Process Improvement

Brace Yourself

President Trump is so unpredictable that many just don't know what to expect next.

By Tony Garritano

In his early days in office President Trump has shown that he is ready to shake up the mortgage industry. He has said that he plans to re-evaluate Dodd-Frank and he also suspended a reduction in the premium rate offered by the Federal Housing Administration to homebuyers. The reduction, relatively small, would have saved homebuyers about $500 a year. So, what do these early moves mean for this industry?

William Fall, CEO at The William Fall Group, says, "The higher rates that we are starting to see would have happened regardless of the election outcome. I believe the MBA's outlook in October remains fairly accurate. The fundamentals of the housing market are strong, and while there will be much less refi business going forward, I think we'll see a very healthy growth in purchase volume. Of course, this shift in the market will impact the appraisal industry. Appraiser capacity in some markets is very high, and I expect regulatory activities will affect AMCs over the coming year. Perhaps it goes without saying that some valuation companies will be better equipped than others to manage these challenges."

Curtis R. Knuth, Executive Vice President at NCS (National Credit-reporting System, Inc.), believes that "the new administration will focus on a few obvious things, such as the privatization of the GSEs and what the runway for that will look like. Many solution providers and lenders were aware of the pilot programs Fannie Mae was running prior to the launch of Day 1 Certainty, which provides relief from reps and warrants, among other benefits. Although I don't think anyone expected the program rollout to progress with a single vendor for each solution of the program. It was conducted as if Fannie were a private rather than a public entity, which is normally very careful not to pick winners or losers. It's something we're drawing congressional and administration attention to."

Jeff Bradford, President at Bradford Technologies, sees big changes to come. "I believe the Trump Presidency will have a Big Time effect on the financial industry," he notes. "The first casualty will be the CFPB. In October the United States Court of Appeals for the District of Columbia Circuit handed a major victory to PHH, declaring that the CFPB's leadership structure is unconstitutional and the director of the CFPB has too much power. The ruling means that a Trump Presidency will surely clip the agency's wings. It will be interesting to see how much power the CFPB will be left with to enforce compliance and levy fines. It may not even survive.

"The second casualty is Dodd-Frank, the law that of course created the CFPB," Bradford continued. "Trump's transition team has recently indicated that it would like to see a full repeal of the law. Does this mean that we will go back to the Wild West that created the Great Recession, or just a milder form of it? The third major change could be GSE reform. The key will be if moderate Republicans and Democrats collaborate to create an economic shock absorber that dampens the effect of the changes the Trump administration will attempt to make."

"The Trump presidency will have a significant effect on housing," added Jeff Doyle, Chief Executive Officer at LoyaltyExpress. "We are already witnessing higher interest rates due to anticipated major federal infrastructure spending and stronger economic growth. A bigger economic impact, however, will come from the reversal of banking regulations. As lenders are encouraged to loosen standards (especially for middle-income households), an upswing in residential construction and debt-financed spending will serve to boost economic growth.

"More relaxed CFPB and other major Dodd-Frank regulations will lead to greater lending competition as well as a streamlined mortgage origination process.

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The downside of deregulation is riskier lending programs and more defaults. Caution must be the central theme so that deregulation does not lead to a recurrence of the 2007 financial crisis. But overall, growth and inflation will both increase," Doyle pointed out.

But will Trump be a net positive or a net negative for mortgage lending going forward? "There are two different ways the Trump election victory will affect the mortgage market," answered Josh Friend, CEO at InSellerate. "One is bad, and one is good. On the negative side, we can expect to see higher interest rates, which we've already seen happen since the election. Mortgage rates are up more than 50 basis points due to a massive sell-off of U.S. Treasury securities. The fear is that President Trump will be spending a lot of money to cut taxes, create jobs and rebuild our infrastructure. Those are good things, but they will cause inflation, and interest rates will rise as a result, as they already have.

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"The second impact from the Trump Presidency will be a positive one for the mortgage industry and a win for both borrowers and lenders, and that is reduced regulatory requirements. Complying with all of the new regulations that have become law over the past several years has increased the time and cost of producing loans for both borrowers and lenders. Trump made a lot of promises during the campaign to reduce regulations and he seems to be moving forward on them during the transition. His appointment of Steven Mnuchin as Secretary of the Treasury, who has a mortgage banking background, should also benefit our industry."

Rick Sharga, Chief Marketing Officer at Ten-X, theorized that "the Trump Administration will, on balance, be good for the housing and mortgage industries for several reasons. I believe that the new administration will work towards a less burdensome regulatory environment, and more specifically will unwind some of the more problematic and punitive aspects of the Dodd-Frank legislation, which has made lending riskier, more difficult and more expensive. This should encourage more retail lenders to get back into the game, and hopefully bring back some of the smaller, community banks as well, which opted out of the mortgage market due to the overwhelming costs of regulatory compliance. More lenders making more loans to qualified borrowers – people who would have qualified for loans historically but haven't been able to do so in today's extraordinarily risk-averse environment – removes one of the major headwinds that has been preventing a full housing market recovery."

Sam Heskel, CEO at Nadlan Valuation, agrees that Prsident Trump could be good for mortgage lending. He says, "Trump will not do things that make it more difficult for the industry to sell homes and close loans. At the very least, we can expect some rollback or easing of regulations that have added to longer appraisal turn times. In the near term higher rates and the typical slowdown in the winter months will ease appraisers' workload and appraisal turn times will improve."

So, what does this all mean? Many are cautiously optimistic even if they hate President Trump. "Regardless of your political bent, let's first remember that Trump is a real estate magnate – and thus I'd like to believe he is well aware of the dynamics of the real estate market and would be disinclined to step on the hose, so to speak," said Sue Woodard, President and CEO atVantage Production. "Fears over removing the mortgage interest rate deduction or "MID" are unfounded – he is considering a cap (and by the way, there is a cap already) – but even if the cap was $100K as Mnuchin suggested, it would take an enormous mortgage to generate $100K in mortgage interest.

"Simplification of the tax code could impact the ability of some buyers to deduct mortgage interest at all, but I believe most folks would remain in favor of simplification. I further suspect the CFPB is here to stay, but with the current structure placing direct oversight of the agency under the President – including a right to fire the director. I expect this might mean a more business/industry friendly agency, while still protecting the consumer. Opportunity abounds, as it always does in times of change – and it's incumbent upon lenders to use technology to consistently and professionally communicate this message so that consumers don't miss the opportunity to build and advance their financial futures," concluded Woodard. ❖

Tony Garritano is chairman and founder at PROGRESS in Lending Association. As a speaker Tony has worked hard to inform executives about how technology should be a tool used to further business objectives. For over 10 years he has worked as a journalist, researcher and speaker in the mortgage technology space. Starting this association was the next step for someone like Tony, who has dedicated his career to providing mortgage executives with the information needed to make informed technology decisions. He can be reached via e-mail at tony@progressinlending.com.