

Countrywide

Strategic Products



MBA's Government Housing Finance Conference

Emerging Trends in State HFA's
Panel Presentation
May 30, 2007

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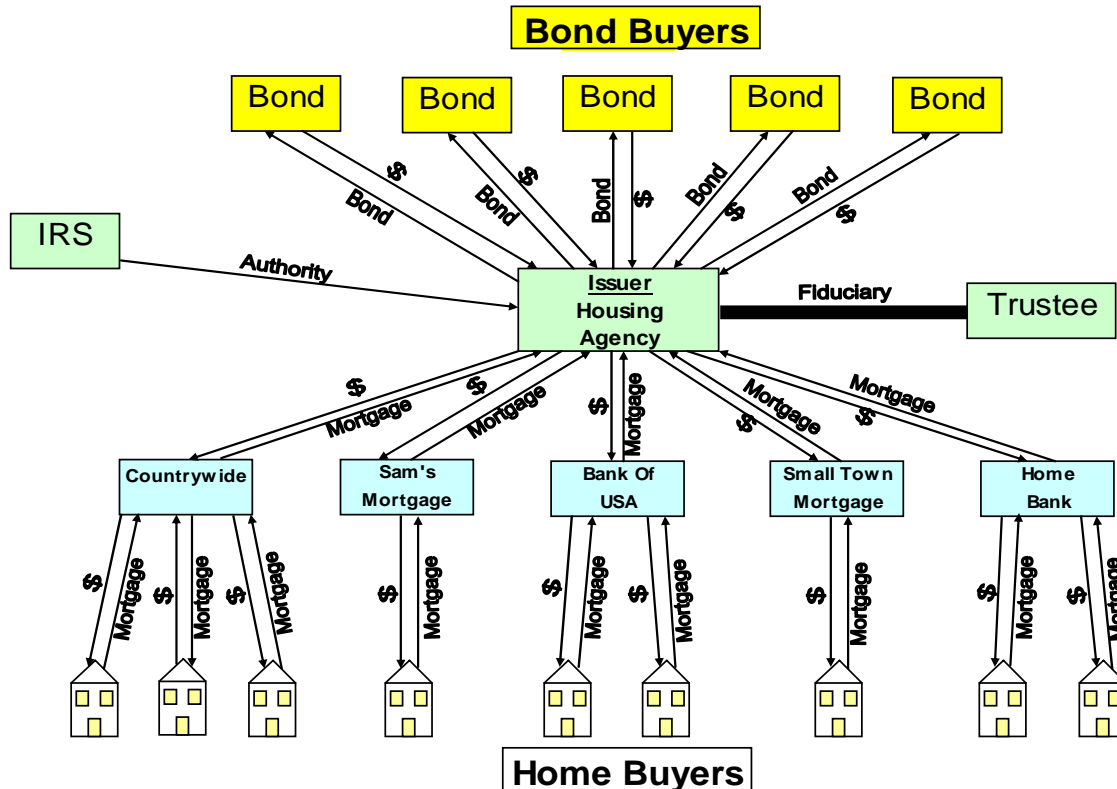
Agenda

	Page(s)
<input type="checkbox"/> Why should lenders originate bond loans	3
<input type="checkbox"/> The flow of the loan and the servicing	4 - 5
<input type="checkbox"/> Mortgage products that can be used with bond loan funding	6 – 9
<input type="checkbox"/> The lender economics of bond loans	10 – 11
<input type="checkbox"/> Risks and costs associated with bond loans	12
<input type="checkbox"/> Conclusions	13
<input type="checkbox"/> Contact information	14

Why should lenders originate bond loans?

