Looking to the Future

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Mortgage Bankers Association
Non-Prime Mortgage Lending Conference
How to Restore Confidence
March 12, 2008

AURORA LOAN SERVICES
A Lehman Brothers Company

History…..

1920

Does…..

1960

Repeat itself

2006

Government Intervention

MIDNIGHT TONIGHT IS LAST MOMENT FOR BOOZE MAKINC

United States Is to Be Arid as Sahara Wher Dawn Comes Tomorrow.

Reformers to Hold Watchnight Meetin

Government Intervention

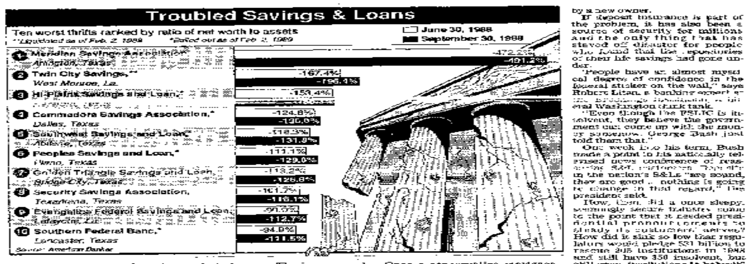
Section Header (used to create Tab Pages and Table of Contents)

Page A-12 THE INTELLIGENCER/RECORD Sunday, February 5, 1989

The S&L crisis

Risky investments have industry fighting for survival

By David Skidmore
Associated Press writer



You need a scorecard to follow the game

President Bush meets Friday with congressional leaders to address the crisis in the savings and loan industry. (AP photo)

President says 'no easy answers'

Living with the S&L crisis

By Scott McCartney
Associated Press writer

Largest bailout ever: Best deal or a ride for taxpayers?

Biggest Bailouts

Top five savings & loans rescue packages ranked in order of cost to the federal government.
As of Feb. 2, 1989

1 **$5.046 billion** - Acquisition of 5 Texas thrifts
2 **$2.115 billion** - Acquisition of 4 Texas thrifts
3 **$1.848 billion** - Acquisition of 15 Texas thrifts
4 **$1.699 billion** - Acquisition of American Savings of Stockton, Calif.
5 **$1.084 billion** - Acquisition of 2 Colorado thrifts and one each in Ohio and Illinois

Source: FSLIC

AP/R. Dominguez

That is a luxury S&L regulators don't have because their insurance fund, unlike the bank fund, is busted.

Government Intervention

14 PACIFIC STARS AND STRIPES

Business

TUESDAY, AUGUST 8, 1989

The truth about the S&L bailout

$50 billion is not enough to help us out of this mess

By Alan Sloan
Newsday

Opinion

It would be nice if someone told the whole truth, just once, about the savings and loan bailout.

From the start of the year, when the Bush administration admitted that cleaning up the S&L problem would require taxpayer money and had the political courage to ask for it, we have been told that borrowing $50 billion would give the S&L cleanup squad enough dough to do the job.

That, of course, was horse manure. It was obvious to anyone who knew how you actually close a bankrupt S&L that $50 billion was just a down payment, not the final tab.

HERE IS how it works. Say that Underwater Savings & Loan Association has federally insured deposits of $1 billion, and assets worth only $500 million. Underwater is clearly busted. To close down Underwater, you have to write $1 billion of checks on Day One to give the depositors their money back, but it will take a long time to turn Underwater's $500 million of partially built Austin condominiums, failed New York City co-op conversion projects, Arizona raw land and other illiquid assets into $500 million of cash. So, even though the difference between Underwater's assets and its liabilities is only $500 million, it takes $1 billion of cash money to close Underwater.

That is really sort of obvious, isn't it? As a matter of fact, even some top officials from the Federal Deposit Insurance Corp., which is going to run the S&L bailout operation, said — off the record, of course — that $50 billion was not enough to do much more than close some of the more egregiously busted S&Ls.

Which brings us to the S&L bailout bill, all thousand-plus pages of it. Compared to this little beauty, Moby Dick is a comic book. At least Moby Dick is written in English.

