

Working With Homebuyers under Current Market Conditions

Monte Franke
Franke Consulting Group

Under contract to DHCR/HTFC

Topics

- Update on current homebuyer & lending market conditions & risks
- Adjusting your program design & underwriting
- Foreclosure prevention/intervention

DHCR RFP

- Subprime foreclosure prevention services
- \$20 M, open window starting 6/18
- www.nysdhcr.gov/oed/progs/foreclosure/foreclosure.htm

Homebuyer & Lending Market Update

Keep In Mind That...

- All housing markets are local
- National trends: may or may not apply
 - Upstate markets didn't rise as much, and unlikely to fall as much as national trends
- But:
 - Markets are cyclical & may lag national trends
 - Collateral impacts (lending markets, economic impacts) likely everywhere
- Ask yourself: what's applicable now, & what you need to watch for

The Market Rollercoaster

- Historic run-up in prices in last decade
- But the market has turned:
 - Nationally, the price peak was June 2007
 - Down 12% since then (Case/Shiller – 16%)
- Hard/soft landing? MBA 2008 projections:
 - Existing sales down 14% to 4.86M
 - New home starts down 32% to .525M
 - Prices down 7%

Why The Run-up Occurred

- Factors:
 - Push into homeownership (up 5% 1994-04)
 - Slightly faster HH growth than expected
 - Labor & materials up; national/international factors
- Trad. supply/demand factors don't explain
 - Supply is adequate: 2 M new units v. 1.4 M HH/yr
 - 4+ M excess single family units
 - Demand: home prices were up, but not rents
- The run-up was more about "investment"

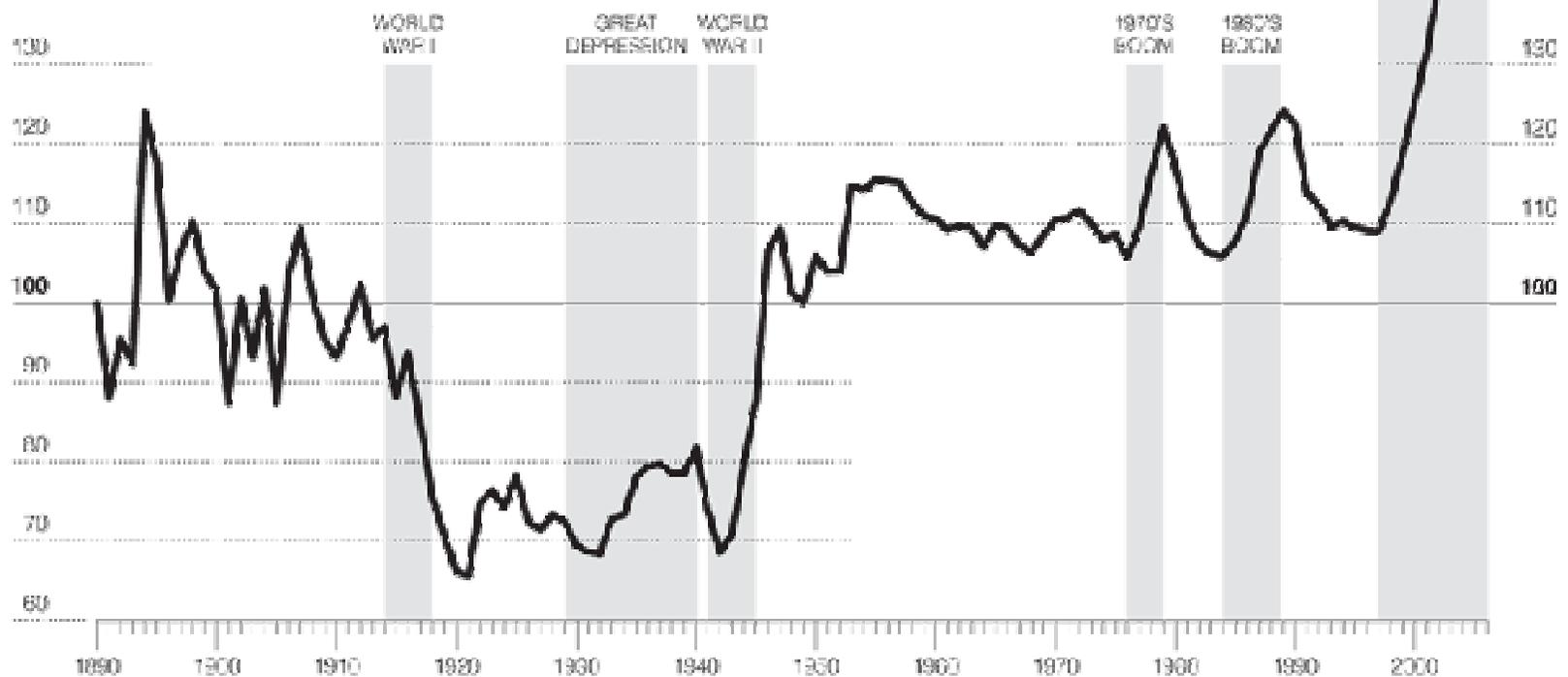
A History of Home Values

The Yale economist Robert J. Shiller created an index of American housing prices going back to 1890. It is based on sale prices of standard existing houses, not new construction, to track the value of housing as an investment over time. It presents housing values in consistent terms over 118 years, factoring out the effects of inflation.

The 1890 benchmark is 100 on the chart. If a standard house sold in 1890 for \$100,000 (inflation-adjusted to today's dollars), an equivalent standard house would have sold for \$36,000 in 1920 (66 on the index scale) and \$199,000 in 2006 (199 on the index scale, or 99 percent higher than 1890).

DECLINE AND RUN-UP Prices dropped as mass production techniques appeared early in the 20th century. Prices spiked with post-war housing demand.

BOOM TIMES Two gains in recent decades were followed by returns to levels consistent since the late 1950's. Since 1997, the index has risen about 85 percent.

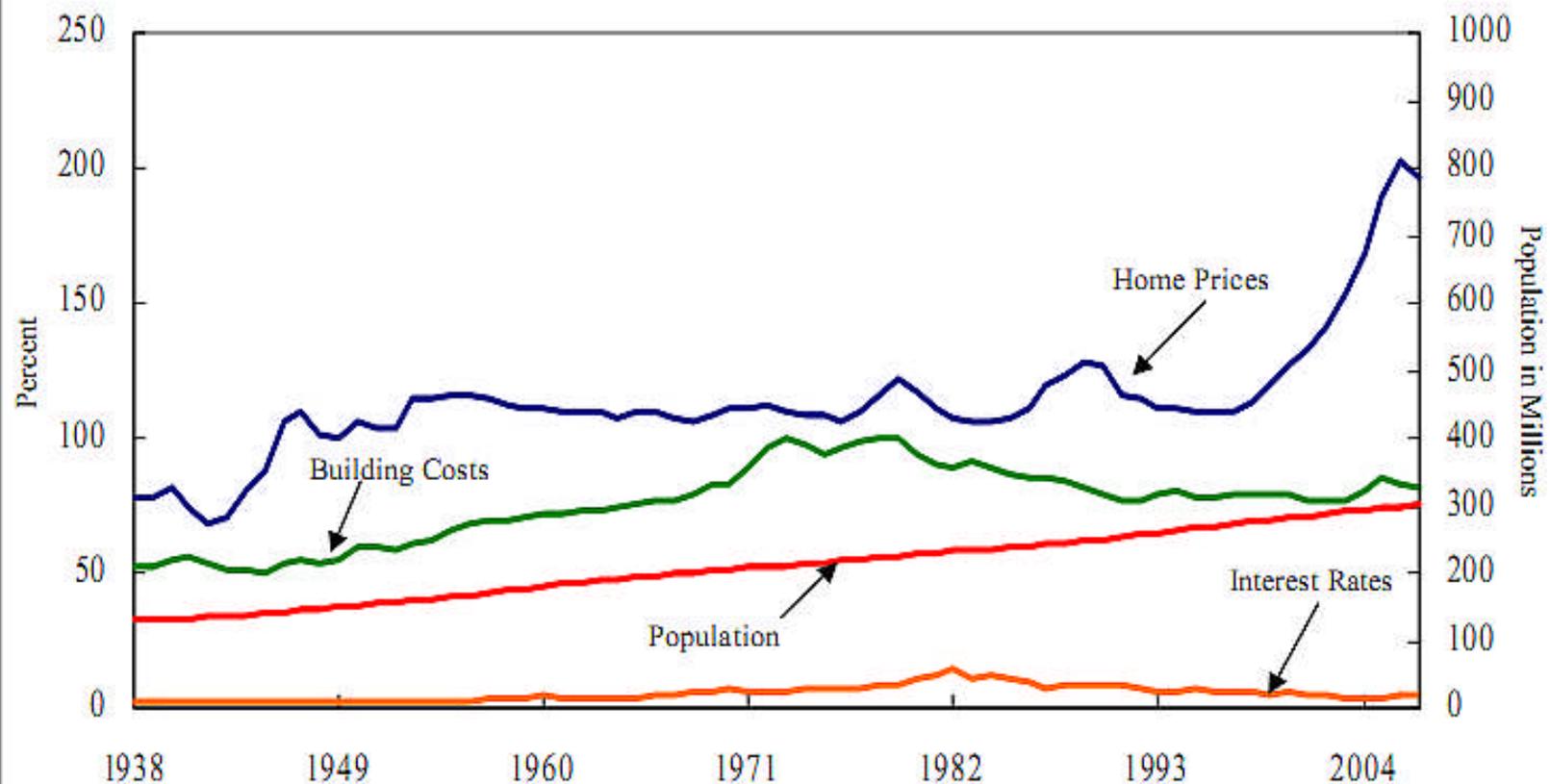


Source: "National Exuberance," 2nd Edition, 2008, by Robert J. Shiller

Bill Murch/The New York Times

Traditional Supply/Demand? No!

Figure 1: U.S. Housing Market in Historical Perspective
Shiller U.S. Real Housing Price Index and Other Economic Indicators, 1938-2007



Source: *Irrational Exuberance*, 2nd Edition, 2005, by Robert J. Shiller, Figure 2.1 as updated by author.

Aberration...or New Paradigm?

- Housing becoming a fungible asset...not just a home
 - Consumers: primary investment asset
 - Maximized financing: terms that don't retire debt
 - Preferred debt for consumer expenditures
 - Investors: another category to trade in and out of, depending on market trends, producing wider market swings
- Future: housing prices will fluctuate more with investment dynamic

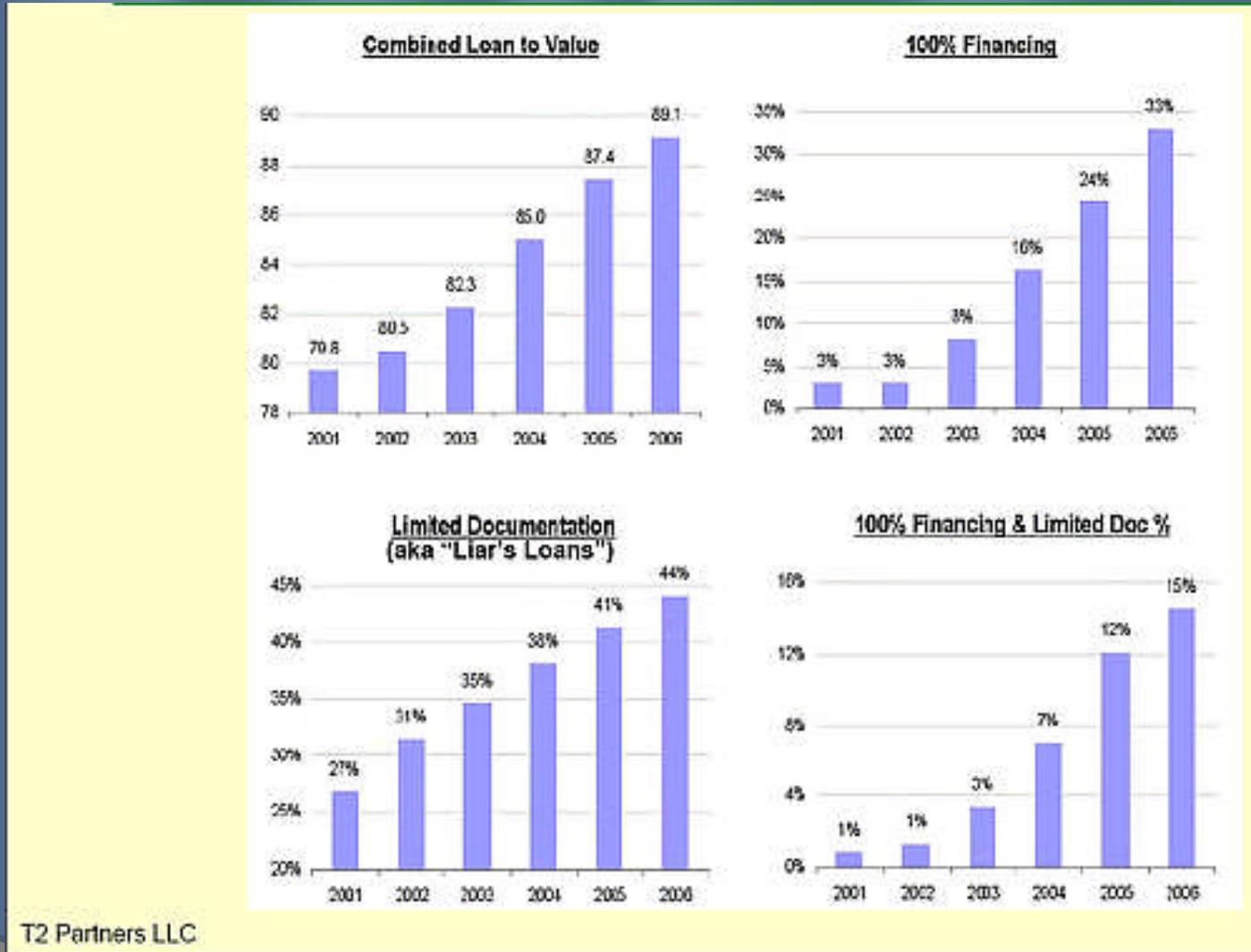
Housing As Portfolio

- Flip that house: the fungible asset
 - 38% US s/f homes are not primary residences
 - 40% 2005 s/f sales were not for primary residences (28% investment; 12% vacation)
 - 1.6 units/HH in US
- The shadow market
 - Many single family homes rented
 - May be why rents didn't keep pace

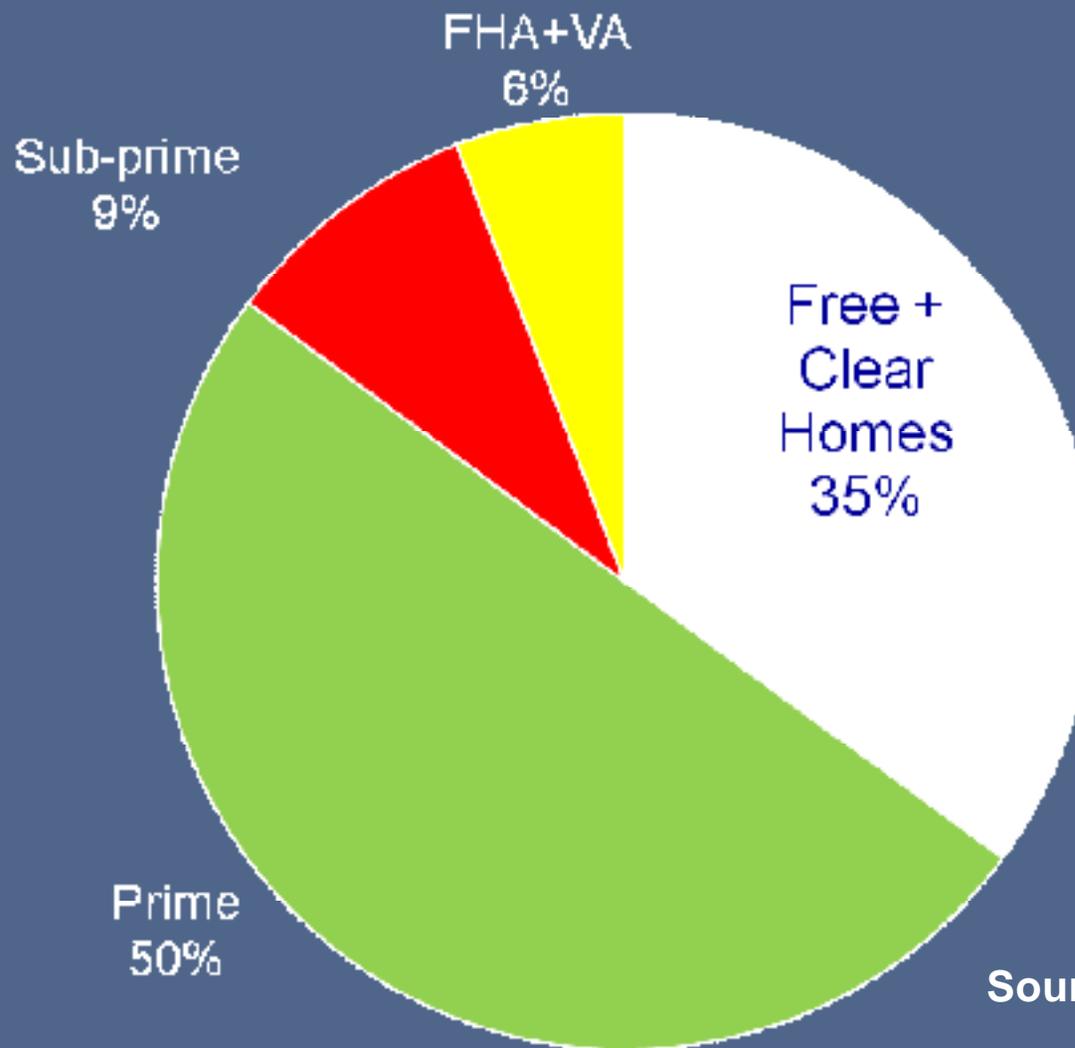
Housing As ATM

- Tapping our equity:
 - \$21T in housing wealth; \$10T since 2000
 - But negative savings rate (hsg wealth ↑ consumption)
- Coupled with aggressive lending products: both conventional & subprime

