



Making Mortgage Credit More Accessible, Especially to First-Time Home Buyers

Mortgage Availability and Accessibility Panel
2011 Multicultural Real Estate and Policy Conference

March 3, 2011

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Current State: Credit is Tight

- FHA, Fannie Mae, and Freddie Mac back **more than 90%** of the housing market.
- Credit environment is **tight** -- lenders are concerned over future state of housing policy, GSE buyback risk, and home price stabilization.

Pre-crisis	Present
FHA required fully documented loans. Though market share was low, the first-time buyer had access to the first rung of the homeownership ladder.	Lenders are cautious, some require 640 FICOs with no alternative credit. Meanwhile, FHA will insure loans with FICOs as low as 580 (or 500 with 10% down).

- Further tightening may be on the horizon as regulators probe servicers and consider appropriate **actions** for those that executed faulty foreclosures.
- The proposed **wind down** of Fannie Mae and Freddie Mac, as recommended by the White House, may lead to even further credit tightening as federal support is incrementally removed from the housing finance system.

- Falling home prices pose a unique opportunity for first-time home buyers.

“Based on incomes, this is as affordable as it gets.”
-Mark Zandi to WSJ, February 9, 2011

- Homeownership creates generational wealth. With house purchase payments matching income levels more closely than ever before, FTHBs have an opportunity to capitalize.

	Possible outcomes
Berkshire Hathaway CEO Warren Buffet	“A housing recovery will probably begin within a year or so.”
Moody’s Chief Economist Mark Zandi	-8% through Q3 2011 (Nov 2010)
Case-Shiller Economist Robert Shiller	-15 to -25% before bottoming out

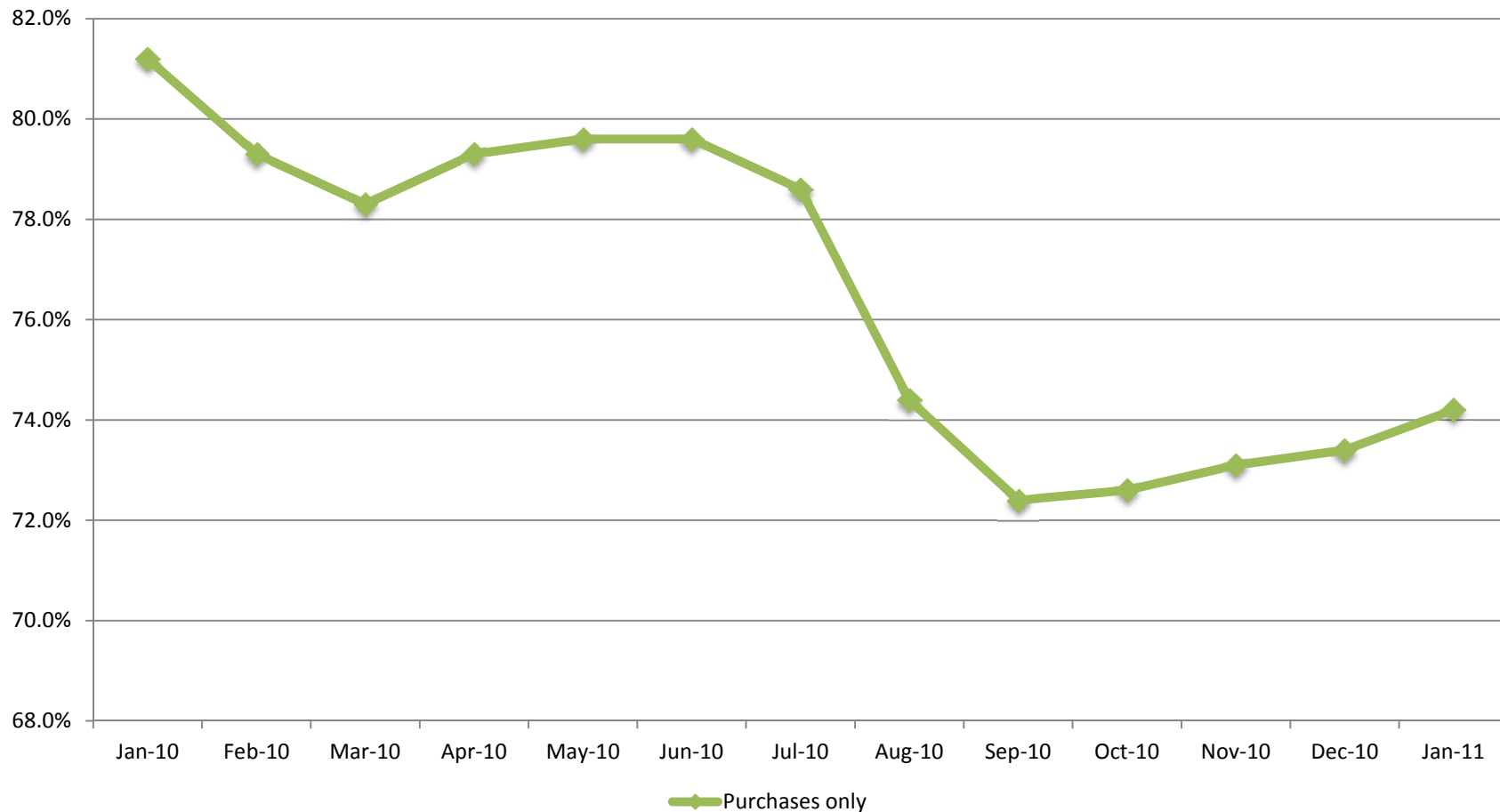
Consensus: Home prices will decline and then stabilize in ‘12