It turns out that buried in the bill's endless paragraphs of legalistic mumbo jumbo is a cute little provision that allows the Resolution Trust Corp. — the entity that will do the bailout work -- to borrow tens of billions of dollars more than the $50 billion that everyone has been talking about. The RTC, it turns out, can borrow up to 85 percent of the fair market value of the assets it acquires. That gives it power to raise enough cash to close down hundreds of dead and almost-dead S&Ls.

It is not clear how much this 85 percent-of-value borrowing power will amount to. Some FDIC people think it is $85 billion or more. Whatever the cost, it seems clear that this hidden borrowing power will be substantially more than the $50 billion that has been openly debated.

Are you still with me? Now watch what this all means.

The big fight about the bailout bill has been how to handle the $50 billion of borrowing to fund the bailout. If the U.S. Treasury borrowed the money itself, the interest rate would be the lowest possible, but the federal budget deficit would rise by $50 billion.

If the money was borrowed indirectly through a new federal agency — which is what the Gramm-Rudman apostles of economy in government want — the total interest tab would be perhaps $5 billion higher over the next 30 years. Spending $5 billion to maintain the fiction that the federal deficit will be kept down strikes me as insane, but what do I know?

While everyone argues about whether to borrow $50 billion directly or indirectly, the RTC will use its 85 percent-of-value clause to borrow well over $50 billion indirectly while no one is looking.

THIS LITTLE game seems to have come into being because people were trying to be too clever by half. Some congressional people seem to think that they are limiting the RTC to $50 billion of borrowing, which will force the RTC to come back, hat in hand, to beg for more money. That would give Congress oversight power, not to mention the chance to extract a pound of flesh for favored constituents when Bailout Bill Two starts moving through the legislative process.

Meanwhile, the Bush administration people who are involved with the bailout bill are just as cynical. As long as they were brave enough to ask for a $50 billion handout to bail out S&L depositors, they could also have asked for borrowing power in excess of that, to be repaid as the assets seized in the bailout effort are turned into cash. Instead, they played games.

I think it is a good thing for the RTC to be able to borrow much more than $50 billion. It is not that I trust the RTC people any more than I trust anyone who is running around using my money. It is that they seem to understand how the world works.

In the real world, the only credibility a regulator has over S&L managers is the threat to close down their institutions if they do not shape up. If the RTC people do not have the money to liquidate S&Ls en masse, then they cannot credibly threaten to close down recalcitrant institutions. And if the RTC cannot close down institutions, the RTC becomes a paper tiger. And sooner or later, the S&L mess would get bad enough again to require yet another round of surgery.

But it would have been a lot better, all around, to debate the RTC's extra borrowing power openly than to have everything hidden. Our so-called leaders ought to tell us the truth whether we like it or not.

Recent Headlines

January 22, 2008--Mortgage relief rises amid housing crisis

In the first survey of its kind, the Mortgage Bankers Association said that nearly half of the loans modified in the third quarter of 2007 were for subprime ARMs.

January 25, 2008--Housing bailout: winners and losers

Four plans are on the table. Who stands to gain, and who gets left out?

January 31, 2008-- New $20B subprime bailout on the table

Senator Chris Dodd proposes setting up a fund that would buy defaulting subprime mortgages and restructure loans for borrowers.

Stated Income

- 1970 – Stated Income
  - Self-employed only
- 1990 – Stated Income
  - Self-employed only
- 2000 – Stated Income
  - Anyone?
  - Layered Risk Options Added

- Inability to make payments
- Increased default rate
- Increased foreclosures
- Increased repurchase demands


Product
Regulatory
Consumer
Quality
Process
Third Party
Investors

Looking Ahead….

- Products provide long term confidence of borrower's ability to repay
- High level of data integrity
- Training
  - Comprehensive understanding of risk
  - Cost of deviations
  - Misrep identification
- Absolute Regulatory Compliance
- Understand your data

"The mistake was in lending unwisely. There were a lot of dumb lending practices."

--Warren Buffet

CNBC interview 3/3/08

Regarding the credit crisis