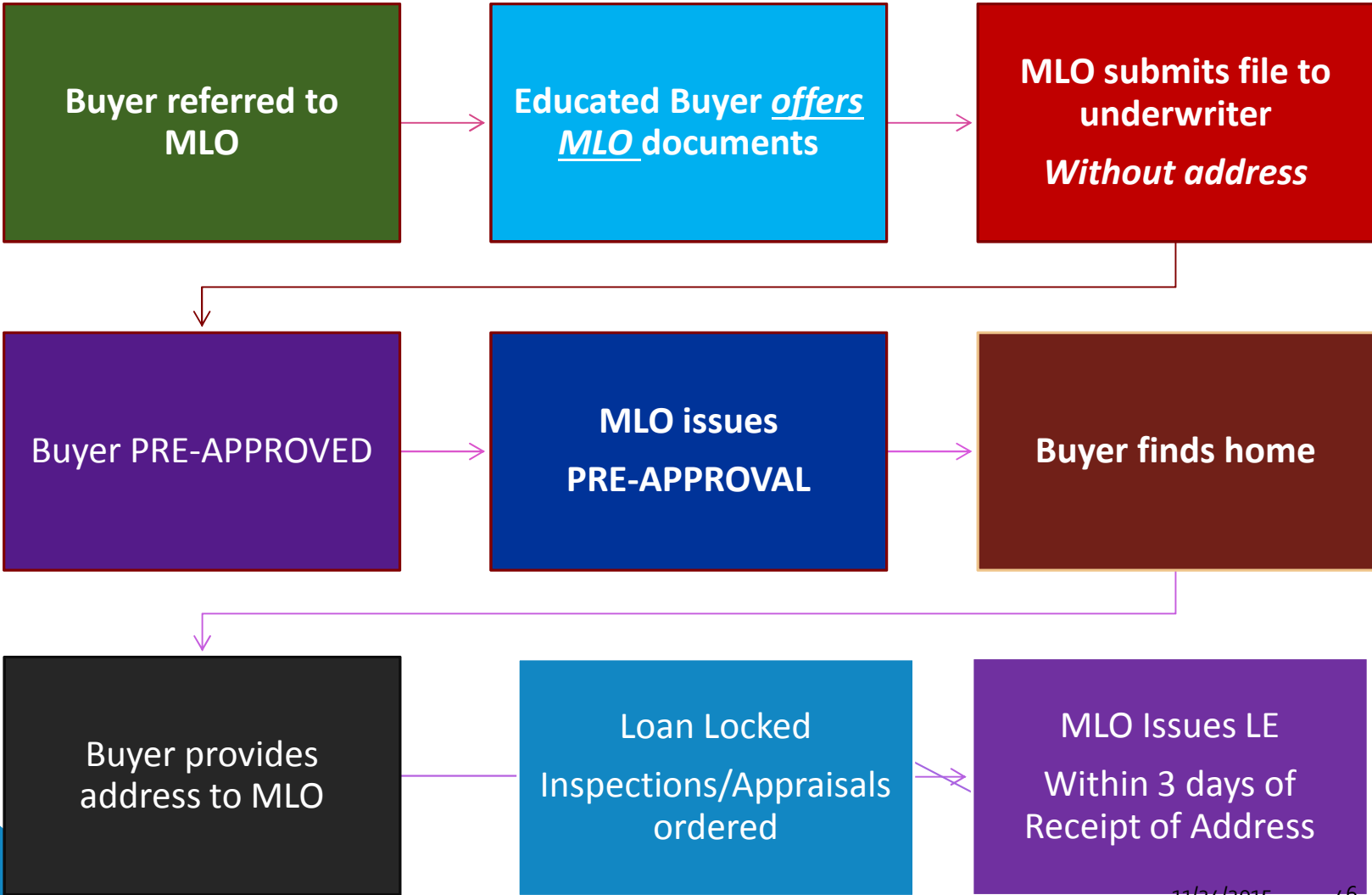


# BEFORE Shopping or Making Offers...

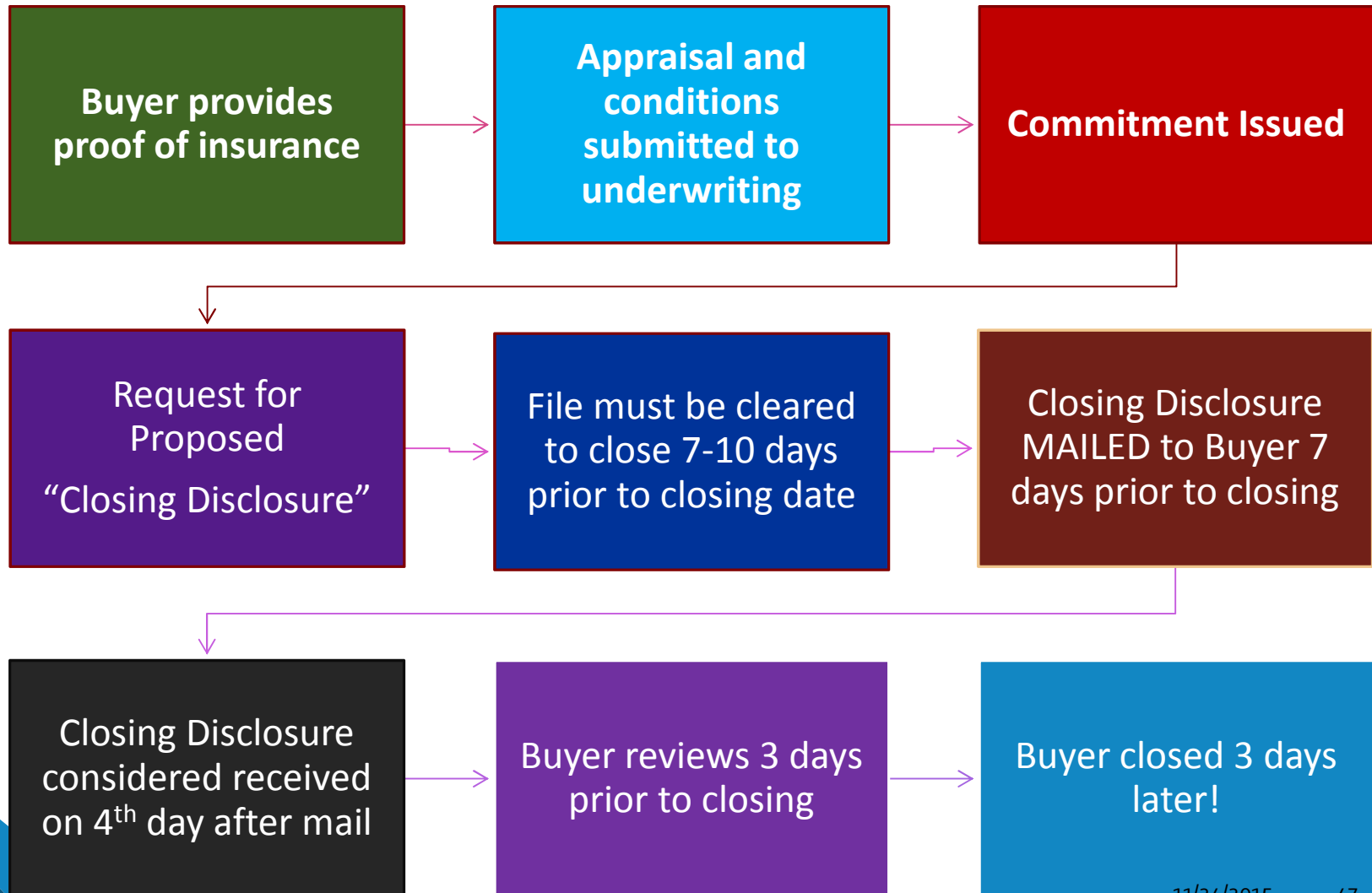
- Have buyer offer all documentation to MLO
  - TRID PROHIBITS REQUIRING BEFORE LE DISCLOSURE
- Identify reasonable target dates
- *Look at THE CALENDAR...*
- Identify seller credits?
- Get lawn mower and lounge chair out of contract!



