



Briefing

Freddie Mac pockets \$2.7 billion from repurchases through June

In a story published Aug. 9, based on Freddie Mac's most recent quarterly filing with the Securities and Exchange Commission (SEC), it was reported that in the six months through June, Freddie had clawed back roughly \$2.7 billion from buyback demands from seller/servicers. The story by Thomson Reuters said that McLean, Virginia-based Freddie Mac is taking further steps to step up the pace of collecting on outstanding repurchase demands.

The government-sponsored enterprise (GSE) said that \$5.6 billion in repurchase requests had accumulated as of June 30, 2010, and roughly 24 percent of the buyback demands had been outstanding more than 120 days.

Freddie wrote in its SEC quarterly filing, "We have begun to require certain seller/servicers to commit to plans for completing repurchases, with financial consequences or with stated remedies for non-compliance, as part of the annual renewals of our contracts with them."

Freddie to ask Treasury for \$1.8 billion

At the end of this year's second quarter, Freddie Mac reported a net-worth deficit of \$1.7 billion, prompting an additional \$1.8 billion draw request to the Department of the Treasury. Even with the latest net-worth deficit, there was evidence of improvement from the first quarter when the net-worth deficit was \$10.5 billion.

Freddie also reported that it made a dividend payment to the Treasury

of \$1.3 billion on its senior preferred stock during the second quarter. With the latest draw request, Freddie Mac will have needed roughly \$64.1 billion from the Treasury to maintain a positive net worth.

The second-quarter results showed that Freddie Mac made a provision for credit losses of \$5 billion, suffered derivative losses of \$3.8 billion and had net interest income of \$4.1 billion. The company's single-family delinquency rate ended the second quarter at 3.96 percent—down from 4.13 percent at the end of this year's first quarter. The provision for credit losses in the second quarter was \$400 million less than in the first quarter.

For the quarter, the net loss attributable to common stockholders was \$6 billion (or \$1.85 per diluted common share). That compares with a net loss attributable to common shareholders of \$8 billion (\$2.45 per diluted common share) for the first quarter.

Fannie tallies a net-worth deficit of \$1.4 billion in second quarter

Fannie Mae is still working its way through credit losses on single-family loans it purchased or guaranteed back in 2005 through 2008, the company said in reporting a net loss of \$1.2 billion for the second quarter. The Washington, D.C.-based company noted that its second-quarter net loss was down substantially from the \$11.5 billion net loss it recorded in the first quarter of 2010.

Fannie said that "almost all of the company's realized credit losses in 2009 and 2010" on single-family loans trace to losses on loans from those earlier vintages. And while it expects those loans to produce additional credit losses not yet realized, "the company estimates that it has

reserved for the substantial majority of these losses."

In spite of improving credit quality and a kick-up in net revenue during the second quarter (up 49 percent from the first quarter), Fannie Mae experienced a net-worth deficit in the second quarter. That will prompt a request for a draw on the Treasury of roughly \$1.4 billion to cover the second quarter's net-worth deficit. With that draw included, the total amount Fannie Mae has needed to cure its net-worth deficits since going into conservatorship will be \$86.1 billion.

In the second quarter, Fannie Mae paid \$1.9 billion in dividends to Treasury on its senior preferred stock. The company's net loss attributable to common stockholders was \$3.1 billion or \$0.55 per diluted share. That compares favorably with the net loss of \$13.1 billion or \$4.29 per diluted share in the first quarter.

Administration announces new assistance for unemployed borrowers

On Aug. 11, the Obama administration announced its latest efforts designed to help unemployed homeowners struggling to avoid foreclosure. The efforts include two targeted programs—one existing and another that's brand-new. The total amount of new assistance for unemployed homeowners will be \$3 billion.

The Treasury Department will make \$2 billion in additional assistance available through the existing Housing Finance Agency (HFA) Innovation Fund for the Hardest Hit Housing Markets. This program will provide assistance through HFA programs designed to help borrowers

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struggling with unemployment problems.

The other targeted assistance program to be launched by the Department of Housing and Urban Development (HUD) will provide assistance for up to 24 months to homeowners at risk of foreclosure who have experienced a substantial reduction in income. The new HUD program, called the Emergency Homeowners Loan Program, will provide \$1 billion in new assistance to borrowers suffering from reduced income due to involuntary unemployment, underemployment or a medical condition, according to a HUD press release.

