

National Mortgage News

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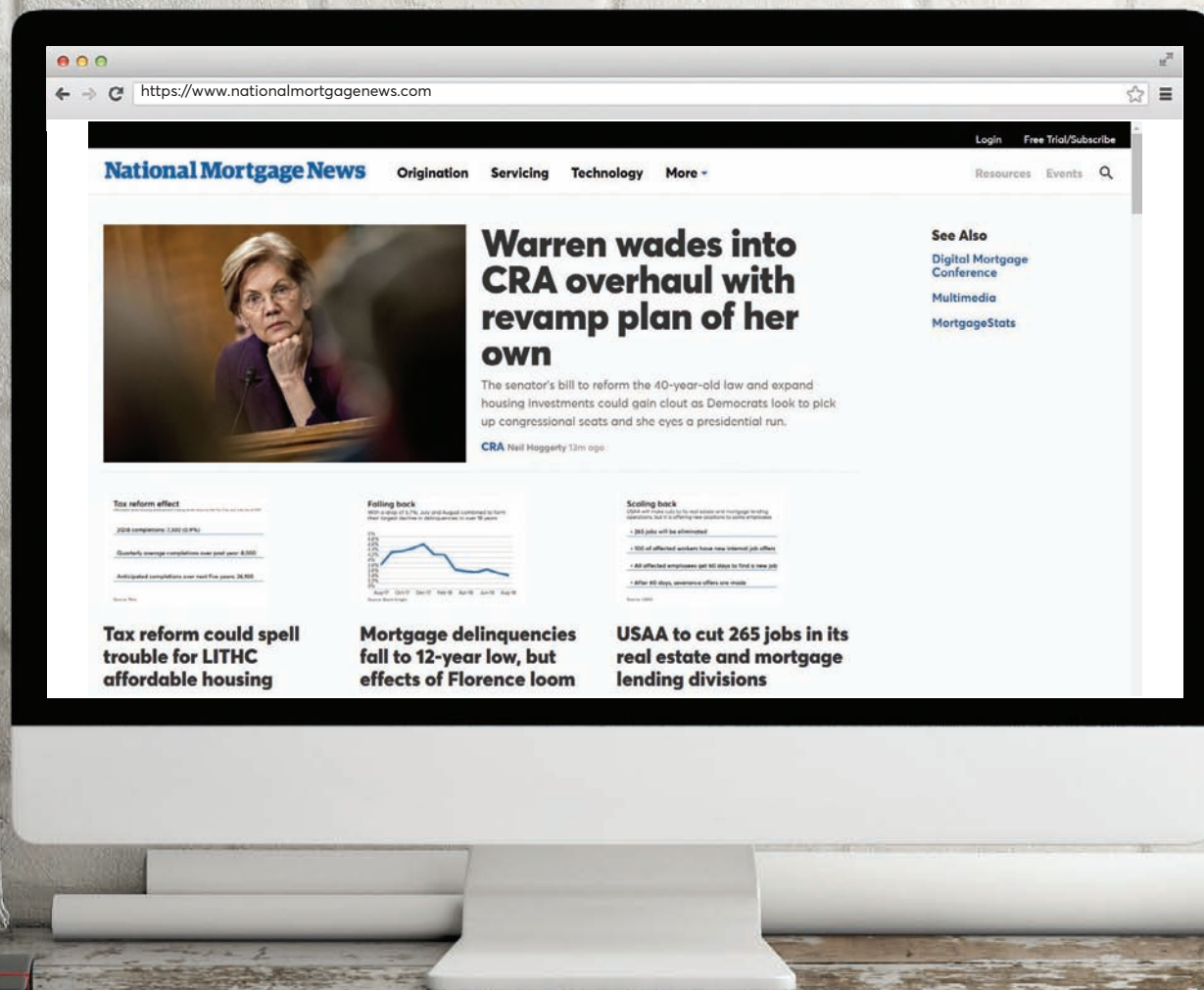
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From Texas through coastal North Carolina, here are 12 metro areas where younger generations' VA purchase-loan activity increased the most over the past fiscal year.

What's going on @nationalmortgagenews.com



People are reading...



Rent control laws will kill multifamily real estate

As tenant advocates press for even more restrictive rules for rents and capital improvements to support asset values, look for the flow of investment into multifamily real estate to dwindle.

People are talking about...

Yes, in my backyard

- First introduced to Senate in June 2019
- Eliminates discriminatory land use and barriers to produce affordable housing
- Requires CDBG recipients to report their housing policies
- Provides communities agency and framework for improved policymaking

Source: House of Representatives

MBA backs House bill to support home shortage and affordability hurdles

Peter Citera: "So, it's the Mortgage Bankers Association's position that the federal government should dictate to states and municipalities what housing should be built in their jurisdictions?"

Events

Feb. 3-6, 2020

Independent Mortgage Bankers Conference
New Orleans, LA

www.mba.org/conferences-and-education/event-mini-sites/independent-mortgage-bankers-conference

Feb. 23-26, 2020

MBA's Servicing Solutions Conference & Expo
Orlando, FL

www.mba.org/store/events/conferences-and-conventions/servicing-solutions-conference-and-expo

June 8-10, 2020

Digital Banking 2020

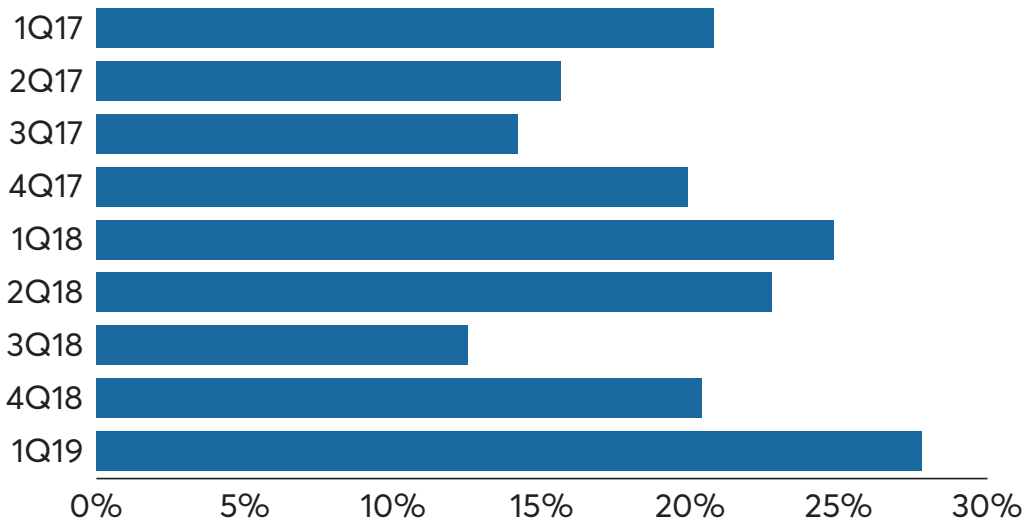
Austin, TX

www.americanbanker.com/conference/digitalbanking-2019

**National
Mortgage News**

Origination

Income/employment critical defects



Note: Applications examined in post-closing quality control
Source: Aces Risk Management

PointPredictive tool uses AI to spot income discrepancies in loan apps

PointPredictive has rolled out IncomePASS, which uses machine learning technology to determine if the borrower's income as stated on the application is realistic

By Brad Finkelstein

Even as mortgage loan application defects continue to decline, data inaccuracies related to income and employment are making up a greater share of discrepancies found in loan files.

Income and employment made up 28% of the post-closing quality control critical defect findings in the first quarter, up from 20% in the fourth quarter and 25% in the first quarter of 2018, according to Aces Risk Management.

Aged, missing or unsatisfactory income documents produced nearly two-thirds of those first-quarter defects, while another 27% resulted from a mismatch in the income-to-employment calculation. While not all income or employment information defects in a loan file are because of fraud, they are a red flag that something is amiss.

