MBA Servicing Conference Session on Mortgage Industry and Emerging Markets

Responsible Servicing and REO Disposition for a Diverse Market

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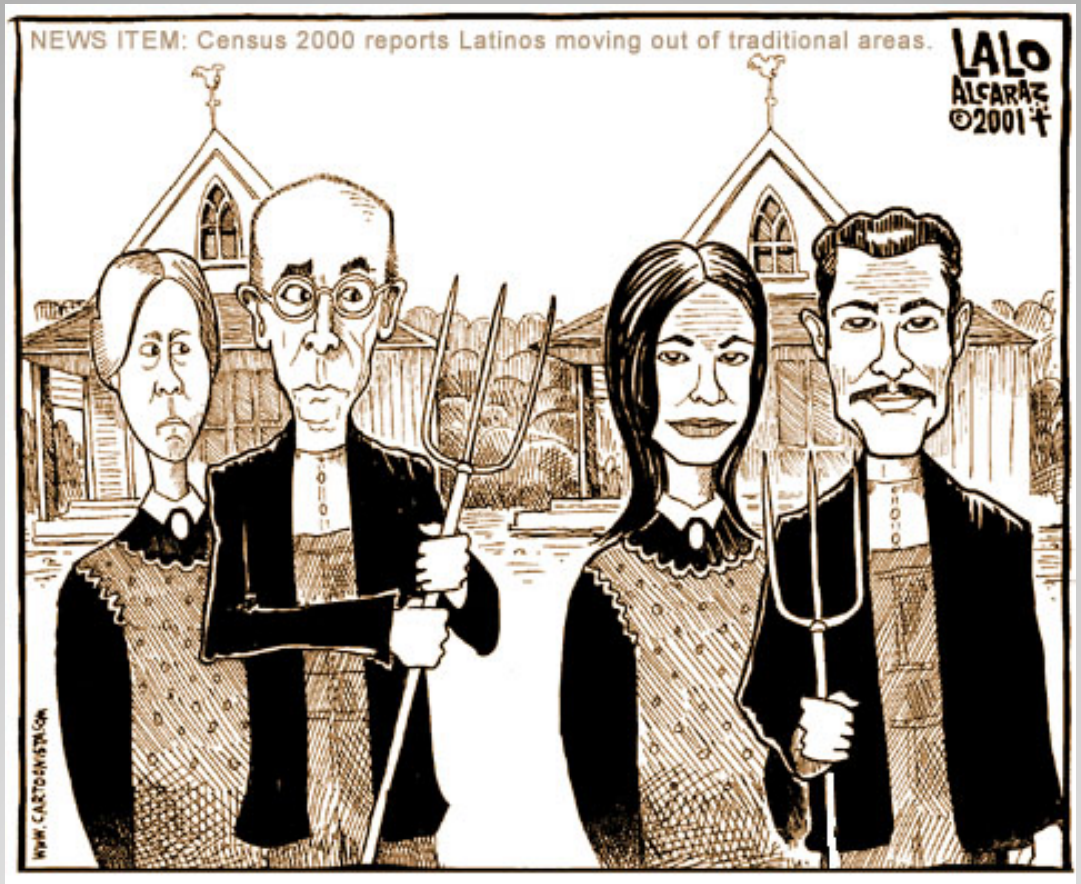
February 27, 2008



Customers Are Changing

- The latest data indicates that as many as 50% of all foreclosures today are happening to minority families.
- According to HUD, the minority homeownership rate is plunging.
- Some have attributed the current housing meltdown to minority advocates who for years have been pressuring financial institutions to close the homeownership gap by lending more aggressively to minorities.
- 60% of all sub-prime loans made between 2004 and 2006 were made to Hispanics and African-Americans.

The Current Crisis

- Fannie Mae estimates that as many as 50% of these loans were made to borrowers that qualified for a prime loan.

