



## **News Release**

**CONTACT: Aleis Stokes**  
**(202) 557-2741**  
[astokes@mortgagebankers.org](mailto:astokes@mortgagebankers.org)

**John Mechem**  
**(202) 557-2924**  
[jmechem@mortgagebankers.org](mailto:jmechem@mortgagebankers.org)

### **MBA's Quinn Highlights Servicer Efforts to Help Borrowers, Offers Policy Recommendations in Remarks at Chicago Fed**

**Chicago, IL (May 16, 2008)** – Kieran P. Quinn, CMB, Chairman of the Mortgage Bankers Association (MBA) today spoke today at the Federal Reserve Bank of Chicago's 44<sup>th</sup> Annual Conference on Bank Structure and Competition. In his remarks, Mr. Quinn spotlighted the work mortgage servicers are doing to help at-risk borrowers and said that the proper legislative and regulatory approach would allow servicers to help more borrowers, while stabilizing the market and preventing a reoccurrence of the events that resulted in the current difficulties. Mr. Quinn cautioned that the wrong approach has the potential to exacerbate the current troubles and deprive future borrowers the opportunity to become homeowners.

Here are Mr. Quinn's remarks, as prepared for delivery:

"In recent speeches, Chairman Bernanke, Governor Krozner and other Fed Board members have done an excellent job of laying out the root causes of our current predicament; and the steps the Federal Reserve— in conjunction with lenders, other regulators and consumer groups— has taken to help borrowers today and bring investor confidence back to the market.

We saw the breakdown in discipline across the board, innovations streaking ahead of regulation, the near overnight anathema attached to the words "subprime loan" and this body's unprecedented actions to avoid a spreading credit crisis.

But I would like to add three points as an overlay to their historical review:

The first is to shine a spotlight on the local economies of the upper Midwest, and particularly the economy of Michigan. Even without new products that were never subjected to a down economy, whether through modeling or in day-to-day reality; even without loosened underwriting, some ugly numbers would be coming out of Michigan today.

Second are the conditions in what we've been calling the sand states—California, Nevada, Arizona and Florida, in particular California and Florida.

Those two states had the highest percentage of non-owner occupied properties in the country— dangerous in itself. But combine it with the nation's greatest appreciation in home prices and you have a concoction that becomes deadly once housing values drop. Which they did, and continue to do.

And third, while much has been said in general about problems in the subprime market spreading to other parts of the economy, we need to specifically acknowledge the increase in foreclosures and delinquencies among Alt. A and prime mortgage loans. 30- and 60-day delinquencies are up among

those as well. That clearly speaks as much to the unavailability of credit right now as it does to recent history in terms of underwriting laxness and the type of loan made.

Now, the above points are in no way stated to minimize the fact that hundreds of thousands of loans were made that never should have been made.

But as we seek solutions, we need to look at everything that's in the mix. The recent HOPE NOW numbers, while showing the depth and breadth of the crisis, also show a strong response. I don't want to steal Faith's thunder before she walks you through the good numbers that were just released. But I will say that the MBA's own figures corroborate the trends Faith will be sharing with us.

One of those trends, the increase in actual modifications versus simple repayment plans in the workouts, speaks both to the nature of the loans coming through—the 2/28 and 3/27 ARMs—AND to the extraordinary steps servicers have taken to help borrowers stay in their homes.

Looking closer, we see that more than 430,000 of these 2/28 and 3/27 loans were scheduled to re-set in first quarter '08. Of those that were current at the time of the re-set, only 553 have gone into foreclosure— 553 out of 430,000.

14,418 of them were modified; the majority, nearly 64percent, for terms of five years or longer. Finally, fully 203,000 of those 430,000 about to re-set— 47percent— were paid in full, either through refinance or a sale.

Throughout this crisis, we as an industry have been proud of the job our servicers are doing; with plenty of blame to go around, they are the least deserving to be hit hard, yet they bear much of the burden. I believe this quarter's numbers from HOPE NOW show why we are so proud of our servicers. The efforts of the HOPE NOW alliance to reach and help borrowers in trouble have been invaluable.

Also interesting to note in the first quarter '08 statistics is that prime loan repayment plans approached the volume of the subprime repayment plans. Modifications were still overwhelmingly in subprime loans, a reflection of the loan products and the financial stability of the borrowers. But it again underscores the fact that we are definitely seeing an increase in delinquencies in the prime mortgage market as well.

Overall, the workouts to foreclosures ratio in the third and fourth quarters of 2007 for prime and subprime loans combined was about 3 to 1, dropping to about 2.5 to 1 in first quarter of 2008.

Over the past 10 years, the number of outstanding first mortgages for owner-occupied homes has gone up by almost 19 percent. Part of this increase was due to demographics and part due to lowering credit standards. As a result, the number of foreclosures started has been a little over 900,000 per year, versus 550,000 to 600,000 in the 1990s. With declining home prices and tighter lending standards, the number of foreclosures could hit 1.8 million in 2008 and continue to rise through 2009. However, aggressive Fed actions to increase liquidity in the market are easing concern over the ARM re-sets left in the portfolio. I'm speaking specifically of the moves that helped lower the LIBOR rates to which many of these ARM products are tied.

