HOUSINGWIRE

Mortgage market built to withstand government shutdown

Christina Mlynski

September 30, 2013

Unless both sides of the aisle can reach a compromise or one side folds, the government will have its first shutdown in 17 years, creating even more uncertainty for the already uncertain mortgage market.

The past month has been a constant challenge for lenders. First, the Federal Reserve confused the markets by saying it would not taper its bond-buying program after suggesting that it would.

When you add that issue onto the debt ceiling debate and the government shutdown, this combination of factors has the potential to feed more market volatility, explained **NewOak** president and co-founder James Frischling.

"A shutdown will have a negative impact on the markets, but the extent of the impact will depend on how long it takes for a deal to be reached," Frischling said.

He continued, "The markets can recover quickly from a short shutdown, but a prolonged shutdown would have a negative effect on economic growth and be another body blow to an already weakened consumer."

Therefore, the focus for Monday will be whether a government shutdown can be averted and if not, how long will it last.

On a similar note, the **Cato Institute's** director of financial regulation studies Mark Calabria pointed out that a short shutdown would have no significant impact on the mortgage market.

"At worst, a little annoyance from a handful of people," he said. "Most of the relevant agencies are outside the normal budget process."

Last week, the **Department of Housing and Urban Development** released its contingency plan, noting that most operations will continue as usual, but with a limited number of staff.

Originally, HUD announced that the **Federal Housing Administration** would be unable to endorse single-family loans, but changed the plan later on, allowing the agency to endorse such loans.

There are a number of agencies and government activities that will survive a shutdown due to market necessity, including **Ginnie Mae**.

The government-owned enterprise plans to continue operating, specifically its ability to issue mortgage-backed securities and receive and process monthly loans.

Additionally, government-backed loans that are purchased and securitized by **Fannie Mae** and **Freddie Mac** will be unaffected by a shutdown since both enterprises operate autonomously.

Interestingly, the players in the mortgage market who could potentially take the biggest hit will be lenders given that the **Internal Revenue Service** will stop providing verifications of tax returns, said **Mortgage Bankers Association** senior vice president of residential policy Pete Mills.

Most lenders want to make sure the tax returns they have on file aren't being forged, but it's not a requirement by the government-sponsored enterprises to provide proof of documentation before pre-closing a loan.

However, if the IRS transcript doesn't meet up with the lender's records then they face a potential reps and warrants issue.

"At the end of the day, it's the lenders call what they want to do to document the file, and in the short term, lenders have to decide if they are wiling to take that risk," Mills noted.