Therefore the question we should be asking - should not be:

"**how many minority families received loans that they did not deserve**"

but rather…

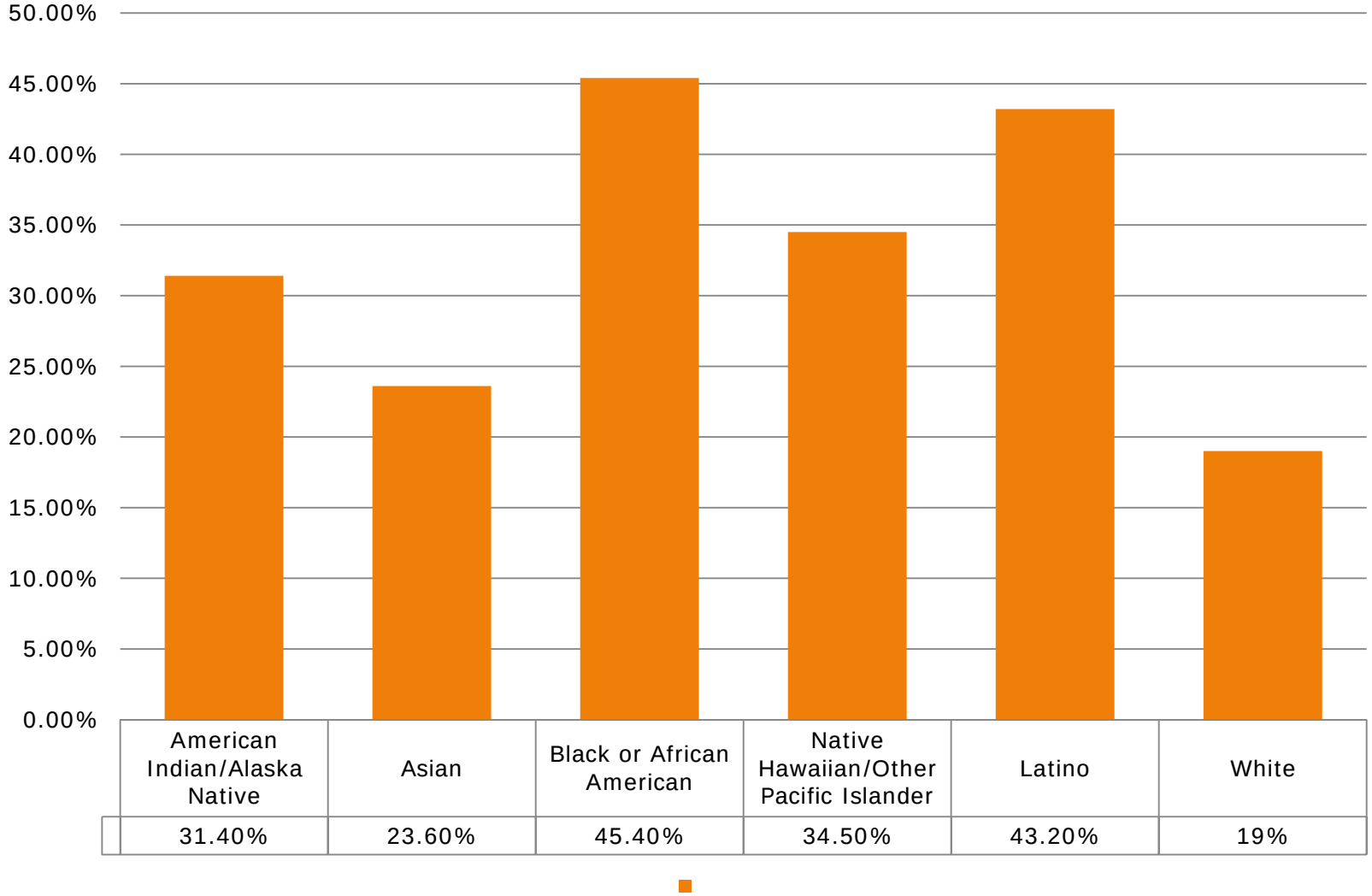
"**how many fewer minority families would be in default if they had received a prime loan instead of a sub-prime loan?"**