A growing number of technology vendors are looking to artificial intelligence, machine learning and other advanced technologies to help lenders

with the underwriting process, including detecting potential problems with application data. For example, Freddie Mac began working with ZestFinance, a developer of AI-driven consumer-risk modeling software, which could expand access to credit.

At September's National Mortgage News Digital Mortgage Conference in Las Vegas, 46% of attendees said artificial intelligence would have its greatest impact on changing the underwriting process.

Most recently, PointPredictive has rolled out IncomePASS, which uses machine learning to look at the applicant's employer, occupation, job title, residence and estimated years of experience to determine his or her likely income.

That can then be matched with the submitted data. The company's testing gives IncomePASS a 90% to 97% accuracy rate. The lender is able to use the findings to do further data checks as

needed. Most applications can be sent through a streamlined process.

"This is not a voice or manual verification of employment or income," said PointPredictive CEO Tim Grace. "It uses sophisticated machine learning algorithms that are highly accurate in order to validate that the income is stated is correct."

Lenders need to understand where their income risk is and where it isn't, so they can route the high risk stuff to higher level underwriters and the low risk stuff can be streamed right through the process, added Frank McKenna, PointPredictive's chief strategist.

It is available for mortgage, automotive and small personal loans. However, the product is not designed to replace the verification of income statement or other compliance checks.

"What we are enabling lenders to do is actually streamline their underwriting process, so we are able to let them know when there are pieces of information that are OK so that they do not have to do a forensic due diligence on 30% to 50% of their loans for income," Grace said.

Those files can be sent to a junior underwriting team; other files with suspected income misrepresentation can be routed to a more sophisticated forensic underwriting team.

IncomePASS analyzes stated income information from the mortgage loan application. It doesn't study any bank account documents or pay stubs.

IncomePASS provides a prediction of the likelihood of default and a misrepresentation indicator to allow lenders to assess when additional characteristics of the application are likely to lead to a loss. It allows lenders not only to reduce costs from additional checks along with cutting errors related to manually reviewing thousands of paychecks.

PointPredictive did a cross-industry study where it looked at validated incomes versus what the borrower stated and for "from 15% to 30% of the applications have falsified income," McKenna said, adding that for the remainder "the income was completely reasonable and correct."

IncomePASS is a separately available feature of PointPredictive's MortgagePASS product. MortgagePASS uses machine learning to streamline mortgage application workflow and have less friction in the lending process.

Nearly half of the mortgage applications have extremely low risk. "So all loans should not be treated equally in the underwriting process. What we help lenders determine is what that 50% of loans are, what are the features that make those loans not risky," he continued. [NMN](#)

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HOW CAN BROKERS SLASH LOAN FALLOUT? **THE ANSWER.**

By Austin Niemiec

“Successful people ask better questions, and as a result, they get better answers.”

-Tony Robbins

There's no question about it – it's an incredible time to be a mortgage broker. Lenders are competing to win your business, and that competition drives lenders to create better technology, processes and pricing. In turn, the strong partnerships being built are helping the best brokers rise to the top.

There are compelling reasons why the most successful brokers are partnering with Quicken Loans Mortgage Services (QLMS) and why we've doubled the number of our partners in the last year to reach more than 6,000 financial institutions. Chief among them is the fact that **QLMS continually delivers cutting-edge technology to our partners.** As we look forward to 2020 and beyond, we're doubling down on technology, knowing what we develop today will play a major role in the future.

The same team that developed Rocket Mortgage® is at this very minute developing the next wave of mortgage technology to help our partners streamline their business, close loans faster and help more clients.

Our investment in technology can't come at a better time. During this era of abundance, when interest rates are low and home values are high, our partners are hiring more than ever. Partners can give their new team members our technology to help their business flourish.

One of the most successful pieces of technology for our partners is “The Answer.” This intuitive online search engine is like having your own personal underwriter in your office, available at all times. The Answer delivers solutions in seconds, 24/7/365. Why should partners waste time flipping through pages or waiting for a response to an email in order to find guidelines? Why should they panic when they have a question for an underwriter early on a Saturday morning? The Answer solves these problems and more. Anytime, anywhere. Right from your smartphone. It's powerful, portable technology.

The process is simple. Our partners type in a keyword and select a topic or question. The Answer then guides them through a series of questions, leading to a solution. It keeps everyone up to date on ever-changing guidelines and lets them compare different product requirements. It can even help if a loan doesn't qualify by providing recommendations and new options.

One of the biggest reasons brokers use The Answer is to reduce loan fallout. How many loans get missed every day because someone doesn't know about a new solution or a guideline change? The Answer helps our partners convert “no” into “yes.”

It's clear our broker partners are loving this tool. **Since launching this year, more than 100,000 questions have been asked – and answered.** Some of the top questions our partners ask The Answer are: “What payment can be used for a student loan to qualify?” and “What are the required waiting periods following the discharge or dismissal of a bankruptcy?”

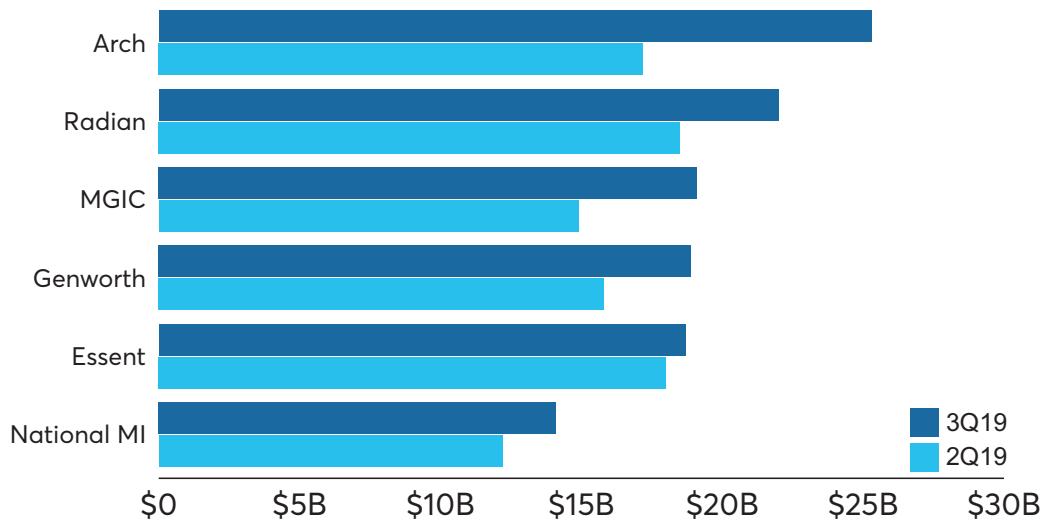
I invite every partner to see what thousands have already discovered about The Answer. Go on the QLMS portal and walk through various scenarios. Discover the paths you can use to guide your clients to close. Having this technology at your fingertips will position you as a mortgage pro, adding speed and certainty to your business.

Every successful broker knows when you have access to real-time, accurate knowledge, you have the advantage. Knowledge is power. With the right tools and a proven process, mortgage brokers across the country have a winning combination for today's market.

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Quicken Loans®
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NIW share shifts



Source: Company reports

Record business for the newest mortgage insurers in the 3Q

Even so, the four legacy companies re-established their place at the top of the table in terms of market share; but all benefited from an unusually large number of high loan-to-value mortgage refis

By Brad Finkelstein

The two newest private mortgage insurance companies had their best quarters ever for new insurance written, aided by the increase in consumers refinancing with less than 20% home equity.

This matches broader trends in the mortgage insurance business previously reported by the four legacy companies. Low interest rates helped to bring first-time homebuyers into the market as well, although affordability remains a concern.

"We are observing an increased penetration of MI into the refi market and we trace it largely to the 2018 book year," NMIH Chief Financial Officer Adam Pollitzer said on the company's conference call.

"What's unique this go-around is that we've had rates fall so quickly and by so much without a corresponding macro-credit event.

