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BEST BUYS THIS MONTH

- Conforming 5/1 ARM @ 2.375%
- High Balance Conf. 30 yr. Fixed @ 3.375%
- High Balance Conf. 15 yr. Fixed @ 2.500%
- Jumbo 30 yr. Fixed @ 3.625%
- Jumbo 5/1 ARM @ 2.875%
- VA 30 yr. Conforming Fixed @ 2.750%
- FHA/VA 15 yr. Conforming Fixed @ 2. 250%
- FHA High Balance 30 yr. Conforming Fixed @ 3.000%

Conforming to $417,000 < High Balance Conforming $417,001 to $580,750 < Jumbo

I ALSO DO:

- COMMERCIAL LOANS (more than 4 units)
- "HARD MONEY" LOANS
- REVERSE MORTGAGES
- FOREIGN NATIONALS
- DELAYED FINANCING
- STATED INCOME LOANS
- MANUFACTURED HOMES
- ASSET DEPLETION LOANS

MACROECONOMIC MOVES AND MORTGAGE MARKET ANALYSIS

ECB Stirs Up Markets

Week ending Oct 7, 2016

On Tuesday, comments from an unnamed official at the European Central Bank (ECB) caused global bond yields to rise, including U.S. mortgage-backed securities (MBS). The official said that a "consensus" was forming about what approach to use when they decide that it's time to conclude their bond buying program. The plan would be to gradually taper the monthly purchases, similar to what the U.S. Fed did to end its bond buying program. According to the ECB, the decision about when to end the program will depend on the performance of the economy. The added demand for bonds from central banks around the world has helped push down yields. Although no mention was made about the timing of the end of the bond purchases, these comments caused investors to reduce their expectations for additional stimulus from the ECB, which was negative for both stocks and bonds.

Friday's important Employment report came in very close to expectations and caused little net change in mortgage rates. Against a consensus forecast of 170K, the economy added 156K jobs in September. The unemployment rate increased from 4.9% to 5.0%, above the consensus for a flat reading of 4.9%. This was viewed as a sign of strength, however, because the increase was due to the entrance of 444K people to the workforce.

The labor force participation rate rose to 62.9%, up half a point from a year ago. Average hourly earnings, an indicator of wage growth, matched expectations and were 2.6% higher than a year ago.

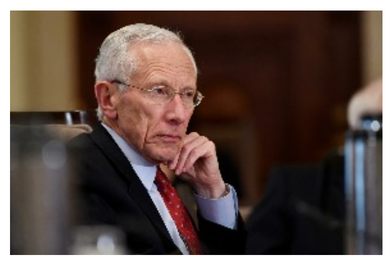
Retail Sales Rebound   Week ending October 14, 2016

The minutes from the September 17 Fed meeting released on Wednesday revealed little new information. The minutes reflected the split among Fed officials about the appropriate timing to raise the federal funds rate. According to the minutes, some officials were ready to hike rates "relatively soon," while others preferred to wait for "more convincing evidence" that inflation was rising to the Fed's target level of 2%. The minutes caused little movement in mortgage rates.

The most significant economic data released over the past week was the retail sales report. After two months of declines, retail sales rebounded nicely in September. Excluding the volatile auto component, retail sales increased 0.5% from August, matching the consensus. Consumer spending accounts for about 70% of U.S. economic activity, and the retail sales data is a key indicator.

The latest data on weekly jobless claims also was encouraging. The number of people applying for unemployment benefits matched the lowest level since 1973. While the pace of new hiring has slowed a little from elevated levels over the summer, the jobless claims data suggests that employers are trying to retain their existing workers. As the labor market tightens, employers typically become more reluctant to lay off workers. In the past, this generally has resulted in larger wage gains.

Inflation and the Fed   Week ending October 21, 2016



Late Friday afternoon, Fed Chair Yellen unexpectedly discussed a potential new twist on U.S. monetary policy that was being researched by the Fed. According to Yellen, the idea being explored would involve keeping monetary policy looser for longer to help boost the economy, even at the risk of higher than desired inflation levels. Concerns about a possible future Fed policy which tolerates higher inflation caused mortgage rates to increase late Friday. On Monday, however, Fed Vice Chair Fischer discussed the risks to the economy and to financial markets of keeping rates low for too long. The contrasting views of Fischer compared to Yellen soothed investors and Friday's unfavorable reaction was reversed.

