

*By Pat Cutler***The Book Shall Set You Free**

As my son's wedding draws near, my education is almost complete. Although I am by nature a slow learner, my teachers, experts in the tenets of "The Book", have relentlessly driven its principles home. I recently learned that I am required to be at the church 3 hours before the wedding. After confirming there are no pre-wedding events during these 3 hours that require my participation, I felt compelled to question this dictate. I pointed out, reasonably I thought, that when I flew to Ireland, I was required to be at the airport only 2 hours before departure, and that event involved a thorough inspection of my luggage and a complete body search. That comment cost me a severe rap on the knuckles administered by the MOG. She also offered a few choice comments about my ancestry that I cannot repeat here.

Last week I was fitted for my tuxedo. Everything went smoothly until I learned that rented shoes were part of the ensemble. I have no desire to wear second-hand shoes, especially patent leather tie-ups like those worn by college marching bands and mall cops. Since I have more shoes than most women, I am certain that I possess a pair much more appropriate for the occasion. My shoes also have the advantage of never having been on another man's feet. I boldly took a stand against wearing the rented shoes. Wham, more mangled knuckles! My wife also took this occasion to tell me that my parents were not married at the time of my birth.

There is even a chapter on men's grooming in the Book. To ensure optimal wedding picture quality, all men in the wedding party should get a haircut 10 days before the wedding. This is evidently the exact time necessary to ensure a man's hair doesn't have the just cut look (whitewalls) or is too shaggy. The chapter also stresses the importance of the male trousseau. Required honeymoon attire for the groom includes golf shirts, dress shirts, long pants and jackets for dinner. I had a relapse and expressed some reservations about haircuts and the necessity of clothing on the honeymoon. Wham, my knuckles are now purple and my pinky is broken.

Hurry up Wedding and get here. I only have 4 good knuckles left. I am also a believer. Follow the Book and it will set you free!

**The Gong Show**

Per tradition, toasts will be offered to the Bride and Groom at the rehearsal dinner. Most of the time, the toasts are short and sweet. Off-color comments are minimized by threats from the MOB and MOG. Occasionally, things go amiss. Fathers offering toasts begin to cry. The wine supply dries up. And my personal favorite, the friend or sister who decides to read their toast, which is written on 3 legal pages and begins with events that occurred 20 years ago. Add in constant stops for sobbing and you have a nasty situation. I plan on taking a gong to the Rehearsal Dinner. Toasts will be limited to three minutes.

Too bad we can't "Gong" the Congress for all their grandstanding and posturing. A Senate panel has subpoenaed Goldman Sachs seeking evidence of fraud in last year's mortgage market meltdown. The poor fools who bought "toxic" mortgage securities might feel better, but designing and selling securitization structures no one understands isn't fraudulent. Investors were all too happy to buy them while the market was going up. Gong!

Officials in the Obama administration called a meeting of major mortgage servicers to discuss ways to increase loan modifications and prevent foreclosures. Shortly after the meeting, Rep. Barney Frank said, "Congress will revive legislation that would let bankruptcy judges write down a person's monthly mortgage payment if the number of loan modifications remains low." Frank, chairman of the House Financial Services Committee, also said his committee won't consider legislation to help banks lend unless there is a "significant increase" in mortgage modifications. Harassment and meddling by politicians, many of whom were cheerleaders for housing programs and initiatives that got us in this mess, serves no purpose other than a distraction to the companies trying to slow the pace of foreclosures. Gong!

Congress continues to push for an active role in overseeing the Fed by its Government Accountability Office, despite protestations from Chairman Bernanke that the Fed's credibility and independence to make monetary policy will be severely damaged. A consistent monetary policy, free from the influence of political agendas and the pressures of special interest groups, is imperative to orderly financial markets. Does anyone believe that Congress will ever think that raising rates is in the best interest of their re-election campaigns? Gong!

## Singing with the Band

Members of the wedding party and relatives of the Bride and Groom are always expected to sing with the band at the reception. Sometimes you get something good like the Blues Brothers. Most of the time, it is slightly worse than karaoke night at the bowling alley. Usually one or two people sing off key and 3 or 4 others knock over several speakers and microphones.

While there was some good news on the economy, mostly we are still singing off key. On the positive side, the economy shrank at a 1 percent annual pace in the second quarter, which was better than forecast. Stock prices are up 38% from their March lows. The number of people who lost their jobs in July was less than expected. A number of market pundits believe we have bottomed out and are heading up.

While many are proclaiming the recession officially over, it is likely we will be singing the blues for a little longer. The economy has lost 6.5 million jobs since the recession began in December 2007. In a survey by Bloomberg last month, economists forecast the jobless rate will exceed 10 percent by early 2010. Foreclosures are increasing despite efforts by the administration and large servicers to stem the tide. Home prices are still down dramatically from a year ago. Consumers remain cautious and concerned. Since consumer spending makes up 70% of the economy, don't expect conditions to improve until consumers begin to spend money again.

Continued problems with foreclosures, stalled housing markets and excess capacity in the overall economy make it unlikely that rates will increase significantly. However, the government continues to auction massive amounts of treasuries to finance our rapidly ballooning deficit, putting upward pressure on yields. Costly health care and a congressionally mandated greening of America will add trillions more to the shortfall. Against this background, it is likely that we have seen the low in mortgage rates for the foreseeable future.

## Servicing Retained versus Servicing Released

Climbing delinquency rates, costly loan modification efforts and increased prepayments have caused a collapse in servicing released premiums (SRPs) over the last 10 months. Aggregators have reduced base pricing to offset higher than market SRPs listed on their SRP schedules. The decoupling of the pricing between mortgage backed securities and whole loan pricing has reduced the lender's ability to predict investor price changes based on mortgage securities prices. This has resulted in unexpected losses for lenders hedging their pipelines with MBS and delivering whole loans. The introduction of special underwriting requirements by many aggregators has further disadvantaged servicing released lenders.

The market value of mortgage servicing rights (MSRs) is at one of the lowest valuation points in history. Low interest rates, coupled with strict underwriting guidelines, give lenders the opportunity to build a servicing portfolio that should perform well and have a long life. In addition, a servicing retained execution offers the lender the ability to sell loans at the market rate to the agencies without additional restrictions enacted by the aggregators. Lenders comfortable with booking reasonable MSR values have the opportunity to gain control of their destiny. By using a servicing retained execution, they can offer the same or better rate sheet pricing, improve operational efficiencies and increase their profitability.

Lenders considering selling their mortgage loans servicing retained should initially focus on the following three areas to determine whether or not to pursue a servicing retained strategy:

- 1) The financial strength and sophistication required to effectively sell loans to the agencies and retain the mortgage servicing rights.
- 2) The internal MSR value required to achieve the same or a higher level of selling execution.
- 3) The cost to service agency loans in-house or through a sub servicing arrangement.

*The men may be the head of the house but the women are the neck and they can turn the head any way they want – "My Big Fat Greek Wedding"*

*This article contains information gathered from numerous sources. The information is considered reliable but is not guaranteed as accurate. The opinions are my own and not deemed appropriate for any purpose other than to provide information to customers and potential customers.*

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