



Keeping Informed of Housing Reform and the Use of Business (Social) Media

Mortgage Bankers Association
Richmond, VA

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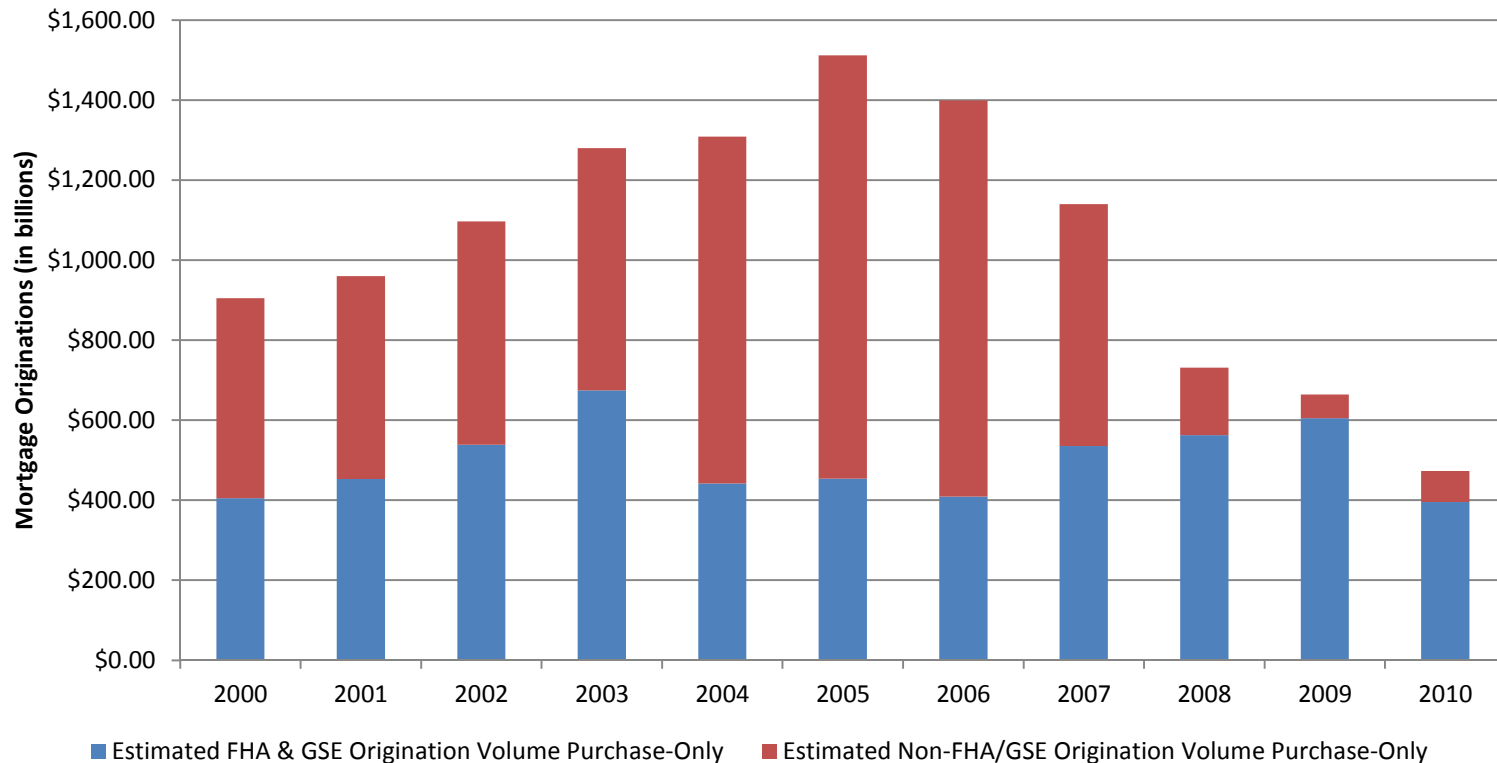
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The Current State of the Federal Government in Housing Policy

Single-Family Purchase-Only Mortgage Originations



In 2010, the Federal Government (FHA, Fannie Mae, and Freddie Mac) financed less than \$400 billion purchase loans, approximately 34 percent less than it financed in 2009. While FHA, Fannie Mae, and Freddie Mac backed less than half of all loans originated in 2000, they collectively financed more than 80 percent as of year-end 2010.

Source: Estimations based on Bloomberg, MBA, and Inside Mortgage Finance data.