Aggressive Lending/Borrowing



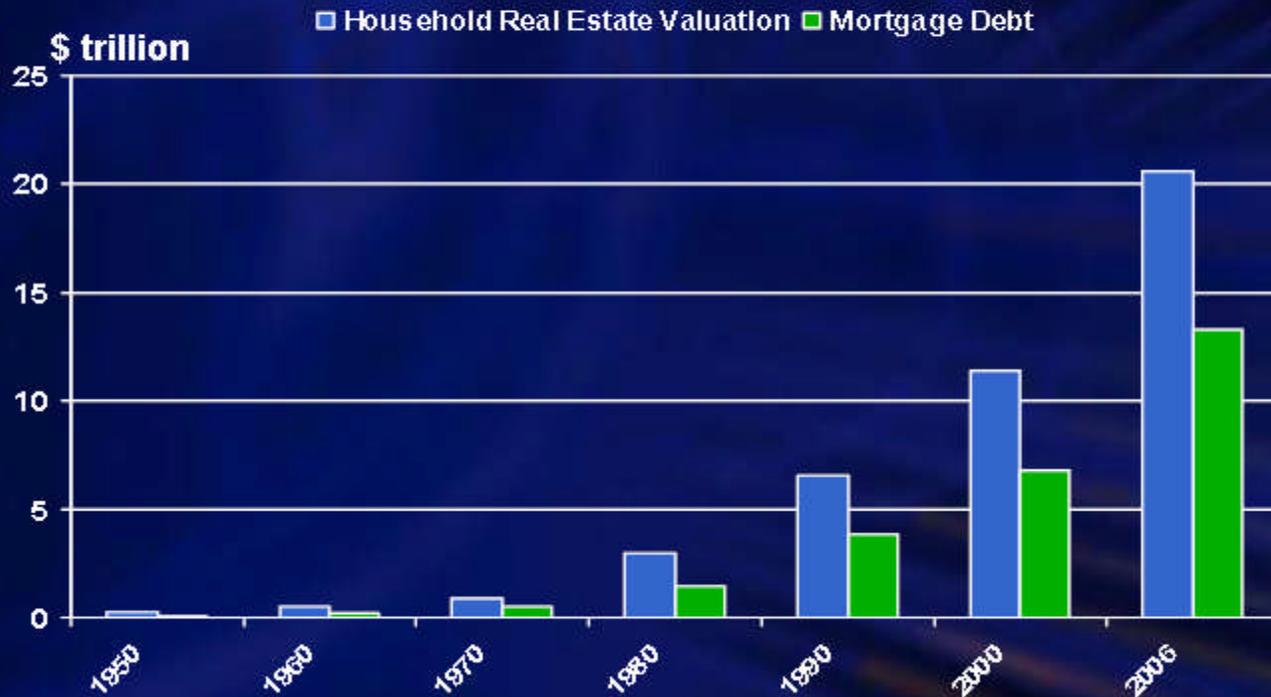
Loan Types



Source: NAR Estimate

We Borrowed Our Equity

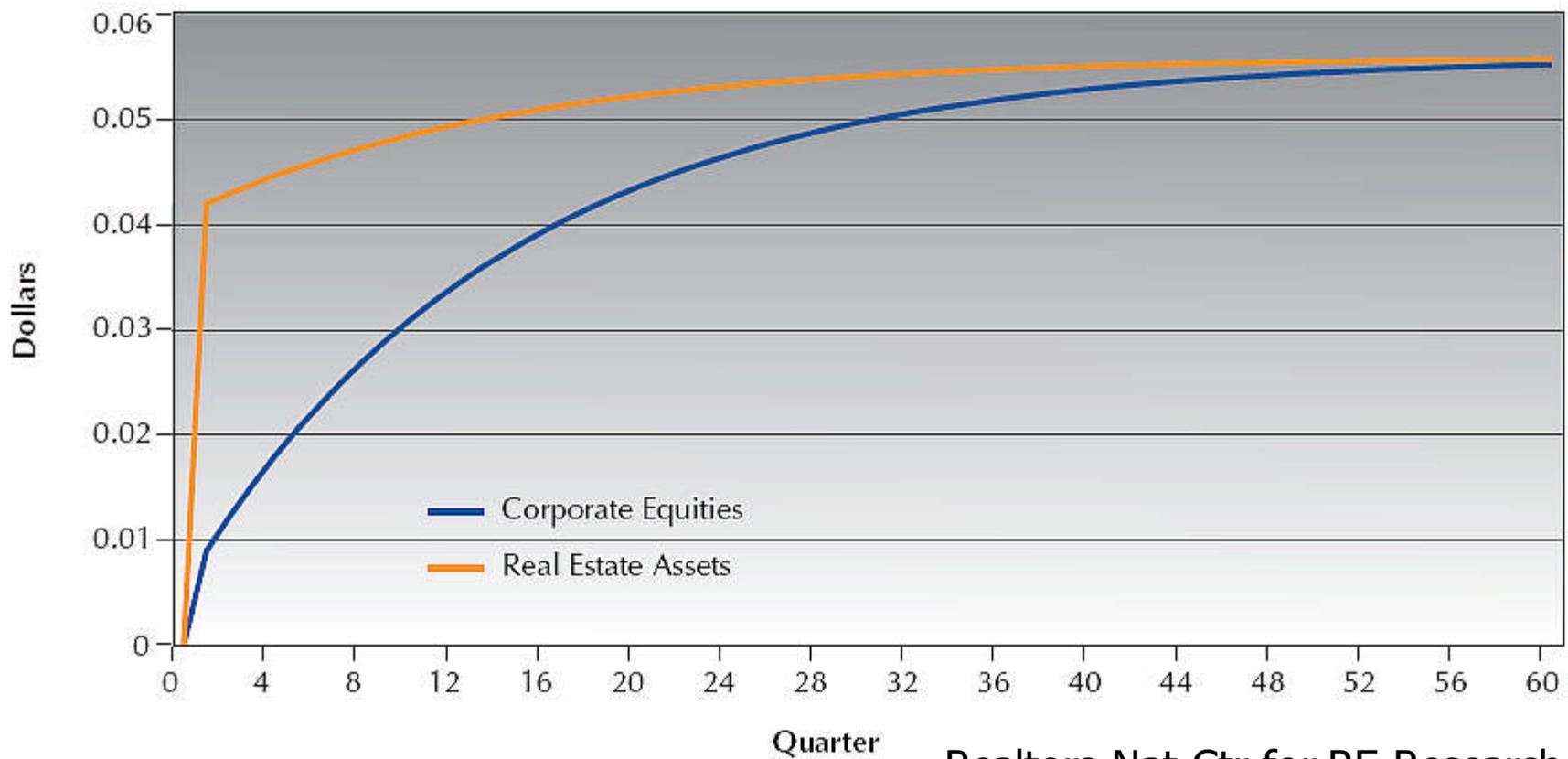
Housing Valuation and All Debt



Source: Federal Reserve

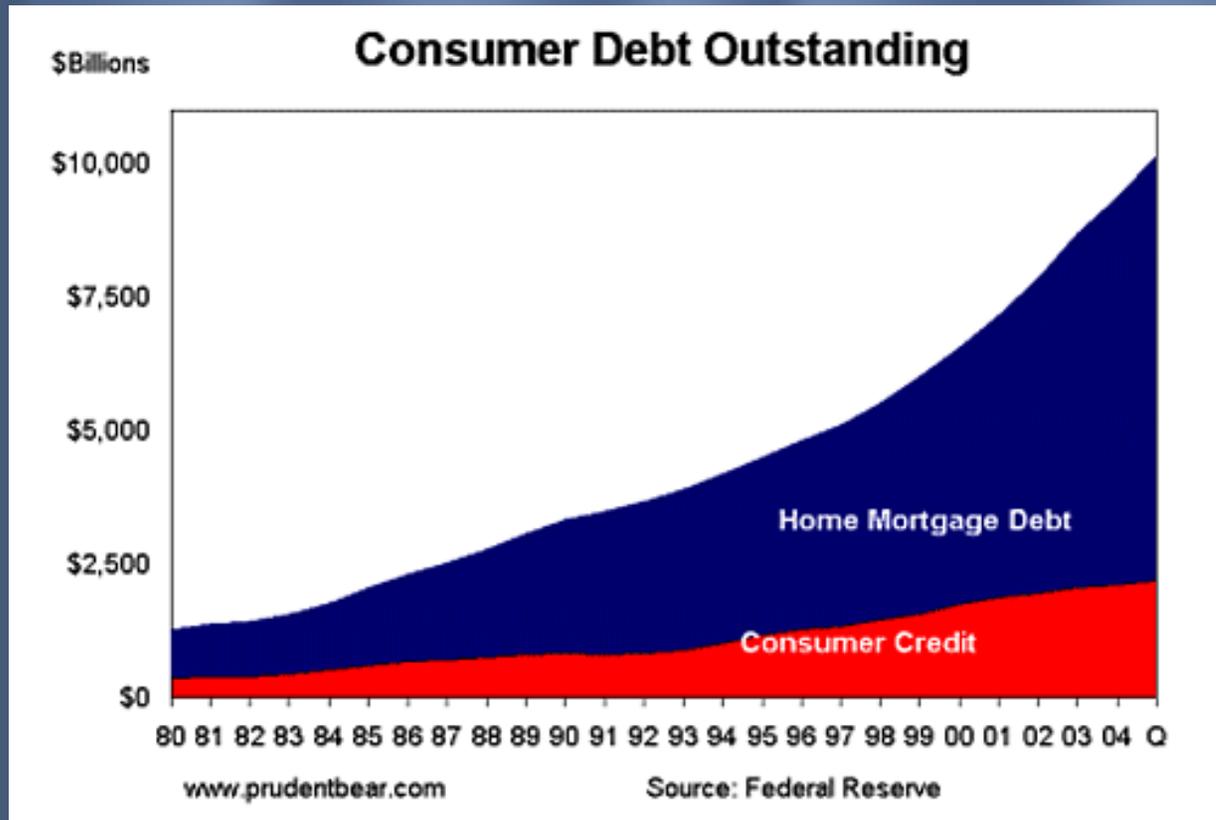
And Spent It

The Estimated Marginal Propensity to Consume Per Dollar of Wealth



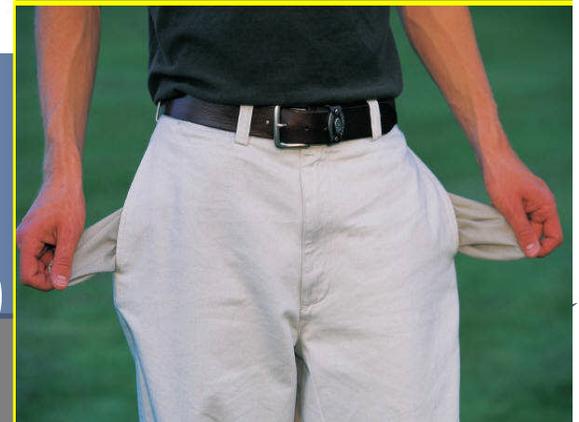
Realtors Nat Ctr for RE Research

And We Now Owe So Much



42% increase in mortgage debt since 2001
Real home equity down 6.5% in 2007 in \$9.6T
Average baby boomer equity down 26% 2004-09

June 2008

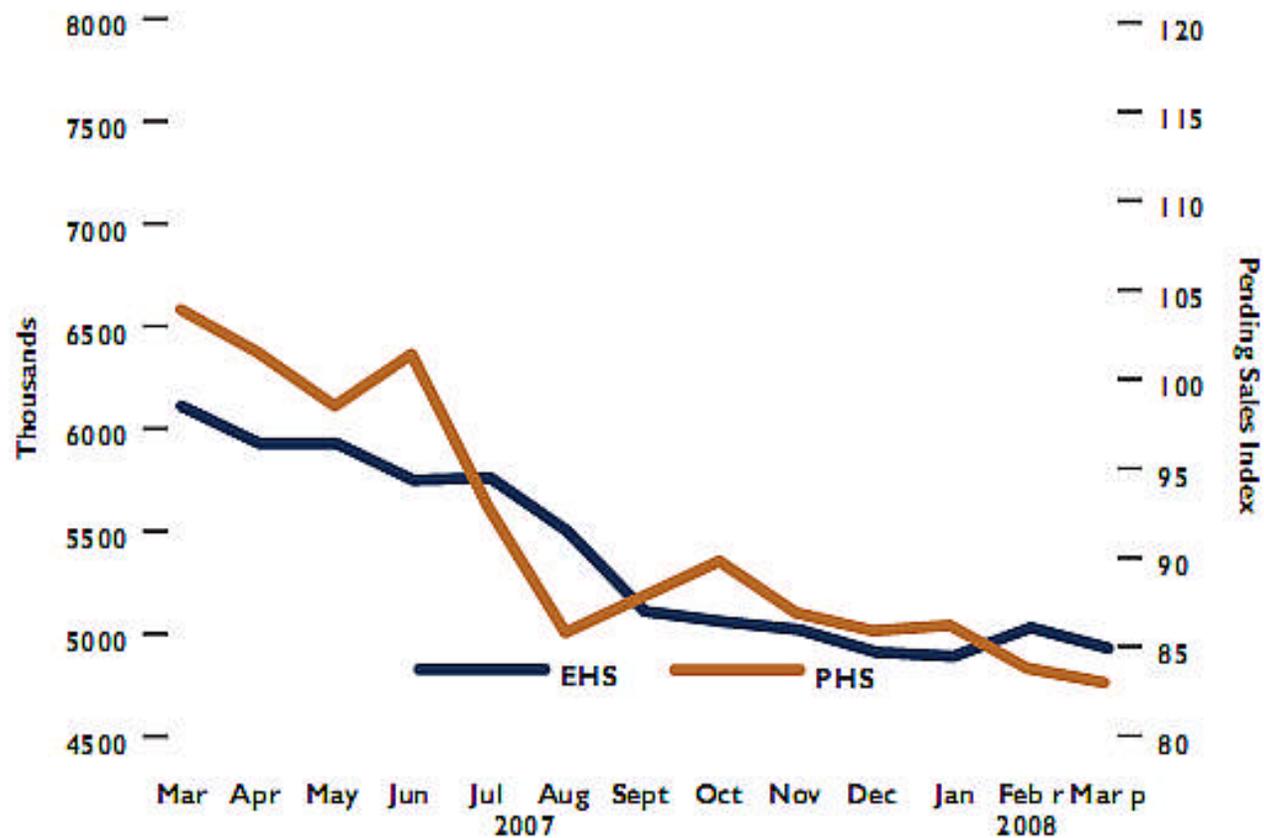


The Market Has Turned

- Reduced sales volume
- Rising inventory
 - Homebuilders slowed & slowing more
 - Investors pulled out
 - Lenders tightened, eligible buyer pool shrank
 - Foreclosures adding to supply
- Prices dropping in markets that rose
 - Some lagging markets stable/rising slightly
- Market softness exacerbates foreclosures

Sales Still Trending Down

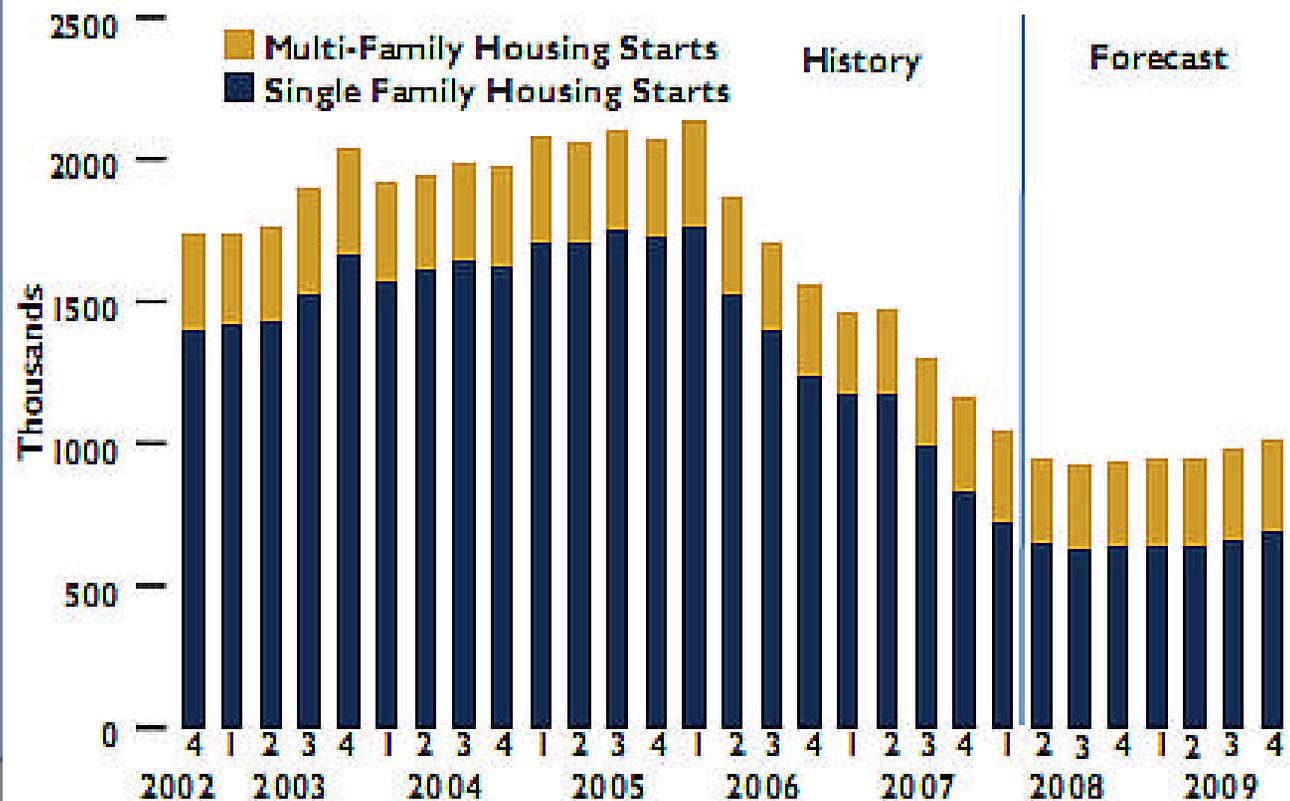
Pending Home Sales (existing home sales lagged by 1-2 months)



