



BRINGING PRIVATE CAPITAL BACK INTO THE MORTGAGE MARKET

Conventional Finance & Lending Subgroup
May, 2012



GSE REFORM

- ▶ Everyone agrees changes needed!
- ▶ No clear path – no agreement
- ▶ Currently: 22 House Bills
3 Senate Bills




SOURCES of Mortgage Capital

- ▶ Portfolio Loans
- ▶ Government Sponsored Entities
- ▶ Private Capital




NAR POSITIONS:

- ▶ The answer must be comprehensive
- ▶ A partial fix will not restore confidence
- ▶ Government must play a significant role until trust factor is restored
- ▶ Semi supportive of 4 bills




Crucial for our Economy:

- ▶ Affordability
- ▶ Continued Liquidity of Capital
- ▶ Return of Private Capital is key



Some kind of combination??

- ▶ SB 1963: Isakson "Mortgage Finance Act"
- ▶ HR 2413: Miller "Secondary Market Facility for Residential Mortgages Act"
- ▶ HR 3664: Garrett "Private Mortgage Investment Act"
- ▶ HR 1859: Campbell "Housing Finance Reform Act"




Questions we asked:

- ▶ Regional or National solution?
 - Ron Haynie, President/CEO ICBA (Independent Community Bankers of America)
- ▶ What do the INVESTORS want?
 - Chris Katopis, Ex Director AMI (Association of Mortgage Investors)
 - Michael Waldorf, Sr VP Paulson and Co.



VISION WORKSHEET

- ▶ Started with a blank worksheet matrix
- ▶ As we study and question the issues
 - Work toward consensus on concepts and/or structures
- ▶ End Goal: What is needed to bring Private Capital back into the Market?



AMI Position: Simplify

- ▶ Transparency - Investors can't price unknown
- ▶ Underwriting Standards
- ▶ Conflicts of Interest deleted
- ▶ Update Mortgage Servicing practices
- ▶ Rules/Laws and Legal Rights: Reps and Warranties not being honored
- ▶ Cannot be GSE Reform without Private Capital



Investors want Trust


- ▶ Three Kinds of Risk:
 - 1. Interest Rate Risk
 - 2. Prepayment Risk
 - 3. Credit Risk (credit worthiness, data, market discovery)

Most Investors OK with 1 and 2 but don't trust the data on credit risk



Matrix Developed around AMI Themes


- ▶ AMI speakers, white paper and Katopis presentation to House Committee
- ▶ ICBA speaker and Policy Resolutions for 2012
- ▶ The four "favored" Bills in Congress to date
- ▶ FHFA "Strategic Plan for Conservatorship"
- ▶ NAHB (National Association Home Builders) "Comprehensive Framework of Housing Finance System Reform"
- ▶ REDWOOD Trust "Guide to Restoring Private-Sector Residential Mortgage Securitization"



DATA

- ▶ "Investors not looking for money or special treatment
- ▶ Want products with Integrity
- ▶ If Data is wrong - Hold them accountable
- ▶ If Data is right - Live with the consequences"

Michael Waldorf




Infrastructure of the Data

- ▶ Real Time (Loan Level and throughout the life of the security)
- ▶ Accurate
- ▶ Transparency


VS.

- ▶ ANALYSIS PARALYSIS

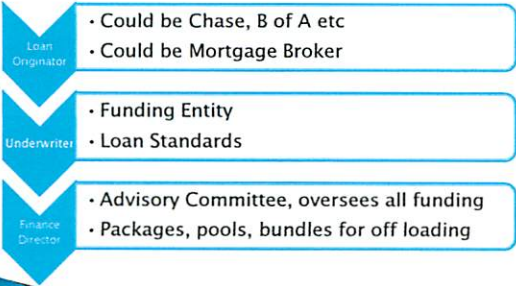


More Issues:


- ▶ Guarantee Fees
- ▶ Fate of Fannie & Freddie?
- ▶ Standardized Default Mechanisms
- ▶ Servicing Standards



Securitization Flow Chart



- Loan Originator**
 - Could be Chase, B of A etc
 - Could be Mortgage Broker
- Underwriter**
 - Funding Entity
 - Loan Standards
- Finance Director**
 - Advisory Committee, oversees all funding
 - Packages, pools, bundles for off loading




Speaker Wish List:

- ▶ Millstein on Fannie/Freddie Reform
- ▶ Martin S Hughes, CEO Redwood Trust, Inc
- ▶ Representative Schweikert (Arizona)
- ▶ Don Curtis – Lender Pool Negotiator (CA)
- ▶ Bankers Health Care – Data Transparency Model
- ▶ Sue Allon, Allonhill – Investor Due Dilligence Firm
- ▶ More.....




Options? New Layers?



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    graph TD
      Investor((Investor)) --> Enforcer((Enforcer))
      Investor --> FinanceDirector((Finance Director))
      Enforcer --> Servicer((Servicer))
      FinanceDirector --> Servicer
      Servicer --> CertificationAgency((Certification Agency))
      CertificationAgency --> Servicer
  
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Must Bring Private Capital Back!

- ▶ Complex Issues
- ▶ The more we study – the more questions we have
- ▶ Subgroup Request: continue our work till November meeting.

