

The Mortgage Market Downturn and Survival Story

For: MBA State & Local Organizations

From: Phil Bracken, Chairman – MBA's State & Local Advisory Council

The housing market certainly is on the front pages today, as it has been for the past several years. But, as anyone who has followed the housing industry for some time knows, this is a cyclical business, and over the past two years we completed the swing from one phase of the cycle to another.

From 2002-2005, the housing market surged. Driven by aggressive interest rate cuts from the Federal Reserve in the wake of the tech stock collapse and the terrorist attacks on Sept. 11, 2001, mortgage interest rates dipped to record lows. At the same time, home values soared—with year-over-year house prices increasing as much as 15 percent on a national basis and 50 percent or more in certain markets—new and existing home sales hit record highs, and homeownership rates reached new heights.

Lenders, builders, real estate professionals, mortgage investors and homeowners all shared in the boom. The runaway success of the housing market was front page news and received credit for shoring up a vulnerable U.S. economy.

As the market boomed, however, riskier and more exotic mortgage products gained market share as a way to help consumers across the credit spectrum achieve homeownership, tap the growing equity in their homes, or overcome affordability challenges in high-cost markets. Subprime lending—generally loans to borrowers with less-than-perfect credit—and Alt-A lending—typically loans made to borrowers with higher credit scores, but without documentation or verification of income information—both gained significant market share as investor demand for these loans made funding readily available. In addition, the use of pay option ARMs and other negatively amortizing loans that allow borrowers to make less than a full interest payment, teaser-rate ARMs that start with artificially low payments that can increase significantly after a few years, and piggyback seconds that allow borrowers to avoid private mortgage insurance or other restrictions on high LTV transactions also expanded significantly.

The rapid pace of house price appreciation and the relatively easy availability of mortgage credit also attracted more marginal buyers into the market. In addition, it fueled activity by speculators purchasing houses to earn a quick return by reselling them, rather than as their primary residence. The incidence of fraud also increased, putting more risk into the housing market.

Over the past two years, however, a slowdown in home price appreciation—and actual house price declines in some areas—combined with regional economic problems, have led to a substantial increase in delinquencies and foreclosures. What's more, some lenders may have relaxed their underwriting standards in an effort to boost volume and make use of excess capacity as the housing boom slowed. Problems are being experienced not only by borrowers who encounter financial setbacks, but also those facing difficult payment increases as ARM loans reset and those who have loan balances higher than the current value of their homes. In addition, many lenders that specialized in the riskiest types of transactions—and some who did not—have failed, been acquired or are struggling to survive.

Finally, investors who helped fuel the boom with strong demand for mortgage products appear not to have fully understood the risks they were taking and have reacted by dropping out of the market for all but the lowest-risk mortgages, such as those packaged into securities sold by Fannie Mae and Freddie Mac, and those in securities guaranteed by the federal government through Ginnie Mae. This has reduced the availability of mortgages for borrowers with credit challenges, for first-time homebuyers and even for borrowers who need loans larger than those that can be purchased by the GSEs or insured through FHA.

Today, the housing market is still front page news, but the story isn't nearly as positive. And yet, there's still a tremendous, positive story to be told about the housing market and about opportunities for people to lay the foundation for their financial success by achieving home ownership. The problems that the market is facing in this down cycle don't change the fact that a family's home typically accounts for about 1/3 of its wealth, or the fact that homeownership leads to more stable families and communities. The vast majority of homeowners never miss a payment, so for every one that finds themselves in trouble, there are several more enjoying the benefits of homeownership. Likewise, for every lender that acted irresponsibly, there are many others who have tried to do the right thing when it came to serving their customers.

For mortgage lenders, it has never been more important that we act responsibly and collaborate with all industry stakeholders to become even better at what we do. When the market corrects, we believe the full mortgage industry will have a renewed focus on what is required for success: fair and responsible lending and servicing for the benefit of the customer and investor. Today, our efforts need to be focused on two distinct issues: helping borrowers facing challenges paying their mortgages; and working to limit the potential for the same problems to occur again.

Helping Borrowers with Payment Challenges

Mortgage servicers have been actively involved in initiatives designed to expand efforts to reach at-risk borrowers so that we can work with them to avoid default, to create substantial and large-scale modifications, to continue to evaluate more involved customer issues on a case-by-case basis and to give borrowers and servicers the time needed to establish workout solutions. While servicers have been working on their own to help their customer every day, there are several examples of national and regional programs that have been developed to help distressed borrowers.