Starts Still Down

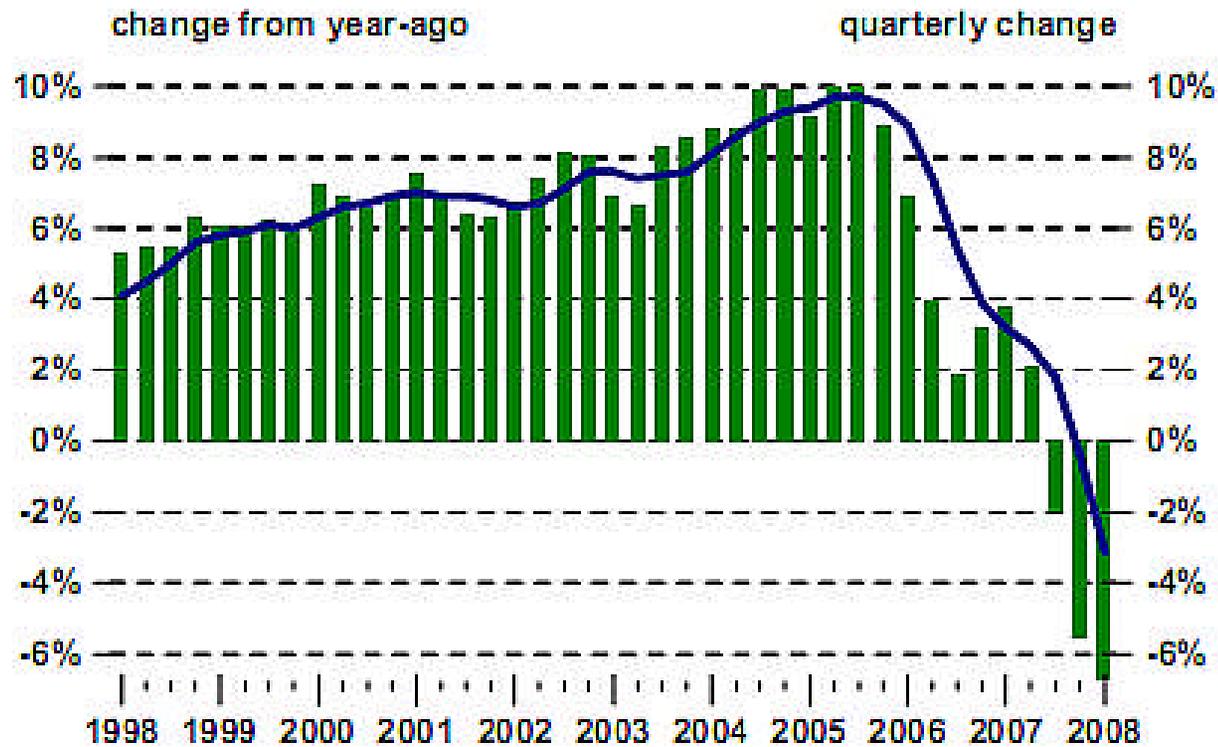
Housing Starts

Slower construction pace will help work off high inventory of homes



Prices Are Down

House Prices



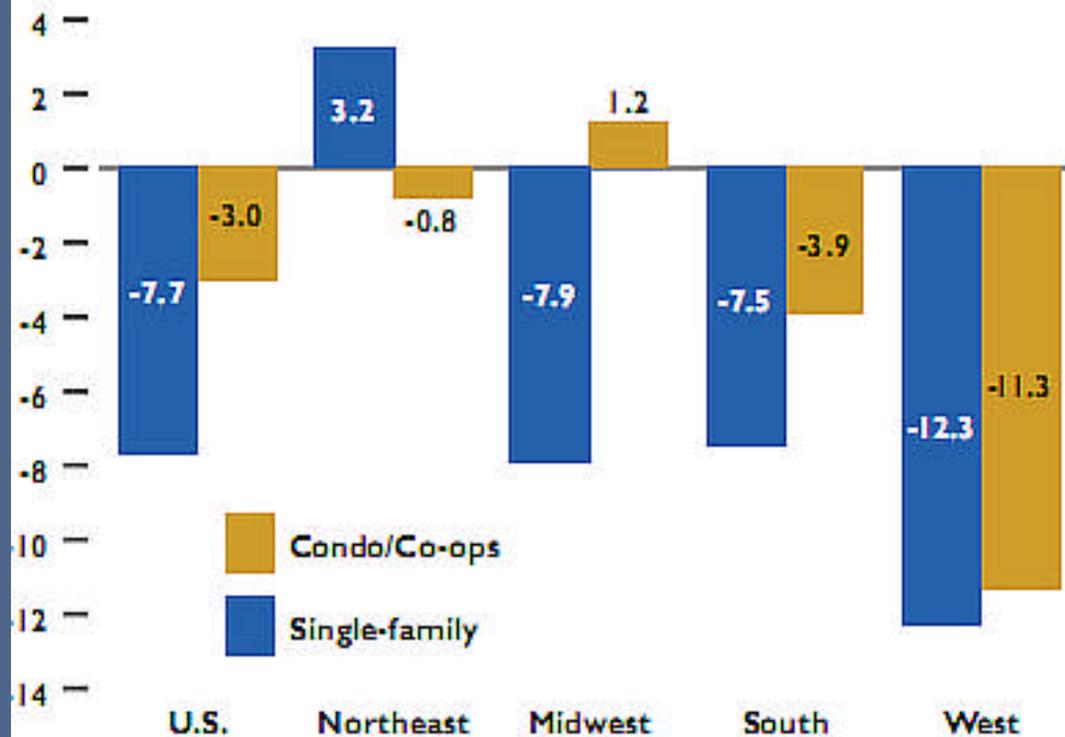
Source: OFHEO; quarterly changes shown at seasonally adjusted annual rates.

262 of 330 metro markets showed decline in 1st Quarter 2008

But Varies by Region

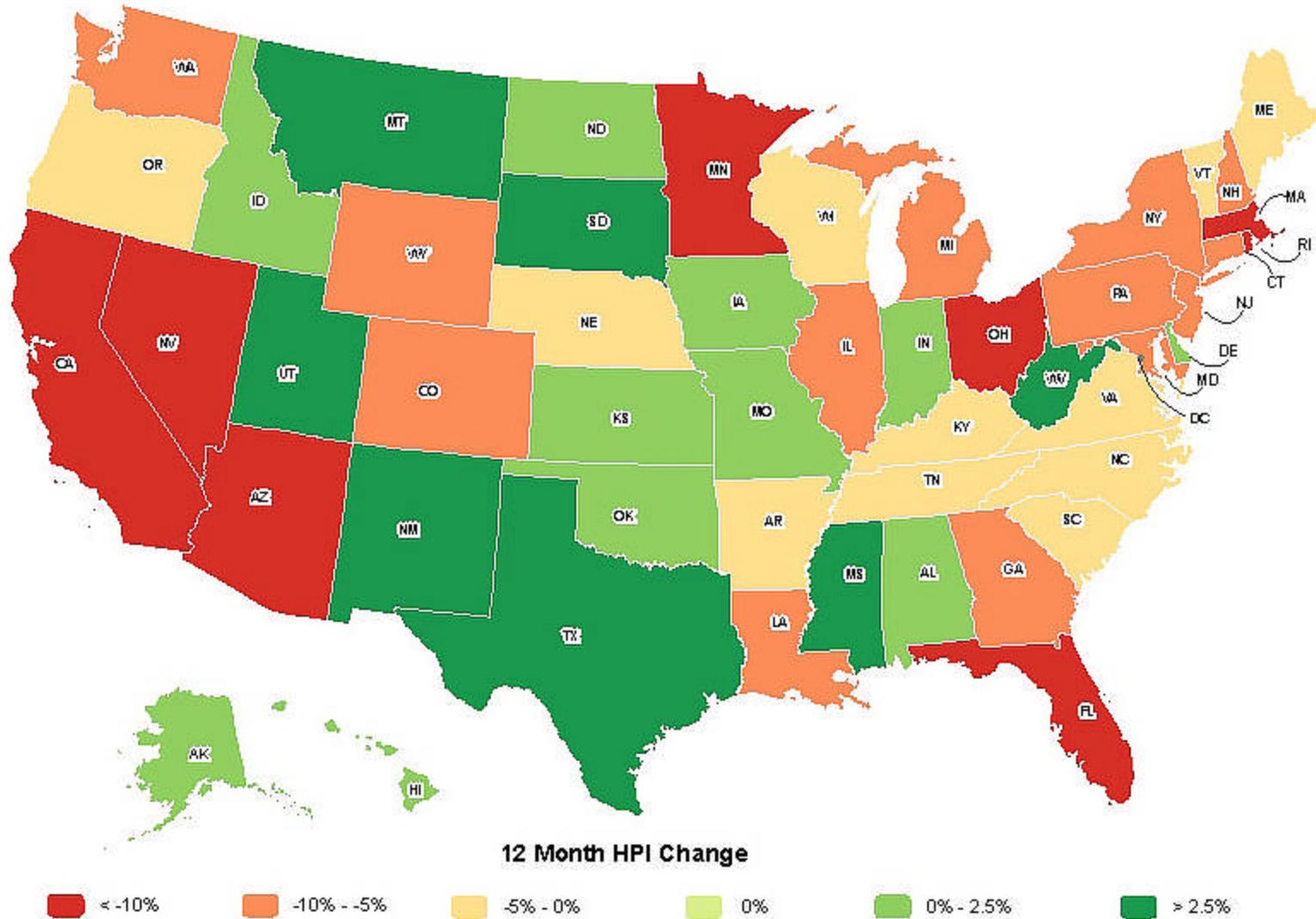
Percent Change in Median Price of Existing Homes

From 1Q:2007 to 1Q:2008



Source: NAR Research

By State

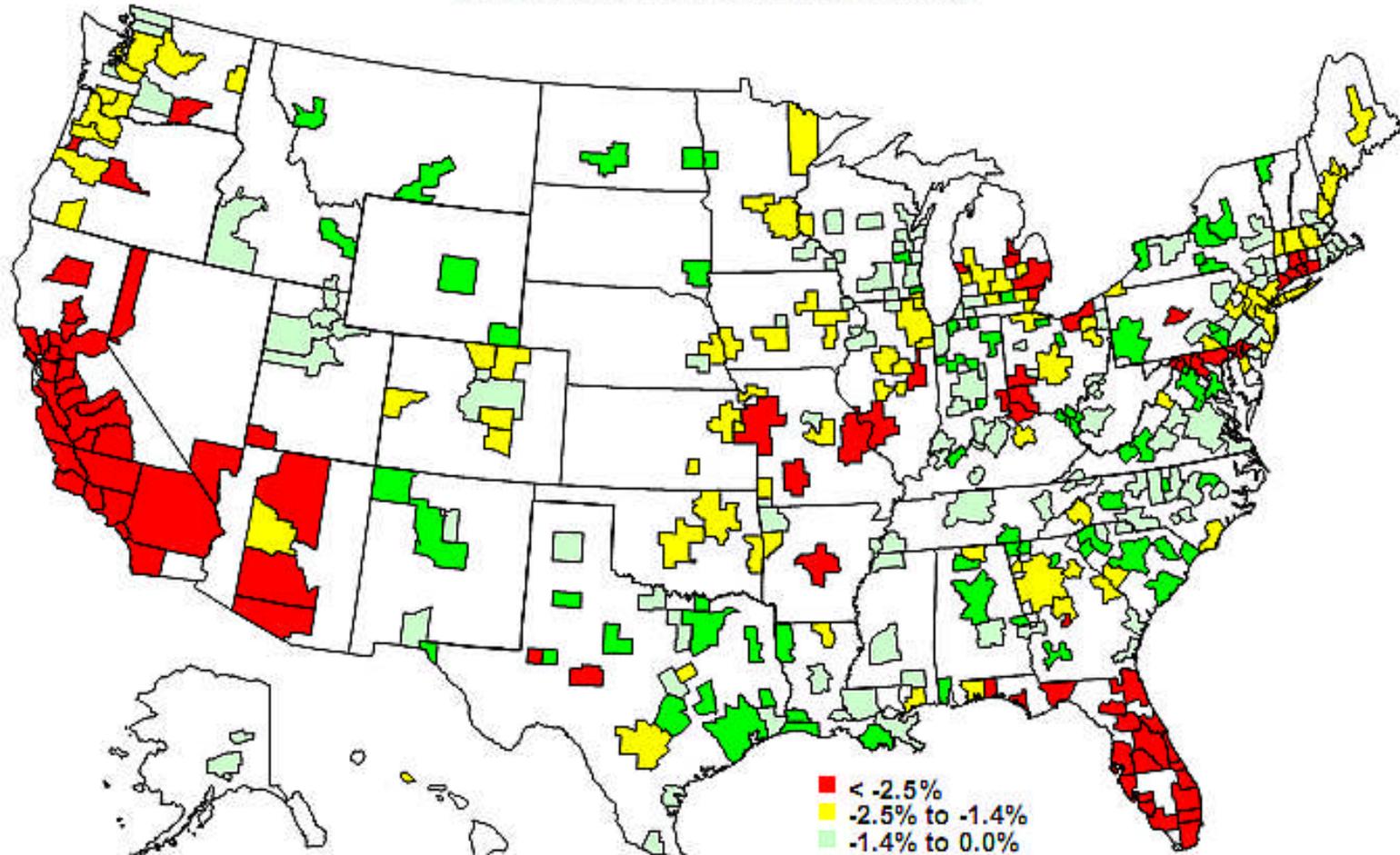


As of April 2008

Source: First American CoreLogic, LoanPerformance HPI, 12 month change by state; single family detached series.

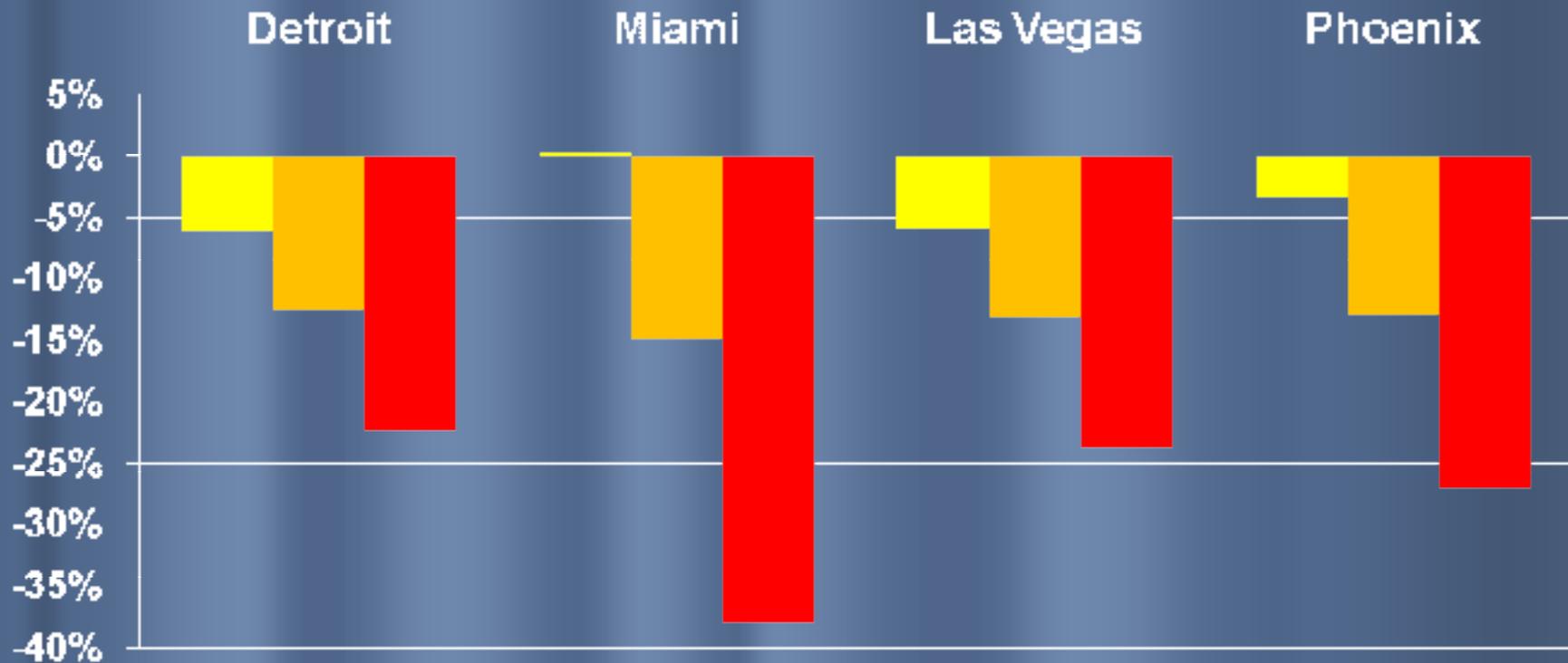
...And In Most Metro Areas

House Price Appreciation: First Quarter, 2008
(Seasonally Adjusted Annual Rate)



National City & Global Insight

Prices Down in Subprime Nghds



Yellow – Conforming Loans Only (OFHEO)

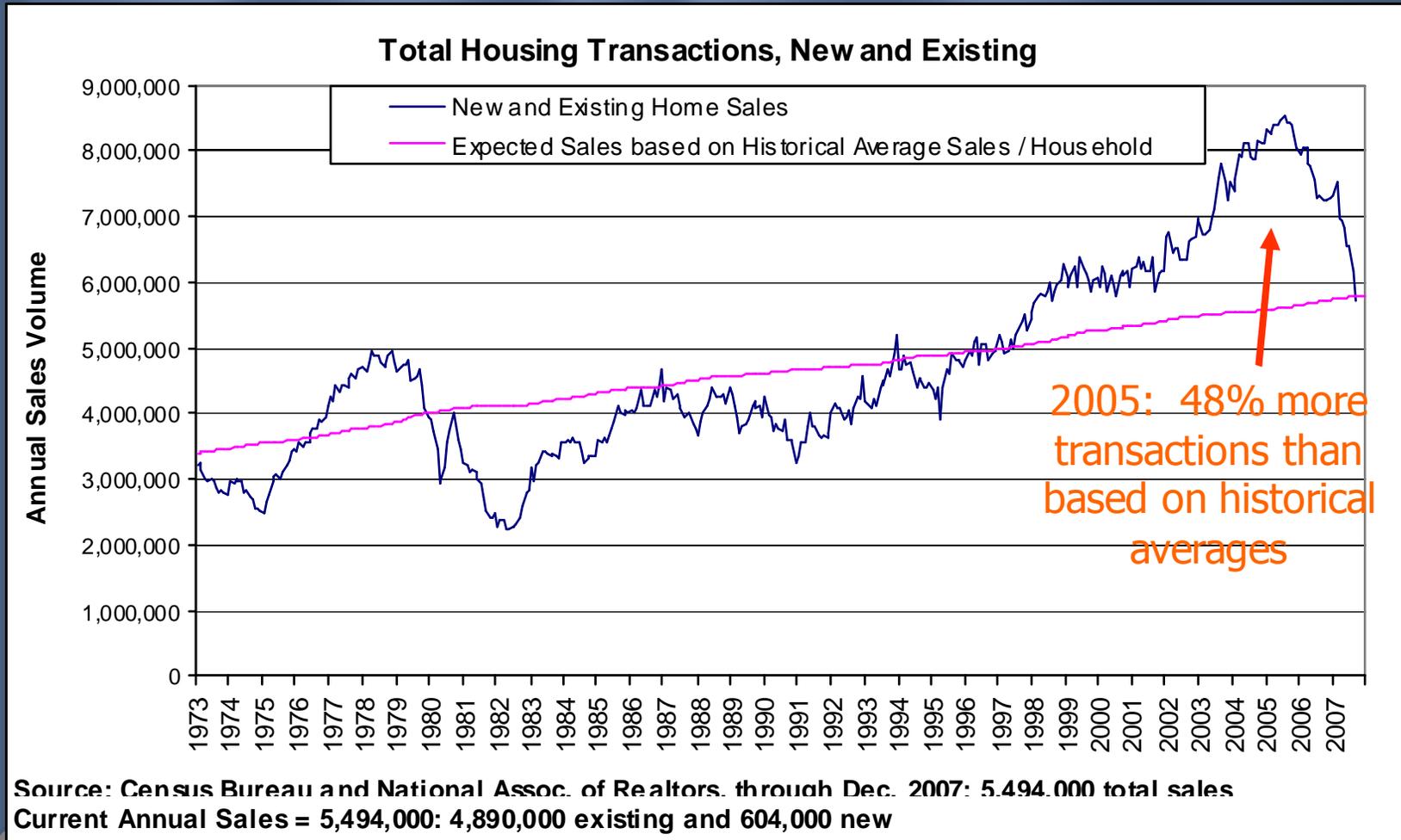
Orange – All Loans including subprime and jumbo loans (Case-Shiller)