So there is the background. What steps are we taking?

Last month, the Mortgage Bankers Association unveiled a ten point action agenda in three areas: to help the consumers; to restore confidence and stability to the market; and to prevent a replay of these problems in the future.

Let me highlight one or two initiatives from each category. To help consumers, we support the issuance of tax-free Mortgage Revenue Bonds by state Housing Finance Agencies. The proceeds would be used to refinance mortgages for distressed borrowers.

To stabilize the marketplace, we continue to call for FHA modernization and a single strong regulator for the GSE's with powers like those of a bank regulator.

To help ensure against future abuses, we are strong advocates for the licensing of virtually all originators, including brokers, and the creation of a national database that can easily be accessed

by consumers. Borrowers would also have the peace of mind of knowing that whether an agent or an actual lender, these originators would be held accountable to professional standards.

And to increase the transparency so necessary for trust in the marketplace, we support simplifying processes and disclosures in a way that predatory lending practices cannot hide in plain sight.

That's a part of what the Mortgage Bankers Association is doing on its own. As I said, we are major contributors of resources and funding for the HOPE NOW Alliance. But we also want to work closely with regulators and legislators.

We applaud the speed with which the Federal Reserve has acted, and, for the most part, are in agreement with the actions already taken and proposed. Specifically, the proposed HOEPA rule.

HOEPA clearly demonstrates a comprehensive and thoughtful approach to modernizing the process. MBA has long supported a uniform national lending standard as the best means of curbing abusive lending practices and assuring the future availability of mortgage credit. Responsible uniform standards are the best way to protect consumers. They will maximize competition, lower costs and increase choices for all consumers. While the proposed rule is not broadly pre-emptive, it does set standards we believe will take us in that direction. We appreciate the Board's efforts not to over regulate and to strike the right balance between regulation and allowing the marketplace to work efficiently. This will best serve those consumers who are worthy of mortgage credit.

However, there are some aspects of the proposed rule with which we disagree. MBA filed its comments with the Board of Governors last month, and I would like to highlight one or two of the disagreements. Please keep in mind that we do support most of the proposed rule changes.

In a nutshell, in its desire to equitably cover all eventualities, some of the definitions, prohibitions and penalties are overly broad.

First is the definition of "non-prime" or "higher priced" loans. By tying this to the amount that a loan's APR exceeds comparable Treasury securities, we believe that many more loans than were intended by this definition will be subjected to unnecessary regulation. This will cut worthy borrowers out of homeownership.

We also favor standards in the form of safe harbors to define permissible lending behavior in regards to a borrower's ability to repay, rather than the proposed rebuttable presumption of non-compliance. Rebuttable presumptions invite unnecessary litigation, while safe harbors assure appropriate conduct.

I would also ask that the Board reconsider holding lenders liable for the conduct of independent third parties, such as appraisers and brokers. While we want regulation concerning the behavior of these third parties—and want restrictions to be backed by real authority—it should not be driven by lender liability.

We are seeking laws and regulations under which we can function smoothly and in our customers', as well as our own, best interests.

We want laws and regulation that give no quarter to fraud and irresponsible practices, and that will also set the table for safe growth of what will soon be one of our industry's biggest products—the reverse mortgage.

You don't need psychic powers to see this one coming. In the fable of the Grasshopper and the Ant, baby boomers are the grasshoppers. Many will find their "live for today" philosophy has left them with few fiscal resources for a tomorrow that will be longer than they planned for. Reverse mortgages represent a sane and reasonable way for seniors to take advantage of the equity in their homes. But they also represent an enormous opportunity for those who would take advantage of a fairly arcane product marketed to a more vulnerable population.

We have to get this one right. We need the proper regulations and legislation in place to prevent abuse and at the same time allow homeowners to make sound decisions in their best interest. Decisions that can keep them in their homes. After all, at this stage in their lives, there's no chance

to rebuild a nest egg—we're not talking about 30 year olds who may have made a costly mistake in judgment.

The Mortgage Bankers Association's residential board of governors is working on guidelines for industry best practices moving forward. You can be sure that these reverse mortgages will be dealt with specifically. We also want to make sure that our recommended best practices align with regulations, so that the industry is working hand in hand with regulators in a way that makes good business sense for everyone.

I dare say that everyone in this room is in favor of free markets. But I think we also realize that the invisible hand guiding them can sometimes slap us in the face. Because even an invisible hand needs the right information, and that takes the kind of transparency, which translates into trust.

For the foreseeable future, we will speak of trust, and mean trust but verify— and that is how it should be. For as good as we became at spreading risk, we should be equally adept at spreading responsibility. Spreading the *acceptance* of responsibility.

The subprime market will be back. It should be back. We were always right in seeking to make permanent the idea that owning a home isn't just for the wealthy. That is still an admirable goal. And it will happen when we ease the fears and uncertainties of those in the capital markets by what we do in the next few months."

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**The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 370,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand homeownership and extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of over 2,400 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, Wall Street conduits, life insurance companies and others in the mortgage lending field. For additional information, visit MBA's Web site: [www.mortgagebankers.org](http://www.mortgagebankers.org).**