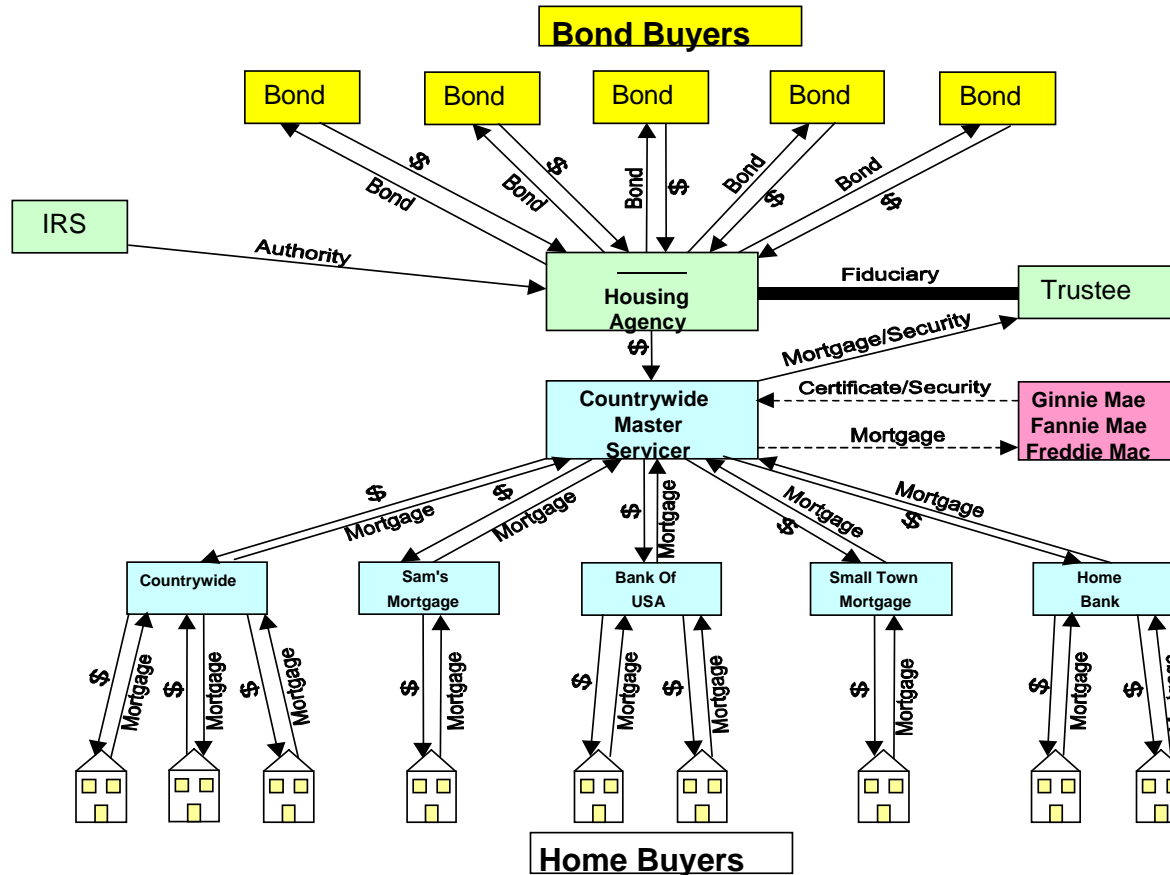
- ✓ **Below market rate benefit to the borrower.**
- ✓ **Down payment assistance benefit to the borrower.**
- ✓ **High percentage of low and moderate income borrowers in the bond portfolio.**
- ✓ **All first time homebuyers.**
- ✓ **High percentage reach into multicultural markets.**
- ✓ **All incremental purchase money business.**
- ✓ **Counter cyclical to refi booms or mini-booms.**

Loan and Servicing Flow



Flow – Whole Loan. Lender originates and sells directly to the housing agency. Lender may retain the servicing or release the servicing. In this flow, the agency holds whole loans instead of mortgage backed securities as collateral for the bonds.

Loan and Servicing Flow



Flow – Master Servicer. Master Servicer buys closed loans service released from other lenders, pool with other program specific loans, swap the loans for a security and sell the security to the Trustee on behalf of the Agency. Master Servicer retains/owns the servicing, Fannie/Freddie or Ginnie own the loan. The housing agency owns the mortgage backed security and manages the cash flow for the bondholders. 5

Products that can be used with bond financing

Fannie Mae's MyCommunity

Freddie Mac's Home Possible

- ✓ Lower down payment, higher ratios, lower reserves

FHA

- ✓ Easier credit qualifying

VA

- ✓ Zero nonpayment

Rural Housing

- ✓ Zero down payment
- ✓ One time up front guaranty fee of 2%, can be paid by seller
- ✓ No monthly mortgage insurance

Products that can be used with bond financing

Energy Efficient

- ✓ Can add the expected savings on utility bills to borrowers income for qualifying, often \$100 month or more
- ✓ Gives borrower more buying power, by adding value of energy improvements to the appraised value of the home
- ✓ Up to 15% can be added to the appraised value for existing homes, 5% for new construction

Community Seconds

- ✓ Provides down payment and closing costs assistance at favorable payback structures