Red – Subprime Loans (NAR estimate based on subprime weight)

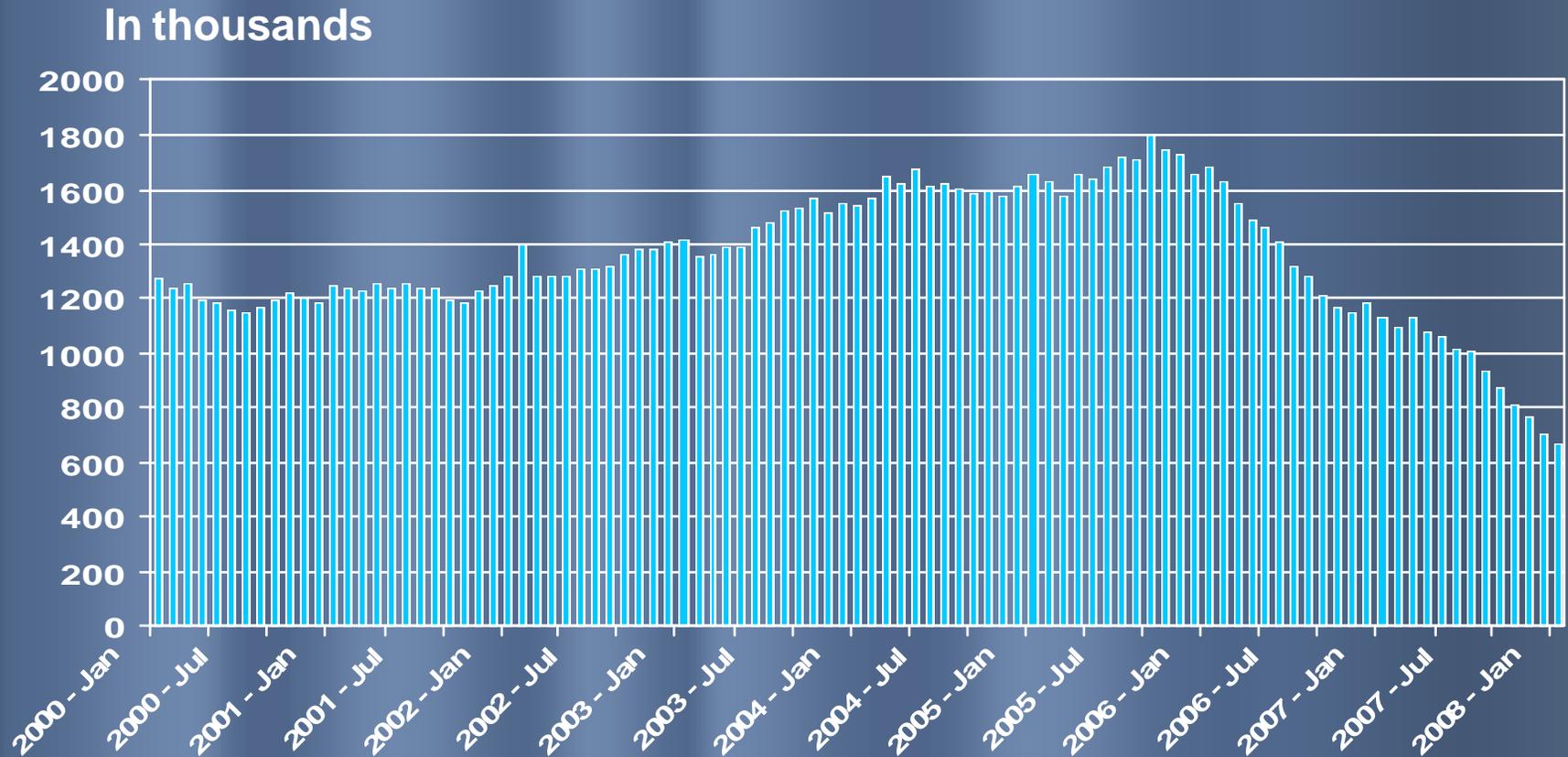
Why the Downturn?

- “Builders over-built, lenders over-lent, & borrowers over-borrowed” (JCHS)
- Investors have pulled out
- Excess supply relative to true demand
- Subprime/prime lending excesses curbed
 - Marginal owners couldn't afford adjustments
- Shrinking home equity curtailed borrowing & refinancing
 - 15.8% (17.7 M) paying > 50% of income

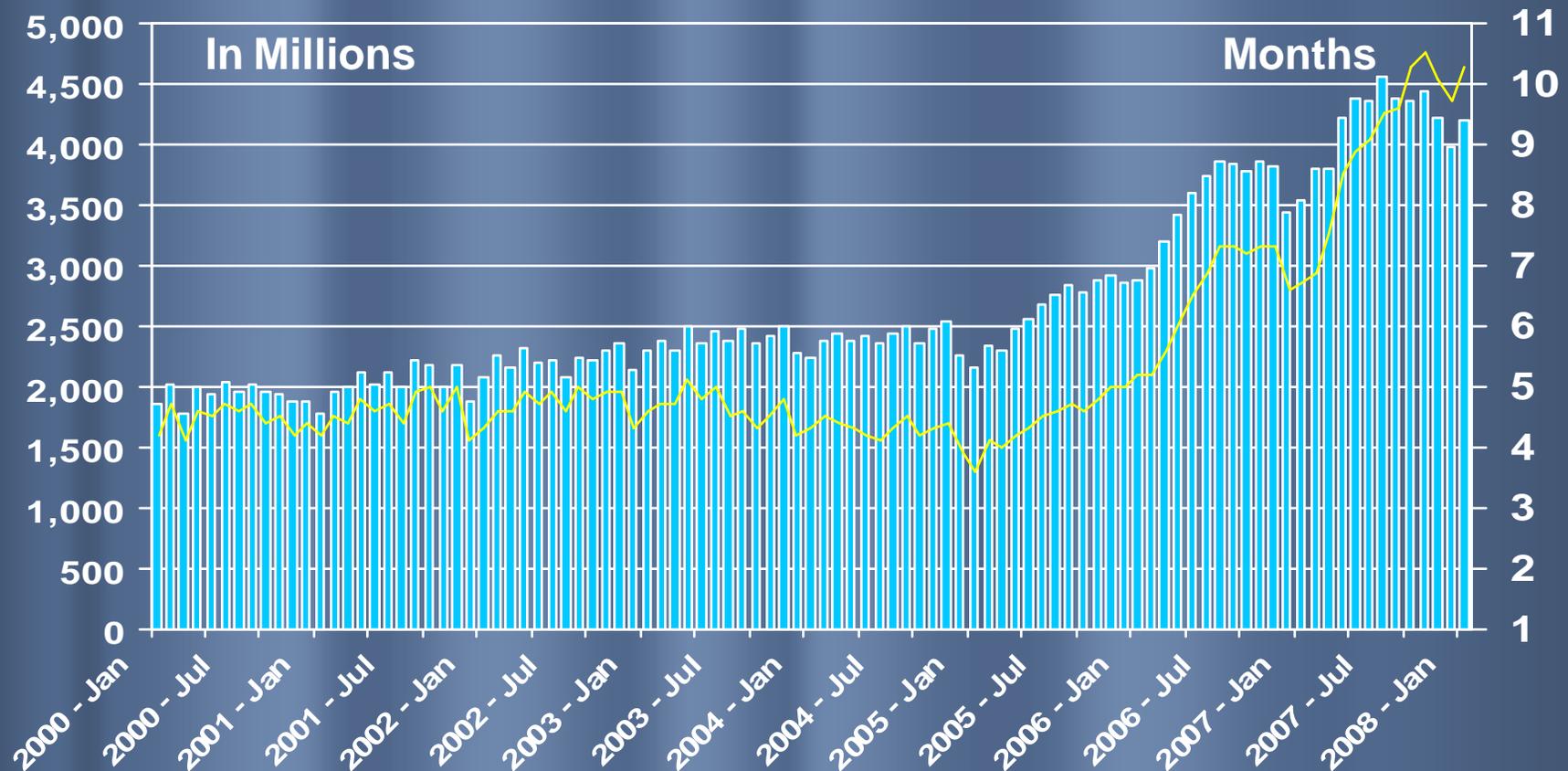
Investor-Driven Bubble Ended



Construction Pulled Back

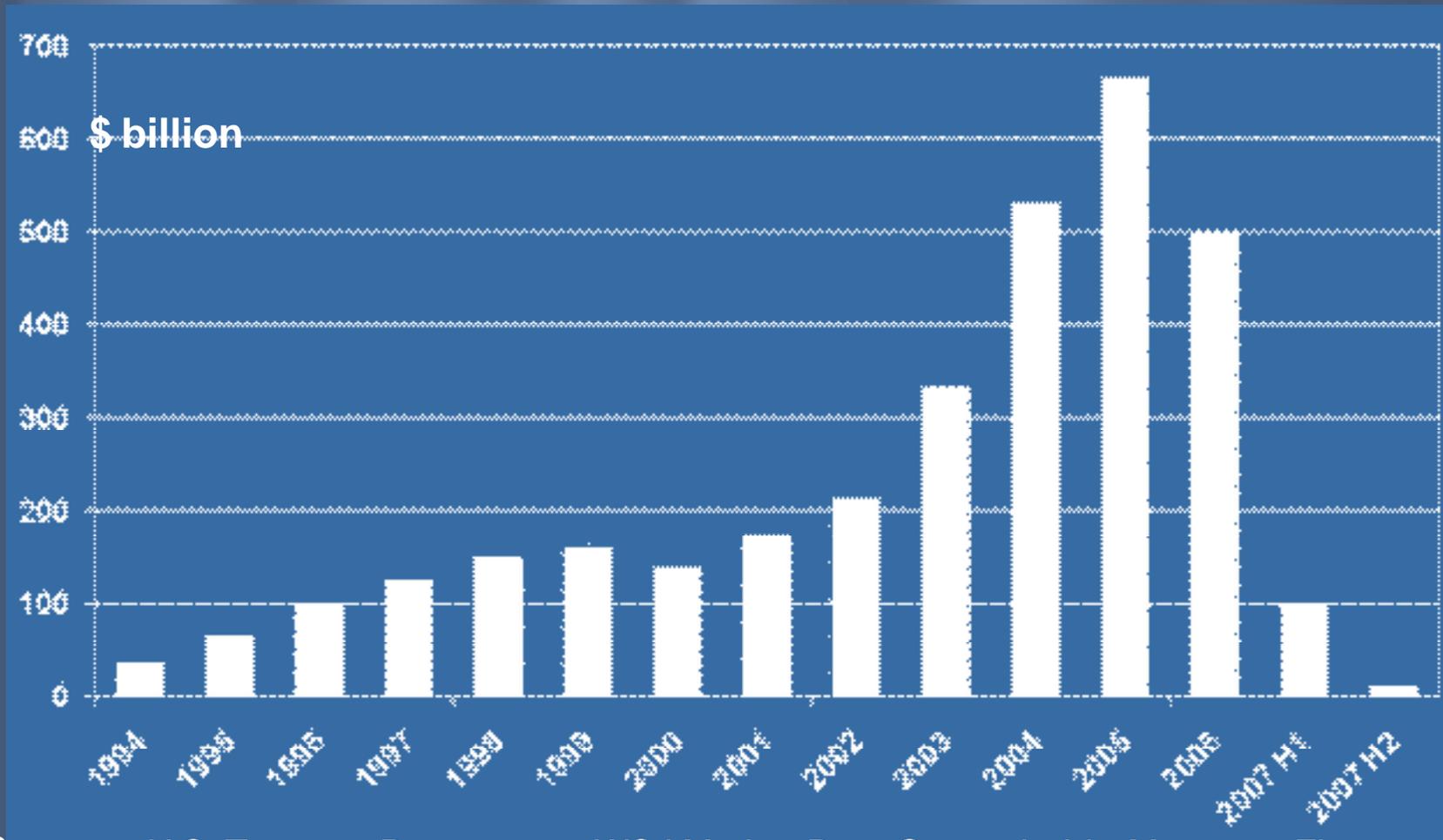


But Not Fast Enough



- Existing home inventory: 10.7 months supply, 14 months condo supply.

Subprime Lending Peaked



Source: U.S. Treasury Department, WSJ Market Data Group, Inside Mortgage Finance

Subprime loans down from 20% in 2005 to 3% 4th Qtr 2007 (JCHS)

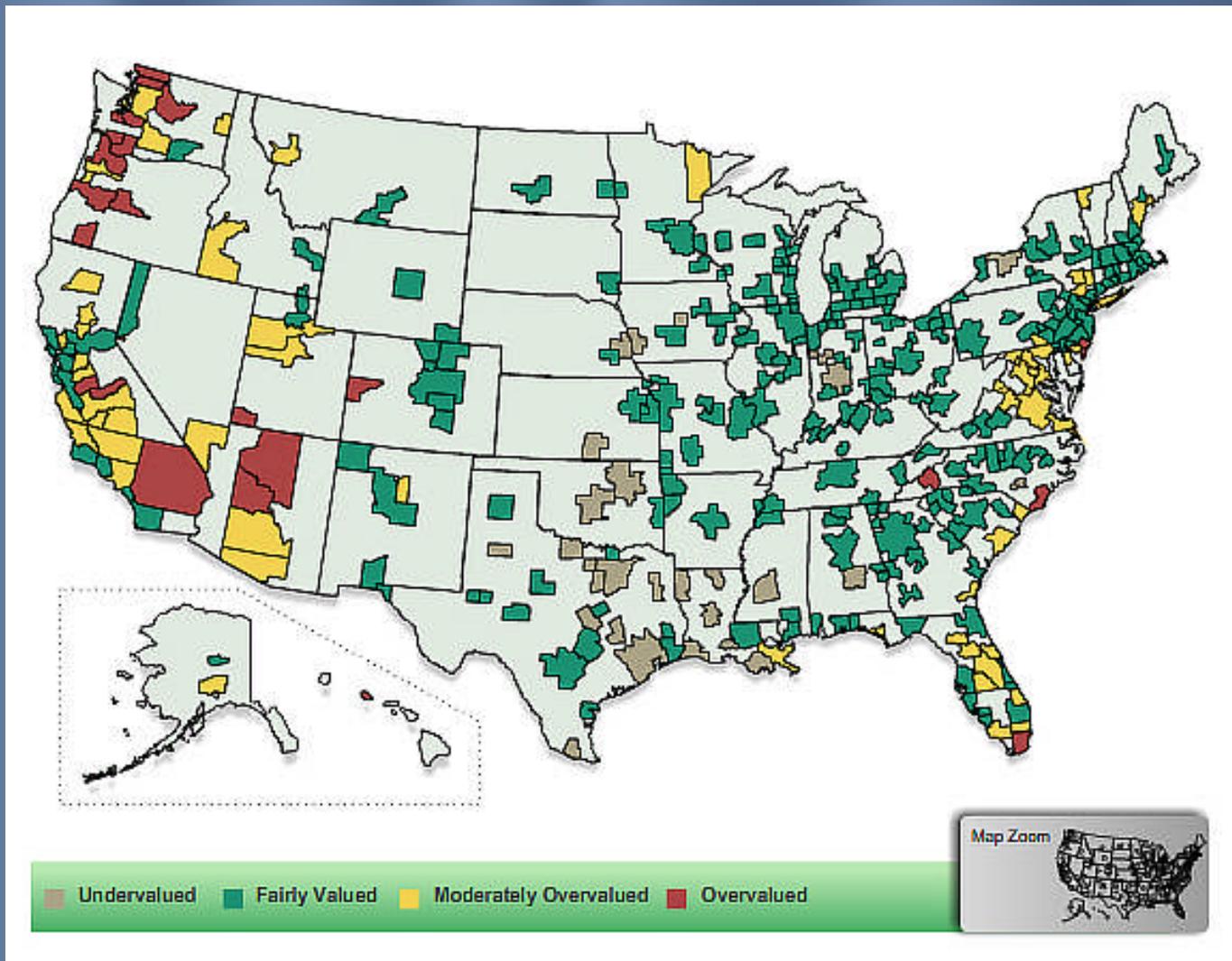
Lending Market Changes

- Trends:
 - Subprime products disappearing
 - Jumbo loans expensive & limited
 - Secondary loan buyers more conservative underwriting & appraisals
 - Dropping ARM usage
 - But exotic products still there
- Impacts:
 - Harder to get mortgages & more expensive

Bubble Bursting or Slow Landing?

