

# BRINGING PRIVATE CAPITAL BACK INTO THE RESIDENTIAL MORTGAGE MARKET

Conventional Finance & Lending Subgroup  
November 9, 2012



# Crucial for the US Economy:

- ▶ Stability and Confidence in the Residential Real Estate Market
- ▶ Liquidity of Capital and Credit
- ▶ Return of Private Capital is key

# SOURCES of Residential Mortgage Capital

1. Bank Balance Sheets (Portfolio Loans)
2. FHA and Government Sponsored Entities (Fannie Mae, Freddie Mac & Federal Home Loan Banks)
3. Private Capital (Securitization Process of Mortgage Backed Securities)

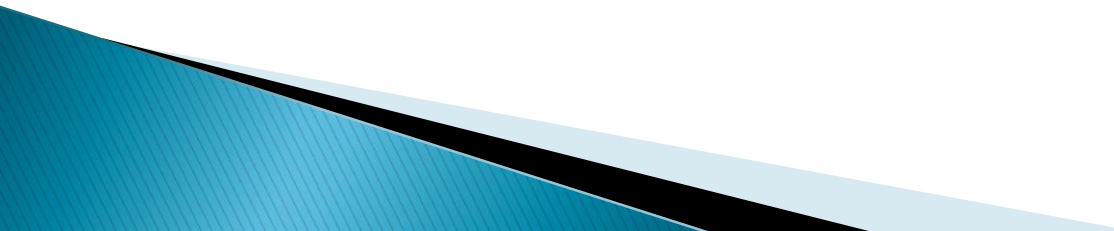
# Private Investors

Will return only if:

**Confidence and Trust  
is Restored**

Level Playing Field for Competition

# Private Capital Subgroup

- ▶ 14 Practitioners from across the country
  - ▶ Varied background experiences: Investor, Lender, Mortgage Broker, Community Bank Board of Directors
  - ▶ Research included positions by: FHFA, AMI, ICBA, NAHB, Redwood Trust, Paulson & Co, Millstein & Co, NAR and various members of Congress and the Senate.
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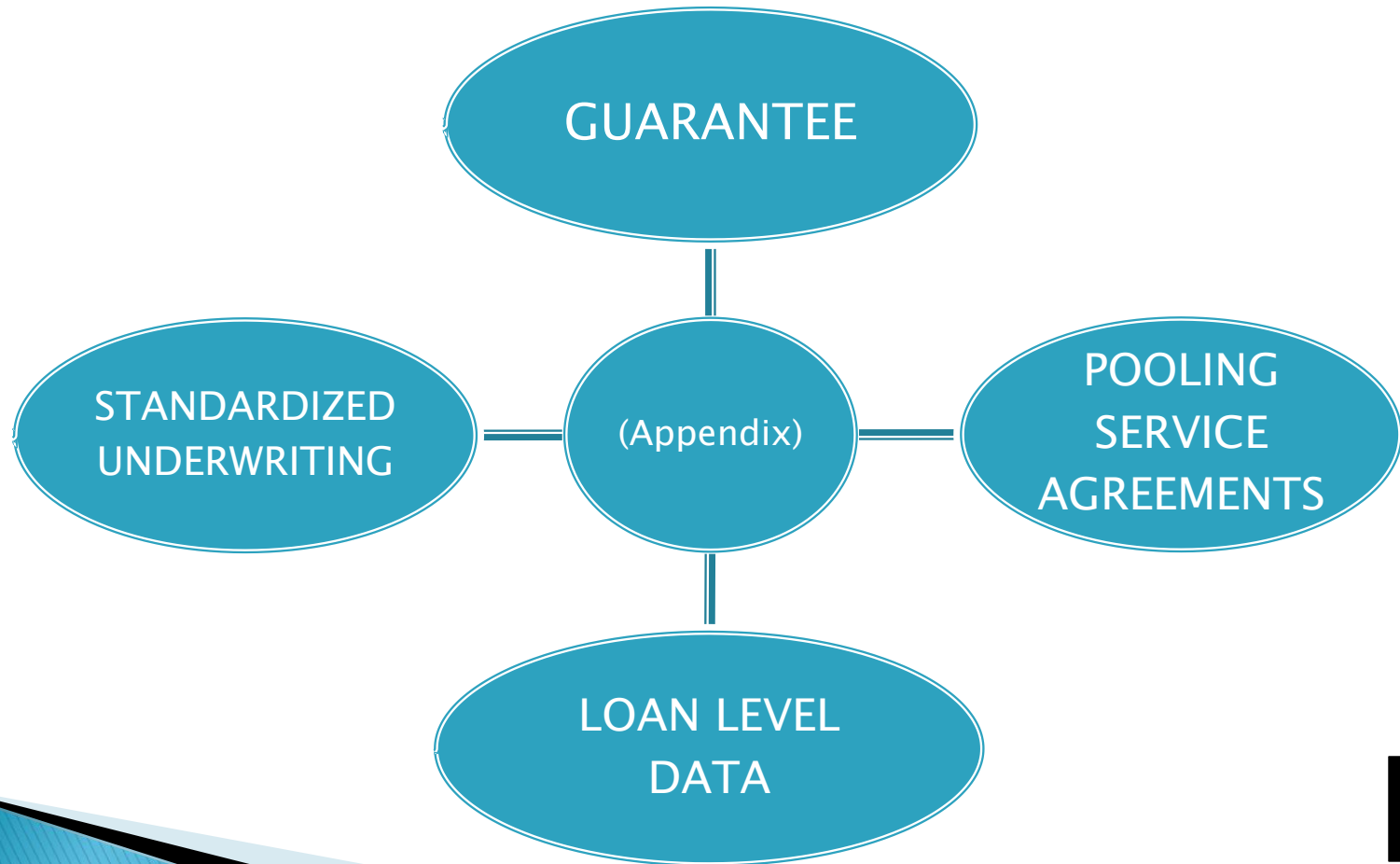
# Financial Reform

- Absolutely Necessary
- Must be Comprehensive
- Government Regulation and Enforcement will be needed
- Processes need to be simplified and not over regulated.