Mortgage rates improved on Tuesday following the release of the consumer price index (CPI). This widely followed monthly inflation indicator revealed that core inflation in September was lower than expected at an annual rate of 2.2%. Core CPI has held steady near current levels all year. Core inflation excludes the volatile food and energy components.

Thursday's highly anticipated European Central Bank (ECB) meeting caused little reaction for mortgage rates. The ECB made no policy changes.In the press conference, ECB President Draghi essentially postponed any new guidance on monetary policy. He said that the ECB will decide at its next meeting on December 8 whether to extend the bond purchase program which is currently set to conclude in March. Given that there is also a key U.S. Fed meeting on December 14, the first half of December will be a highly important period for mortgage rates.

Strength in Europe   Week ending October 28, 2016

On Thursday, a burst of news from Europe and Japan was negative for global bonds. In the UK, third quarter GDP growth was stronger than expected, and Spain's unemployment rate declined more than expected. An official from the European Central Bank (ECB) then reminded investors that the ECB will decide whether to extend its bond purchase program at its next meeting on December 8. Given the better than expected European data, concerns grew that the ECB may provide less stimulus. In addition, an official of the Bank of Japan (BOJ) said that the BOJ may not increase its bond purchase program. Bond purchases from central banks around the world have helped push global bond yields lower in recent years, so indications that there may be less stimulus in the future caused yields to rise, including U.S. mortgage rates.

The first estimate for third quarter Gross Domestic Product (GDP), the broadest measure of economic activity, was considerably stronger than other recent readings. After three straight quarters below 2.0%, GDP grew 2.9% during the third quarter of 2016, above the consensus of 2.5%, and up from 1.4% during the second quarter.

Strength was seen in exports and inventory levels. On the negative side for the economy, consumer spending grew at a slower pace than in the second quarter. The report caused some volatility for mortgage rates but had little net effect.

TRENDED CREDIT DATA (TCD)

"Trended credit data is the most important tool developed by the credit reporting agencies since the advent of the credit score."

— The Director of Card Risk for a top 25 retail bank.

What Is It?

Trended Credit Data (TCD) provides an expanded, more granular view of the consumer by leveraging up to 24 months of a consumer's past balance, payment, and credit utilization history. It provides a fuller picture of a consumer's credit behavior, supplementing the traditional moment-in-time credit snapshot with a more dynamic 2-year picture of a consumer's history of managing revolving accounts. With this additional historical data (such as payment and balance,) lenders may be able to see how consumers have managed their credit accounts over time, allowing them to better predict future behavior and assess risk.

Huh?

Until recently, your credit report displayed a snapshot of your accounts at a single point in time: your monthly balance, your credit limit and whether you failed to make at least the minimum payment. But, they didn't show what you paid on your balances month by month over extended periods. They didn't reach back to show distinctive patterns and trends in your money management: Did you roll large monthly balances on three credit cards during the last six months of 2015? Do you only pay the monthly minimums? Until recently, traditional credit reports used in the mortgage arena weren't able to answer such questions. Now they do.

So, Fannie Mae wants to assess mortgage loan risks by how applicants have manaaged their credit cards. Thus, credit reports from two of the three national credit bureaus [TransUnion and Equifax] now show two years of payment history. In addition to telling them how you pay your bills, seeing your payment behavior over time gives lenders a more comprehensive understanding of your financial situation. When it comes to having good credit, you already know how important it is to pay your bills on time. But how you pay your bills — not just whether you pay them — is becoming increasingly important.

Why Is This Significant?

For consumers, it means how you handle your credit card accounts may determine whether you get a loan and what terms you'll get. Let's say you have a credit score of 690, and that's right around the lender's cutoff. If you lost your job during the recession, your outstanding balances likely grew relative to your available credit and your score declined. But then, you got another job and you began paying down your debt, the lender could see that your behavior over last 18 months had really improved and was very strong from a credit risk perspective. So they may be more lenient in making the loan.