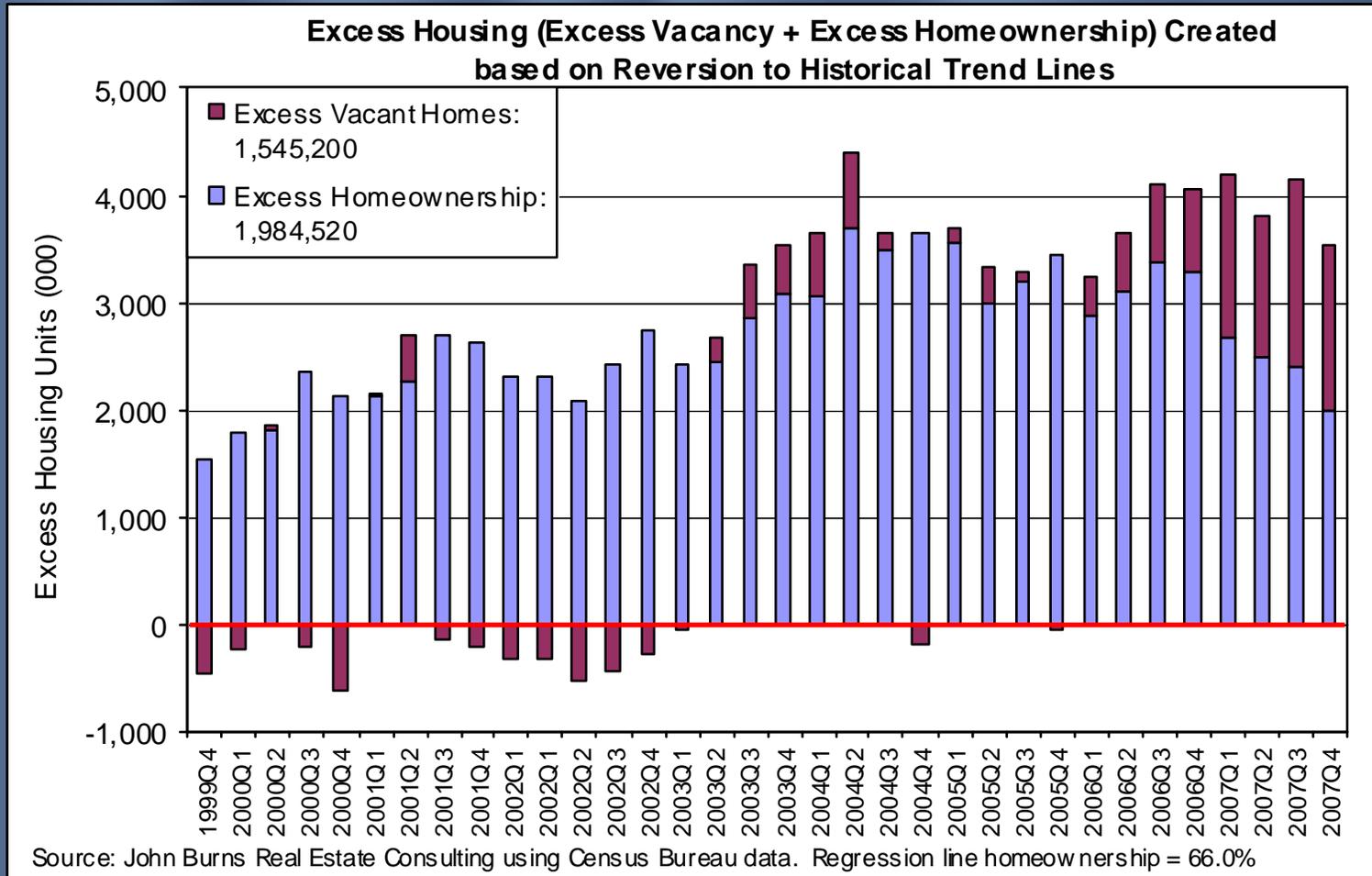
- Bubble defined as 15% price drop
 - Some markets already have (FL, SoCA, NV, AZ)
 - Nationwide: approaching 10%
 - 291 metro markets dropped in 4th Qtr 2007
- And it's not over yet:
 - 22M buyers 2005-07; 8.8 M owners upside down (Moody's economy.com)
 - 3 M owners delinquent (5.82% of all mortgages)
 - 2.5 M ARMs to adjust in 2008
- Predictions:
 - Excess inventory into 2009: 10%+ additional price drop likely
 - Prices not increasing until 2011 – 2012 or later

Over-Valued Housing Markets



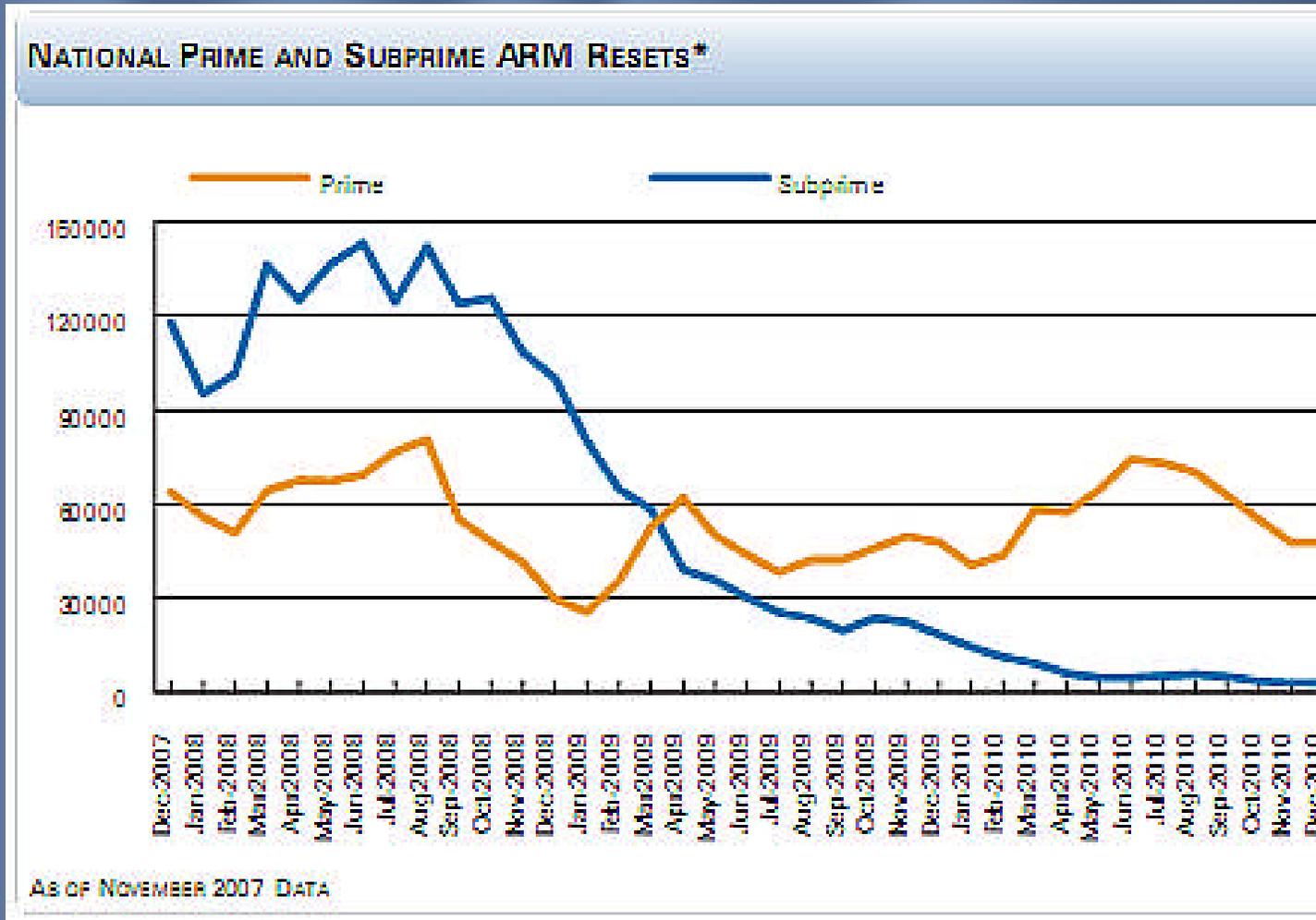
National
City &
Global
Insight, 4th
Qtr 2007

4 Million excess homes need to be filled



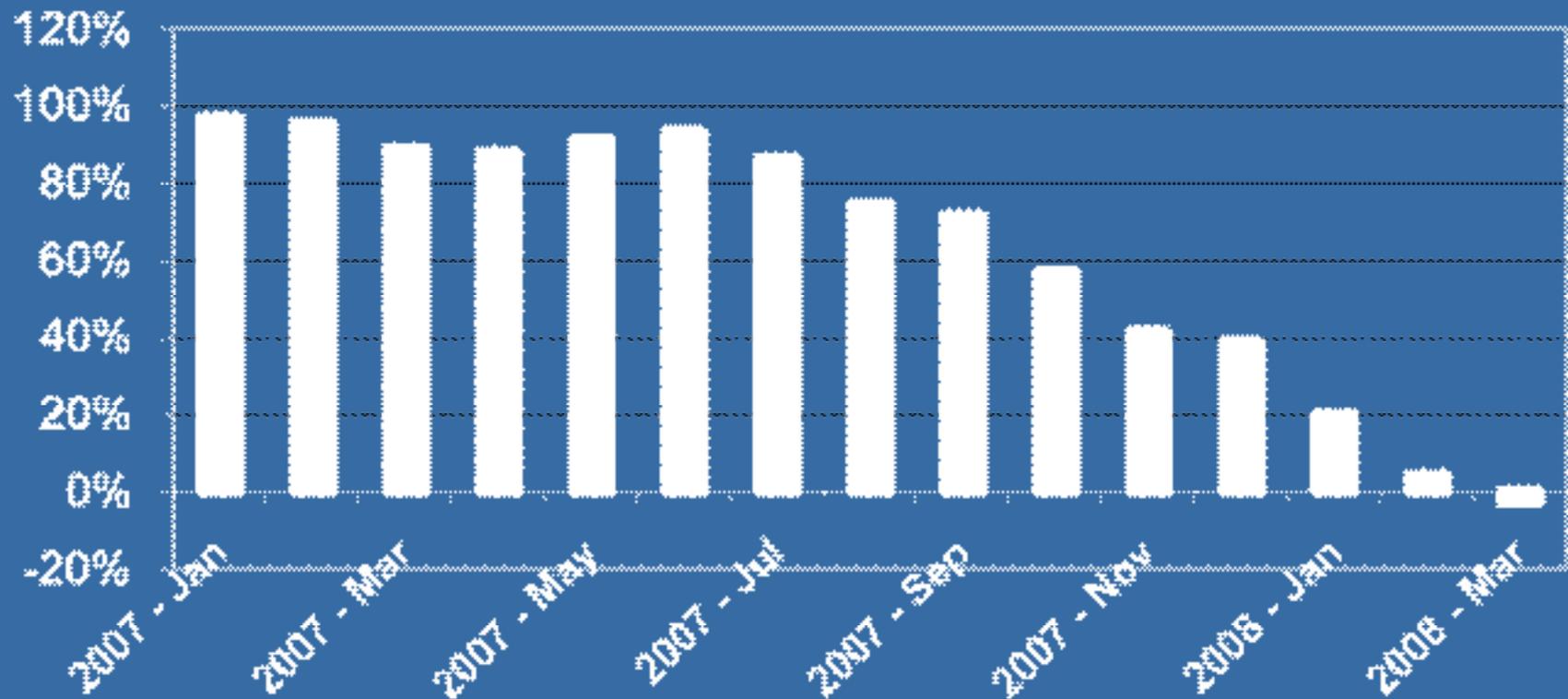
Source: JBREC Regional Market Monitor, February 2008

ARM Adjustments Not Over Yet



It takes an average 18 mos for foreclosure to occur after adjustment.

But Adjustments Narrowing

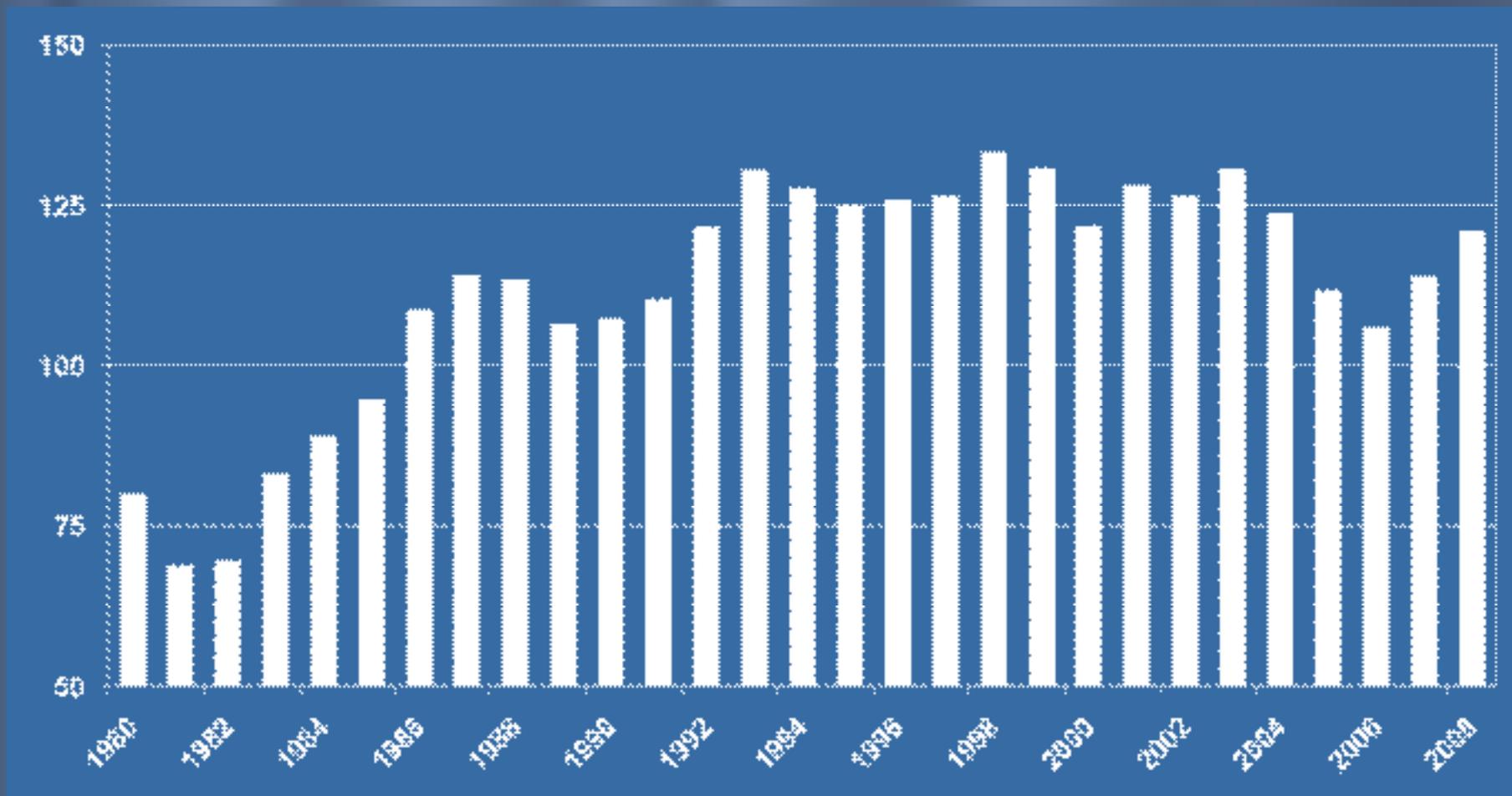


NAR Estimate

Who's Affected? Everyone!

- Recent buyers: can't pay, can't refi, can't sell
 - Over-leveraged & "upside down"
 - ARM & high LTV mortgagors most vulnerable
- New buyers: creating wealth or hostages?
 - Buying into declining values; upside down for yrs.
- Renters: "shadow market" shift raising rents
 - JCHS: 2007 renters up 1M (4x); production down 1/3; 20% of foreclosures investor 1-4 family
- Rest of us: dropping values, tax revenues down & muni costs up, job losses
 - 0.9% value drop: foreclosed home w/in 1/8th mile

Silver Lining: Affordability Gains



Source: NAR

June 2008

But Not Enough For 1st Timers

NATIONAL ASSOCIATION OF REALTORS® First-Time Homebuyer Affordability

Year	Quarter	Starter Home Price	10% Down Payment	Loan Amount	Effective Interest Rate	Effective Int Rate Plus PMI	Monthly Payment	Prime First-Time Median Income	Qualifying Income	First-Time Buyer Index	Composite Index
2005		186,200	18,620	167,580	5.91	6.16	1,022	36,285	49,056	74.0	111.8
2006		188,600	18,860	169,740	6.58	6.83	1,110	37,448	53,280	70.3	106.1
2007 p		185,100	18,510	166,590	6.52	6.77	1,083	38,496	51,984	74.1	111.8
2006	IV	186,200	18,620	167,580	6.52	6.77	1,089	37,891	52,272	72.5	109.4
2007	I	180,700	18,070	162,630	6.42	6.67	1,046	38,100	50,208	75.9	114.6
	II	190,000	19,000	171,000	6.47	6.72	1,106	38,364	53,088	72.3	109.1
	III r	187,300	18,730	168,570	6.75	7.00	1,122	38,628	53,856	71.7	108.3
	IV p	175,300	17,530	157,770	6.43	6.68	1,016	38,891	48,768	79.7	120.4

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Summary – Where Are We?

- Markets slowing/dropping
 - Local effects vary; can't call the "bottom"
- Lending products narrowed, stricter
 - But still some risky products
- Silver lining: improving affordability
 - But still out of reach for first-timers
- But Millions of owners over-leveraged
 - ARMs still adjusting; owners trapped

We've Got to Watch...

- Watch local trends
 - Inventories, listing times, listing/sales price ratios
- Watch lending market changes/liquidity
- Watch national economic impact
- Watch media impact on consumer psychology
- Watch our homebuyer programs for necessary changes – next topic

Adjusting Your HOMEbuyer Program Design & Underwriting

Why Change?

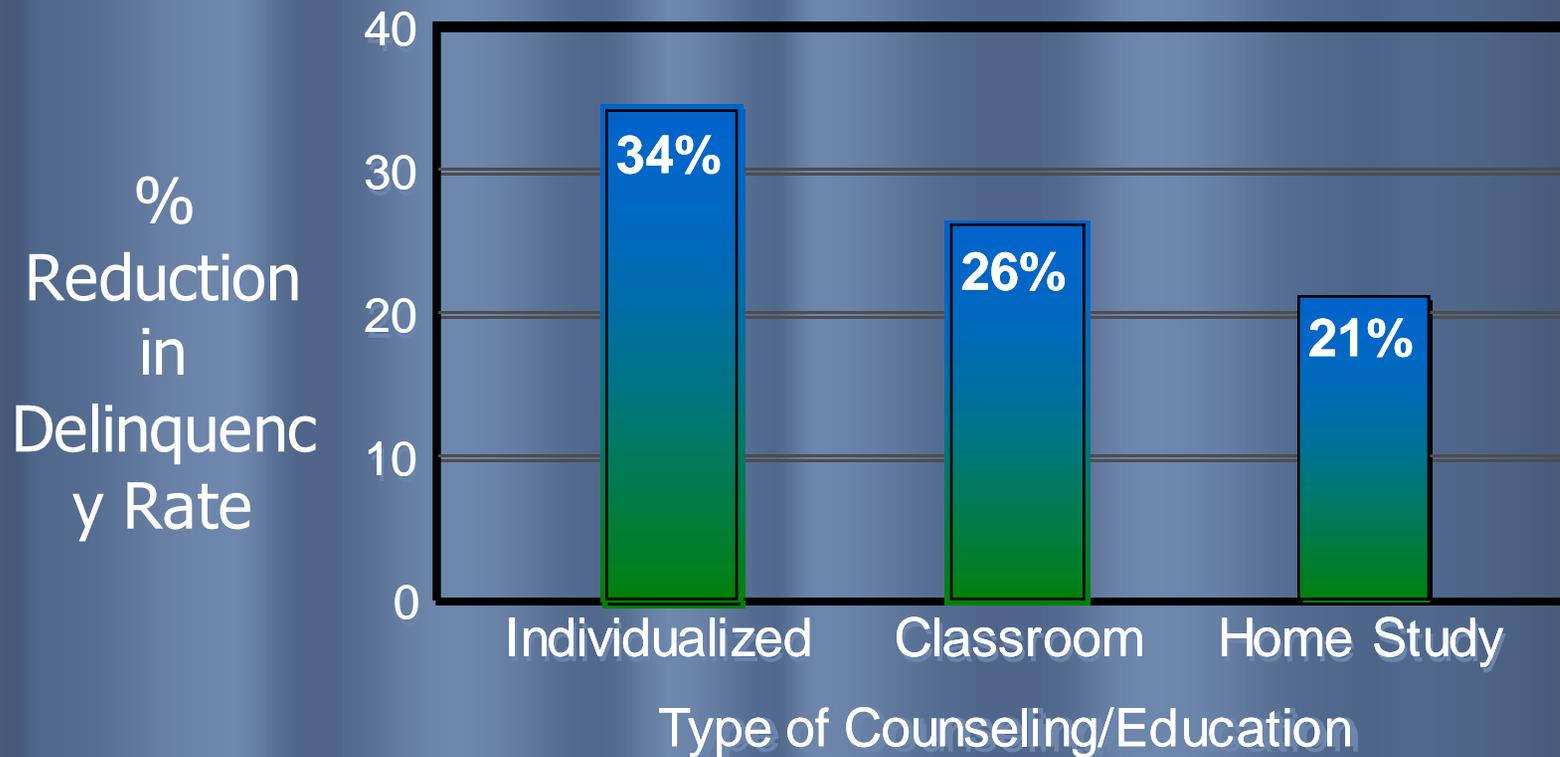
- Your design is probably out of date
 - Does the design still work in today's market?
 - And will it work tomorrow? (the new paradigm)
- Market change raises risk of public subsidy loss ("repayment" risk)
- Need to ensure sustainability & minimize default risk

Examine Your Program Standards

1. Counseling requirements
2. Downpayment
3. Standards for 1st mortgages
4. Inter-creditor agreements
5. Sustainability
6. Structuring the subsidy
7. Resubordination policy
8. Legal documents

The Effect of Counseling

The higher the "touch", the greater the impact.