# THE END GOAL

- Clearly identify what has to happen in order to entice the Private Capital return
- Provide policies that will allow NAR to be “nimble on the hill” with government affairs’ efforts in working with legislators and regulators
- Itemize what elements must be mandatory in any securitization platform of the future

# “Mandatory Elements for the Return of Private Capital to the Residential Marketplace”





# GUARANTEE

## ▶ Issue:

- Implicit v. Explicit Guarantee for Fannie & Freddie
- Conservatorship: Private Profit – Public Loss
- How can the Private Investor compete?

## ▶ Solution:

Provide a self-sufficient mechanism whereby safe, sound, transparent, and insured Mortgage Backed Securities (MBS) may be packaged and sold.

# Guarantee

1. Must be an option for explicit government guarantee/insurance for all MBS
2. Taxpayer exposure must be minimized
3. Not-for-profit “utility” to:
  - Receive, package, sell and guarantee MBS
  - To operate with similar insurance and enforcement components as FDIC

# POOLING SERVICE AGREEMENTS

## PSA's

- ▶ Issue: Lack of consistency, much confusion, litigation, and a general lack of confidence in the PSA's of today's MBS
- ▶ Solution:
  - Confidence and trust in the Reps and Warranties must be restored
  - Standardization of contracts needed

# PSA's must contain:

1. Simple, inexpensive way to transfer and record ownership
2. Standardized terms with clear definitions
3. Documents, systems and flows through cooperative state efforts
4. Federal Best Practice Standards
  - For Private Capital
  - Clear disclosure of deviations
  - Designed through Congress AND the private sector

# PSA's continued

5. Servicer policies consistent with their fiduciary duties to the Investor must include:
  - Standardized processing, procedures and enforcement
  - Standardized protocol for handling non-performing loans with aggressive and timely procedures
  - Standardized notice requirements for Investor to be made aware of deficiencies early on
  - Thorough disclosure of a Servicer's conflicting fiduciary interests.
  
6. Clearly defined buy back rules

# LOAN LEVEL DATA

## ▶ Issue:

- Investors price products based on data
- Incorrect and inadequate data leads to reliance on ratings and continued lack of confidence

## ▶ Solution:

- Solid, properly structured loan level data is the foundation needed
- Investors want to be empowered and enabled to conduct their own risk analysis

# Loan Level Data

1. Standardized data: real time, accurate and transparent
2. Data: Underwriting Attributes, Loan Performance Attributes, Collateral and Underwriter/Originator Attributes
3. Risk Ratings: continuous and based on real time performance
4. Availability in electronic, manageable industry standards; immediate and continuous risk analysis

# Loan Level Data continued

5. Listen to the investors for design
6. Integrate: Census data, AVM modeling, MLS data, credit score data
7. Appraisal process must be done in a manner acceptable to the private sector.
8. Data on a regional, as-needed basis required to address cyclical economic downturns.



# STANDARDIZED UNDERWRITING

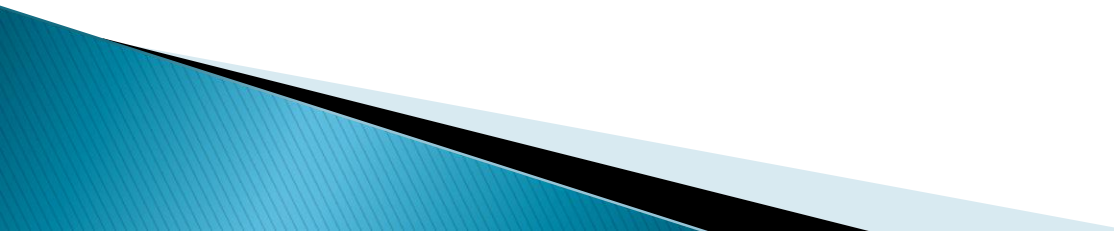
## ▶ Issue:

- Underwriting and compliance deficiencies
- Non-conforming products and marginal borrowers
- Foreclosure impact

## ▶ Solution:

- Sound underwriting principles and products
- Credit worthy borrowers
- Standardization of policies and procedures

# Underwriting Standards

1. Standards supportive of all markets and provide for the free flow of capital into mortgage pools.
  2. Loan approvals must be based on a good faith determination that the borrower has a reasonable ability-to-repay loan and related obligations based on verified and standardized documented information.
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# Underwriting Standards continued

3. All loans must be safe and sound products that meet the “ability-to-repay” definition of a Qualified Mortgage (QM)
4. A Qualified Residential Mortgage (QRM) must meet the ability-to-repay requirements.
5. A credible independent process for the valuation of real property must be used

# Other Appendix Items

- ▶ Infrastructure for private label securitization
  - Access for all sizes
  - Mandatory standards and guarantees
  - Must be free from political pressures
  - Future for a strong utility platform
  - Expansion for commercial liquidity goals
- ▶ Future of Fannie and Freddie
  - Privatize over time without disruption to capital flow
  - Millstein plan

# CF&L Private Capital Subgroup