PMI U.S. Market Risk Index shows third straight decline

Walnut Creek, California-based The PMI Group Inc. reported that its third-quarter U.S. Market Risk Index (based on first-quarter data) fell to 51.9 from 53.8. That marked the third consecutive quarterly decline in the risk index, which portrays the risk of home prices being lower at the end of the next two years. The higher the index reading, the greater the likelihood of price declines.

The index performance this year reflects continued improvement in the housing market, but it wasn't all good news. In the third quarter, the number of metropolitan statistical areas (MSAs) with lower risk scores declined compared with the previous quarter.

PMI reported that although 75.5 percent of the nation's MSAs are less risky than the previous quarter, more than half (51.5 percent) are still in the

high-risk category. PMI's risk scores translate directly into a probability that the price of homes in a given MSA will on average be lower at the end of the next two years.

Of the nation's top 50 MSAs, 28 had a risk score higher than 70, while only one—Columbus, Ohio—had a minimal risk score of below 10.

FHA launches short refi program for underwater borrowers

On Aug. 6, the Federal Housing Administration (FHA) published guidance on a new refinance program for underwater non-FHA borrowers who are current on their loans and whose lenders agree to write off at least 10 percent of unpaid principal. The details were provided in a mortgagee letter and the new program will be effective starting Sept. 7.

The program was initially announced in March by the administration and is being referred to as the FHA Short Refinance option. To qualify for the new FHA loan, borrowers must owe more on their mortgage than their home is currently worth, must qualify under standard FHA underwriting requirements and have a credit score equal

to or greater than 500.

In a press release announcing the details, FHA Commissioner David Stevens is quoted saying, "We're throwing a lifeline out to those families who are current on their mortgage and are experiencing financial hardships because property values in their community have declined." Stevens added, "This is another tool to help overcome the negative equity problem facing many responsible homeowners who are looking to refinance into a safer, more secure mortgage product."

IAS360 shows modest 1.1 percent home-price gain in Q2 2010

Denver-based Integrated Asset Services LLC released its latest IAS360® House Price Index on Aug. 10, and the findings showed weak but positive national price gains in the second quarter of 2010. The benchmark index for national house prices gained 1.1 percent during the period.

In a press release announcing the findings, IAS noted that home prices were helped by the federal tax credits for homebuyers, which have since expired. "I have to be impressed that the housing market, at least at the broad level, appears to

Business Barometer	
HOMEOWNERSHIP RATE	
Second Quarter 2010:	66.9 percent
Second Quarter 2009:	67.4 percent
Year-Over-Year Change:	-0.5 percentage point
SOURCE: U.S. Census Bureau	



have responded well to the government's homebuyer tax credits," said Ryan Tomazin, president of IAS. Tomazin added, "But down at the neighborhood level, I'm not so sure we've done anything but aggravate the foreclosure influences downstream."

With the modest gain in national prices posted in the second quarter, the IAS360 index is now down 16.7 percent from the peak touched during the first quarter of 2007. The latest index reading found all four census regions posted gains in home prices during the period of the first quarter of 2010 to the second quarter of this year. The gains ranged from a high of 1.5 percent in the Midwest region to a low of 0.2 percent in the West.

Debt collection industry fails to win carve-out from Dodd-Frank

The debt collection industry was disappointed in its efforts to win an exemption from further regulation under the financial regulatory reform law that just recently passed the Congress. The industry's new chief regulator under the newly enacted law will be the Bureau of Consumer Financial Protection (BCFP).

"We are disheartened by provisions in the financial regulatory reform bill that are all-inclusive without a clear understanding by lawmakers of the impact of their actions," said ACA International Chief Executive Officer Rozanne Andersen. The head of the association for credit and collection professionals added in a press release, "Collection agencies do not sell or offer financial products and services. In our opinion, all financial services industries are not created equal and to include the debt collection industry in this new law is overreaching."