HOPE NOW Alliance—The HOPE NOW alliance includes 27 servicers representing 94 percent of the subprime mortgage market and most of the prime market as well. The servicer members of the HOPE NOW Alliance have agreed to a set of principles established to ensure that homeowners receive quality service and assistance. In these principles, servicers agree to contact at-risk borrowers with 2/28* and 3/27* mortgage loans, at least 120 days prior to reset, and to inform them of the potential increase in payment to determine if they will have difficulties keeping their mortgage current. Servicers also have agreed to establish a single point of entry for participating counselors, and to make available dedicated email and fax connections for counselors and consumers. The HOPE NOW hotline for consumers in financial difficulty is: 1-888-995-HOPE

Fast Track Refinance or Modification—Mortgage lenders and servicers worked closely with the Treasury Secretary, the American Securitization Forum and regulators on a systematic fast-track solution created to help consumers with loans resetting by the end of 2009. Those eligible for the streamlined process may receive either a refinance or a five year extension of their existing interest rate. While not a permanent solution, this critical step forward will help families buy time to remain in their homes at a monthly payment amount that they have shown they can manage. It also allows time for the housing market to stabilize so that refinancing options again become

available to these consumers. This solution enables servicers to channel a greater proportion of energy to those customers who are not eligible for a fast track loan process.

Project Lifeline—Project Lifeline encourages first mortgage homeowners to reach out to their mortgage servicer and receive, where appropriate, a 30-day pause in the foreclosure process. It involves targeted outreach to seriously delinquent (late by 90 days or more) prime, Alt-A and nonprime homeowners who currently face the greatest risk of losing their home. These homeowners receive a simple step-by-step approach that, if followed, may enable them to pause their foreclosure for 30 days while a potential loan modification is evaluated. This program is different than a streamlined approach to loan modification, as it is a broad, national way to help all homeowners individually.

Looking Ahead To Avoid a Repeat

Responsible Lending Standards—Many mortgage lenders have established Fair and Responsible lending and servicing standards to ensure consumers are treated fairly + responsibly + equitably. We strongly encourage all lenders to make these practices available to the public. In addition, we encourage all market participants (including Realtors, Homebuilders, Appraisers, Title Companies, Consumer Groups, and the Media) to stress to potential homeowners the need to seek out lending organizations that embrace these Fair and Responsible standards.

FHA Modernization— Passage of reforms designed to modernize the government's FHA mortgage insurance program would provide a potential solution for some homeowners struggling with their current loan terms, and will help to further increase the nation's homeownership rate—especially among low- and moderate-income, and minority families.

GSE Regulatory Reform—Enhancing the regulatory structure for the housing GSEs—Fannie Mae, Freddie Mac and the Federal Home Loan Banks—would put these institutions under an oversight regime that will help ensure that they have the financial strength and appropriate directives to play a larger role in stabilizing the housing market and promoting homeownership for underserved consumers over the long term.

* [the terms 2/28 or 3/27 refer to a specific adjustable rate mortgage loan product in which the rate is fixed for the first 2 years (in the case of a 2/27) or 3 years (in the case of a 3/28) then becomes adjustable each subsequent year. The rate of adjustment is based on a predetermined index and/or margin, and usually contains a lifetime ceiling or cap.]

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Foreclosure preventions by industry on pace for record

More Than 1.7 Million Mortgage Workouts Since July 2007

Washington, D.C. (July 2, 2008) – HOPE NOW, the private sector alliance of mortgage servicers, counselors, and investors that is working to help prevent foreclosures, announced today that mortgage servicers helped approximately 170,000 homeowners avoid foreclosure in May 2008. If this monthly rate has continued through June, the mortgage lending industry will help approximately 519,000 homeowners in the second quarter of 2008 avoid foreclosure and stay in their homes, the largest number of workouts in any quarter since HOPE NOW began to compile data in July 2007.

Since July 2007, HOPE NOW estimates that more than 1.7 million homeowners have avoided foreclosure because of industry efforts.

“The May report demonstrates that HOPE NOW is helping homeowners avoid foreclosure,” said HOPE NOW Executive Director Faith Schwartz. “As promised, the industry has accelerated the pace at which it is helping homeowners.”

The HOPE NOW report estimates that on an industry-wide basis:

- The total number of foreclosures prevented by mortgage servicers since July 2007 has risen to more than 1.7 million.
- Mortgage servicers provided loan workouts for approximately 170,000 at-risk borrowers in May.
- Approximately 100,000 of the prime and subprime loan workouts provided by mortgage servicers in May were repayment plans; approximately 70,000 were loan modifications.

A summary table of monthly and quarterly results is attached and can be found at http://www.hopenow.com/upload/press_release/files/May%202008%20Data%20Release%20Final.pdf

The numbers reported by HOPE NOW differ from those recently reported by the Office of the Comptroller of the Currency (OCC) and are likely to differ from those expected to be reported soon by the Office of Thrift Supervision (OTS). They may also differ from those reported by other regulators.