# Sample Process Prior to Commitment



# Sample Process Post Commitment



# Stop the Madness!

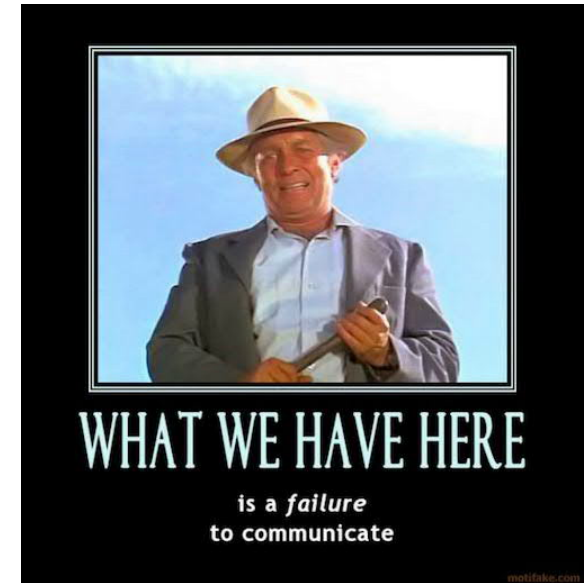
- MLOs have to anticipate issues
- From PRE approval to Approval
  - Potential property issues?
  - Did MLO set proper expectations
    - Documentation
    - Property issues
    - Timing issues
  - Comprehension of risk and conditions?
  - **Have ALL conditions been reviewed PRIOR to submitting?**





# Avoid the Avoidable

- **#1 Incomplete mortgage applications**
- Loan file structure
- Rates and fees changed
- Can't meet guidelines
- **DIDN'T REVIEW DATA AFTER PRE-APPROVAL EXPIRED**
- Took too long to submit information timely
- Not enough cash to close
- Why credit scores change...





— 13 —  
*Emotional  
Moments*

**ONLY  
REAL ESTATE  
AGENTS WILL  
UNDERSTAND**

---

# ***What Do YOU MEAN the Buyer doesn't qualify!?!***

## **WHAT TO TELL THE RE AGENT?**

- Can't meet program requirements
- Credit score too low
- Can't provide documentation
- Ratio is too high
- Undisclosed, relevant data
- Value of property too low
- Unrealistic contingency or closing dates



A close-up photograph of a cat's face, showing its eyes, nose, and whiskers. The cat has a skeptical or unimpressed expression, looking slightly to the side. The background is blurred, showing what appears to be a wooden surface.

**No, please, go on.**

**I find your tale absolutely enthralling.**

# *How Did We Miss That?*

- Buyer has unrealistic expectations
- Buyer thinks they know more
- Buyer misrepresented facts
- Buyer does not respond timely
- Credit scores/debt changed
- Buyer lost job or changed careers
- Buyer started new business – no history



**What was the DISCUSSION AT THE TIME OF APPLICATION?**





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# When and How - Bad News!

- **Timely**
  - Not before MLO absolutely sure
- **Straightforward**
  - Stick to the core issue
- **No sugar coating**
  - Emphasize issue
- ***AND NO BLAMING!***





# Communication

- **GRAMM LEACH BLILEY ACT**
- Right to Privacy - Who has the right to know?
  - The buyer **FIRST** person communicated with *UNLESS...*
  - The issue can be resolved with **NO** detriment to the borrower
- The attorney **MAY** also be informed
- **New information uncovered = underwriter must be told**
- Chain Reaction Effect
  - What happens when you tell other parties?
- May cause financial harm
  - Is there money at risk?

