

MORTGAGE BANKERS ASSOCIATION

MBA'S NATIONAL MORTGAGE SERVICING CONFERENCE & EXPO 2009 / TAMPA

MORTGAGE BANKERS ASSOCIATION

Seeking Solutions to the Mortgage Dilemma

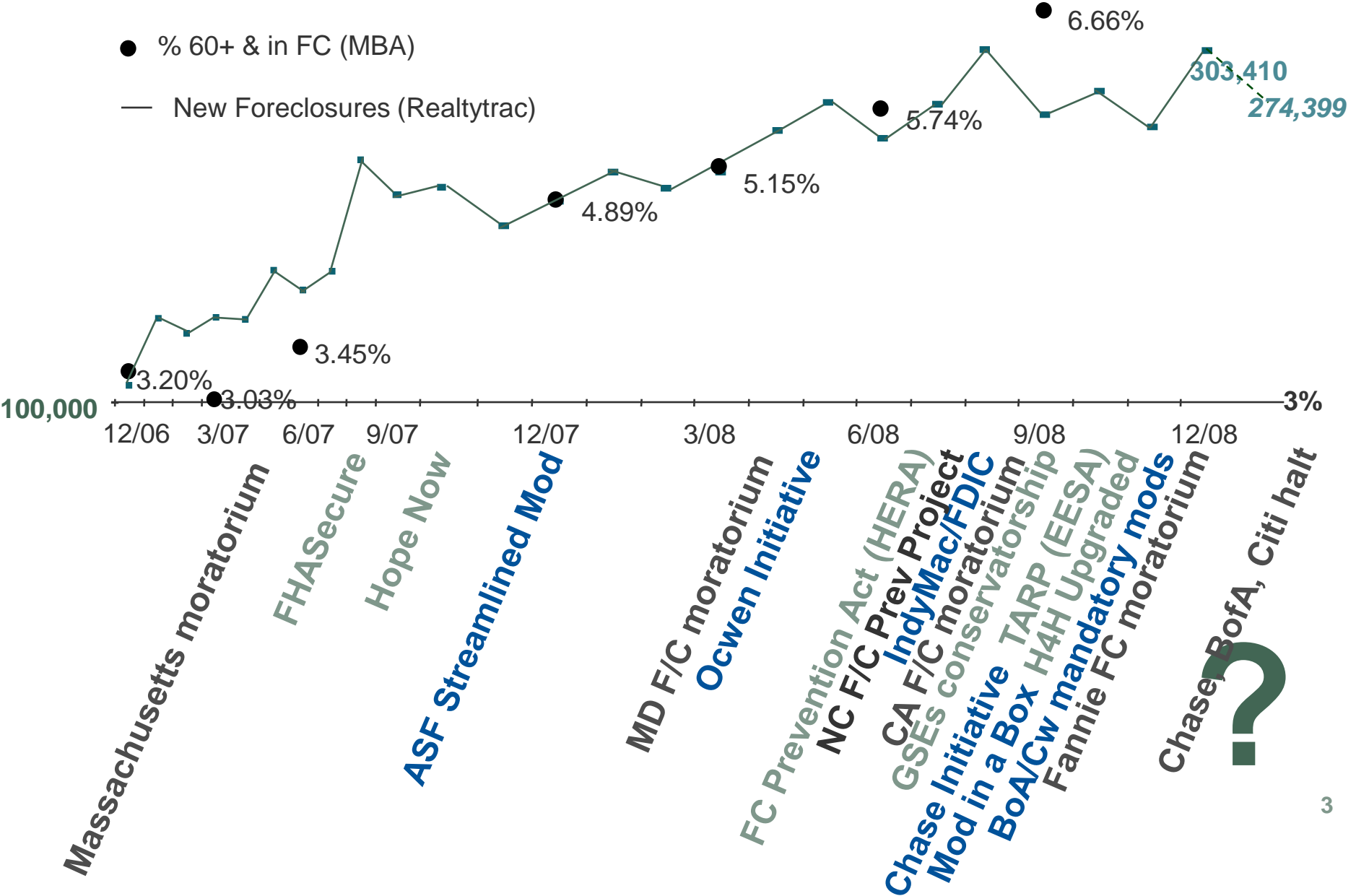


UNC
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CENTER for COMMUNITY CAPITAL
Research and analysis on the transformative power of capital

