

# **Housing Risk**

## **Policy Issues & Responses**

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## ***Modifications Declining***

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- ***HAMP Permanent Modifications Slowing***
  - 2010 – 512,712
  - 2011 – 353,677
  - Change = -31%
  
- ***Proprietary Modifications Slowing***
  - 2010 – 1,245,757
  - 2011 – 694,245
  - Change = -44%

# ***Foreclosures Declining; Delinquencies Dropping***

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- ***Foreclosure Starts***

- 2010 – 2,616,910
- 2011 – 2,265,989
- Change = -13%

- ***Completed Foreclosure Sales***

- 2010 – 1,070,004 (41% of Starts)
- 2011 – 842,777 (37% of Starts)
- Change = -21%

- ***60+ Day Delinquencies Declining*** (average for the year)

- 2010 – 3.44 million
- 2011 – 2.79 million (Q2: 2.79 million; Q4: 2.73 million)
- Change = -19%

## ***Residential Mortgage Programs - Overview***

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- ***Limited Effectiveness to Date***
- ***Expansion of Existing Programs and Addition of New Programs Modest in Scope***
- ***Programs Requiring Legislation Likely to be Stillborn***
- ***Nonetheless Some Positive Impact Likely Over Next Two Years***
  - Potential for up to an additional 1.7 million in refinanced mortgages
  - Potential to reduce vacancies by up to 800,000, which Goldman Sachs estimates would boost average home prices nationally by 0.8%
  - REO bulk sales for rentals would improve home price indices
- ***Home Price Expectations Remain Depressed***
- ***Mortgage Credit Supply Remains Restricted***

## **Residential Mortgage Programs – Already Implemented**

- ***HAMP – Home Affordable Mortgage Program***
  - Payments reduced an average 37%
  - Extended one year to end of 2013
  - Expanding eligibility – debt-to-income ratios; renter occupied homes
  - Additional 550,000 to 700,000 mortgages
- ***12-Month Forbearance for Unemployed***
- ***HARP 1.0 – Home Affordable Refinance Program***
- ***Proprietary Modifications***
  - 80% result in reduced monthly payments
  - 63% result in reduced monthly payments greater than 10%
- ***Independent Foreclosure Review (Fed/Comptroller of the Currency)***
  - Independent consultant look-back review of foreclosures
  - Foreclosed borrowers may request review (single digit response)

# Residential Mortgage Programs – To Be Implemented Soon

- ***HAMP – principal reduction***
  - Increased investor financial incentives; amount linked to LTV
  - Additional 50,000 to 100,000 mortgages
  - Incentives to Fannie/Freddie to write down principal, but FHFA says it will cost taxpayers \$100 billion – may require legislation
- ***HARP 2.0***
  - Expands eligibility parameters
  - Changes take effect mid-March
  - Extended to end of 2013
  - 800,000 to 1 million additional mortgages
- ***Bulk Sales of REO Properties to Investors for Rental***
  - 200,000 to 400,000 homes

# *Residential Mortgage Programs – Being Implemented*

- ***Attorneys General Servicer Settlement***

- Five Servicers – Bank of America, Wells Fargo, JPMorgan Chase, Citi Bank, Ally Bank (GMAC)
- \$25 billion settlement cost
  - \$17 billion in direct relief to distressed borrowers in form of principal reductions, short sales, forbearance
  - \$3 billion for refinancing performing underwater mortgages
  - \$5 billion to federal and state governments for foreclosure-related initiatives and remediation payments for borrowers who suffered specific servicing abuses
- Will likely release servicers from origination claims but not from securitization claims
  - New York lawsuit alleging that MERS (electronic mortgage registry) database led to improper foreclosures (Bank of America, JPMorgan Chase, Wells Fargo)

## ***Residential Mortgage Programs – Require Legislation***

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- ***Refinancing Private Label Loans into FHA-Backed Mortgages***
  - 400,000 potential
- ***Expansion of GSE HARP Program***
  - Principal reduction on underwater mortgages
  - Some believe FHFA could implement without legislation
  - 200,000 potential
- ***Rehab of Vacant/Foreclosed Properties***
  - Cost of \$50,000 to \$100,000 per home
  - 150,000 to 300,000 homes
- ***Cost of Legislation = \$15 billion***
  - Financed by bank tax

# Consumer Financial Protection Bureau

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- **Regulatory Streamlining**
- **QM – Qualified Mortgage**
  - Safe harbor definition – UDAAP and right of private action
  - Q2 – final rule expected
- **QRM – Qualified Residential Mortgage (Risk Retention)**
  - Q3 – final rule expected or after QM rule released
  - 20% down payment requirement for exemption
  - Biggest remaining issue is “premium capture reserve” – reserve account held in 1<sup>st</sup> loss position for life of mortgage security, which would be in addition to 5% risk retention requirement