MORTGAGE BANKERS ASSOCIATION®
Investing in communities

President-elect Obama Treasury Review Team Briefing

Tuesday, December 9, 2008
Agenda

I. MBA Background

- Represents all sectors of the housing finance system. Membership includes originators, lenders, settlement services providers, servicers, mortgage insurers, credit ratings agencies and other secondary market participants.

II. Stimulus Legislation

- **Tax stimulus** (see attachments).

- **Conforming Loan Limits**: In the current environment, Fannie Mae, Freddie Mac, Ginnie Mae and the FHA are the only significant sources of housing finance liquidity. Their support should be distributed to the broadest spectrum of home prices as possible in this unstable market. MBA recommends a permanent change to the standard base conforming loan limit for single-family one unit properties from $417,000 to $625,500. MBA further recommends the limit for loans in high-cost areas should remain at the level provided by the Economic Stimulus Act – 125 percent of the median home price for the high cost area up to $729,750. Loan limits for other single-family properties up to four units would also be adjusted proportionately.

III. Housing Finance and Liquidity Relief Efforts

- **MBA Refinance Proposal**: MBA believes an effective borrower assistance program would overcome existing obstacles to modification resulting from fiduciary or contractual obligations of MBS trustees/servicers. The ideal program also would provide an outlet for performing and non-performing borrowers whose loans are "underwater," but who have sufficient income to afford their mortgages under reasonable rate/term/principal scenarios. One way to improve borrower interest rates and spur refinancings, would be to create a tax-free MBS to improve borrower interest rates. Alternatively, the government could purchase and hold whole loans, thus eliminating the bond feature and need for FHA insurance. Either TARP or the $300 billion allocated to Hope for Homeowners could be used for funding such a program.

- **Secondary Market Restructuring**: MBA has undertaken an evaluation of the purpose and components of the secondary mortgage market. A council of MBA members from all segments of the primary and secondary market is responsible for this comprehensive structural and policy review. The review will provide the basis of a resource document for MBA, Congress and the new administration in considering future legislative and regulatory action.

- **Warehouse Lines of Credit (LOC)**: Recently, MBA has been made aware of a growing threat to a source of capital for many mortgage lenders – warehouse lenders closing, ending, or adding restrictions on their warehouse LOC. As a result, some lenders in otherwise sound financial condition are experiencing challenges in maintaining their capital positions. Warehouse lenders serve as crucial short-term liquidity sources for mortgage bankers, specifically those that are small to mid-sized non-depository institutions. MBA believes warehouse lenders should be encouraged to provide LOC access to eligible financial institutions.

- **Loan repurchases**: Fannie Mae and Freddie Mac have publicly announced efforts to significantly increase their review of troubled loan documents in an effort to identify "misrepresentations" and require sellers/servicers to repurchase the loans. MBA believes these initiatives run counter to efforts by the government and other market participants to provide liquidity relief and borrower assistance. MBA believes the housing finance system would be better served if, while under conservatorship, the GSEs directed their efforts toward modifying or resolving troubled loans rather than simply shifting the burden of resolution elsewhere. For example, the GSEs could focus primarily on loans that exhibited troubled characteristics *ab initio* rather than performing loans that became troubled more than one year after origination.

III. Other Issues

- **Troubled Assets Relief Program (TARP)**: The TARP implementing legislation authorized Treasury to develop a program to purchase nonperforming, delinquent or other problematic mortgages, or related assets directly from financial institutions. The purpose of the direct purchase program was to free up capital in the housing finance system and enable financial institutions to begin lending again. Treasury has recently abandoned this component of TARP, and is instead using TARP funds to provide capital injections to nontroubled financial institutions. MBA encourages Treasury to purchase and modify troubled whole loans from lenders and servicers. This will enable lenders to focus on originating new loans rather than working out existing troubled loans.

- **Interest Rate Buy Down Proposal**: Some borrower assistance programs have features designed to lower the interest rate for purchase money mortgages sold to Fannie Mae or Freddie Mac. While this feature has some appeal as part of a comprehensive relief initiative, it is likely to cause negative side effects if it were implemented as a stand alone program. This is because interest rates are not the sole determinant of home purchase activity. A borrower's creditworthiness, down payment, closing costs and other factors also play a role. Moreover, if Fannie Mae and Freddie Mac are used to stimulate housing activity, financial institutions that hold loans in portfolio or that use Federal Home Loan Bank advances would be placed at a competitive disadvantage. Additionally, a program designed exclusively for home purchases provides no relief to borrowers who want to stay in their homes but have onerous monthly mortgage payments.

- **Multifamily/Rental Finance Relief:** The credit crunch is hurting the availability and costs of financing for multifamily and rental properties. It is important to ensure that financing options to promote affordable rental housing are not overlooked in the development of future "housing relief" measures.