Missouri Home Ownership Preservation Summit

January 14, 2010

Foreclosure, Fraud and Consumer Protection: Current trends and the role of mortgage fraud, appraisal fraud, mortgage rescue scams in the mortgage crisis.

MoHPN

MISSOURI HOMEOWNERSHIP PRESERVATION NETWORK

Who is to Blame?

- Appraisers
- Mortgage Brokers and Mortgage Bankers
- Borrowers and Loan Officers
- Investors and Servicers
- Government Agencies and Policies
- Glass-Steagall Act
- Fannie and Freddie Entrance into Subprime Lending
- CREA- Community Reinvestment Act

Sub Prime Mortgages

Undo Influence by Lenders

Inflated Values by Appraisers

Negative Equity

Mortgage Mess = Mortgage Fraud

Appraisal Solutions

- HVCC -Home owners Valuation Code of Conduct , May 2009
- HUD Mortgagee Letter 2009-28 ,September 2009
- Nation wide regulated appraisal fees
- Management fees that are not taken out of the appraiser’s fee
- Still Required to implement
- The 33% Rule
    - No AMC can provide more than 33% of appraisal services to their bank holding companies
- Federal or State regulations of AMC companies, including licensing

Doubts About Past Valuations

- According to a statement released by Retro Appraisals last month, 70 percent of appraisals made for mortgage financing between 2005 and 2007 were overstated and inflated.

Top Retail Lenders in 2008

Name	Market Share	Name	Market Share
Bank Of America	17%	GMAC	1.5%
Wells Fargo	16%	Quicken Loans	1.5%
Chase	7%	Branch Banking & Trust	1.3%
Countrywide (bought by Bank of America)	7%	First Horizon Home Loans	1%
Wachovia (purchased by Wells Fargo)	4%	U.S. Bank Home Mortgage	1%
Citi-Mortgage	4%	Fifth Third Mortgage	1%
PHH Mortgage	3%	CTX Mortgage	.75%
Washington Mutual (bought by Chase)	3%	Navy Federal Credit Union	.6%
National City Mortgage	2%	HSBC Mortgage	.6%
SunTrust Mortgage	2%	Regions Mortgage	.6%

The Subprime 25

- The top 25 lenders were responsible for nearly $1 trillion of subprime loans, according to a Center for Public Integrity analysis of 7.2 million “high interest” loans made from 2005 through 2007. Together, the companies account for about 72 percent of high-priced loans reported to the government at the peak of the subprime market. Securities created from subprime loans have been blamed for the economic collapse from which the world’s economies have yet to recover.

Banks Bundled Bad Debt, Bet Against It and Won

- One focus of an inquiry is whether the firms creating the securities purposed helped to select especially risky mortgage-linked assets that would be most likely to crater, setting their clients up to lose billions of dollars if the housing market imploded.
- Some securities packaged by Goldman and Tricadia ended up being so vulnerable that they soured within months of being created.

Goldman Saw It Coming

- "The simultaneous selling of securities to customers and shorting them because they believed they were going to default is the most cynical use of credit information that I have ever seen," said Sylvain R. Raynes, an expert in structured finance at R & R Consulting in New York. "When you buy protection against an event that you have a hand in causing, you are buying fire insurance on someone else's house and then committing arson."

A Deal Gone Bad, for Some

- The woeful performance of some C.D.O.'s issued by Goldman made them ideal for betting against. As of September 2007, for example, just five months after Goldman had sold a new Abacus C.D.O., the ratings on 84 percent of the mortgages underlying it had been downgraded, indicating growing concerns about borrowers' ability to repay the loans.

Solution to Foreclosures

- Banks are foreclosing homes and selling them for 40%, 50%, 60% off of retail values.

- If they would modify loans reducing payments 30%, 40%, 50% allowing homeowners to stay in their homes we will put a bottom to the real estate market . This will save the cities tax bases and our neighborhoods.

Saving Homeownership

- More than 60% of homeowners who received modifications in the third quarter of 2008 were delinquent once again a year later, the report showed. Only 42.7% of adjustments made during that quarter decreased payments.
- Now, servicers are routinely lowering interest rates, extending the term of the loan and sometimes reducing the principal to make the loan more affordable.
- "What this shows is if you reduce payments, you have a greater chance for sustainable modifications," said Bryan Hubbard, spokesman for the Comptroller's office.

Changing attitudes of Servicers

- Servicers are doing more to help people stay in their homes, assisting more than 680,000 borrowers in the third quarter 2009, the report shows. That's up 68.7% from the second quarter 2009. More people are getting modifications than foreclosures: There were 369,000 newly initiated foreclosures during the quarter.

Modification of Loans

- Only 18.7% of borrowers who had their loans modified in the second quarter 2009 were delinquent three months later, according to a banking regulators' report released Monday. This compares to 30.7% of borrowers in the first quarter 2009. Regulators attribute it to their March directive that urged financial institutions to make sure the loan modifications they do are affordable and sustainable

Results of Modifications

- As a result, the percentage of modifications that decreased monthly payments shot up to 78.3% in the second quarter 2009, from 53.5% in the first quarter 2009, according to the report issued by the Office of Thrift Supervision and the Comptroller of the Currency.

Forensic Appraisal Reviews and Appraisals

- Gossman & Associates provides Forensic Appraisal Reviews and Appraisals in cases where appraisal fraud is suspected or alleged. Our forensic appraisal reviews and appraisals help determine whether an appraisal has been prepared competently and in compliance with applicable regulations and standards.

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