"And so that means that those borrowers who took out loans really in the back end of 2018 in a much higher note rate environment are now coming into the market and can benefit from a refinancing opportunity, but they haven't yet benefited from near as much home price appreciation or also as much time to amortize down their principle balance through monthly payments," Pollitzer said.

National MI wrote \$14.1 billion in new insurance written for the third quarter, up from \$12.2 billion in the second quarter and \$7.9 billion for the third quarter of 2018.

"Given the strong origination figures posted by NMIH's private mortgage insurance peers thus far in the third quarter against a favorable backdrop of lower interest rates and a low unemployment rate, it was not surprising that the company also posted very solid results during

the quarter," said BTIG analyst Mark Palmer said in a note. "Yet the third-quarter report that NMIH released nevertheless exceeded that raised bar in several respects."

That included beating analyst estimates on net premiums earned and revenue.

The record NIW beat B. Riley FBR analyst Randy Binner's expectations of just \$7.7 billion for the quarter.

NMIH had net income of \$49.8 million for the quarter, up from \$39.1 million in the second quarter and \$24.8 million for the third quarter last year.

Essent Group reported its mortgage insurance unit did \$18.7 billion in NIW for the third quarter, up from \$18 billion in the second quarter and \$13.9 billion one year prior. Essent had third-quarter net income of \$144.6 million, compared with \$116 million one year prior.

The market share among the six companies shook up compared with the second quarter. Arch regained the top spot in terms of NIW, followed by Radian (which was No. 1 in the second quarter), MGIC and Genworth. Essent slipped to No. 5 from No. 2 in the previous quarter, with National MI remaining sixth.

The status quo on GSE reform benefits the mortgage insurers going forward, Binner said in his NMIH earnings note.

"We view recent changes to the GSE cash flow sweeps as highlighting the ongoing need for the Preferred Stock Purchase Agreement to remain in place. This structure may be an impediment to recapitalization. Further, the replacement of the PSPA by an explicit government guarantee (potentially administered by Ginnie Mae), likely requires congressional action. We view this as unlikely ahead of the November 2020 election," Binner wrote.

The Consumer Financial Protection Bureau had a public comment period regarding potentially ending the qualified mortgage patch.

Those comments, said Binner, "highlighted significant support of compensating factors that influence credit quality, compared to the current debt-to-income approach. We believe NMIH and the industry are well positioned for whatever the QM-patch replacement is, as they already are actively underwriting to these compensating factors (such as loan-to-value, borrower assets, etc.) and implementation timelines will run into 2021-2022."

Radian reported net income of \$173.4 million for the third quarter, up 21% over the year prior. MGIC's net income of \$176.9 million was down from \$181.9 million a year ago. [NMM](#)

FHFA floats a new plan for uniform MBS structure

By Bonnie Sinnock

The Federal Housing Finance Agency is seeking comment on a proposal that could pave the way for potential Fannie Mae and Freddie Mac competitors to use the uniform mortgage-backed security structure.

The plan the FHFA released a request for input on would route the majority of the government-sponsored enterprises' securitized production into larger multilender pools as a means of possibly achieving this long-term UMBS goal.

In addition, the request for input seeks comment by Dec. 19 on ways that Fannie Mae and Freddie Mac could handle situations where the prepayment behavior of a particular lender's loans departs from industry norms and has an adverse effect on investors.

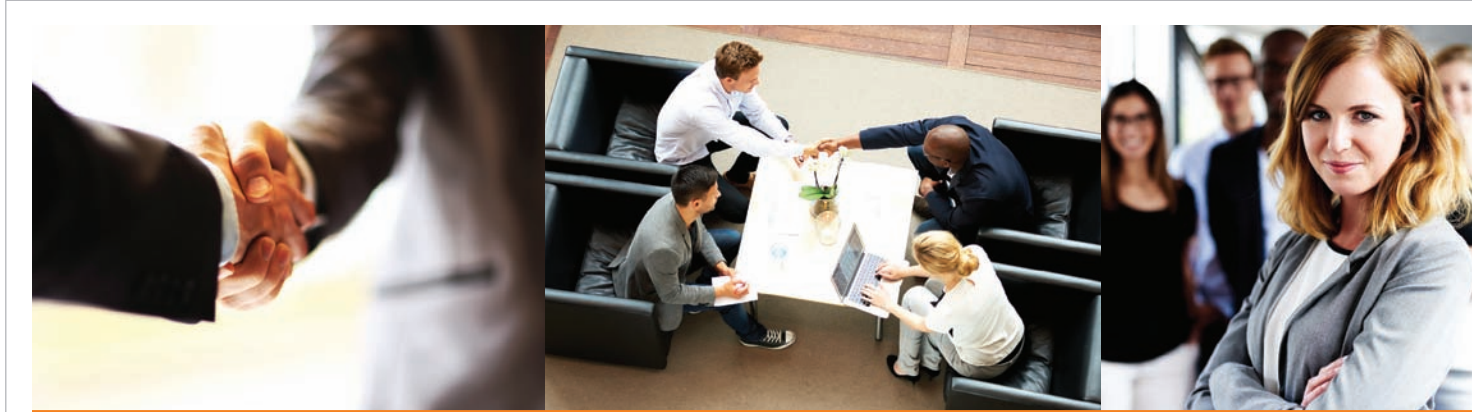
FHFA Director Mark Calabria in a recent speech at the Structured Finance Association's residential mortgage conference in New York stressed that the request for input was designed to help the agency chart a path forward for the uniform mortgage-backed security, not an indication of any shortcomings in its June launch, which he called a "success."

Calabria told attendees at the meeting that he remains concerned about the undercapitalized government-sponsored enterprises' risk.

"I would like to get these enterprises a lot less leveraged than they are today," he said.

That "could take a lot of years," Don Layton, the former CEO at Freddie Mac, noted in a separate session at the conference, reiterating concerns he has had about the process.

Layton is currently a senior fellow at Harvard University's Joint Center for Housing Studies. [NMN](#)



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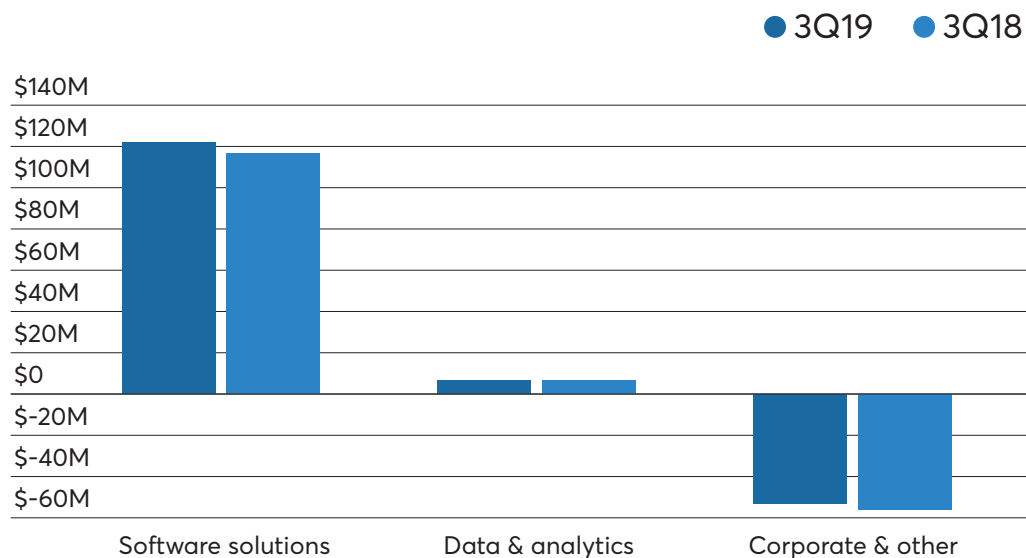
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Segment operating income



Source: Black Knight

Black Knight and PennyMac sue each other over servicing technology

Black Knight and PennyMac Financial Services are suing each other in separate disputes linked respectively to the latter's creation of a servicing platform and the former's dominant position in the market

By Brad Finkelstein

Black Knight and former customer PennyMac Financial Services are suing each other in separate courts in disputes sparked by the latter's creation of its own mortgage servicing platform.