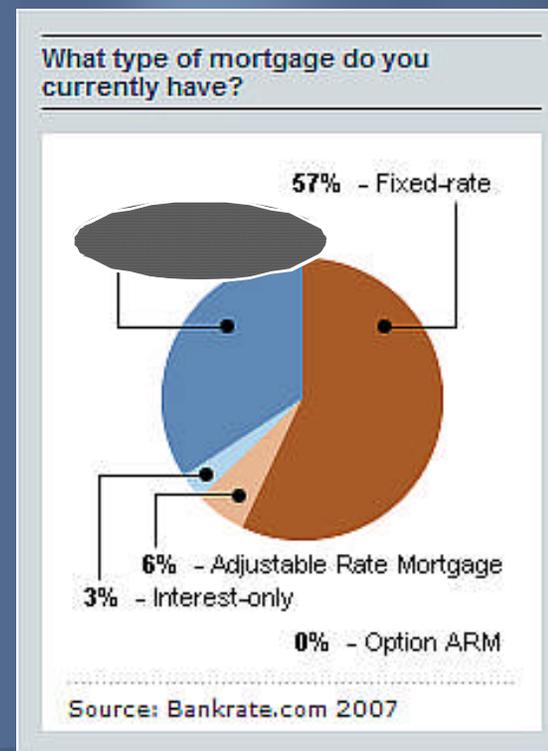


Source: *A Little Knowledge Is a Good Thing: Empirical Evidence of the Effectiveness of Pre-Purchase Homeownership Counseling*, Freddie Mac, 2001.

Awareness of mortgage type

Q According to a 2007 Gfk Roper survey, what % of owners don't know what type of mortgage they have?

A



Downpayment?

Q

According to 2005 NAR survey, what percentage of the first-time buyers bought with no money down?

A

- 1) 72%
- 2) 56%
- 3) 42%
- 4) 27%

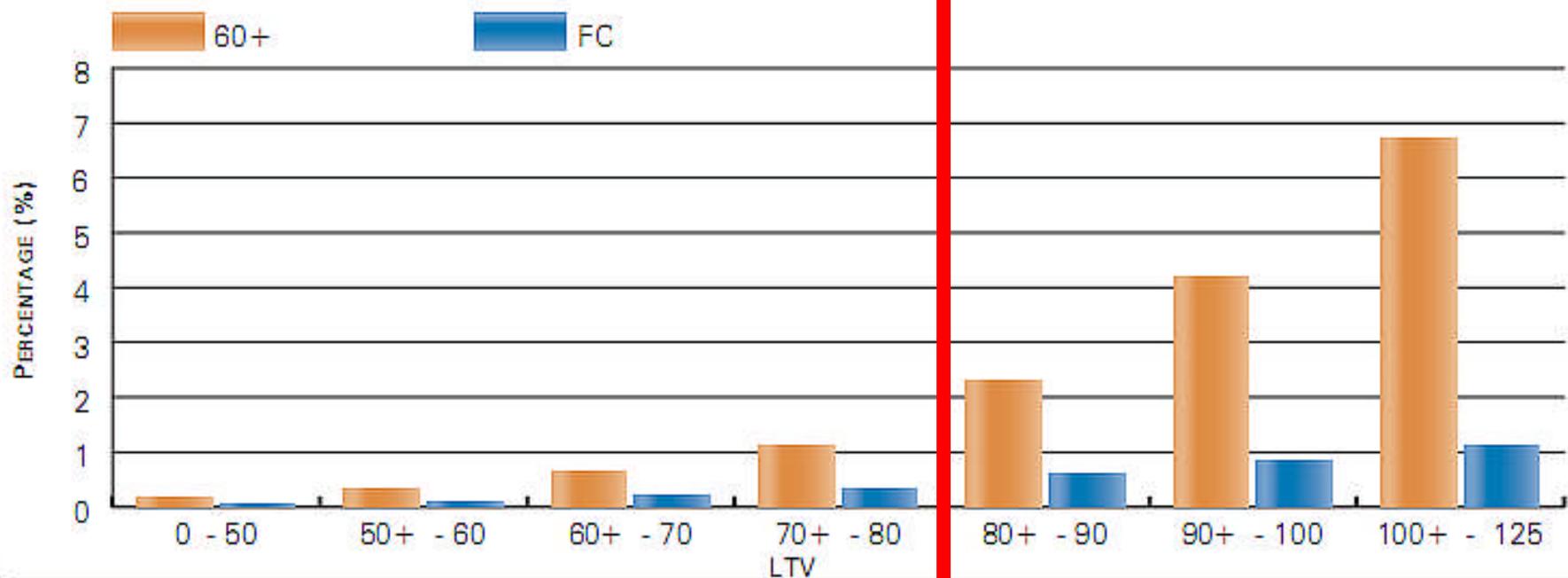


25% of all buyers financed 100 percent of the purchase price

*This Survey covered people who bought homes from August 2004 – July 2005.

Downpayment & Default Risk

60+ DAYS DELINQUENCY AND FORECLOSURE BY LTV



Loan Performance 3/06

Sensible 1st Mortgage Standards

- Limit to fixed rate if possible
 - If ARMs necessary, only hybrids of 5+ yrs
- Lower PITI (front-end ratio) and/or back-end ratio
 - Maybe a minimum PITI
 - Housing + transportation index (Ctr Nghd Techn)
- Limit LTV/TLTV
- Increase buyer cash & post-closing cash standards

Inter-Creditor Terms

- Subordination
- Ability to enforce of compliance terms
- Foreclosure /deed in lieu of:
 - Restrictions extinguished; but funds repayable
 - Notice of default?
 - Seek forbearance & rights to intervene, acquire, provide assignee

Sustainability Risk & Improvements

- Can homebuyers can sustain ownership over compliance period/loan term?
 - Ability to manage mortgage/financial obligations
 - Energy efficiency: control utility costs
 - Ability to maintain: quality/useful life of structure, systems & finishes
 - Market viability: ability to sell & recover funds

Restructuring the Subsidy

- Possible Actions:
 - Due on sale or involuntary transfer
 - Extended subsidy loan term & repayment
 - Resubordination policy limiting equity takeouts
 - Examine/limit TLTV
 - Homebuyer cash requirements & savings programs

Resale v. Recapture

- Resale: full repayment in the event of default/foreclosure where affordability lost
- Recapture: only repay out of net proceeds recovered
- What's your exposure to repayment?

Resubordination Policy

- Resubordination: what to do with public subsidy when owners take new mortgage
 - Refi to better terms
 - Equity takeout: econ/medical emergencies, education, home improvements, other debt?
- Prepayment policy: can they pay back the funds & get out of restrictions?
- More on this later...

Legal Documents

- Resale: deed covenant
- Recapture: note & mortgage/deed of trust
- Key clauses for foreclosure:
 - Notice of delinquency
 - Rights to intervene
 - Consent to contact lenders in event of default
 - Due on involuntary sale
 - Right of first refusal
- FNMA/MassHousing documents
 - Aff. restrictions survive (even if ineligible buyer)
 - www.masshousing.com/deedrider

Delinquency & Foreclosure Trends

National Foreclosure Data (3/08)

- 2.47% of mortgages in foreclosure
 - v. 1.28% a year ago
 - Subprime ARMs: 39% foreclosures (6% loans)
 - CA, FL, AZ, NV: 62% prime; 49% subprime
 - 20 states: rate dropped
- .99% entered foreclosure in quarter
 - v. .58% a year ago
 - 516,000 foreclosures started
- Plus, 6.35% 30+ days delinquent
 - v. 4.84% a year ago
 - Doesn't include those in foreclosure

Source: MBA

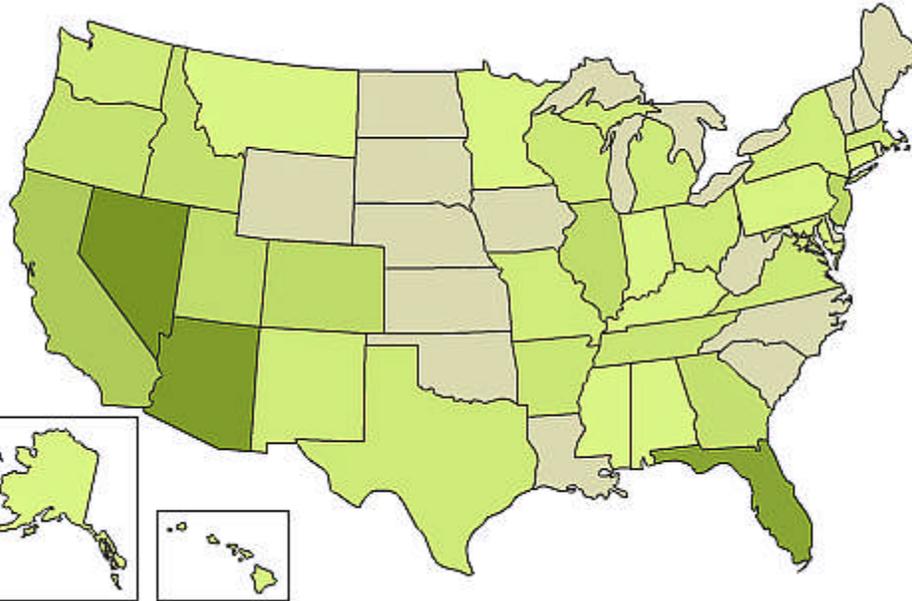
Foreclosure Filings in 2007

Regional Preforeclosures

Region	Households	January	February	March	April	May	June	July	August	September	October	November	December	Totals	Per Household
Midwest	13,492,390	9,262	9,681	14,072	15,536	16,975	11,694	12,772	16,747	13,388	15,960	14,505	16,803	167,395	1.24 %
Southeast	16,514,907	16,246	19,048	26,071	21,446	27,252	19,585	27,467	33,997	24,375	39,498	44,944	41,345	341,274	2.07 %
Northeast	17,926,258	13,274	12,610	11,950	13,629	16,347	12,238	15,348	15,279	15,131	16,664	19,279	18,610	180,359	1.01 %
Southwest	26,174,730	31,035	32,129	42,695	34,756	44,727	33,016	43,278	50,093	43,926	53,012	55,864	61,219	525,750	2.01 %
Other States	2,403,078	1,009	1,070	1,706	1,525	1,326	986	1,199	1,611	1,319	1,962	1,774	1,983	17,470	0.73 %
Nationwide	76,511,363	70,826	74,538	96,494	86,892	106,627	77,519	100,064	117,728	98,139	127,096	136,366	139,960	1,232,249	1.61 %

Foreclosures.com

Foreclosure Filings Continuing



Preforeclosures 2008

Least **FILINGS PER CAPITA** Most

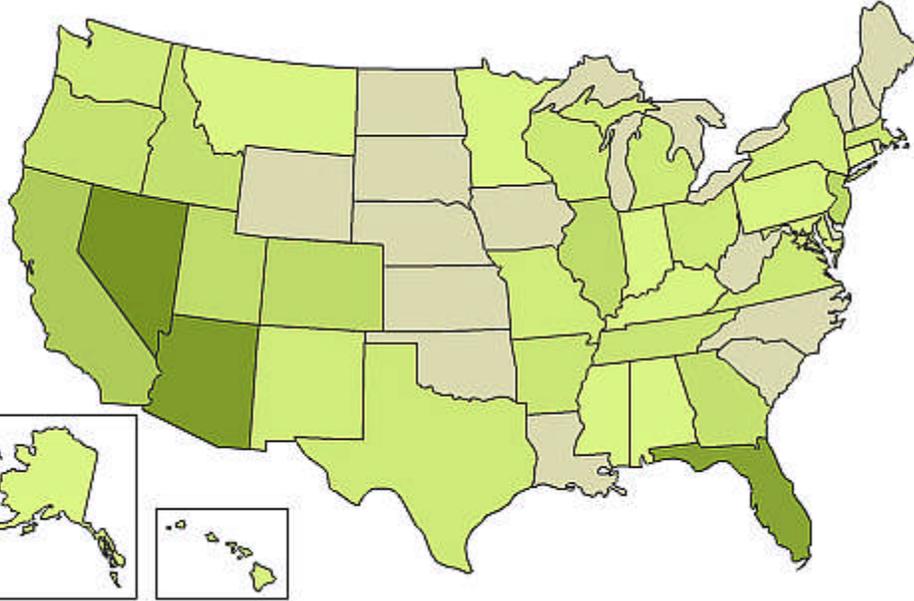
Top 10 States

State	Filings	Per Household
Florida	203,250	3.21 %
California	197,787	1.72 %
Arizona	67,960	3.60 %
Illinois	40,978	1.07 %
New Jersey	37,182	1.21 %
Texas	29,061	0.55 %
Nevada	28,255	3.80 %
Georgia	25,595	0.93 %
New York	21,425	0.45 %
Colorado	18,088	1.13 %

Region	Households	January	February	March	April	May	Totals	Per Household
Midwest	11,622,253	17,489	15,838	19,711	16,370	18,507	87,915	0.76 %
Southeast	17,983,744	51,449	52,738	60,057	59,071	55,943	279,258	1.55 %
Northeast	17,428,745	20,353	21,768	24,570	20,454	17,879	105,024	0.60 %
Southwest	26,950,165	73,267	70,042	88,455	80,591	68,378	380,733	1.41 %
Other States	582,685	249	414	499	392	439	1,993	0.34 %
Nationwide	74,567,592	162,807	160,800	193,292	176,878	161,146	854,923	1.15 %

Foreclosures.com

REO Stock Growing



REOs 2008

Least **FILINGS PER CAPITA** Most

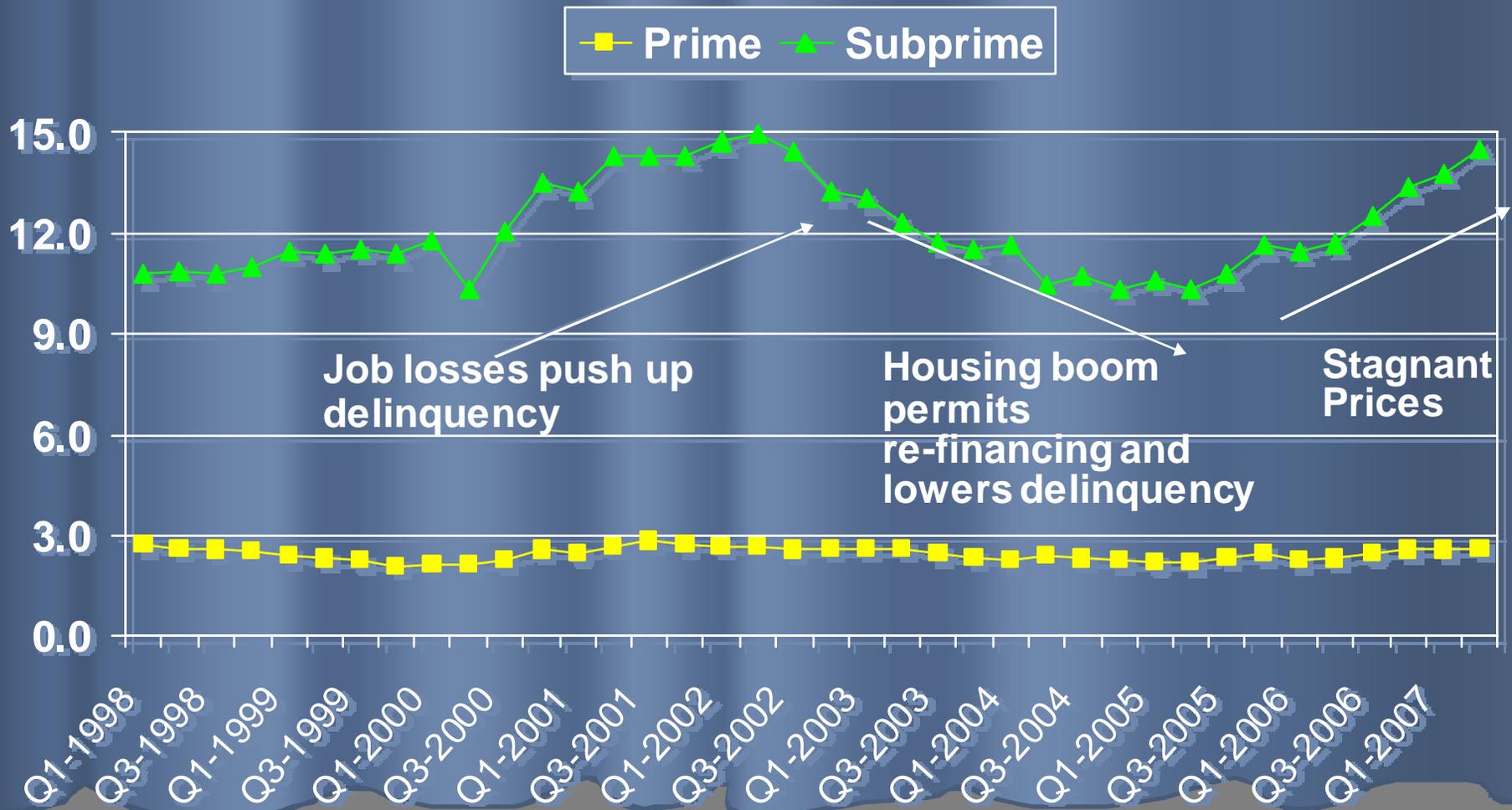
Top 10 States

State	Filings	Per Household
California	88,687	0.77 %
Arizona	30,979	1.63 %
Florida	30,885	0.49 %
Texas	26,183	0.44 %
Michigan	23,575	0.79 %
Ohio	17,758	0.46 %
Georgia	17,385	0.83 %
Colorado	14,059	0.89 %
Nevada	10,760	1.46 %
Illinois	10,220	0.27 %