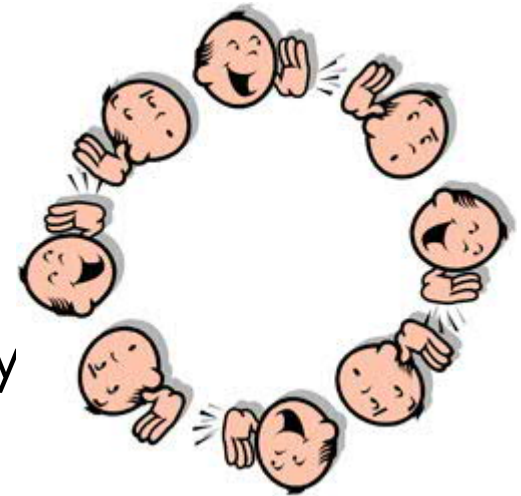
**FINANCIAL  
PRIVACY**





# The Chain Reaction

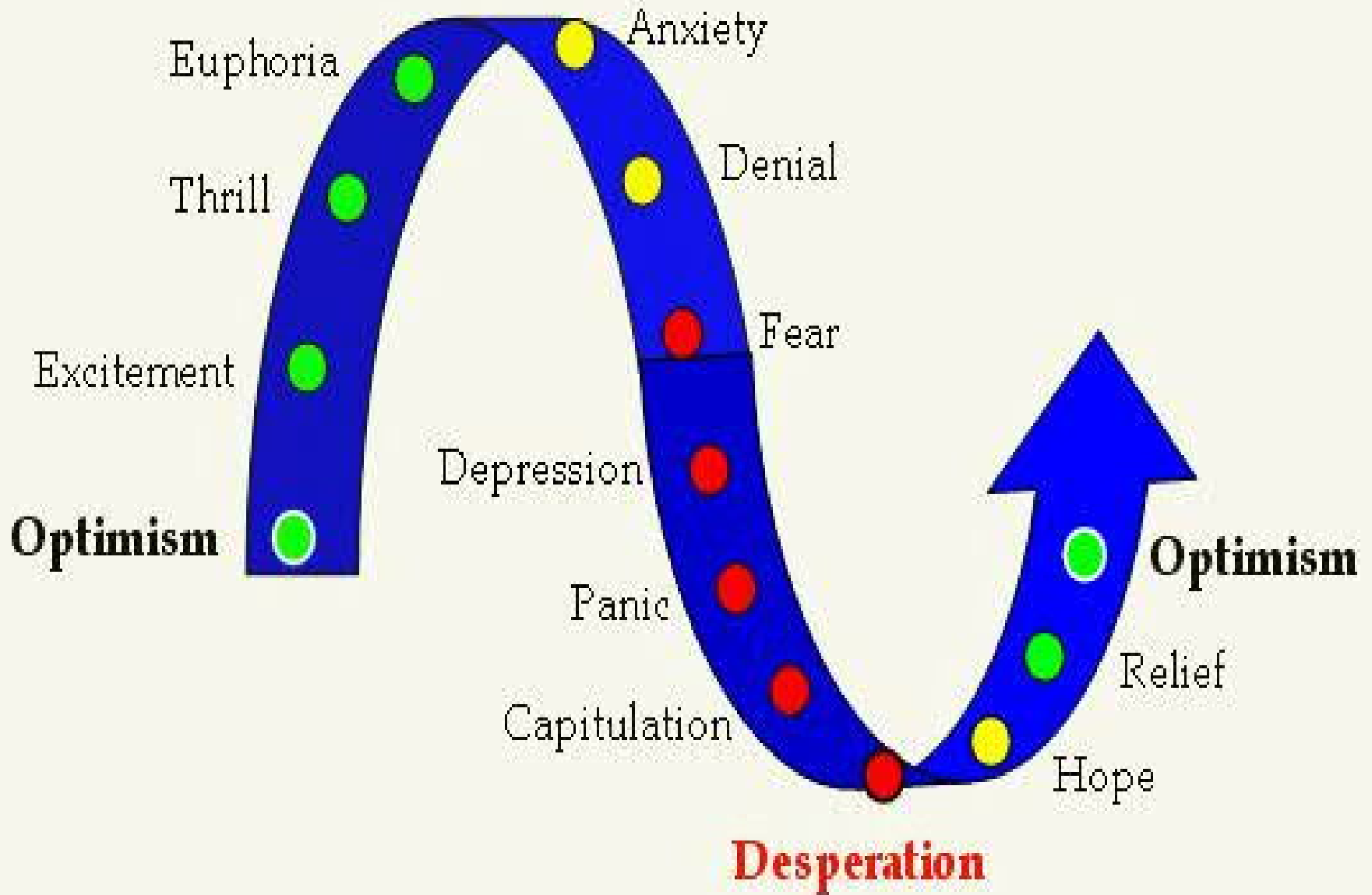
- MLO tells buyer
- Buyer notifies selling agent \*
- MLO notifies buyer's attorney
- Buyer's attorney informs seller's attorney
- Seller's attorney tells seller
- Seller tells listing agent
- Listing agent calls selling agent



***"THE DEAL IS DEAD!"***

JUST KIDDING~





# FROM THE PAST... TO THE PRESENT

- The world of real estate finance has changed
- We can't resist - We must adapt
- Complaining doesn't help - It will still be there
- Develop strong professional relationships to stress
- Give transactions a little more time
- Referrers should know competencies of referees
- Setting expectations of buyers is critical

***BECAUSE....***

change

is

difficult.

not

changing

is

fatal.



**Thank you!**

**Happy  
Holidays!**

***Wishing  
you many  
successful  
closings in  
2016!***

11/24/2015