"Black Knight [on Nov. 5] served PennyMac with a lawsuit filed in Jacksonville, Fla., alleging theft of trade secrets and breach of contract," Michelle Kersch, Black Knight's senior vice president of marketing and corporate communications, said in an email. "In response [on Nov. 6], PennyMac filed a lawsuit in California. We intend to vigorously prosecute our lawsuit and defend ourselves against PennyMac's baseless countersuit."

Black Knight's lawsuit, which was filed in the Duval County (Fla.) Circuit Court, alleges trade-secret appropriation by PennyMac.

A system PennyMac created allegedly mirrors "the architecture, data structure and

functioning" of Black Knight's MSP System, according to the suit.

"In disregard of contractual restrictions and the trust that had been placed in PennyMac, PennyMac instituted a secret project to create a copy of the MSP System for its own benefit in lieu of the MSP System. In furtherance of this scheme, it not only used the information shared with it in confidence by Black Knight, it also improperly shared access credentials with individuals who were not authorized to use the MSP System under the terms of the Master Agreement," the filing alleged.

PennyMac's rapid ability to onboard the loan servicing files to its new system was allegedly a sign that trade secrets were stolen, according to Black Knight.

"As one measure of PennyMac's efforts to improperly duplicate the MSP System, it has

advised Black Knight that the 'deconversion' process for transferring its operations will be virtually immediate. The normal transition of a loan servicer to a new platform takes many months or even years. PennyMac's confidence that it can migrate to the imitation system without such a transition demonstrates the extent to which it has tried to 'mirror' the MSP System and its confidential components," Black Knight alleged in its legal filing.

Black Knight is asking the court to find that it is "the owner of any and all software, code, systems and other materials developed by PennyMac and/or its third-party software developer."

The mortgage technology company claims PennyMac caused damages that exceed \$340 million.

In the third quarter, concerns linked to PennyMac, the loss of another MSP client that was acquired by a non-MSP user, and the probable removal of loans from MSP due to New Residential's acquisition of Ditech were all "headwinds [that] in total represent 5% of revenue," Black Knight CEO Anthony Jabbour said in a recent earnings call.

The Black Knight filing states the company has a 62% market share for its MSP servicing platform, which handles more than 35 million active loans.

Its dominant market share is an issue in PennyMac's lawsuit which was filed in the U.S. District Court for the Central District of California. That suit alleges that Black Knight violated the federal Sherman Act, the California Cartwright Act and California's Unfair Competition Law.

"Black Knight's conduct is transparently monopolistic," PennyMac alleged in its legal filing. "As more fully alleged below, such conduct is designed to and does stifle competition, forcing purchasers like PennyMac to pay extraordinarily high prices and fees for an underperforming and antiquated product. Black Knight likewise refuses to license its products at commercially reasonable prices to perceived competitors, and seeks to exercise exclusive control over competitive products."

PennyMac further alleged that Black Knight's servicing revenue increased during the past three years, "even while it falsely or misleadingly marketed price reductions that neither PennyMac nor, on information and belief, other Black Knight customers ever realized."

The mortgage company's new system consists of 150 separate customized modules that were developed independently, according to PennyMac.

"From inception, the PM modules and their corresponding source code were developed by PennyMac's IT team independent of any MSP system coding proprietary to Black Knight (or its predecessors), none of which was even accessible to PennyMac or its IT personnel," the mortgage company said in a legal filing.

"Black Knight's 50-year-old mainframe-based MSP technology — ancient by almost any standards — is so limited that PennyMac and other customers are forced to build or buy a clunky patchwork of applications and modules to enhance Black Knight's otherwise rudimentary functionality," PennyMac President and CEO David Spector said in a press release. "By contrast, our independently developed servicing modules fully leverage cloud-based infrastructure and real-time processing and enable us to reduce costs, increase scalability and decrease response times to changes in regulations and the market environment.

"In general, modern technology has allowed businesses to reduce costs and operate with greater agility. Now, faced with our likely antitrust suit and substantial lost revenue from losing PennyMac as a client, Black Knight with a straight face claims that the custom system of modules PennyMac developed somehow belongs to Black Knight," Spector added.

It was not a fight that PennyMac sought, a company executive with knowledge of the situation said. It provided notice in May that it was ending the MSP contract, the executive said.

PennyMac's new system is workflow-based, so it is mapped to processes in the servicing function, and that makes it different than the database system that Black Knight has, said the executive.

PennyMac serviced \$348.5 billion as of Sept. 30, consisting of \$227.9 billion of its own mortgage servicing rights and another \$120.6 billion subserviced or special serviced for affiliated company PennyMac Mortgage Investment Trust. The company started using MSP in 2008 and stopped on Oct. 31.

On Nov. 6, Black Knight reported third-quarter net earnings of \$37.3 million, compared with \$43 million one year prior. Its investment in Dun and Bradstreet hurt the period's results, reducing net earnings by \$11.8 million. Black Knight's second quarter income of \$31.9 million was also hurt by the D&B investment.

Revenue for its software solutions business (which includes both the servicing and origination technology operations) were \$257.3 million for the quarter, with operating income of \$121.8 million. In the second quarter, software solutions had operating income of \$123.8 million. For the third quarter of 2018, software solutions revenue was \$243.9 million and operating income was \$116.7 million.

The data and analytics segment earned \$6.6 million (compared with \$6.4 million one year prior), but corporate and other lost \$53.2 million, an improvement from a year-ago loss of \$56.1 million. [NMN](#)



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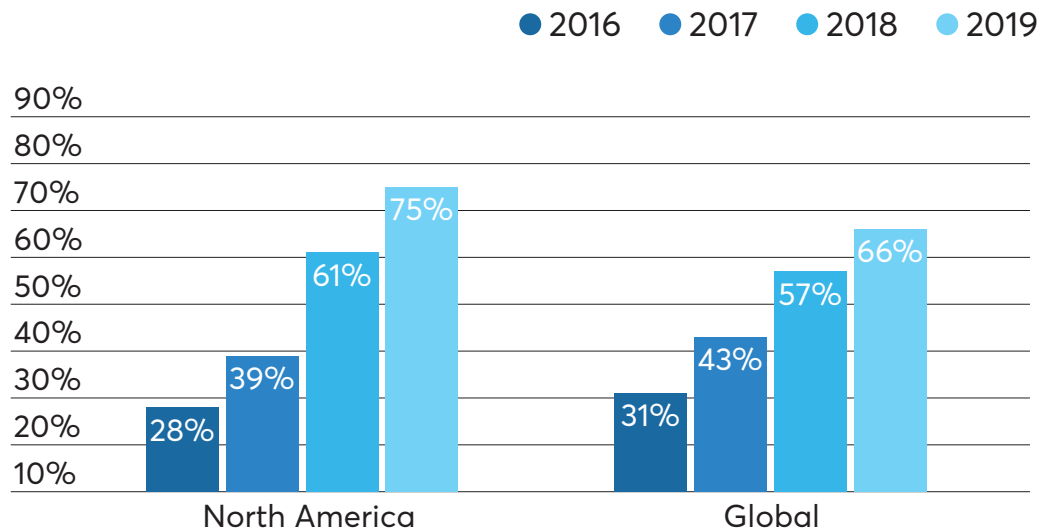
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 **tcf** relationship lending



Account opening via mobile devices



Source: Temenos

The changing shape of bank-fintech partnerships

Startups are increasingly expanding into new areas with their bank partners in an effort to broaden their customer base and bring products to market faster

By Will Hernandez

Blend, a fintech that initially specialized in software for mortgage lenders, is expanding into auto loans in the latest example of a startup broadening well beyond its initial area of expertise in an effort to appeal to more customers.