Grants provided by the seller, such as Nehemiah and AmeriDream

- ✓ Lowers cash required of the borrower
- ✓ Limited to FHA product, if funds are used for down payment

Products that can be used with bond financing

Grants provided direct from nonprofit

- ✓ Lowers cash required of the borrower
- ✓ Can be used with conventional and government loans
- ✓ Less value/appraisal concerns

Employer Assisted Housing

- ✓ Can be structured to meet borrower's and employer's needs
- ✓ Maximum flexibility in how programs are structured, including grants and secured loans with flexible payback provisions

Section 8 for Home Ownership

- ✓ Provides monthly housing payment assistance for the borrower
- ✓ Each housing authority determines qualified mortgage products, such as fixed, ARM's, etc.
- ✓ 125% of housing assistance payment can be added to income for qualifying purposes

Products that can be used with bond financing

Community Land Trust

- ✓ Nonprofits own the land, provides lease at below market rate

Fannie Mae's Smart Commute

- ✓ Recognizes lower transportation costs for people buying homes in areas of high density, with public transportation
- ✓ Can provide up to \$250 credit a month for qualifying

40 year term

- ✓ Longer amortization reduces monthly payment

Interest First

- ✓ Interest only payment for 5 – 10 years increases borrowing power
- ✓ Several structures available including, 5/30, 5/25/ 7/23

How do the economics of a bond loan compare to a standard nonbond loan?

- ✓ Interest rates are set by the housing agency at bond sale.
- ✓ No hedging costs.
- ✓ The agency is presumed to own the servicing.
- ✓ The agency determines who will actually service the loans.
- ✓ Service released premium plus origination fee are the revenue sources for a servicing released program.
- ✓ Servicing value plus origination fee are the revenue sources for a service retained program.
- ✓ Servicing value minus service release premium paid to originating lender is the loan revenue for a master servicer.

How do the economics of a bond loan compare to a standard nonbond loan?

<u>Standard Loan</u>		<u>Service Released</u>		<u>Service Retained **</u>	
Points 1.5%	\$1,950	Points 1%	\$1,300	Points 1%	\$1,300
Fees	\$450	Fees	\$200	Fees	\$200
Servicing Value	<u>\$1,625</u>	SRP* 90 basis points	<u>\$975</u>	Servicing Value	<u>\$1,787</u>
Total Revenue \$	\$4,025	Total Revenue \$	\$2,475	Total Revenue \$	\$3,287
Total Revenue %	3.10%	Total Revenue %	1.90%	Total Revenue %	2.53%

Notes: Assumes \$130,000 loan amount.
 Assumes points and fees on bond loan are limited to 1 point and \$200 in fees.
 Example is for a conventional loan with the bond loan interest rate at 50 bp below market.
 Example uses a 25 bp servicing fee, a 5 multiple for the standard loan and 5.5 multiple for the subsidized rate bond loan.
 Example is a representation only and does not reflect actual points, fees and value for a specific bond program.

* SRP is the service released premium paid to the originating lender.

** Service retained example is not representative of master servicing structure, where master servicer pays SRP to originating lender.

The revenue of a bond loan is demonstrated here. A comparison of expenses to support the production of standard product versus bond product is not demonstrated.

What are the risks and costs associated with originating bond loans?

- ✓ **Bond specific documentation is required to ensure compliance with IRS regulated first time homebuyer requirements and sales price/income limitations.**
- ✓ **Missing documents or documentation errors can trigger repurchase or failure to meet final loan sale deadlines.**
- ✓ **Product guidelines and documentation require mortgage companies to hire bond specific support team.**
- ✓ **Some revenue opportunities are diminished or eliminated in some programs.**

Conclusions

Pros

- ✓ Bond loans are a good purchase money counter-cyclical business.
- ✓ Bond loans are an excellent product to leverage multicultural outreach and marketing strategies.
- ✓ The revenue is enhanced and market risk is reduced by the elimination of interest rate hedge.

Cons

- ✓ The risk of repurchase and a haircut on loan sale is increased because of below market interest and nonstandard documentation.
- ✓ The revenue is less than a standard loan and the cost to support origination is more due to nonstandard documentation requirements and nonstandard product features.

Overall

- ✓ Participation in bond programs must be supported at many levels of the company and participation can be beneficial at many levels of the company.
- ✓ **Countrywide loves bond programs!**

Thank You

- Questions?
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