Buffet source: Reuters India, Feb. 27, 2011

Zandi source: CNN Money, Nov. 1, 2010

Shiller source: Reuters, Feb 22, 2011

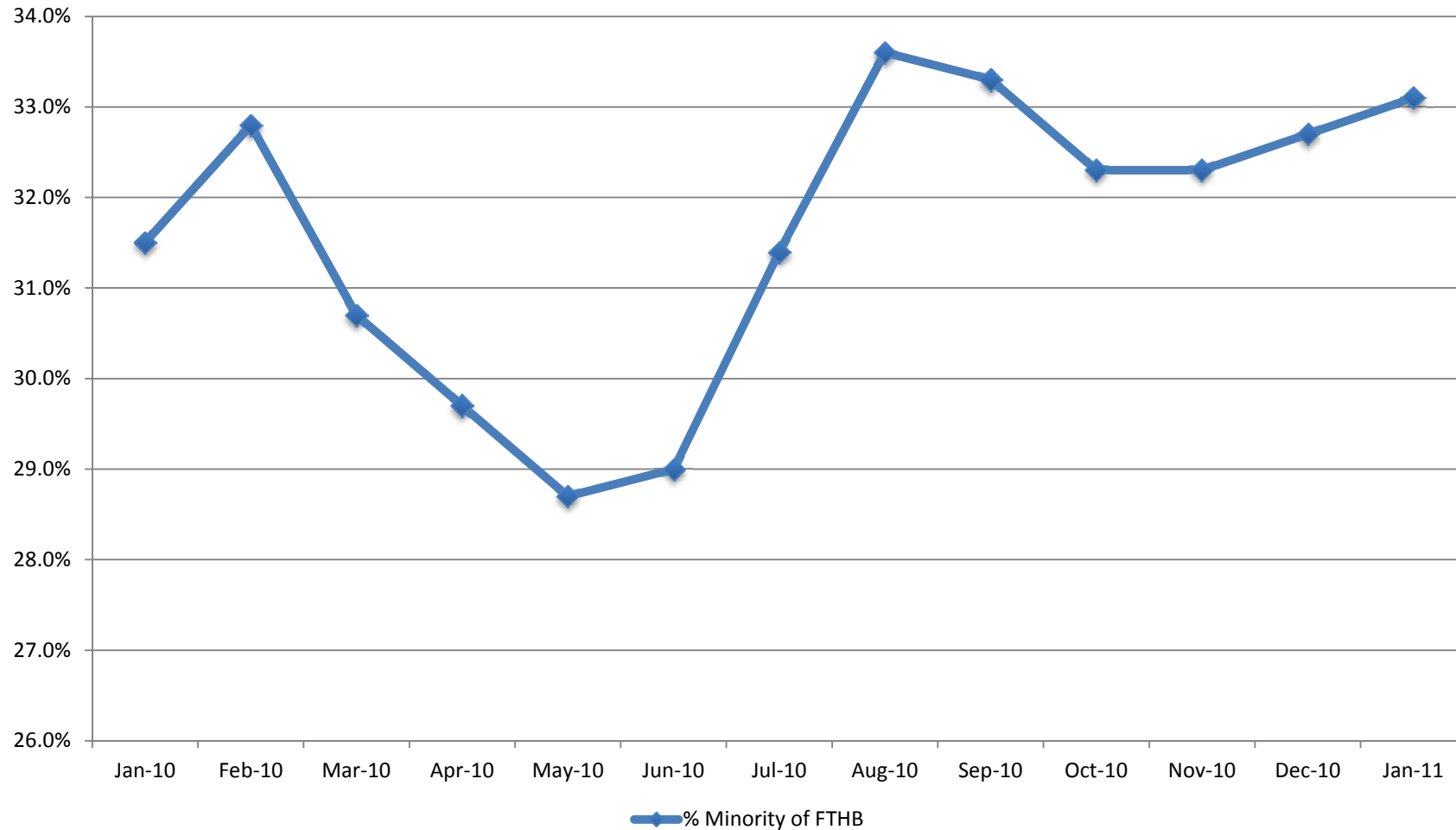
Percentage of FHA Loans for First-Time Home Buyers, Jan 2010 - Present