On the other hand, if you have a 730 FICO score that would normally be well within the bank's risk criteria; you may be declined if the bank spots a upward trend in your outstanding balances.

These fine distinctions between borrowers may also serve as a wake up call to some borrowers, even those with 750 FICO scores, may find they're being unexpectedly turned down for a mortgage.

Transactors vs. Revolvers

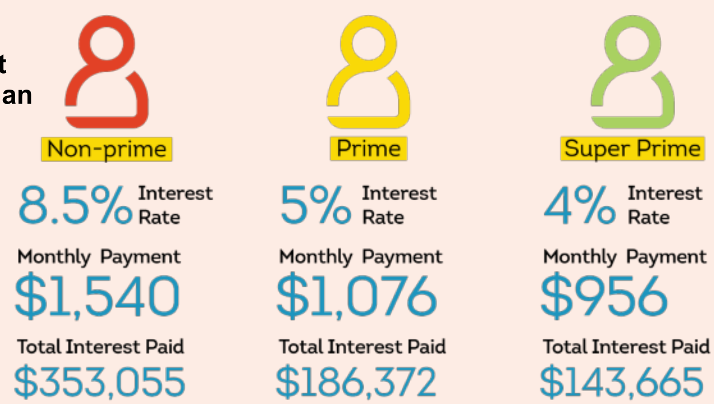
TCD has introduced some new nomenclature. Borrowers are being lumped into two categories: A "transactor" is someone who pays off credit bills in full every month or makes more than the minimum required payment is deemed to be lower risk borrower, like the borrower in the first example with the balances trending downward. A "revolver" is the opposite: someone who routinely makes the minimum payment on credit cards and other debts, rolling balances over month after month: The borrower's balances remain level or trend upward, adding more debt over time. Credit industry statistical research suggests that, all other factors being equal, revolvers tend to present higher risks of future default to lenders, especially when they are accumulating substantial unpaid balances. In fact, revolvers are three times more likely to default on new credit cards and auto loans and five times more likely to default on current credit cards than transactors, a TransUnion study found.

A recent TransUnion analysis found that the use of trended data can potentially impact vast numbers of consumers in the housing market through better pricing and access to mortgage loans. TransUnion research indicates that the percentage of consumers in the Super Prime risk tier, who generally have the greatest access to new loans at the lowest pricing, would increase from 12% of the population to nearly 21%.

These improvements have allowed lenders to approve more consumers for credit while offering better loan terms based on the improved insights. Also, this should prove especially beneficial for consumers who might not qualify for a mortgage because their credit reports contain too little information to generate a credit score. Many of these would-be purchasers are first-timers — millennials just starting out on their careers. Others are individuals who simply do not make much use of credit but now need a mortgage.

History

TransUnion began amassing the credit management patterns on millions of mortgage applicants more than five years ago, and launched CreditVision – the first ever suite of solutions to utilize such data in January 2013. TransUnion also conducted a study of "unscorables" and found that by adding credit usage data into their reports, 26 million thin-files or unscorable consumers could generate credit scores and nearly 3 million of these consumers could be classified as "prime" or "super prime" credit risks, possibly qualifying them for reduced interest rates from lenders.



This new reach-back data has become an integral part of Fannie's automated underwriting, Desktop Underwriter® (DU®) Version 10.0. It provides lenders with a comprehensive risk assessment that determines whether a loan meets Fannie Mae's eligibility requirements and allows a smarter, more thorough analysis of the borrower's credit history while helping creditworthy borrowers obtain access to mortgage credit and sustainable home ownership. Over 1,800 lenders use Desktop Underwriter in their underwriting process. Equifax, another national credit bureau, has similarly followed suit in providing TCD. At this time, Experian has no trended credit data for mortgage credit reporting origination.