Dodd-Frank Section 941: Risk Retention and Qualified Residential Mortgage (QRM)

Joint rulemaking agencies per Dodd-Frank: OCC, FRB, FDIC, SEC, HUD, FHFA

- Final Rule for risk retention and QRM was due April 15, 2011. The deadline was not met. The Final Rule is now expected to be finalized mid-summer 2011.

Risk Retention

Rule proposed at the end of March requires banks and other issuers to retain 5% of credit risk of assets collateralizing an ABS, a proposal predicated on the notion that “skin in the game” will encourage responsible lending standards.

- ❖ FHA, VA, and RD loans exempt;
- ❖ Fannie Mae/Freddie Mac loans exempt provided they operate under conservatorship or receivership of FHFA;
- ❖ Pools of assets that meet certain underwriting criteria (i.e., QRM) exempt.

Public Comment

“This proposal cannot be the final word on risk retention regulation . . . This market is too fundamental to our economy to get risk retention wrong. Thus, the rules that we ultimately adopt must support or, at a minimum, not unduly hinder the securitization market.”

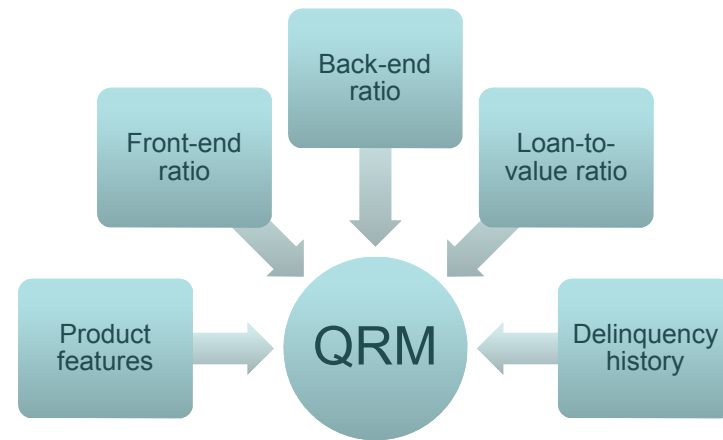
–SEC Commissioner Kathleen Casey,
WSJ, March 30, 2011

“A number of factors can predict or impact loan performance . . . and downpayment level alone cannot be seen as exclusively predictive of loan performance. To that end, we seek comment on the impacts of each of the QRM criteria. In addition to FHA, Fannie Mae and Freddie Mac have a long history of providing loans with 10% down payment with the use of mortgage insurance that have exhibited strong performance.”

–FHA Commissioner Bob Ryan,
HFSC Testimony, April 14, 2011

Qualified Residential Mortgage (QRM): Tentative Definition

Mortgages underwritten with conservative standards ensuring high credit quality will be exempt from risk retention. Intentionally designed to be the “**gold standard.**”



1. Product features

Historically risky terms like negative amortization, interest-only payments, and significant interest rate increases are excluded from QRMs.

2. Front-end ratio

28% maximum. Ratio compares monthly mortgage payment (PITI) to borrower's gross (pre-tax) monthly income.

3. Back-end ratio

36% maximum. Ratio compares monthly mortgage payment (PITI) plus all other credit and fixed obligations to borrower's gross monthly income.

4. LTV ratio

Maximum 80% for purchase transactions. Compares first mortgage loan balance to appraised value of property. Mortgage insurance may not be used to adjust LTV ratio.

5. Delinquency history

No 60-day delinquency on any debt obligation within the previous 24 months.

State of the Housing Market - “Shadow Inventory”

“Shadow inventory” refers to pending distressed properties that may be withheld from the market to prevent further downward pressure on property values. These include:

- Unlisted REOs: Properties repossessed by lenders
 - Pre-foreclosure: Properties 90+ days delinquent
 - In foreclosure
-
- Estimated residential units in shadow inventory:
 - January 2011: 1.8 million units (9 months of supply)
 - January 2010: 2.0 million units (9 months of supply)
-
- Estimated residential units in visible inventory:
 - August 2010: 4.2 million units
 - August 2009: 4.0 million units

CoreLogic: In addition to the shadow inventory supply, there are nearly 2 million negative equity loans that are more than 50 percent underwater and may become shadow inventory in the short term.