The Current Crisis

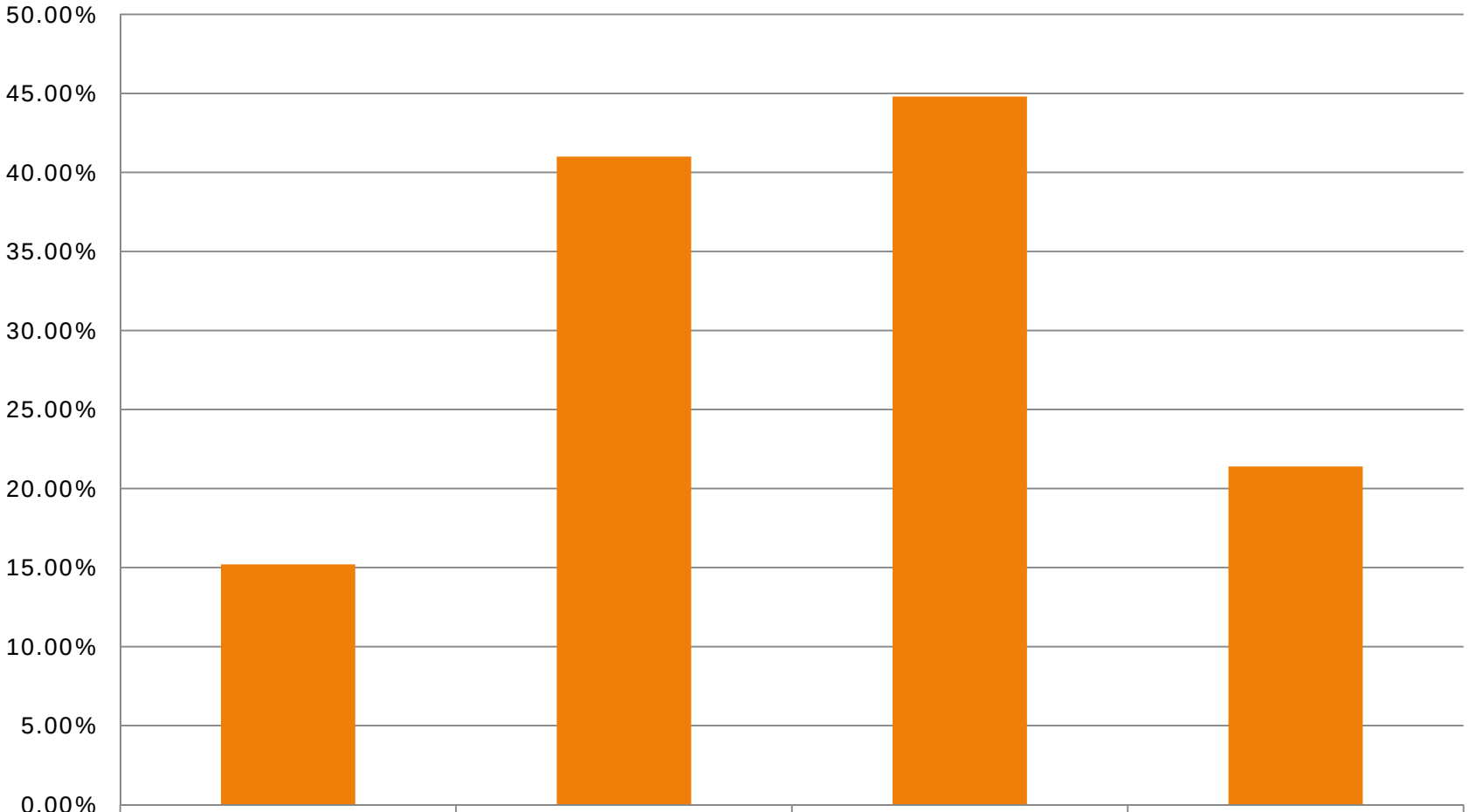
- While race alone does not explain all of the differences in lending patterns, we know that minorities are more likely to get sub-prime loans.
  - African Americans 3x more to get high cost purchase loans, 2.5x as likely to get high cost refinance loans
  - Latinos more than 2x as likely to get higher cost purchase loans, 3x for refinances
  - Residents of low-income neighborhoods were 2.5x as likely to get high cost loans
  - Residents of minority neighborhoods were btwn 3x and 4x as likely to get high cost