View Findings

Print Report | Return to Loan List | Link to Underwriting Guides

Desktop Underwriter Findings | Credit

DU Underwriting Findings

SUMMARY

Recommendation	Approve/Eligible		
Primary Borrower	John Homeowner	Co-Borrower	
Lender Loan Number	Case #1	Casefile ID	1234567890
Submission Date	8/11/2013 04:39 PM	Submitted By	wxyz123
First Submission Date	8/11/2013 09:17 AM	DU Version	9.0
Submission Number	3		

Mortgage Information

LTV/CLTV/HCLTV	95.00% / 95.00% / 95.00%	Note Rate	4.250%
Housing Expense Ratio	25.43%	Loan Type	Conventional
Total Expense Ratio	39.81%	Loan Term	360
Total Loan Amount	$156350.00	Amortization Type	Fixed Rate
Sales Price	$165000.00	Loan Purpose	Purchase
Appraised Value	$165000.00	Refi Purpose	

Property Information

The overall percentage of loans that receive an Approve/Eligible recommendation is expected to remain relatively stable. Fannie Mae's use of the new credit report data will not affect anyone's FICO credit score, but it will open the door for applicants who look marginal or unqualified yet demonstrate responsible credit management habits over time. They may not have vast amounts of credit available to them, but they pay off or limit their balances.

Marketing Consumers TCD to Industry

Trended data is also being used to implement more targeted marketing strategies. In the past two to three years, all three major credit bureaus have added a treasure-trove of new data to their credit reports. Analysts are slicing and dicing "trended data" in hundreds of ways. TCD identifies a deeper understanding of specific consumer behavior history. They are analyzing not just your:

- Spending patterns
- Past balances
- Payment history
- Credit utilization

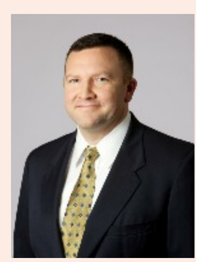
But also:

- What kind of spender you are.
- How your credit behavior is changing over time (are you trending up or down?).
- How often you open and close accounts.
- What you spend every month—and more.

Then, they're pairing that information with data from other sources, such as property and employment records, to create new models that can predict everything from your interest in a rewards card to your likelihood of default on different types of loans.

Additional Considerations in the Use of TCD

Financial institutions are also parsing the new data in a variety of ways:



- How you handle a higher utilization rate. Under the traditional model, if your utilization rate (the sum of your balances divided by your credit limit) is high, you are considered higher risk. But if a lender looks at two years of data and sees that you've consistently had a 40 or 50 percent utilization rate with no ill effects, "That's a consumer I want to do business with," says Paul DeSaulniers, senior director for risk scoring and trended data solutions at Experian. "Even though they have a high utilization rate and their credit score may lower, I know they have been able to manage it over time."

- **Changes in your payment patterns.** If you suddenly start paying just the minimum payment on one account you used to pay in full, that may be a sign that you're about to default on other accounts. Even if you're still making your normal payment, lenders looking at the data may reach out to you to make sure they remain a top priority.
- **How much you spend each month.** Having access to the raw dollar amounts you pay every month helps lenders identify the high-dollar transactors who are going to rack up swipe fees for credit card companies. It also gives lenders a better idea of your discretionary income. According to Mike Mondelli, senior vice president of Alternative Data Services at TransUnion says, "If someone can make a payment of a couple thousand dollars to their credit card on monthly basis and they do that consistently, that gives you some insight into what their income might be and their ability to pay for new credit products." The bureaus say there are hundreds of other ways they are analyzing the data, but they are reluctant to share too much for competitive reasons. The new, deeper level of analysis can be good news for consumers who are on an upward trend, who have shied away from traditional credit products but now need credit, or who pay off their credit cards every month.

But it's going to cut both ways. You will have people who will benefit from this and people who won't benefit from this. The revolvers who pay some portion of their bill on time every month will be frustrated that they don't benefit. In their minds, they're a good credit risk because they're not delinquent on their bill. But it won't matter.