Home Price Projections

Possible outcomes

Moody's Analytics, March 2011

Case-Shiller will decrease 5% and bottom out Q3 2011

Standard & Poor's, April 2011

Home prices will fall another 4% and bottom out Q2 2011

Morgan Stanley, April 2011

Home prices will fall another 6% to 11% this year

Our take:

Home prices will decline, stabilize in '12

Factors hampering home price recovery

- ❖ Political setbacks/stalemate on manner and pace of Fannie Mae/Freddie Mac wind down
- ❖ Recent regulatory consent orders issued against servicers and their third party vendors
- ❖ Substantial shadow/visible foreclosure/REO inventory
- ❖ Pending risk retention and qualified residential mortgage (QRM) regulations
- ❖ Pending state attorneys general action against servicers for improper foreclosure procedures, possibly including monetary sanctions



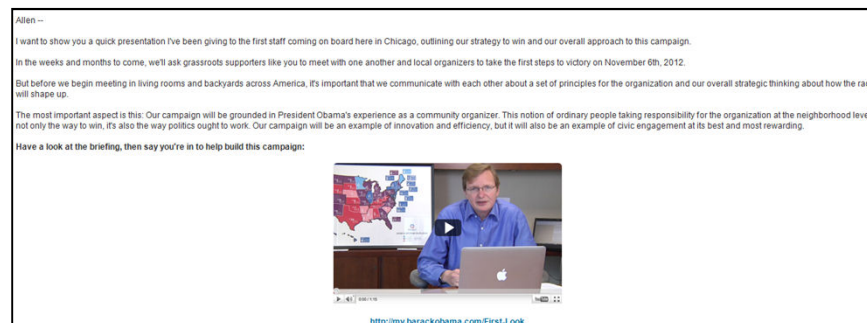
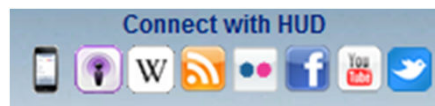
Harnessing the Silver Lining: “Business” Media

Business media can be an effective platform for interacting with interested parties in a productive manner.

- For instance, loan officers may use business media to communicate with builders and realtors on topical developments.

Avoid social media “overload”

- While devising a business media strategy, it is important to limit your interactive channels to a few suitable, but consistently utilized, business media tools.
- A deluge of messages from too many channels could downgrade valuable information to muffled noise.



Two Examples

Twitter and Apple FaceTime are ideal business media tools because they are *practical*.

Routine communications centered on the concept of “keeping informed” with realtors and/or builders will help mortgage originators share relevant and succinct updates on what is occurring in the housing market in real time.



The image shows two screenshots of the RiskSpan, Inc. Twitter profile. The left screenshot displays the profile header with the RiskSpan logo, the name "RiskSpan, Inc.", the handle "@RiskSpan", and the location "New York, NY & Washington, DC". The bio reads: "Keeping you informed of critical industry updates and housing policy developments." and the website is "http://www.riskspan.com". Below the bio is an "Edit your profile" button. The "Timeline" tab is selected, showing two tweets from RiskSpan, Inc. The first tweet, dated 18 Apr, says: "RiskSpan makes point in American Banker: 'The premise of MERS remains as valuable today as the day it was conceived.'" with a link to "http://bit.ly/ibu3bz". The second tweet, dated 18 Apr, says: "RS Apr Newsletter: Promoting private capital to mortgage markets through third party review of GSE loan-level data http://bit.ly/fCsmBz". The right screenshot shows the "About you" section of the profile. It displays statistics: 27 Tweets, 5 Following, 71 Followers, and 1 Listed. Below these are sections for "Following 5" and "Followers 71", each with a row of profile picture icons. At the bottom, there are links for "Find accounts to follow: Browse interests · Find friends" and a footer with links for "About Help Blog Mobile Status Jobs Terms Privacy Shortcuts Advertisers Businesses Media Developers Resources © 2011 Twitter".

Federal Reserve Chief Ben Bernanke to Take Questions at April 27, 2011 News Conference

Tweeting on a development will keep your business on your followers' radars and build your status as an authority.

The April 27 Federal Reserve Chairman's news conference will be the first of its kind in FRB history. As such, it presents a Twitter opportunity. It is scheduled to begin at 2:15 p.m., ET on Wednesday, April 27.

"People talk about transparency and clarity as if they're the same thing . . . What we have now is plenty of transparency. We have no clarity. If Bernanke can provide us with more insight into where the Fed is actually headed, that'll be a positive."

- Rick Matus, UBS Senior Economist
CNBC, April 21, 2011

Last month

The minutes of the March 15, 2011 Federal Open Market Committee (FOMC) capture the tenuous state of the housing industry: "Activity in the housing market continued to be depressed," even though data "suggested that the economic recovery was on firmer footing."

Questions

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RiskSpan, Inc. is an analytics, technology, and consulting practice based in Washington, DC and New York, NY.