Housing Risk

Policy Issues & Responses

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Bill Longbrake
Executive in Residence
Robert H. Smith School of Business, University of Maryland
Modifications Declining

• **HAMP Permanent Modifications Slowing**
  - 2010 – 512,712
  - 2011 – 353,677
  - Change = -31%

• **Proprietary Modifications Slowing**
  - 2010 – 1,245,757
  - 2011 – 694,245
  - Change = -44%

Source: HOPE NOW
Foreclosures Declining; Delinquencies Dropping

- **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%

Source: HOPE NOW
Residential Mortgage Programs - Overview

• **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

• **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

- **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 1st loss position for life of mortgage security, which would be in addition to 5% risk retention requirement