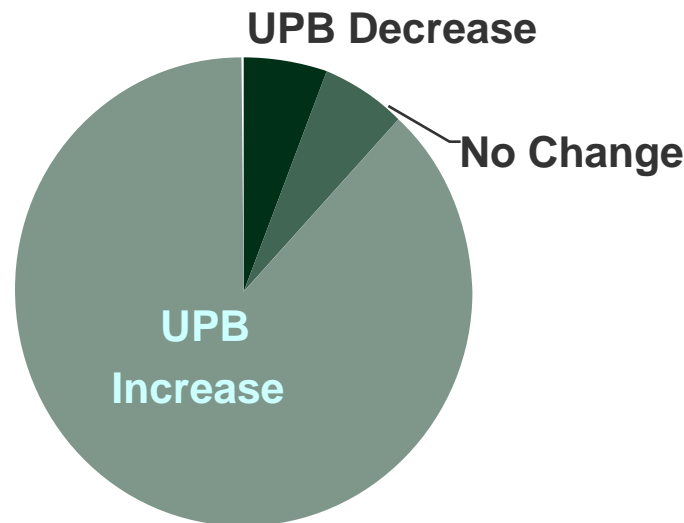
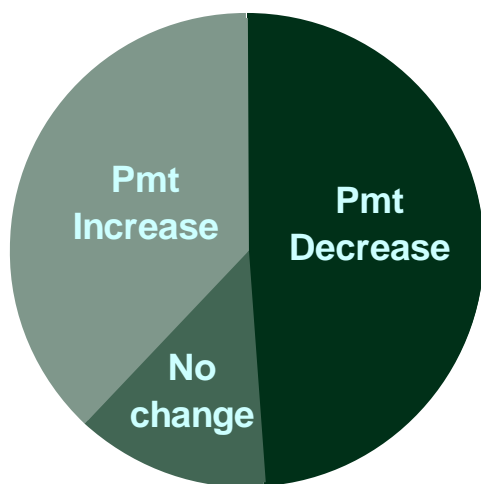
- Background and context.
- Foreclosure counselor experiences.
- Another look at loan modifications.
- Getting to more optimal solutions.

Tremendous level of effort, innovation:



- FC Counseling is labor intensive.
- Borrowers don't know what to ask for.
- Counselor/Servicer communication issues.
- Lack of systematic dissemination of program rules.
- The Good the Bad and the Ugly.
- Typical loss mit approaches.

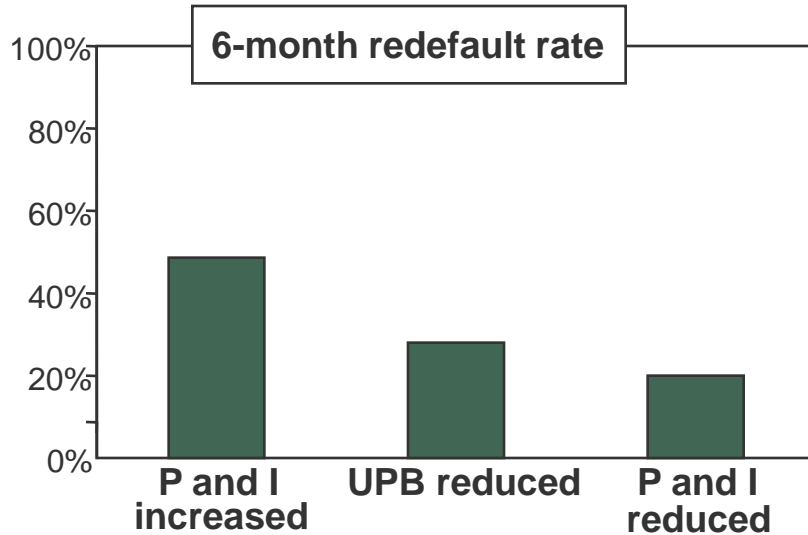
- Minority – *though increasing share* - of loans receive any modification.
- 4.6 FC-completed for every Mod-closed (*State Foreclosure Prevention Working Group - 13 servicers, 57% of subprime market, 15 million loans serviced, 9/2008 Report as of 5/08*)
- Case Study: 30,000 liquidated foreclosures (61% avg loss) vs 2800 principal reductions (13% avg reduction) (*Alan White, Valparaiso Law School*)
- Many mods are “lite” (*A White*)



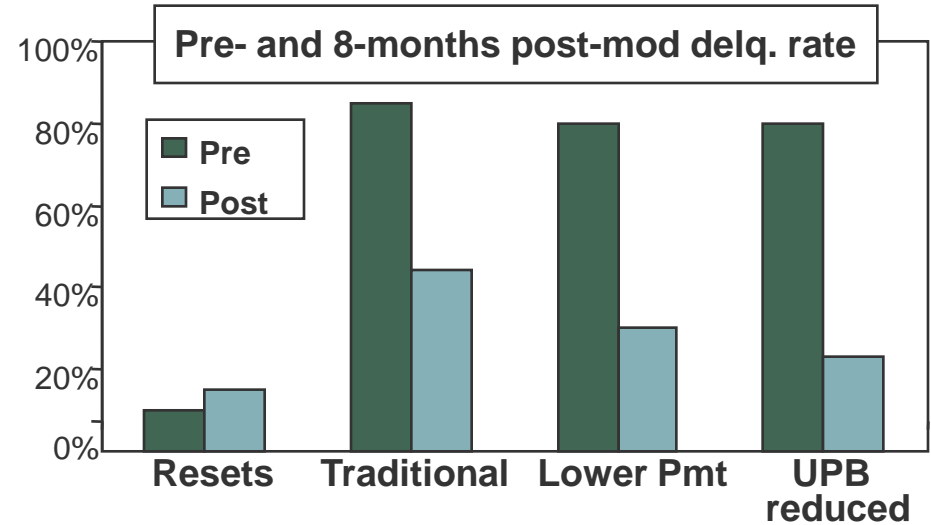
N=23,224 mods out of 3 million+ privately securitized mostly subprime & Alt-A mortgages