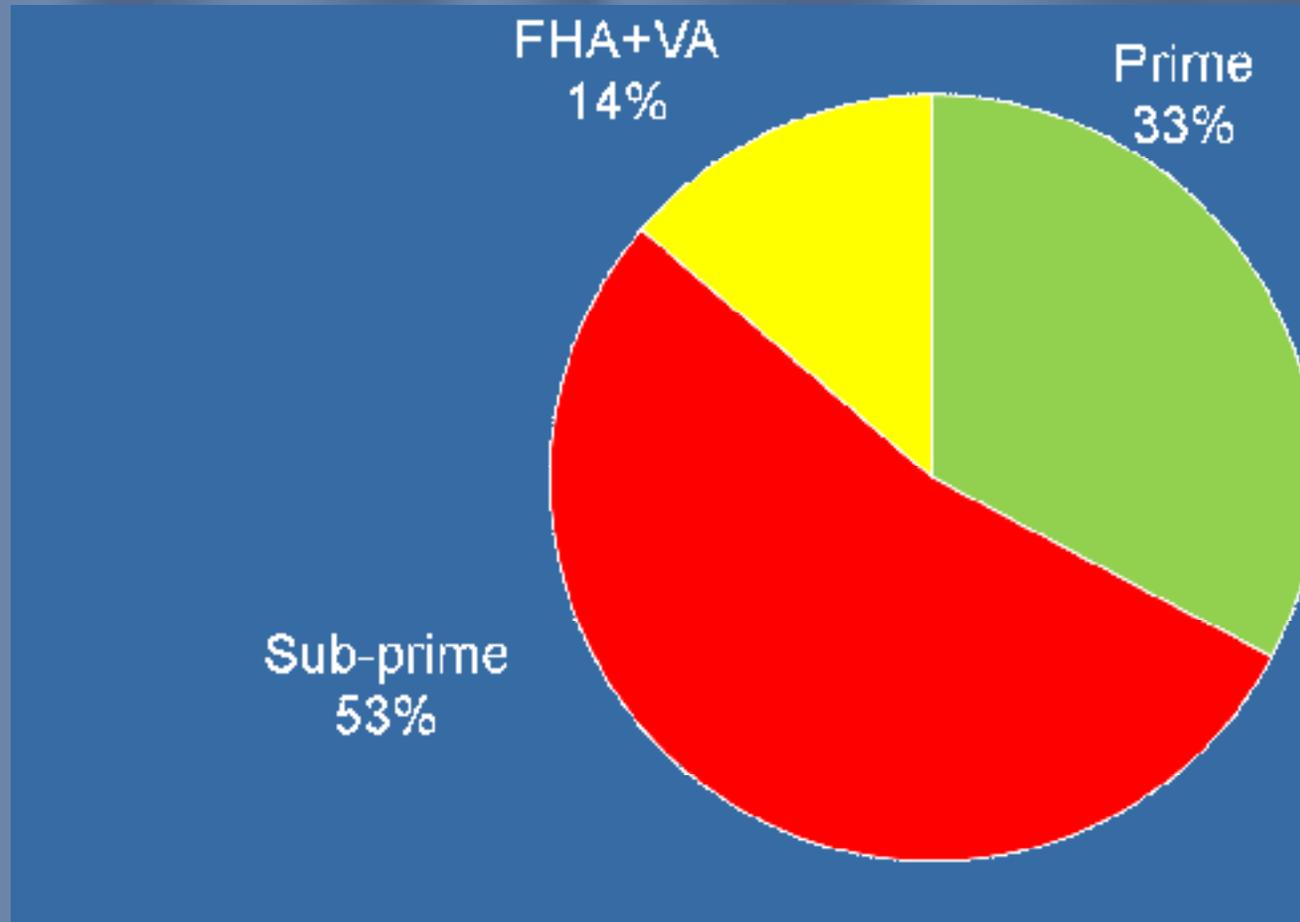
Region	Households	January	February	March	April	May	Totals	Per Household
Midwest	16,188,059	16,560	13,955	17,463	15,230	12,270	75,478	0.47 %
Southeast	17,241,813	15,645	14,054	19,565	16,205	15,773	81,242	0.47 %
Northeast	16,901,489	2,558	2,643	2,964	3,482	2,205	13,852	0.08 %
Southwest	27,468,097	33,064	36,185	38,231	39,730	35,400	182,610	0.66 %
Other States	571,142	113	89	76	55	106	439	0.08 %
Nationwide	78,370,600	67,940	66,926	78,299	74,702	65,754	353,621	0.45 %

Foreclosures.com

Souring Loan Performance

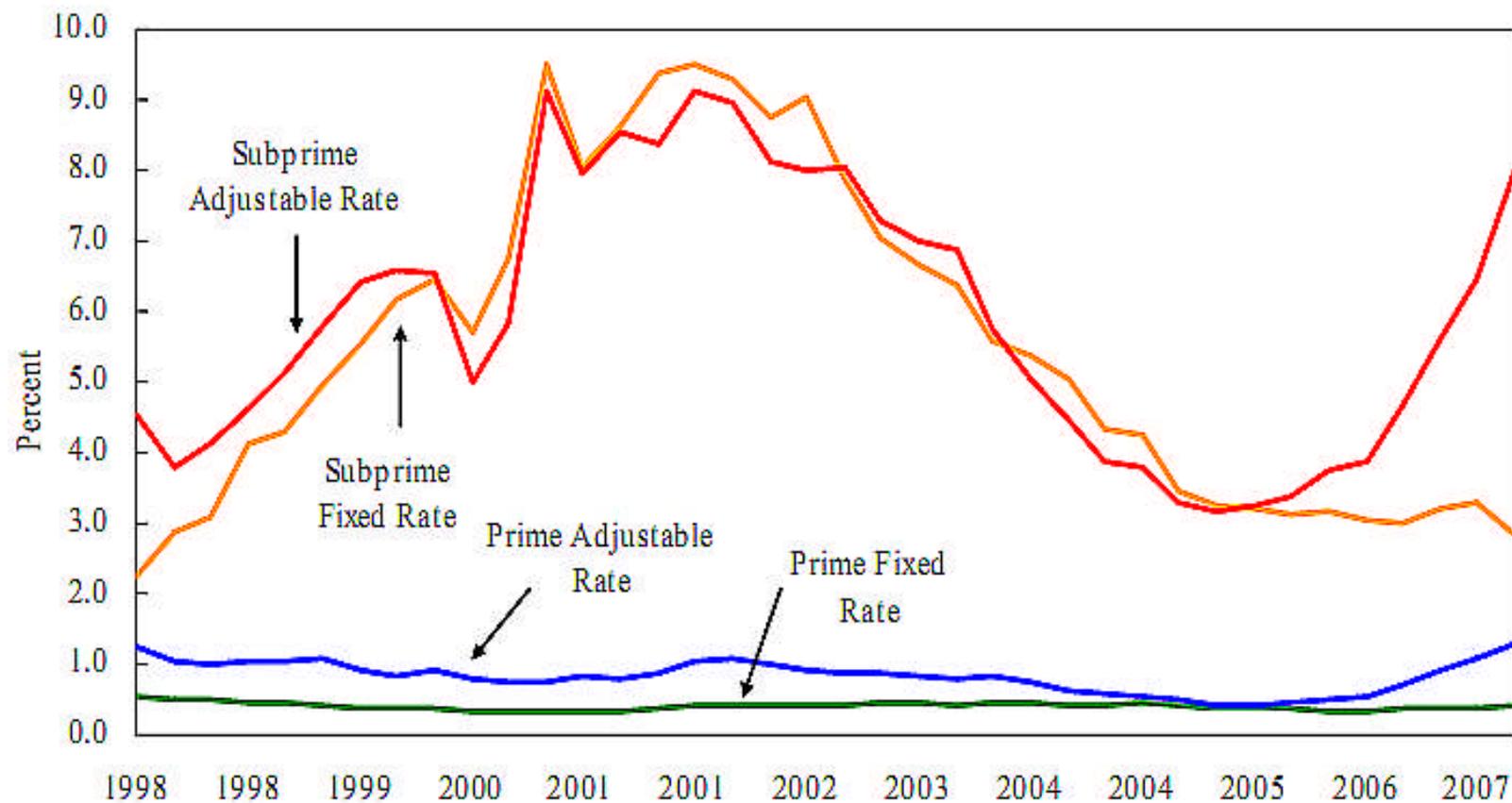


Foreclosures By Loan Type



Foreclosure Rates by Loan Type

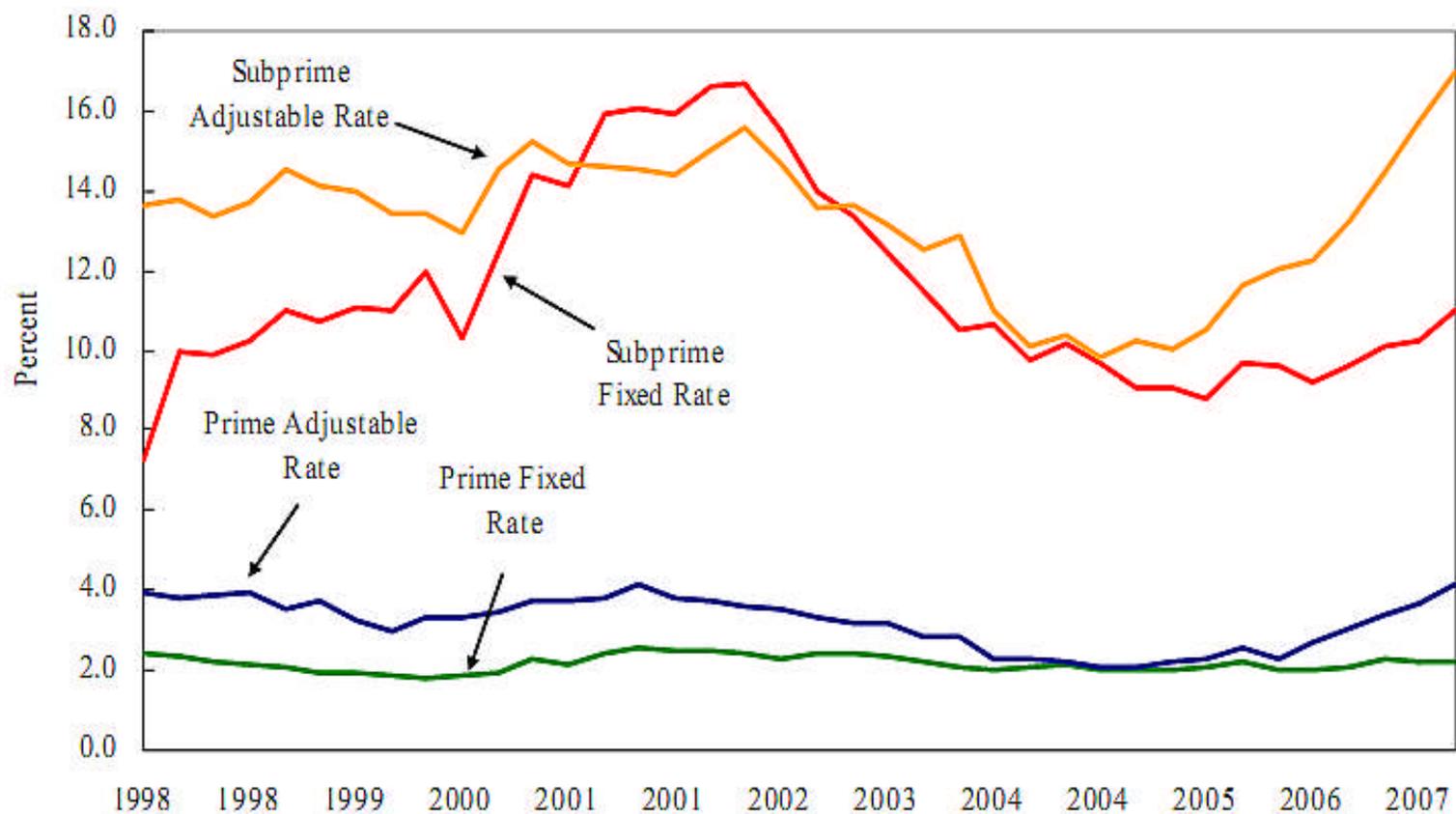
Figure 13: Comparison of Prime Versus Subprime Foreclosure Rates, Total U.S. 1998-2007



Sources: Mortgage Bankers Association.

Delinquency Rates by Loan Type

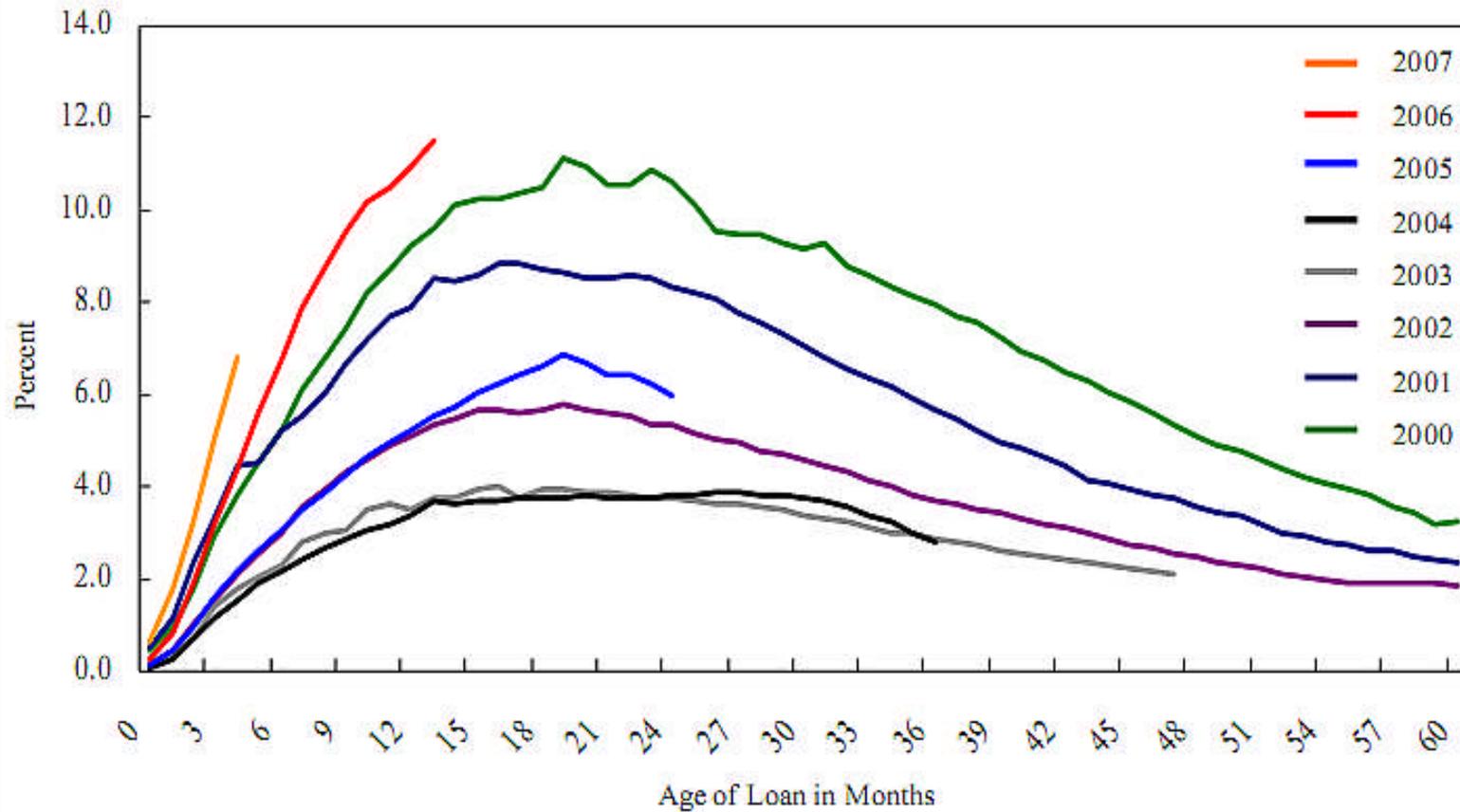
Figure 11: Comparison of Prime Versus Subprime Delinquency Rates, Total US 1998-2007



Sources: Mortgage Bankers Association.