The San Francisco-based firm launched an auto lending product last month that is designed to enable consumers to upload documents quickly using mobile devices to get loan approvals faster. It comes on top of two other recent consumer-facing expansions, into home equity loans and deposit account opening products.

For banks that partner with fintechs, the expansions can lead to deeper relationships that help them bring new products to market faster.

"Could this have been something we could've created and built on our own? It could be, but I do think the bigger challenge for the bank is length of time to market as well as the

ongoing investment required to keep it best in class," said Tom Parrish, vice president of consumer lending product management for BMO Harris Bank, which signed up for Blend's home equity product. "We could get to market faster with a partnership and have an advantage over our peers."

Blend is one of several fintechs pushing further into consumer spaces, in part by promising a faster turnaround time on loans and banking products. Many banks, including HSBC USA and TD Bank, use loan origination technology from the fintech Amount to expedite the approval of personal loans through digital channels. Alternative core providers such as Nymbus, Finxact and others promise quick digital account openings as part of their product suite.

And those fintechs are rapidly expanding their product suites. Amount was once focused

mainly on personal loan originations, but has expanded into credit cards, deposits and, most recently, a new point-of-sale offering.

"As the retail banking ecosystem evolves, banks are not just looking for a tech vendor, they want to find a partner who can deliver the technology along with the proven strategies and capabilities needed to profitably scale their digital product suite," said Kevin Lewis, senior vice president, head of sales and partnerships at Amount.

Banks in large part have been forced to partner with third parties to roll out better digital experiences to keep pace with consumers' preferences for conducting banking activities on their time and on mobile devices.

"The top performers are going to do a blend of homegrown solutions and partnering solutions," said Bob Neuhaus, vice president of global financial services at J.D. Power. "Banks are keeping a close eye on fintech and new innovations out there and they have to be ready to move more quickly rather than doing everything on their own."

The \$129.5 billion-asset BMO Harris Bank first partnered with Blend after it ran into efficiency issues with its home equity application that flummoxed customers and bank employees alike.

"Prior to Blend, we had a very long application process that wasn't intuitive and easy for our bankers to navigate and took 45 minutes to complete," Parrish said.

"Our customers don't have time to sit that long [with our employees] to complete an application. We also had a digital offering that was a separate application from what our bankers were using and that experience wasn't ideal, either," he said.

BMO implemented both the home equity loan product and the back-end digital portal, called Blend Workspace for Bankers, in March. That resulted in customers and bank employees utilizing the same application whether the process was started in branch or online.

While Parrish could not quantify to date how exactly those products have affected BMO's bottom line, he said front-line employees have regained valuable hours lost to manual processes.

"We freed up hundreds of thousands of hours with the implementation of Blend so that our bankers can talk to that next customer," he said.

Parrish said improvements to the application process also helped with originations.

"This has allowed us to better and more easily collect the required documentation so that customers can upload their documents, securely link their assets and payroll statements, and that can help expedite the origination process," he added. [NMN](#)

Ginnie Mae lays out plan for digital mortgage pilot

By Bonnie Sinnock

Ginnie Mae is looking for input on its proposed guidelines for electronic promissory notes and other mortgage documents that it plans to test through a digital collateral pilot.

The request for input is in line with plans Ginnie made last year to conduct a pilot in which digital pools and loan packages cannot contain any traditional paper files.

"This announcement underscores Ginnie Mae's commitment to modernizing its mortgage-backed securities program and platform in order to create a digital mortgage ecosystem, from loan application to securitization, that increases access to credit for many Americans," Angel Hernandez, director of MBS policy and program development, said in a press release. "It will also enhance the integrity of Ginnie Mae collateral by reducing the risk from defects in loan instruments."

Among the requirements in Ginnie's proposal are ones that would require e-notes to be Version 1.02 MISMO Category 1 SMART Docs generated, displayed and signed electronically using a qualified electronic closing system. The electronic documents also would have to be secured by a tamper seal.

Ginnie also recently made plans to start using vendor eOriginal's electronic vault as part of its digital collateral pilot. Fannie Mae also is an eOriginal customer, and Ginnie has said it plans to use digital strategies similar to Fannie's and Freddie Mac's in its pilot.

Ginnie's adoption of digital strategies could go a long way toward advancing their use in the industry, as the majority of U.S. mortgages are packaged and sold to the secondary market in securitizations insured by Ginnie, Fannie or Freddie. **NMN**

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HUD, Justice Department aim to ease lenders' False Claims Act burden

The government has used the law to bring fraud claims against Federal Housing Administration lenders, but the new steps respond to criticism that minor offenders were also getting punished

By Hannah Lang

The Trump administration announced a dramatic pullback in its use of the False Claims Act to bring civil fraud claims against mortgage lenders.

The Department of Housing and Urban Development and the Department of Justice recently released a joint memorandum of understanding, stating that HUD will deal with False Claims Act violations — involving Federal Housing Administration lenders — mainly through administrative proceedings.

Under the agreement, which is intended to provide lenders with more legal certainty and lure banks back to the FHA program, HUD's Mortgage Review Board will refer cases to the Justice Department only in certain instances of False Claims violations.

HUD Secretary Ben Carson said the changes are meant to prevent lenders from being targeted with enforcement for negligible errors.

"Non-material errors are looked at very differently now," Carson said recently on CNBC's "Squawk Box." "And this doesn't mean by any stretch of the imagination that we're not going to vigorously pursue fraud and people who do things intentionally, but non-material, ineffectual things — we're not going to torment people about those. We will make sure that they learn from them."

The review board will refer cases where "Tier 1" violations are present in at least 15 loans, or loans with an unpaid principal balance or at least \$2 million in claims.

The memorandum of understanding also includes a provision that allows HUD to recommend that the Justice Department dismiss a False Claims Act Case if HUD doesn't support the litigation.

"While the decision of whether to seek dismissal remains the exclusive authority of DOJ, DOJ will consult with HUD in making such a decision," the

memo says. In any case, the Mortgage Review Board will retain the ability to seek administrative action and civil money penalties for violations.

"This MOU sets forth a robust and collaborative process for deciding when to pursue False Claims Act cases to remedy material and knowing FHA violations," AG William Barr said in a statement. "DOJ and HUD will work together to determine when HUD's administrative remedies are sufficient, or other recourse is appropriate, to address harm to the borrower, the taxpayer, or the government."

The memorandum of understanding is the latest in a set of efforts to address lenders' fears of being sued under the False Claims Act. Carson noted on "Squawk Box" that before the financial crisis, about 50% of loans insured by the FHA were originated by depository institutions, but that number is now closer to 15%.

After the crisis, the Justice Department employed the False Claims Act — a Civil War-era law to combat fraud by government contractors — to fine major banks and other FHA lenders billions of dollars for alleged abuses.

Banks had argued that the penalties were unjustified, expressing concern that any single defect in an FHA loan could result in a fine. Ensuing False Claims Act litigation prompted several large banks and other mortgage lenders to exit the FHA program, leaving most of the FHA's business to nonbank lenders.

"I suspect things will normalize once we once again establish a normal environment for people to work in," Carson said. "We live in a society where market forces rule, and market forces mean that people look at the things that are advantageous to them and the things that are not advantageous to them, and they act accordingly."

Carson officially announced the memorandum of understanding during remarks at a Mortgage Bankers Association conference in Austin, Texas.

MBA President and CEO Robert Broeksmit applauded the changes.

"Today is a significant step toward providing clarity for those currently participating in the FHA program, as well as encouraging more lenders to offer FHA-insured loans," Broeksmit said in a statement.

But some analysts warned that the memo may not ease lenders' concerns overnight.

