

On behalf of the Iowa Mortgage Association, I appreciate the opportunity to address your organization about key mortgage issues facing our state. The IMA is a statewide organization dedicated to representing the housing and mortgage industry in Iowa. Our members have dedicated their careers to helping Iowan's successfully achieve the dream of home ownership.

With that brief background on whom the Iowa Mortgage Association is, let's talk a little about what is happening in the marketplace.

There's no doubt that a significant number of Americans are experiencing difficulty in the current environment of falling home values and somewhat volatile interest rates.

Many forces have combined to create the problems we face today. As a result of the dot.com boom, money flowed into real estate, helping to fuel a boost in home prices. As home prices rose, non-

traditional mortgage products became popular as an avenue for both real estate investment and home ownership particularly in high cost markets on the East and West Coasts.

Many of these non-traditional financial products were offered by – non-traditional lenders many of whom may not have fully understood sound underwriting practices.

Non-traditional or non-conforming loans include:

- sub-prime loans – which were developed for borrowers with impaired credit histories.
- reduced documentation loans – where the lender does not verify borrowers' income,
- or loans that exceed \$417,000 (referred to as jumbo mortgages).

These non-conforming loans cannot be sold through the traditional government sponsored secondary markets - Fannie Mae and Freddie Mac because of the higher risk they pose. Instead they are

purchased by “private label investors” and they carry higher interest rates – likewise due to their increased risk

Within the non-conforming category, the loans we see causing the bulk of our problems today are what we refer to as ARM or (adjustable rate loans) offered to sub-prime borrowers.

These ARM loans featured low initial rates for the first two to three years and worked well for borrowers when rates remained flat and home values were rising quickly. Home buyers could afford to purchase more home because of the low upfront rate – ride up the value and equity of their home for two or three years and when the rate reset – they could refinance – still at a low rate for 15 or 30 years.

But those loans stopped working when the economy began to change. Today; we having falling home prices, rising adjustable mortgage rates, and many loans with interest rates ready to reset.

In response, the Federal Reserve began cutting rates in an effort to ease the payment shock that has or will happen as those loans reset. The goal is to have as many folks as possible refinance into long-term fixed rate loans – enabling them to make their payments going forward.

So what has been the impact on the national economy?

The problems in the credit markets that emerged this past July began in the sub-prime mortgage sector but have since spread into other areas. Today, the “private label mortgage-backed securities” market which provided a large amount of funding for “non-conforming” loans has virtually shut down due to substantial losses. The result is a tightening of credit for all private borrowers.

Although this is causing distress for our economy, past experience suggests that turmoil in financial markets which seems acute at the time may not have a lasting effect on the real economy. If one didn't know the stock market crashed in October 1987, or that

there was a liquidity crisis in the fourth quarter of 1998, or that a terrorist attack occurred on September 11, 2001, it would be hard to find evidence of those events in statistics on the real economy.

Consumer spending, which accounts for over 70 percent of real GDP, is the biggest worry.

The bad news is that consumer spending depends heavily on wage income; and in that respect, the marked slowdown in employment growth poses a threat for consumer buying which is why Congress passed a stimulus package to put more of your money back in your pocket.

The outlook for home prices is also a concern. Increases in consumer wealth stemming from increasing prices of homes and equities have been an important stimulant to consumer spending for the past decade. The ability to tap equity in homes through cash-out refinancing and home equity loans may have added to

consumer spending, independently of the rise in wealth in household real estate.

The outlook for home prices is clouded and varies greatly in different parts of the country. Available data on the national level indicate that year-over-year changes in home prices are at or near zero; but they are still far above historical relationships with rents, incomes, and construction costs.

What about Iowa?

The highest rates of default fortunately are not in our state. High foreclosure rate areas include:

- Florida and Nevada – much of which was investment property,
- California – which has extremely high cost housing, and
- Michigan, Ohio and Indiana whose economies are extremely weak due to their high concentration of manufacturing.

In Iowa, we have much better news. 84% percent of mortgage loans were made to prime borrowers and only 7 percent of the mortgage loans are either fixed rate sub-prime or adjustable rate sub-prime loans. Remember, as I said earlier, sub-prime loans are where the bulk of foreclosure problems are being experienced around the country.

Despite the low number of sub-prime loans, home ownership in Iowa is 72.3 percent, above the national average of 68.2 percent. This is a good indicator that the bulk of Iowa lenders are providing borrowers with financing that is appropriate for their net worth, income and borrowing capacity.

The most recent mortgage delinquency numbers available are for the first quarter of 2008. In Iowa, those numbers reflect that just over 2% of all mortgage loans (both prime and sub-prime) were in foreclosure. However, even this statistic overlooks the fact that Iowa has very debtor friendly foreclosure laws that allow

delinquent loans to remain in foreclosure status longer than other states. As a result, the same loans are counted multiple times – quarter after quarter.

A better indicator is how many loans entered foreclosure during the most recent quarter. In Iowa, total foreclosure starts (including all loan types) was 0.63% of residences. This ranked Iowa 32nd in the nation and was an improvement from 30th at the end of the 4th quarter 2007.

So despite all the “down” news, Iowa remains a pretty good place for consumers interested in a mortgage. Competition between mortgage providers is strong and loan rates are still attractive.

Look for institutions that have roots in your community, are well-regulated by recognized entities like the FDIC, OCC, OTS, and NUCA and will be there for you before and after the loan is made.

Thank you