A Whole New Cast of Characters

To further assist lenders in zeroing on their customer base, TransUnion and Equifax have further divided Transactors and Revolvers into sub categories like the Partial Revolver which make more than the minimum payment but still carries a balance. Partial payers — those who actively pay down their balances — are a lower risk than those who just make the minimum payment. There are also Rate Surfers who transfer balances from one card to another to get the best rate. (Banks may develop retention strategies to keep them before they transfer out). Then too, there are the Consolidators who transfer multiple credit card balances to one card or do a consolidation loan. Among the other sub categories are the Nonactivators who open credit cards but doesn't use them. (Banks may want to avoid marketing to them). Current customers who have stopped using their credit cards are labeled Inactives and banks may want to incentivize them to start using their cards — or drop them as customers. Lastly, there are the Seasonal Users who use the card at specific time of the year e.g., Christmas.

New Trended Credit Data Products

As alluded to earlier, the credit bureaus have refined trended credit data to create new products; they now offer well over 50 products and 500 trended attributes. In their marketing, the bureaus tout various ways they can categorize potential borrowers beyond just transactors and revolvers.

TransUnion has used the combined data to create a new score for customers called CreditVision. The new model allows TransUnion to score 95 percent of the U.S. population, including 60 million consumers who were unscorable using traditional methods. Experian is now marketing a trended data product called Trended Solutions, Equifax offers something called Dimension.

"In the credit industry, this new data is a game-changer," says credit expert John Ulzheimer, who has worked for credit scorer FICO and credit bureau Equifax. "For lenders, it tells a much richer story about your relationship with your credit cards than what has traditionally been on your credit report. For consumers, it means how you manage your credit card accounts may determine whether you get a loan and what terms you'll get."

Forecasting Successful Campaigns

Just as a consumer's past behavior can help predict their future behavior, understanding their behavior patterns and targeting specific consumer behaviors can help increase the success of customer outreach. Insight-driven marketing strategies built on actionable, trended data can impact a lender's ability to positively connect with a customer when they have the greatest propensity to spend or respond to an offer.

- Trended data creates a level of consumer understanding that can grow lenders' business:
- Prioritize and segment marketable populations
- Assign or increase credit limits
- Proactively manage marketing costs
- Increase profitability and generate revenue

Targeted marketing campaigns can help in improved response rates, stronger returns on the marketing investment and increased market share and revenue.

When Will TCD Go Into Effect?

It already has. Fannie Mae began using Trended Credit Data in their underwriting decisions as of September 24, 2016.

Will Trended Data Increase My Credit Report Fees?

Yes, Trended Data will add a significant increase to credit report fees and secondary use fees also.

Anything Else?

For now, the new information is not part of the calculation used to create your traditional credit score from FICO or its biggest rival, VantageScore, although industry observers say both companies are likely examining whether to incorporate it. Because Fannie Mae backs the majority of all new residential mortgages in the U.S., that change is expected to have a sweeping effect on the mortgage market.

Summary

Experts in the credit industry consider the recent move by Fannie Mae to be a major advance in fairer credit. Terry Clemans, executive director of the National Consumer Reporting Association, says it amounts to "the biggest change to the mortgage credit report in nearly a quarter of a century. " Freddie Mac, the other big mortgage investor, is "evaluating" whether to adopt a similar approach, according to a spokesman.

Bottom line: Be aware that how you manage your credit could now become a key determinant of whether you get a mortgage. Transactors will reap the benefits; revolvers playing games with credit cards will get more scrutiny.

RATE SUMMARY 

In the past month…

***Conforming programs — were an 1/8th to ¼ higher↑**
***Jumbos — were an 1/8th to 1/4 higher↑**
***Governments — only FHA & VA High Balance loans saw a ¼ point bump↑**

FOR CURRENT INTEREST RATES FOR THE 16 MOST POPULAR PROGRAMS GO TO: www.mortgagestraighttalk.com Then, click on the menu tab labeled "RATES". The rate sheets are updated every Friday.

MORTY'S MAILBAG 

There were no letters in the mailbag this month.

Recipients of the newsletter are invited to Ask Morty any real estate or financing questions. The answer to the question will be answered either by phone or email and posted in the next issue for the benefit of all. Questions may be forwarded via mail phone or fax. Due to the high incidence of spam, if you email me a question it needs to be identified as a "real estate question" on the subject line of the email. (See front of issue for phone and fax numbers). Morty's email address is…. morty@mortgagestraightTalk.com

MORTGAGE MIRTH

Women need a reason
to have sex.
Men just need a place.