- **Some mods work better than others**

- Payment reductions reduce redefaults (Fitch)

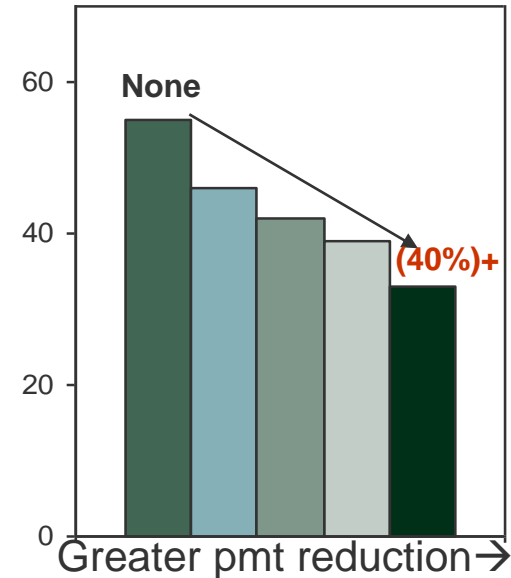
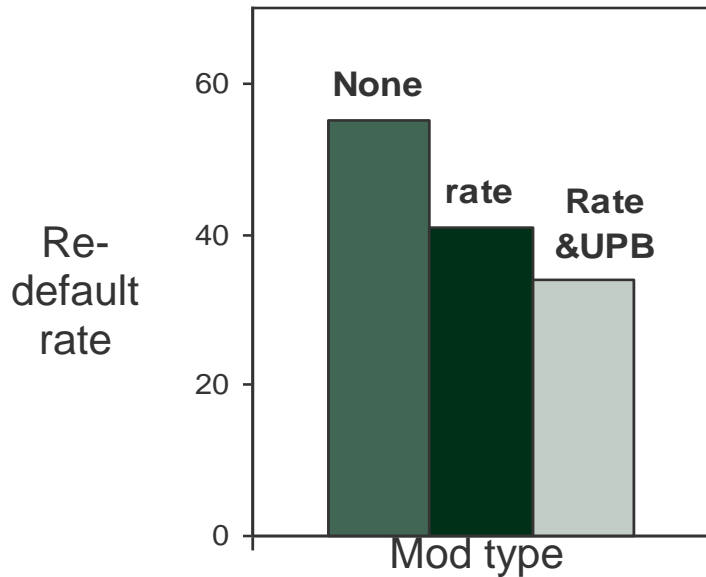


- Principal reduction mods make the biggest difference (Credit Suisse)



- **UNC Analysis of Loans:** Loans made 2005/2006, Securitized 2006 (> 1 million loans); Majority subprime or Alt-A; National (concentrations in Ca, Fl).
- Selected Owner Occupied and Modified in 2Q08 (n=9693).
 - Redefault = Delinquent within 6 months.

- *Payment reductions work*



- *Principal reduction helps:*

For mods with a meaningful payment reduction, having no or negative equity increases redefault odds significantly (+36%).

- *Other significant factors:* depth of delinquency(+), x delq in 12 mo(+), CLTV (+), ARMs(+), Full doc(-), loan amt(+), Purchase(+), area unemployment rate(+), certain states (Ca, Fl), certain servicers, Orig FICO(-).

	As Is	Reduce Rate	Reduce Principal & pmt & ext term
UPB	\$360,000		-36,000
Rate	7.5%	4.7%	5.7%
Term	336		456
Payment	\$2,660	\$1,980	\$1,980
Cure Odds	15%	60%	75%
NPV change	n/a	+\$52,000	+54,000
	4 mo. behind, >50% dti	38% dti, 3 mo to redefault	

So, what are you waiting for?

- 2.23 million vacant housing units for sale (*U.S. Census Bureau*).
- 1 foreclosure “every 13 seconds” (*CRL*).
- \$2.5 Trillion drop in household real estate wealth Q207 through Q308 (*Federal Reserve flow of funds report*).
- 2009, market will bottom at values more than 1/3 off peak...IF government takes "strong action" (*Moody's*).
- Foreclosures could reach 10 million over the next five years”. (*American Banker*).

- **Better models can leverage limited human resources and result in more optimal outcomes for:**
 - Taxpayers
 - Homeowners
 - Other Distressed Asset Investors (besides taxpayers)
 - Mortgage Servicers
 - Mortgage Insurers
 - [Aggregate] Investors
- **Broad and Clear Policy Intervention is Needed.**

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