"While this could be a positive for FHA lenders and could attract more banks back into this market, KBW analysts think change is likely to be slow," a research note said. "First, it remains unclear if changes under the agreement are meaningful enough to make lenders comfortable. Second, they think lenders are likely to remain concerned about whether the agreement could be changed by a future administration." [NMN](#)

Capturing a Competitive Advantage



Carl Tyree
Executive Vice President
and Chief Sales Officer
Arch MI

Just when everyone is convinced that there cannot possibly be another refinance boom, consumers are given another reason to return to the closing table for a new mortgage loan. This is great news for loan originators that are prepared to meet the needs of today's home loan borrowers.

To find out what lenders must do to take full advantage of this most recent run of mortgage originations, we visited with Carl Tyree, Chief Sales Officer at Arch Mortgage Insurance Company (Arch MI), about the company's RateStarSM product.

Q: An environment where borrowers are eager to get a new loan is good for all lenders, isn't it?

A, Carl Tyree: It's certainly good for lenders who are strong competitors and who are nimble enough to react to changes in the market. For instance, in August we saw rates for 30-year fixed mortgages fall to a three-year low, despite the fact that for years industry analysts had been calling for sharply rising rates. Lenders able to return to their existing customers with compelling refinance offers are doing very well.

As it turns out, we're able to help them with that.

Q: So how does RateStar help lenders be more nimble?

A, Carl Tyree: First, I should clarify that this is a new product. Many will remember that Arch MI launched the RateStar platform a decade ago to revolutionize the industry with risk-

based pricing. Last year, we built our RateStar BuydownSM product on that platform and it has been very well-received.

Now, we're launching RateStar Refinance Retention. It will help lenders hold on to their borrowers even when they find a new loan to be in their best financial interests.

Q: What does the new product offer to originators?

A, Carl Tyree: The program allows a lender to quickly determine whether Arch MI insures the loan a prospective refinance customer currently holds. If we do insure that loan, there will be a very good chance that we can offer their borrower a more competitive premium price for their new loan.

And there is a very good chance we will insure that customer. Arch MI has more mortgage insurance in force than any other company.

Over \$1 trillion worth of mortgages are insured with our private mortgage insurance. That's roughly one in four loans.

This is a win for everyone. We get to keep the insurance in force, the originator can advance a more competitive offer to the borrower, who then saves money.

Q: How does the lender use the tool?

A, Carl Tyree: It's built into our RateStar platform. A simple search on our website will reveal whether the opportunity for a lower rate for private MI exists and then the lender can make that offer available to their borrower. It's an easy way to be more competitive in today's market.

In fact, for most lenders it's even easier because Arch MI is integrated into most of today's leading loan origination systems, giving originators

instant access to the information they need to close more loans.

Forward-thinking originators recognize the value in using Arch MI on their purchase transactions, because should rates fall again, and there are plenty of economists who think they may fall even lower, our Refinance Retention tool will give them the power to keep that borrower in the future.

Q: How has the new tool been received in the marketplace?

A, Carl Tyree: Lenders are telling us that the tool helps them compete more effectively in the marketplace. This is exactly what we want to hear, of course, because we want to help our clients be as competitive as they can be. It's why we will continue to innovate and lead the industry.

Go to archmi.com/RateStarRefi to get started today.

California's great data-privacy rush

What the initiation of the California Consumer Privacy Act means for the mortgage industry

By Paul Centopani

As lenders look ahead to 2020, they can thank a well-known whistleblower for the next big compliance challenge the industry will face.

Not the whistleblower currently dominating headlines but rather Edward Snowden, who in 2013 leaked highly classified information and exposed, among other things, that U.S. intelligence was paying technology companies for access to systems in order to conduct espionage, including spying on allies.

Those revelations provided significant momentum for passage of Europe's General Data Protection Regulation, which significantly tightened rules around collection and use of individuals' personal data. While those rules had limited impact on the U.S. mortgage industry, the effective import of those kinds of restrictions will commence on Jan. 1, when the California Consumer Privacy Act takes effect.

The new law stands to force a broad reassessment for the industry, which is increasingly digitizing and aggressively buttressing its data collection and access capabilities.

For those companies doing business for California residents, they'll soon be obligated by law to document and disclose all personal data on their customers or face financial violations for each person in their system. Exactly what the rules will obligate companies to do is not yet completely clear — final regulations are actually still being worked out. But the general principles are fairly clean-cut and this won't be a movement confined to California — the CCPA quickly becomes a template for a growing list of states considering similar consumer protections.

Some basics on the act: To fall under its provisions, businesses need to hit one of three parameters: They either need \$25 million in annual gross revenue, earn more than half of its annual revenue from selling consumers' personal information, or have possession of 50,000 personal data points.

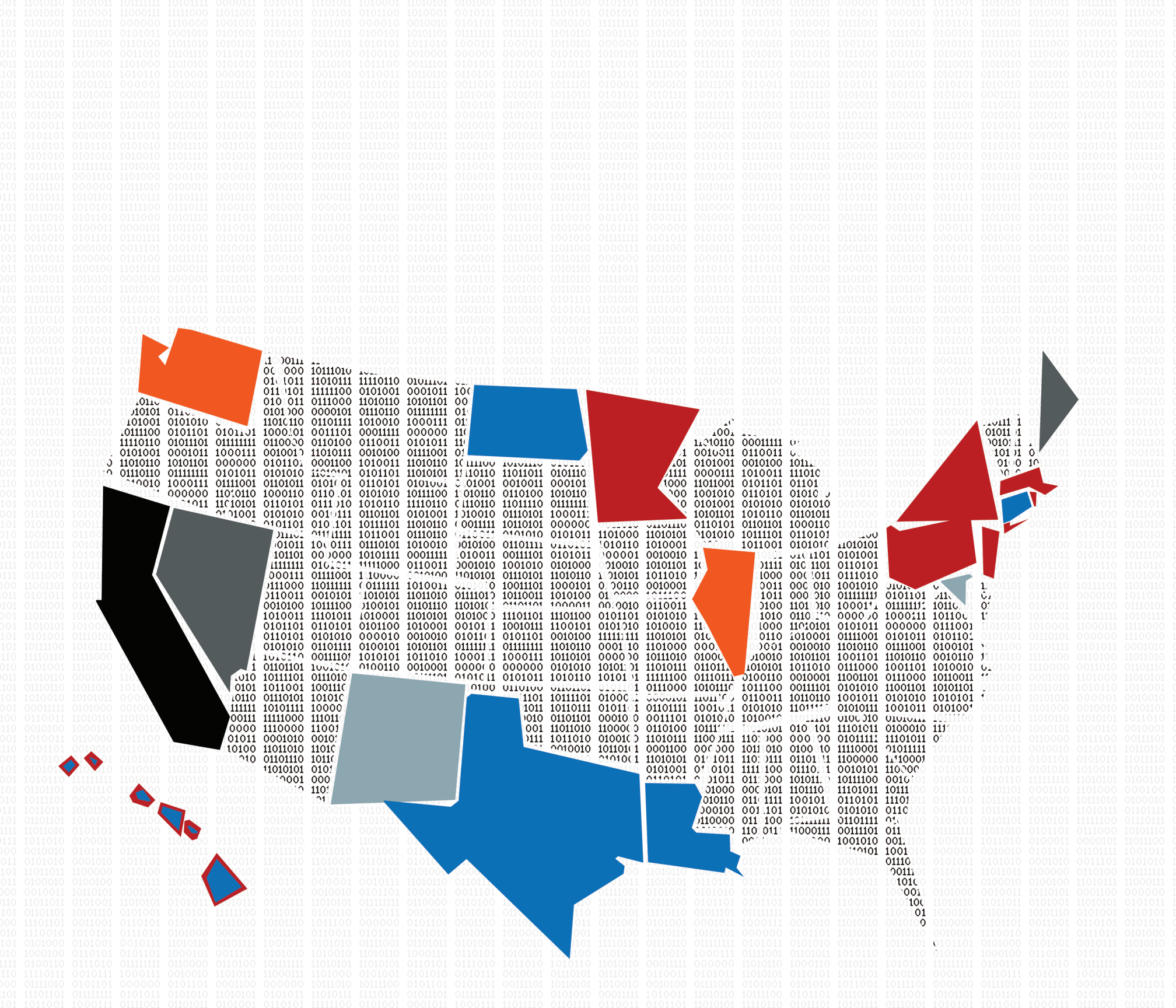
California residents will have the right to know and access what information businesses collect about them and have that data expunged by request. If their data gets sold, the consumer will now be privy to the transaction and to where it gets sold to.