Subprime Delinquency Rising

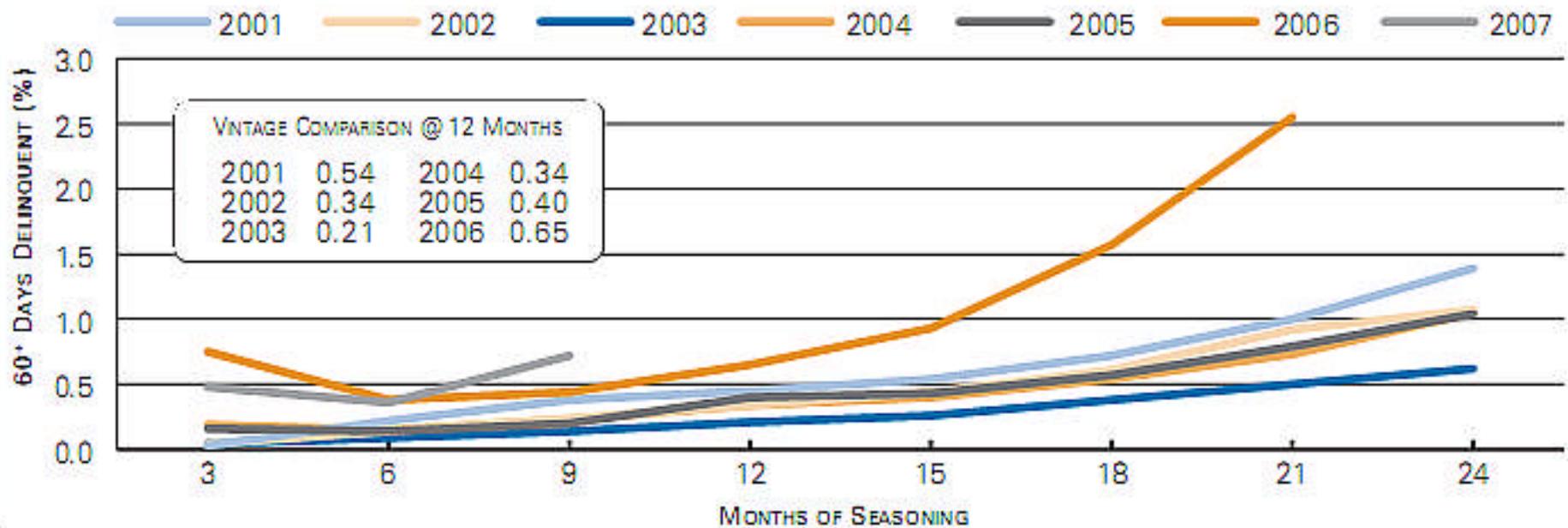
Figure 14: Recent Subprime Vintages Have Performed Poorly
Percent of Loans 60+ Days Delinquent by Year of Origination



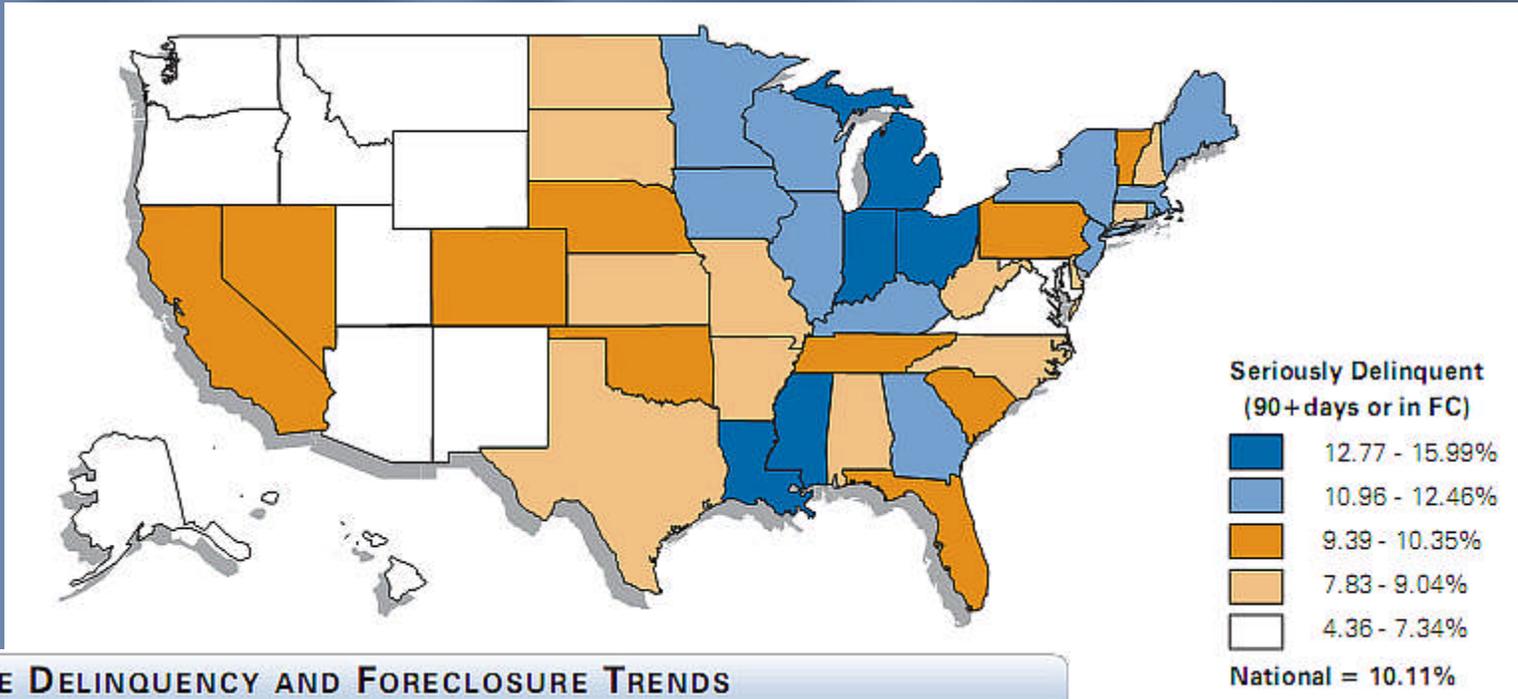
Source: Moody's Investors Service

And Prime Loans as Well

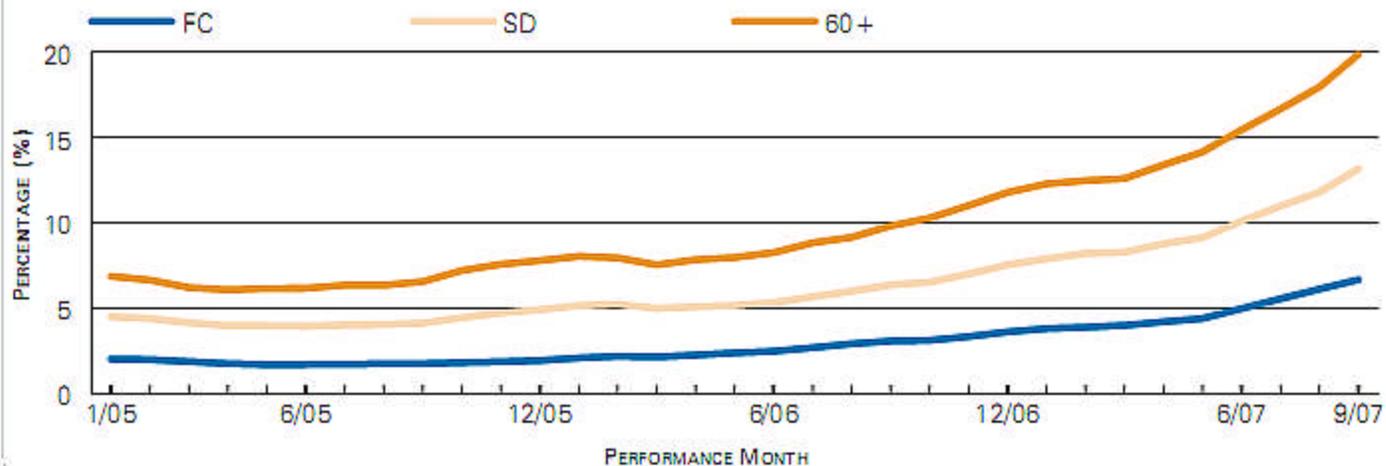
60+ DAYS DELINQUENT VINTAGE ANALYSIS



Subprime Delinquency/Foreclosure

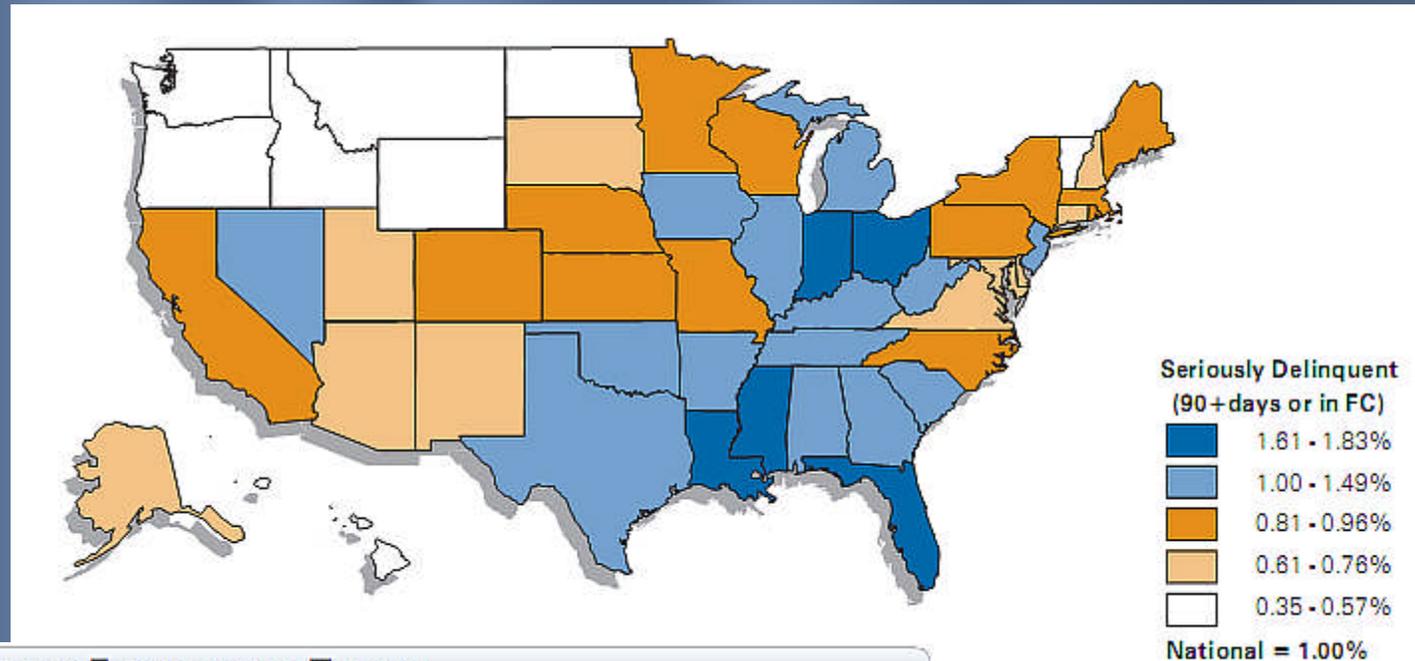


NATIONAL SUBPRIME DELINQUENCY AND FORECLOSURE TRENDS

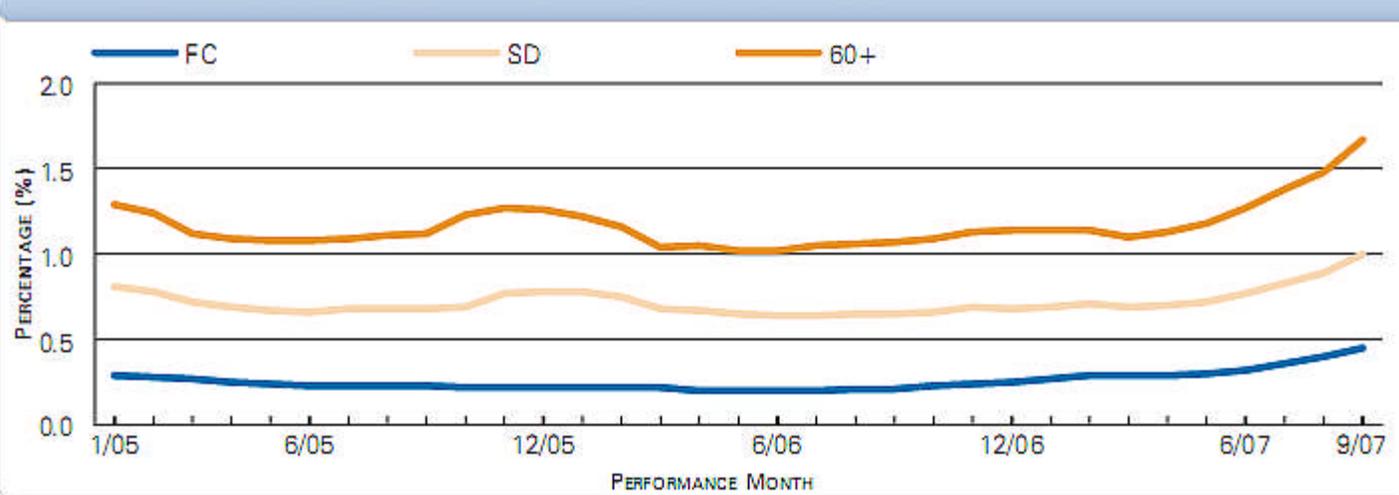


Loan Performance,
Market Pulse, as of
9/30/07

Prime Delinquencies/Foreclosures



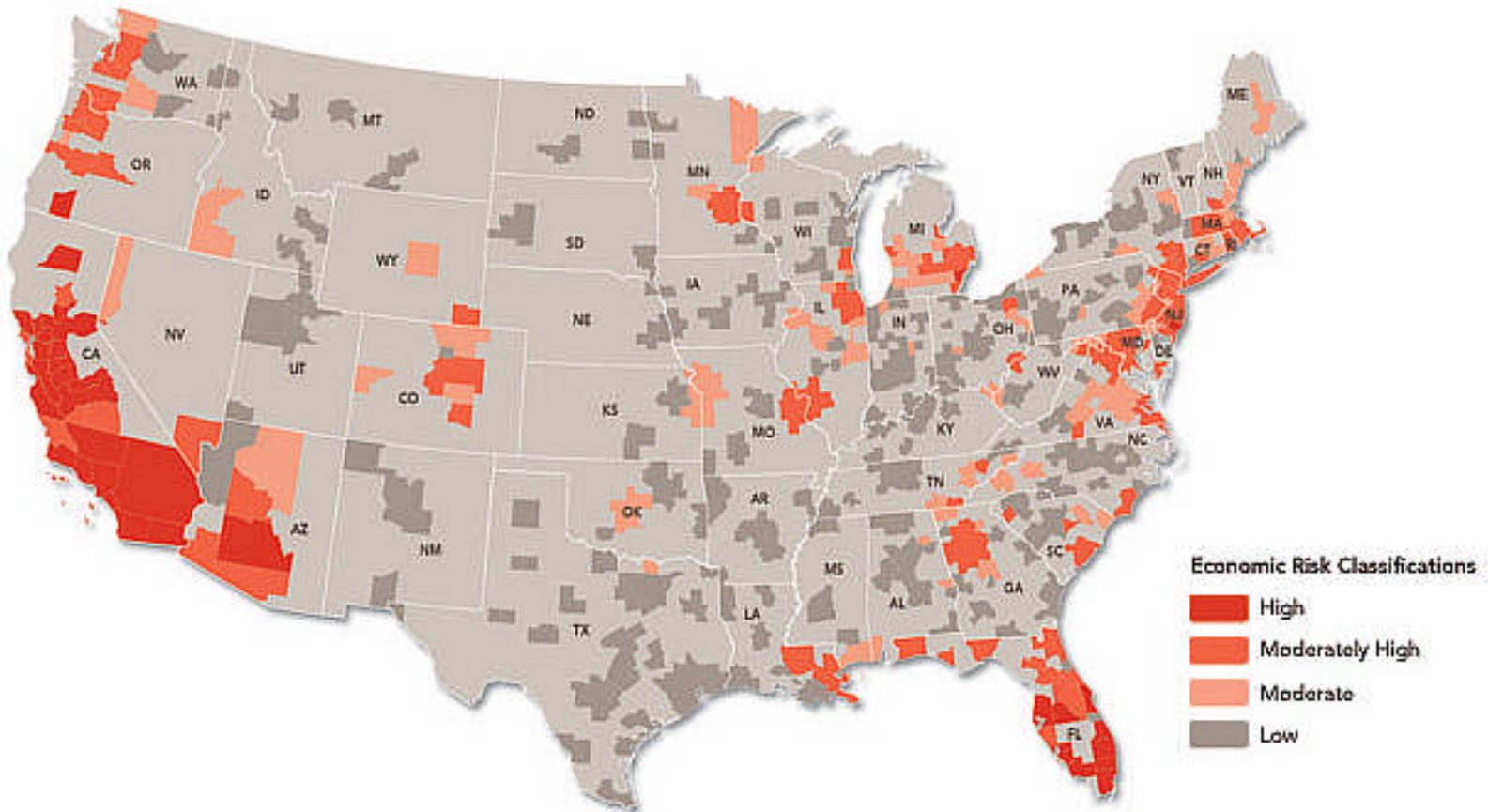
NATIONAL PRIME DELINQUENCY AND FORECLOSURE TRENDS



Loan Performance,
Market Pulse, as of
9/30/07

Foreclosure Risk

CORE MORTGAGE RISK INDEX BY MSA - Q2 2008



Source: First American CoreLogic

Post-Purchase & Foreclosure Intervention



Why Worry?

- Potential loss of affordable unit & funds
- HOME funds repayment in the event of foreclosure
- Each foreclosure is estimated to have a .9% impact on neighboring housing prices

Things to Consider

- Loan servicing/monitoring
- Post-purchase counseling
- Resubordination policy
- Foreclosure prevention/intervention

Loan Servicing

- Are you monitoring loans? Even if not amortization
- Are you monitoring 1st mortgages?
 - Do you have notification rights?
- Are you monitoring notices of default?
- How about...
 - Tax delinquencies?
 - Water bills?
 - Insurance cancellations?

Post-Purchase Counseling

- A relationship...not just an event
- Require it? Pay for it?
 - HOME \$ not eligible
- Cover:
 - Things they forget/didn't hear pre-purchase
 - Managing/maintaining your home
 - Avoiding predatory lending
 - Responsible refinancing & resubordination
 - Where to turn if you get into trouble

Why They Didn't Contact Lenders

Delinquent owners: 25% claimed not contacted by lender; 31% never contacted lender; 11% claimed no

problem



Source: Telephone survey in 8/05 by Roper for Freddie Mac. Respondents were considered to be in default if they were more than one month late on their mortgage payment.

Don't know Refuse

0% 20% 40%

Awareness of Options

	% Aware (Aided)	% Likely to Use	Knowledge Gap				
	36	74				38	Low awareness; High interest
A forbearance agreement	36	70				34	
Adding missed payments to the existing loan balance	54	72				18	Moderate awareness; Moderate/high interest
Changing the interest rate on the mortgage loan	58	75				17	
Extending number of years you have to repay	53	66				13	
A repayment plan	60	67				7	High awareness; Moderate interest
Making an adjustable-rate mortgage into a fixed-rate	61	64				3	
Paying mortgage company lump sum you are behind	74	68			-6		
An assumption of the mortgage	43	26	-17				Low awareness; Low interest
A deed-in-lieu of foreclosure	41	23	-18				

Resubordination Policy

- Resubordination: will you allow:
 - Refi with no takeout (better terms)?
 - Equity takeout for:
 - Home improvements?
 - Economic emergency (e.g., job loss)
 - Medical emergencies?
 - Education?
 - Other debt?
 - Foreclosure prevention?
- Prepayment policy
 - Will you prohibit?
 - Will you require pre-prepayment counseling?
 - Do you require full repayment if noncompliance

Prevention v. Intervention

● Prevention

- Helping existing owner avoid foreclosure
- Counselor involvement
- Restructure public loan terms?
- Other subsidies; resubordinate HOME?
- Additional HOME funds not eligible

● Intervention

- Getting control of property or new buyer
- Repurchase rights
- Repurchase funds
- Entity to repurchase/convey
- Active buyer pool
- Additional HOME funds eligible (see next slide)

HOME Foreclosure Intervention

- 11/22/04 rule
 - Recapture/repayment capped: net proceeds
 - Additional investment:
 - To acquire/repair/resell properties; not for prevention
 - Add project \$: subject to max subsidy limits (cum)
 - Admin funds may be borrowed (not subject to cap)
- 4/4/7 rule
 - Can use Admin \$ to preserve affordable units
 - But not assist existing owner
 - Home \$ to buy foreclosures/assist new buyer
 - Amendment to existing project, not new one

Wrap Up

Questions to Take Away

1. Is homeownership under a new paradigm?
2. Do you recognize & track what is happening to your housing & mortgage markets & buyers?
3. Do you need to change your counseling & training requirements to better prepare buyers?
4. Do you need to change underwriting and loan terms to better protect the public investment?
5. Do you need to implement a post-purchase support relationship & intervention strategy?

Wrap Up

- Evaluation
- Ideas for future training
- Remember DHCR RFP
- Questions/comments:
 - MLFranke@aol.com

Let's be careful out there!