FHA demonstrates commitment to returning to its mission-based role – the proportion of FTHBs securing FHA-insured loans is rebounding.

Source: FHA Single-Family Outlook (Monthly)

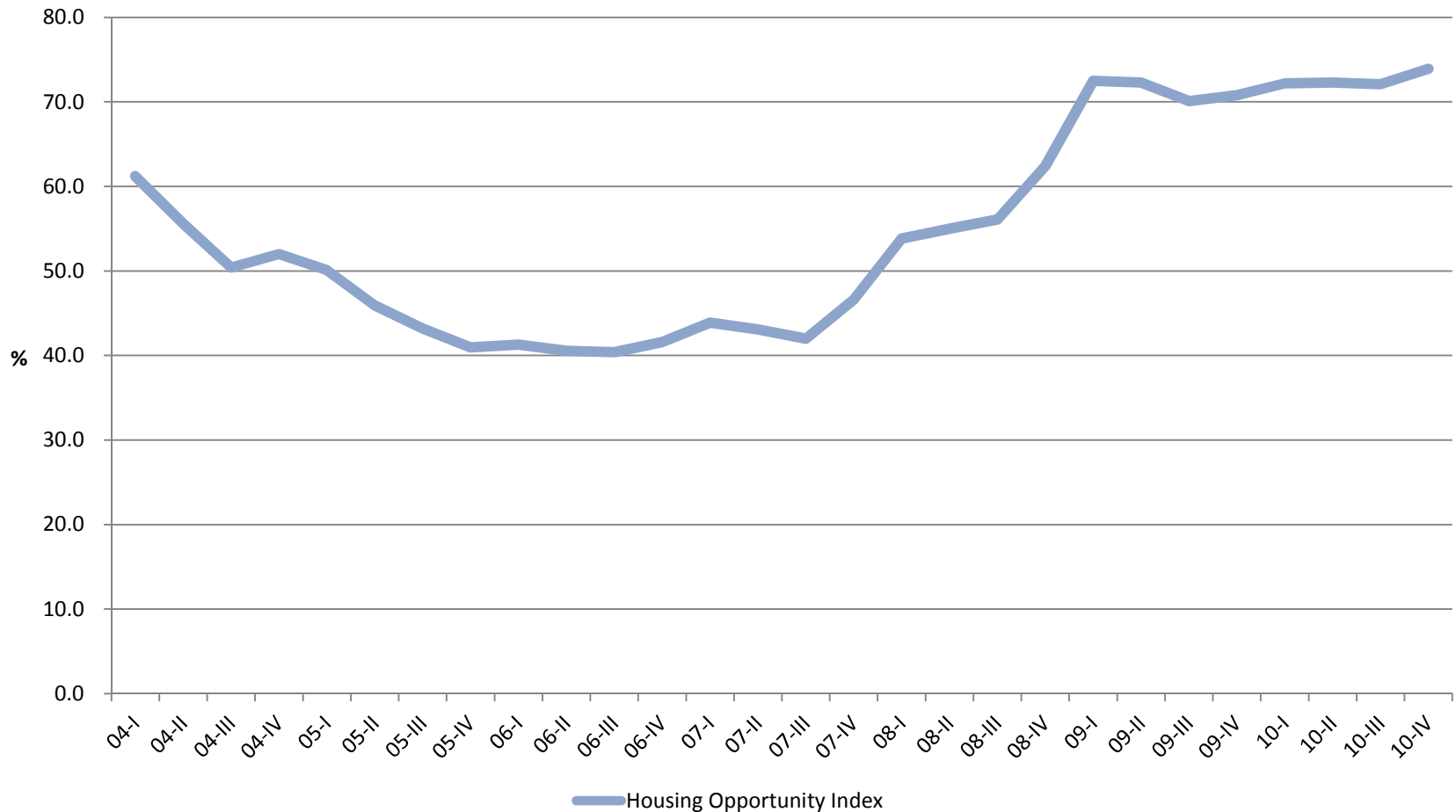
Minority Representation among First-Time Home Buyers, Jan 2010 - Present