They'll also have the option to say no to any sale of their information without discriminatory retaliation.

If a company loses data through theft or breach, it's liable for penalties up to \$750 per individual's information lost. If the company fails to comply with any of the statutes, it'll be subject to fines up to \$7,500 per violation.

Data security regulations have been reactionary to an evolving digital world. Makers of the California Consumer Privacy Act set out to have their new law be retroactively proactive.

"I don't think people understand the gravity of the situation," said Ike Kavvas, founder and CEO of Ephesoft. "Once the consumers are educated about this and then a few companies are punished — because the punishment is really high — then the actual recognition of this act will take place. I think we'll see big waves in the next two years of consumers making the mortgage companies accountable and mortgage companies making the software vendors accountable."



Privacy bill status

CCPA passed	Passed and signed	In cross committee	In committee	Task force substituted	Postponed indefinitely
California	Maine Nevada	Illinois Washington	Hawaii (SB418) Massachusetts Minnesota New Jersey New York Pennsylvania Rhode Island	Connecticut Hawaii (HCR225) Louisiana North Dakota Texas	Maryland New Mexico

As new generations of borrowers entered the fray, the antiquated ways of getting a mortgage needed modernizing. That meant switching out paperwork and physical touchpoints to keep up with a rapidly digitized landscape. Data capture systems were put in place so personal information could be uploaded and saved. It would then be automated to streamline the process, saving time for both the lender and customer.

Over time, data accumulation surged. Lenders would then spread it around to a growing bullpen of technology partners providing artificial intelligence, bots and electronic notarization, further lessening the idle spells and monotonous clerical work.

While this global technological evolution across industries aided the lending process, it left incalculable amounts of personal information out in the ether. An added emphasis on data security and the GDPR in Europe set the impetus for the act. Its goal is to reduce the power Big Data has in society and shift it back to people.

In theory, the Gramm-Leach-Bliley Act prepared institutions for what's to come, assuming they've been meeting requirements. As long as personal information is collected, processed, sold, or disclosed in accordance with the GLBA, the CCPA probably doesn't apply. However, it's not blanket coverage and a great deal of the information collected on a day-to-day basis won't be shielded by it. Lenders could easily get tripped up by thinking that everything they collect is exempt.

While this lightens the compliance burden for mortgage lenders, it doesn't do away with the need to track how they use individuals' information, create pathways for communicating that to Californian consumers and deleting information upon request.

"CCPA refers to "personal information" while GLBA refers to the more narrowly defined nonpublic information and personally identifiable financial information," said Paula Tuffin, general counsel and chief compliance officer at Better.com.

"The gulf between GLBA's narrow definition of nonpublic information and the CCPA's broader personal information means that lenders will have to make judgment calls on whether the CCPA applies to each piece of information consumers share in the process of obtaining a mortgage. Each of those calls is akin to a blind leap into the privacy enforcement pool. A wrong

call could have damaging reputational consequences as well as the risk of fines. For example, the CCPA may apply to leads who have not yet become 'consumers' within the GLBA definition. Of concern for digital lenders, information collected about Californian website visitors who are not 'consumers' under GLBA may be subject to the CCPA."

Lenders and servicers need to have all their customer information organized and accounted for if they haven't done so. Businesses already prepared for GDPR compliance had an exercise in good practice. But this is a new act, with bolstered protections and more control given to consumers.

"Begin mapping your data. If you are a mortgage originator, you obtain lots of information that's required under various origination statutes in the URLA of a loan application," said Sanford Shatz, council at McGlinchey Stafford. "If the loan is sold, you transferred it to the new owner. If it's not sold, you hold it in case the loan origination ever becomes separate of regulatory review or litigation. And if it doesn't, at some point in time you can get rid of it, no problem. But if the borrower asks you for it or you need it for that purpose, where is it and what are you doing with it?"

The onset of 2020 initiates the CCPA's regulations with a 12-month look back period. Any California resident can inquire what data businesses have on them, what categories they fall under, where it's gone and for a copy of the history, dating back to Jan. 1, 2019. A business must then provide the information in a readable, transportable form to the consumer.

It won't matter if the lender is domiciled in another state or abroad. As long as it conducts business in California, the rules apply. Inversely, the law still kicks in for business outside of the Golden State as long as a California resident is involved.

"The most onerous item is you need to provide a disclosure to the consumer which talks about the categories of information and what particular personal information you are collecting from them before they give it to you," said Mike Barone, executive director of compliance to MQMR. "So before they tell you anything that's personal and private, you have to give them a disclosure and make them aware they have these rights under your privacy policies"

California generally acts as the vanguard when it comes to laws and legal issues, with oth-

er states falling in behind it. With the effectuation of the CCPA, there will be copycat bills with degrees of modifications in their statutes.

"I think in California there is an emotional connection to what happened with Facebook. The results of that were very harsh," said Kavas. "I would say the other states will not be as harsh, but I think logically they will not be able to make it any less. So because California was the first in the United States, that's going to set the stage for everybody else to come and follow."

As of Oct. 15, 2019, one dozen additional states had bills going through some stage of the legislative process, while seven others had theirs postponed, according to the International Association of Privacy Professionals.

Only Maine and Nevada passed and signed their bills, though both states are lighter on consumer rights. Maine's LD 946 goes live on July 1, 2020 and Nevada's SB 220 went into effect on Oct. 1, 2019.

Illinois and Washington sit a step behind, with their privacy acts in the cross committee stage. Further down the podium, Hawaii, Massachusetts, Minnesota, New Jersey, New York, Pennsylvania and Rhode Island all have theirs in committee.

Connecticut, Louisiana, North Dakota, Texas and a second bill from Hawaii all had task forces assigned in place of their statutes to examine and recommend updates to the regulations. Lastly, Maryland's and New Mexico's acts were postponed indefinitely.

"The variations in these laws, however slight, will make compliance complicated for multi-state lenders," said Tuffin. "The likely outcome is that lenders will adhere to the most stringent rule to minimize enforcement risk. In other words, Washington's version of GDPR may become the rule by default."

As they stand pending future amendments, the New York Privacy Act carries both the most extensive consumer rights and business obligations, followed by Minnesota and Washington.

Opinions vary on whether this issue will graduate to the federal level. Some think it's an inevitability, with uncertainty only surrounding the scale of its severity.

"The push to address the potential for misuse of data will likely drive Congress to adopt a version of the CCPA," Tuffin said. "What that law might look like remains an open question. A congressional hearing on privacy earlier this

year made clear that there is little if any will to adopt GDPR or CCPA in either's entirety. Testimony pointed out the high costs associated with compliance with laws like GDPR and that those costs can stifle start-ups and the innovation that comes with these nascent businesses."

While costs may be high, creating a nationwide standard to adhere to would lighten the regulatory load for companies doing mortgage originations across multiple state lines. The lack of viability of having 50 different laws could push a federal mandate, especially if companies lobby for it. If the CCPA and subsequent laws incite a string of institutional infractions, demand for government intervention will presumably swell.

However, others believe it will take a catastrophic incident to spark federal action.

"I think there has to be a compelling event for the federal government to chime in," Kavvas

said. "I'll give you two examples that would move the needle: if a data breach happens at the national level and the state level controls weren't enough. Or if another country that's not friendly with the U.S. somehow got in and stole data to use against us — whether it's from an intelligence agency or infrastructure vulnerabilities. I think those types of events at the national security level would be compelling enough for that to move. But until those, I think the federal government will be in watching mode."