The differences are the result of several factors. For example, the OCC collects information from 9 nationally chartered banks, the OTS collects information from 6 federally chartered thrifts, and HOPE NOW collects data from 22 companies with a variety of charters and regulators. HOPE NOW members report approximately 38 million loans, substantially more than the number included in either the OCC or OTS reports.

The purpose of the HOPE NOW survey is to estimate the effort by the full mortgage lending industry to help homeowners avoid foreclosures. That is why HOPE NOW extrapolates its results to estimates of total industry activity. By contrast, OCC and OTS only provide data from the largest chartered institutions within their respective jurisdictions.

Such differences do not invalidate the information in any one of the reports.

HOPE NOW, OCC, and OTS are working to develop a more uniform reporting framework and set of data definitions so that, together, they maximize the value of the information provided to the public and policy makers.

“HOPE NOW is confident that the information it is receiving from its members and the methods being used to compile its monthly reports are reliable,” Schwartz said. “More important, our reports are an accurate picture of activity taking place in the broader marketplace to provide alternatives to foreclosure.”

SURVEY OF HYBRID ADJUSTABLE RATE MORTGAGE RESETS

HOPE NOW also announced today the results of a separate survey of subprime adjustable-rate mortgages with rates resetting in 2008. The results, reported by 9 companies representing approximately 60 percent of subprime loans, are as follows:

- Approximately 718,000 subprime loans were scheduled to reset between January and May 2008.
- 37,700 (5.3 percent) of these subprime loans have already been modified. Nearly 64 percent of these modifications are for 5 years or longer.

- 323,000 (45 percent) of the subprime adjustable rate loans that were originally scheduled to reset were paid in full when the homeowner refinanced the loan or sold the property.
- A limited amount – 1,800 (0.5 percent) -- of the loans that were current at their date of reset have started the foreclosure process.

ABOUT HOPE NOW

HOPE NOW is an alliance between counselors, mortgage market participants, and mortgage servicers to create a unified, coordinated plan to reach and help as many homeowners as possible. For more information on HOPE NOW, and to see the full membership of the alliance, please visit www.HOPENOW.com.

The Homeownership Preservation Foundation's HOPE Hotline (888-995-HOPE), which is available 24 hours a day, 7 days a week, and 365 days a year, receives an average of more than 4,000 calls a day. There is no cost to homeowners for using HOPE NOW and the 1-888-995-HOPE Hotline.

In addition to the HOPE Hotline, HOPE NOW is coordinating a nationwide campaign to reach homeowners who may be at risk of losing their homes. So far, HOPE NOW has sent approximately 1.3 million letters. About 18 to 20 percent of homeowners receiving the HOPE NOW-coordinated letters have contacted their servicer, 6 to 9 times more than the routine 2-3 percent response rate servicers receive when they send their own mailings.

In the past 4 months, HOPE NOW has connected almost 6,000 homeowners with their lender and/or a HUD-certified housing counselor at workshops in 14 different cities in California, Georgia, Illinois, Pennsylvania, Ohio, Nevada, Texas, Wisconsin, Tennessee, Florida and Indiana. HOPE NOW is continually looking for additional locations to host these workshops so that more troubled borrowers can be helped.

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WORKOUT PLANS (Repayment Plans + Modifications) and FORECLOSURE SALES

July 2007 - May 2008

BORROWER LOAN WORKOUT PLANS

		2007 Q3	2007 Q4	2008 Q1	2008 April & May	Total
Repayment Plans		322,909	333,393	312,611	201,525	1,170,438
	Prime	120,254	136,364	156,716	96,145	509,479
	Subprime	202,656	197,029	155,894	105,380	660,959
Modifications		75,326	140,401	170,386	144,669	530,782
	Prime	29,999	37,162	47,507	36,868	151,536
	Subprime	45,327	103,239	122,879	107,801	379,247
Workout Plans		398,236	473,794	482,996	346,194	1,701,220
	Prime	150,253	173,526	204,223	133,013	661,015
	Subprime	247,983	300,268	278,773	213,181	1,040,205

FORECLOSURE SALES

		2007 Q3	2007 Q4	2008 Q1	2008 April & May	Total
Foreclosure Sales		135,330	151,403	198,172	163,649	648,554
	Prime	53,760	59,750	83,302	72,086	268,897
	Subprime	81,570	91,653	114,870	91,563	379,656

Workout Plans = Repayment Plans + Modifications

Repayment Plans:

A plan that allows the borrower to become current and catch up on missed payments that are appropriate to the borrower's circumstances, which involves deferring or rescheduling payments but the full amount of the loan is expected ultimately to be paid and within the original contractual maturity of the loan.

Modifications:

A modification occurs any time any term of the original loan contract is permanently altered. This can involve a reduction in the interest rate, forgiveness of a portion of principal or extension of the maturity date of the loan.