Subprime Lending's Influence on Minority Market

Subprime Lending by Race and Ethnicity of Borrower: California 2006

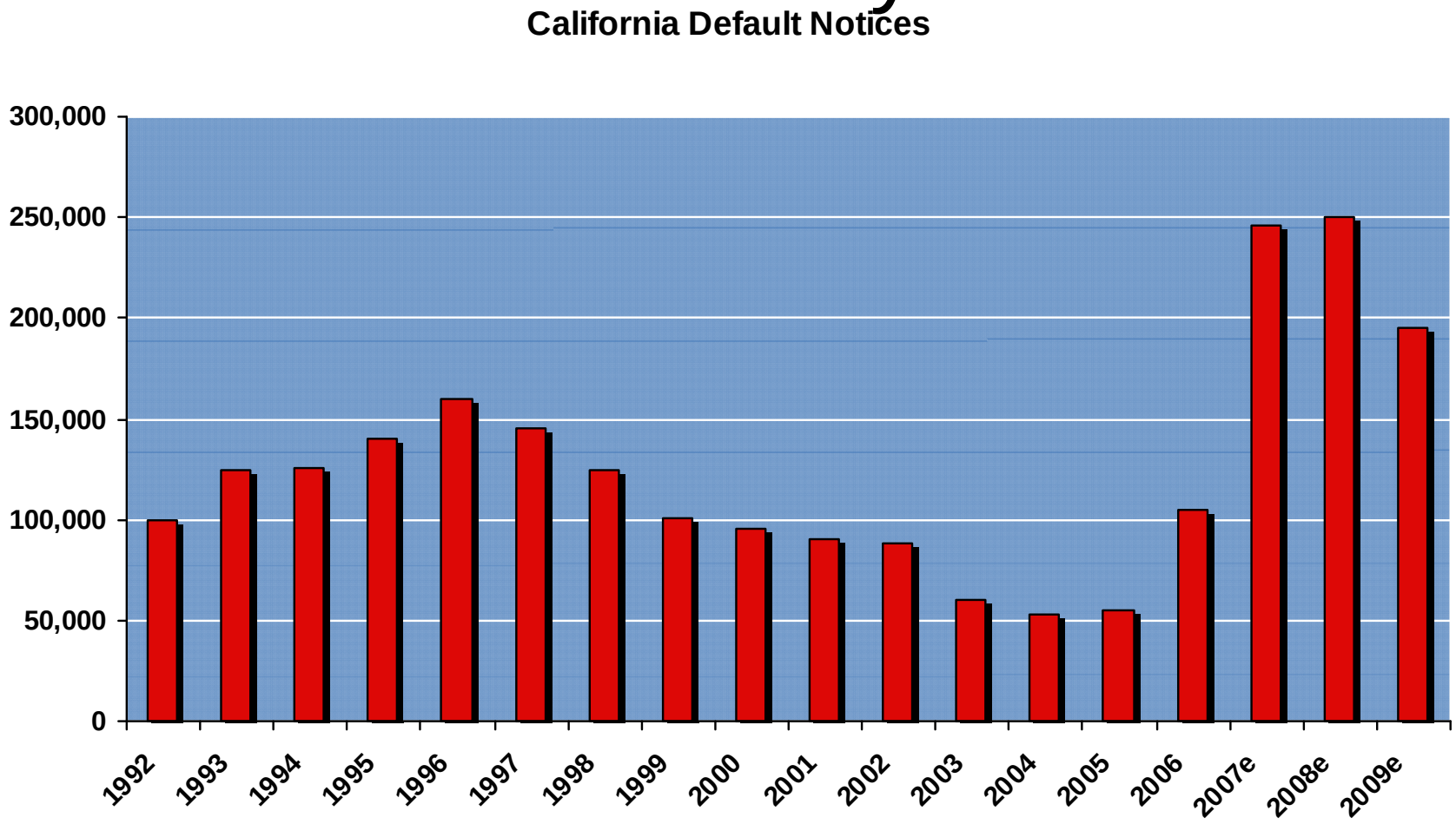


Subprime Lending by Race and Income of Neighborhood: CA 2006



	<10% minority	>80% minority	low income	upper income
Series1	15.20%	41%	44.80%	21.40%