Lenders and servicers should reassess their practices to figure out if they deem necessary all business conducted and information compiled. Because the larger the data cache a company retains, the higher the compliance risk it possesses.

"I've been telling lenders and clients that if you're collecting information and not using it for anything, stop collecting it," said Barone. "All

you're doing is creating liability and more things you have to deal with in this California Privacy Act. I think a lot of lenders are collecting information and don't even know they're collecting it, and there's no purpose for them doing it."

In the short term, education and employee training programs on the CCPA will be key for all businesses. Lenders will need to respond in a timely fashion when consumers make data requests or react quickly in the unfortunate scenario of a leak.

"For the executives of these companies, I encourage them to look beyond next year," Kavvas said. "In two or three years from now, they have to start creating and partnering with the technology providers to establish a system that can actually comply with this and be preventative rather than reactive. Because nobody is working on how we're going to prevent the issues raised by privacy." **NMN**

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People



Marc Cesarec
Encino, CA

Christina Vasquez
Chicago, IL

Chris Knapp
Brecksville, OH

Tim Elkins
Dallas, TX

Landon Litty
Birmingham, AL

Alabama

Birmingham

Bellwether Enterprise Real Estate Capital, the commercial and multi-family mortgage banking subsidiary of Enterprise Community Investment Inc., has hired **Landon Litty** as director of agency sales.

Litty, who has more than 15 years of experience in commercial real estate finance, most recently served as senior vice president and director of agency production at Grandbridge.

He began his career in commercial real estate in 2003 as a senior real estate analyst at Collateral Mortgage.

California

Encino

Marcus & Millichap Capital Corp., a provider of commercial real estate

financing, has hired **Marc Cesarec** as a vice president capital markets

Cesarec will be responsible for securing commercial debt and equity financing for a full range of property types on behalf of commercial real estate investors in Southern California.

Prior to joining MMCC, he served as a commercial real estate business development officer with Logix Federal Credit Union. He has also been a sales manager at H&R Block Mortgage.

Illinois

Chicago

Aries Capital has promoted **Christina Vasquez** and **Brandon Perdeck** to senior vice president and vice president, respectfully, and **Steve Adams** has joined the firm as assistant vice president.

Vasquez has been with the firm since 1996 and also serves on the board of Aries Capital's affiliate, Urban Development Fund.

Prior to Aries, Perdeck was a financial analyst with Hart Advisory Group, a Miami real estate advisory firm.

Adams joins the firm from Chicago-based Continuum Capital Funding where he served as portfolio manager.

Ohio

Brecksville

CrossCountry Mortgage has appointed **Chris Knapp** to the position of executive vice president.

Knapp will be based in Chicago and responsible for recruiting as well as setting and achieving sales and production goals across the country.

Prior to joining CrossCountry Mortgage, he spent more than 10 years

with Chicago-based lender Guaranteed Rate.

Before Guaranteed Rate, Knapp served as the president of Lakeshore Funding for more than eight years.

Texas

Dallas

PrimeLending has promoted **Tim Elkins** to chief production officer.

Elkins, who previously served as chief information officer, will now oversee retail production, marketing and multicultural lending teams.

He joined PrimeLending in 2008 as SVP of technology, earning a promotion to EVP, chief information officer in 2012.

Prior to joining PrimeLending Elkins served as chief information officer at AmericaHomeKey and BSM Financial. **NMN**

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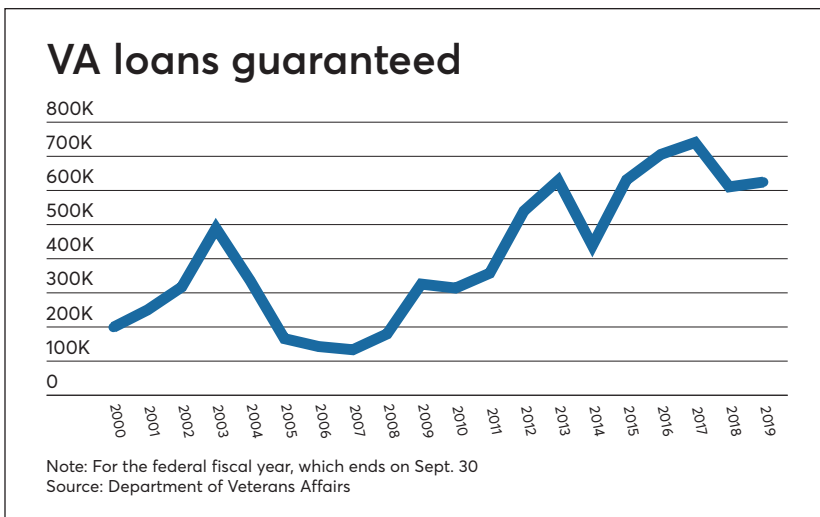
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12 cities where VA purchase mortgages surged among millennials



From Texas through coastal North Carolina, here are the 12 metro areas where younger generations' VA purchase-loan activity increased the most over the past fiscal year.

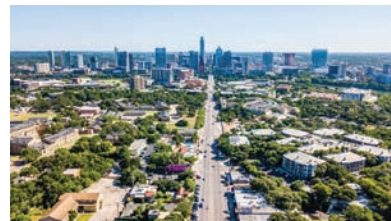
To pinpoint where growth in this niche is concentrated locally, Veterans United first combined the VA's purchase volume data for millennials born between 1981 and 1996 and members of Gen Z born after 1997. The lender compared the totals for federal fiscal years 2019 and 2018, which ended on Sept. 30.



No. 5
Fort Walton Beach-Destin, Fla.
Year-over-year growth: 19.7%
Loans originated in FY19: 1,578



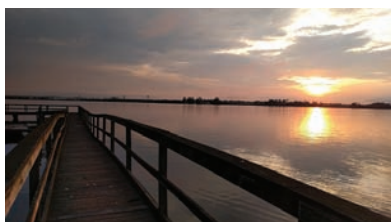
No. 9
Augusta-Richmond County, Ga.
Year-over-year growth: 16.5%
Loans originated in FY19: 1,452



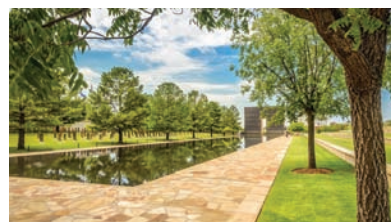
No. 6
Austin-Round Rock, Texas
Year-over-year growth: 17.3%
Loans originated in FY19: 1,246



No. 10
Las Vegas-Paradise, Nev.
Year-over-year growth: 14.7%
Loans originated in FY19: 2,025



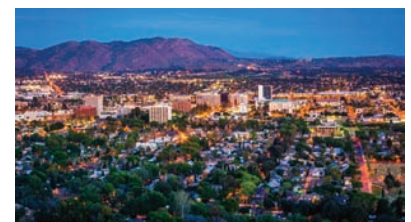
No. 1
Jacksonville, N.C.
Year-over-year growth: 44.4%
Loans originated in FY19: 2,501



No. 3
Oklahoma City, Okla.
Year-over-year growth: 20.5%
Loans originated in FY19: 1,561



No. 7
Jacksonville, Fla.
Year-over-year growth: 17.2%
Loans originated in FY19: 2,623



No. 11
Riverside-San Bernardino, Calif.
Year-over-year growth: 13.7%
Loans originated in FY19: 2,471



No. 2
Killeen-Temple-Fort Hood, Texas
Year-over-year growth: 25%
Loans originated in FY19: 2,219



No. 4
El Paso, Texas
Year-over-year growth: 20.4%
Loans originated in FY19: 1,237



No. 8
Tampa-St. Pete-Clearwater, Fla.
Year-over-year growth: 17.2%
Loans originated in FY19: 2,295



No. 12
San Antonio, Texas
Year-over-year growth: 13%
Loans originated in FY19: 3,946



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