Minority representation as a proportion of FTHBs is improving.

Source: FHA Single-Family Outlook (Monthly)

NAHB: Housing Affordability Rises to Highest Level in Two Decades



HOI demonstrates % of homes sold that would be affordable to families earning national median income. **HOI of 73.9% last quarter set a record since the index started in 1991.**

Source: NAHB/Wells Fargo Housing Opportunity Index (HOI), 2004-current
NAHB Press Release, Feb. 17, 2011

Tight Credit is Prohibiting Access to Record-breaking Affordable Housing

- The NAHB HOI illustrates that **73.9%** of all homes sold last quarter were affordable to families earning the national median income of \$64,400, a national record.
- However, prohibitively tight lending standards have prevented many first-time home buyers from taking advantage of bargain prices.
- Instead, cash-rich investors have swept up foreclosed properties and properties at risk of foreclosure. According to NAR,
 - ✓ All-cash deals now account for 1/3 of home sales;
 - ✓ The number of first-time home buyers fell to 29% of the market, below the 40% level generally indicative of a more robust housing market.

While the FHA has remained committed to its mission of providing affordable housing opportunities to low- to moderate-income Americans throughout its countercyclical role, the combination of **tight credit** and an **oversupply of housing** emphasizes the necessity of returning private capital to the mortgage market. With strong **underwriting standards** that encourage responsible lending, private investors would restore robustness in the secondary mortgage market.

"The FHA has played an important role, but there comes a time when private capital needs to re-engage. Today, we are looking toward a transition to more normalized market share levels for FHA." – HUD Commissioner David Stevens

The housing policy debate has generally settled on increasing Agency guarantee fees and decreasing conforming loan limits to wind down federal support. Market barriers faced by potential entrants may now be addressed.

As the Administration reviews market barriers, it is practical to consider the loan-level loss data of Fannie Mae and Freddie Mac.

It is likely that data and data analytics would assist the return of private capital to the mortgage space.

Without the liquidity enabled by private capital, aspiring homeowners of Generation Y may be shut out of an affordable market.

To attract private capital, remove barriers to entry in the secondary mortgage market and open doors to first-time home buyers.

Fannie Mae and Freddie Mac have tens of millions of loan-level performance data records spanning decades, including “thin file” credit first-time home buyers.

To encourage the return of private capital, it would be reasonable for Fannie and Freddie’s loan-level loss data to be made available to responsible third parties who can evaluate how it could be used to participate in the pending secondary mortgage market.

Private investors will be encouraged to engage if they are able to assess credit risk concurrent with the wind down of the GSEs recommended by the Administration.

Questions

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