Record California Foreclosure Activity



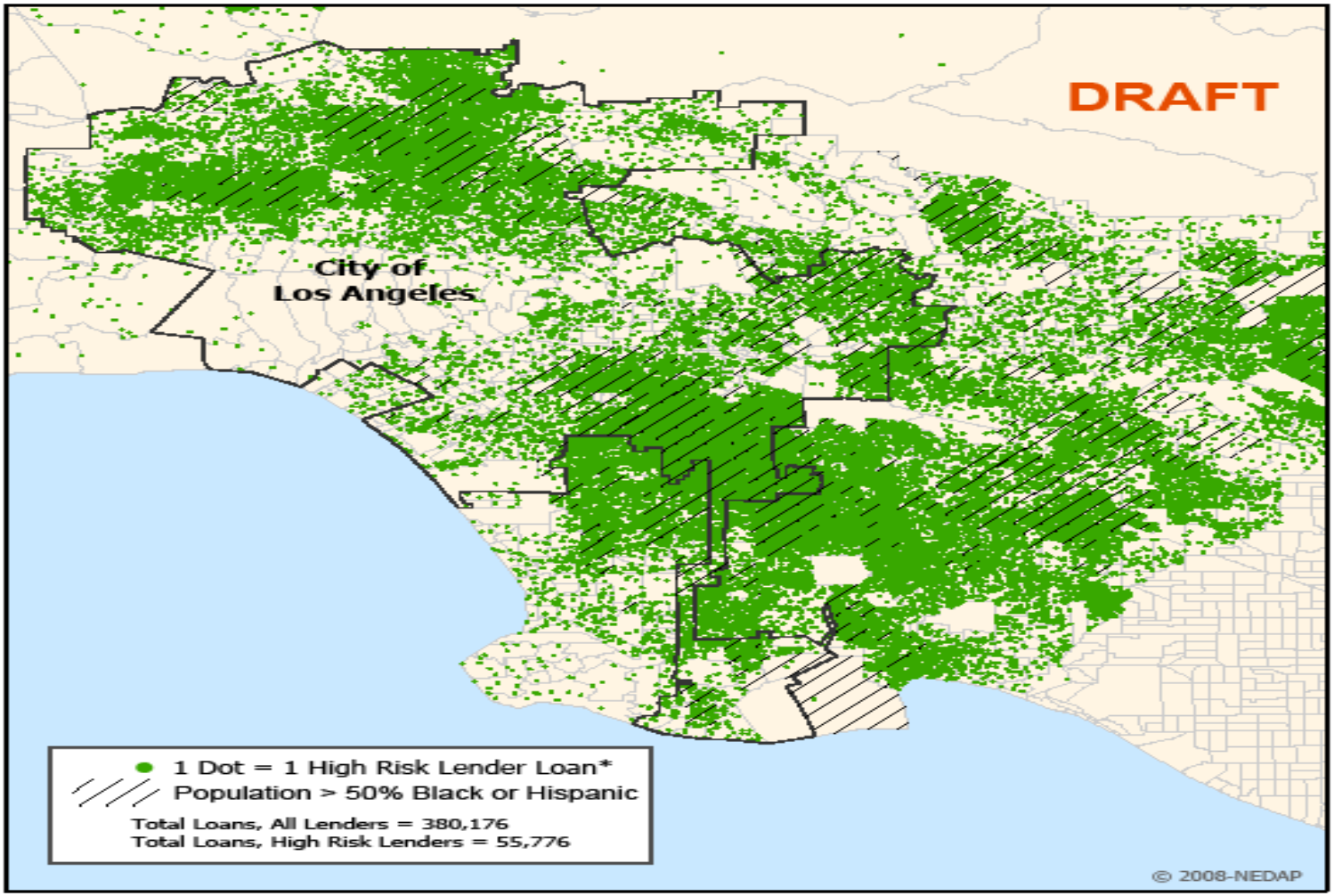
Source: DataQuick Information Systems

- **Home price speculation**
- **Loose Underwriting (Or, bad lending practices)**
  - How real was the stated products
  - Concentrated in subprime market
  - ARMs and Hybrid ARMs lead to payment shock
  - Debt burdened homeowners – high debt to income burdens
- **Too much Liquidity from Wall Street**
- **Predatory lending**
- **Lax Regulations?**

How did we get here?

High Risk Lender Loans - 2006

Los Angeles MSA, California

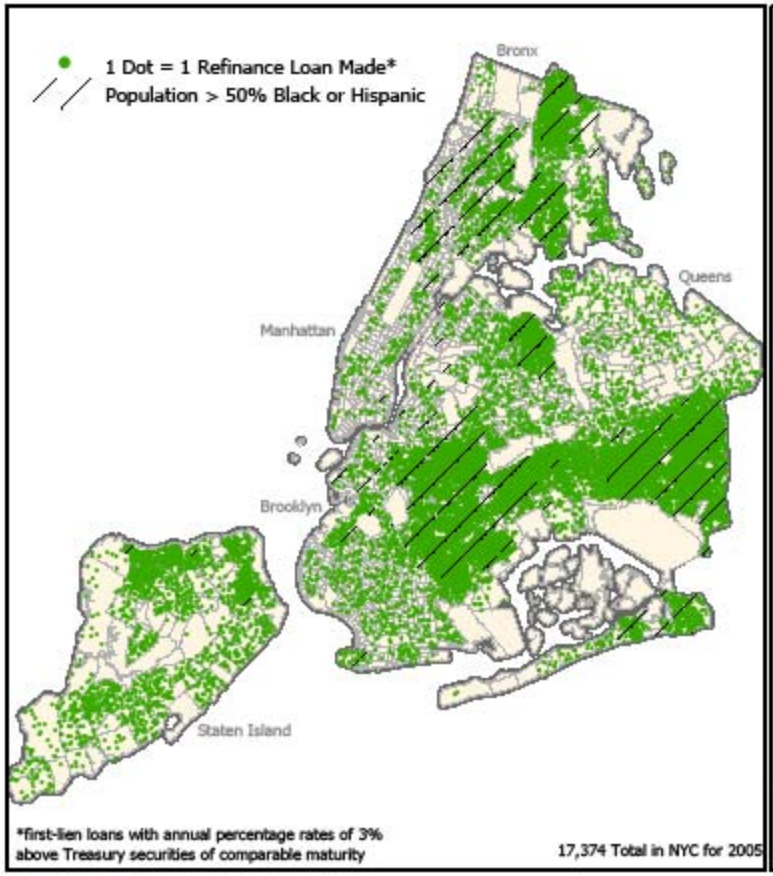


Map prepared by NEDAP, Neighborhood Economic Development Adovacy Project - www.nedap.org
Data provided by the California Reinvestment Coalition - www.calreinvest.org

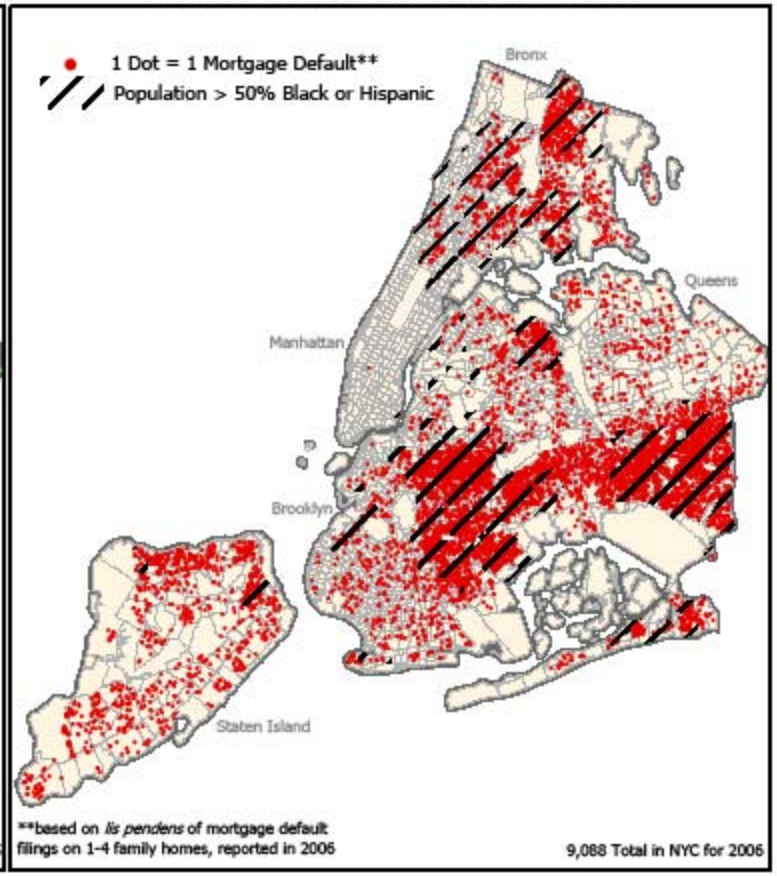
Sources: HMDA (2006), Census (2000)
* loans originated by now-defunct subprime lenders, as compiled by the Wall Street Journal in Sept. 2007, "Subprime Shakeout: Lenders that have Closed Shop, Been Acquired, or Stopped Loans."

New York City

HIGH-COST REFINANCE LOANS MADE - 2005



FORECLOSURE PATTERNS - 2006



Neighborhood Economic Development Advocacy Project (NEDAP)
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Sources: HMDA (2005); Profiles Publications; U.S. Census (2000)

- REO deposition must be fair and responsible.
- HUD REO's for example are initially offered for sale to owner-occupants and are only offered to investors if there are no viable offers from owner-occupants.
- Lenders/Servicers must strive to return (sell) a comparable percentage of REO assets back to owner-occupants and minority families.
- We must maintain the progress made in minority and LMI homeownership that the industry has achieved in recent years
- We can adapt best practices by choice or we can have them imposed on us by regulators and/or legislation

Solutions to the Crisis