During lobbying over the legislation, the industry sought an amendment whereby the Federal Trade Commission (FTC) would retain jurisdiction over consumer-protection laws such as the Fair Debt Collection Practices Act (FDCPA) and the Fair Credit Reporting Act (FCRA). Howev-

er, that effort proved unsuccessful and the industry will face oversight by the BCFP.

Andersen pointed out that the debt collection industry is already "heavily regulated by the [FDCPA], over 34 state consumer-protection laws, state regulators and the [FTC]."

LPS says foreclosure starts for GSE loans hit all-time high

Jacksonville, Florida-based Lender Processing Services Inc. (LPS) reported in its June *Mortgage Monitor Report* that foreclosure starts for loans owned by the government-sponsored enterprises reached an all-time high.

The company said that the largest percentage of GSE foreclosure starts are coming from loans that are six or more months behind on payment. "This finding is consistent with the reports of increased Home Affordable Modification Program (HAMP) trial period cancellations," LPS said.

The June report also found that jumbo and "agency prime" mortgage products were experiencing the greatest percentage increase in total delinquent and foreclosure inventories since January 2008.

The latest *Mortgage Monitor Report* also found that the volume of loans "curing" to current from most stages of delinquency "has increased slightly." A press release on the new report said, "The greatest percentage increase in cures over the last several months has come within the late stage of delinquency (180 days or more), and is primarily attributable to HAMP trial modifications being converted to a permanent status."

Production profits drop in first quarter on weaker volume

First-quarter per-loan production profits slipped significantly for independent mortgage bankers and their subsidiaries, according to the Mortgage Bankers Association (MBA). Average per-loan profits fell

to \$606 compared with \$1,088 in the first quarter of 2009 based on MBA's *1st Quarter 2010 Mortgage Bankers Production Survey*.

Weak origination volume contributed to the poorer profit performance as average production volume per firm fell to \$157.8 million in the first quarter of 2010. That was down from average production volume of \$216.5 million in last year's fourth quarter. Per-loan production operating expenses rose to \$5,147 in the first quarter of 2010 compared with \$4,402 in expenses per loan in the fourth quarter of 2009.

Total personnel expenses on a per-loan basis also rose in the first quarter to \$3,296. That was up significantly from the \$2,756 per loan in last year's final quarter.

"It is extremely difficult for mortgage companies to effectively manage staffing levels. Either companies are stretching to meet the incredible demand, or they are carrying excess capacity which drives up per-loan personnel expense," said Marina Walsh, MBA's associate vice president of industry analysis."

July saw 5 percent more homes on market with price reductions

Emeryville, California-based ZipRealty Inc. reported on Aug. 5 that the number of homes listed on the market that have undergone price reductions jumped by 5.3 percent in July compared with June. The online brokerage firm reported that in July more than 45 percent of homes listed for sale included at least one price reduction.

The biggest price drops in nominal terms occurred in the San Francisco Bay Area, where the median price reduction was \$38,000 in July. While buyers in the Houston, Dallas and Raleigh-Durham (North Carolina) markets saw the smallest price reductions. In each of those markets, the median price cut in July was \$10,000.

Denver had the lowest percentage of price-reduced homes on the market in July with 32.5 percent. The metro



area with the highest percentage of homes with price reductions continues to be Jacksonville, Florida, where 54 percent of listings in July had experienced at least one price cut.

In the 26 markets surveyed by ZipRealty, prices for listed homes dropped to a median of \$254,987. In a release announcing the findings, the company noted, "Although the number of price-reduced homes increased in July, the median price reduction across the 4,500 cities and communities in 26 markets surveyed slightly declined from June, to \$18,949."

Clear Capital says national REO saturation rate drops to 22.7 percent

Nationally, the real estate-owned saturation rate is down 19.8 percentage points from its peak in the first quarter of 2009, according to Truckee, California-based Clear Capital. That is clear evidence that there is some healing going on in the nation's housing markets.

Clear Capital computes an REO saturation rate by calculating the percentage of REOs sold as compared with all properties sold during the most recent rolling quarter. According to Clear Capital's latest *Home Data Index™ Market Report*, released on Aug. 5, markets with elevated REO saturation rates include: Riverside-San Bernardino-Ontario, California (41.2 percent); Detroit-Warren-Livonia, Michigan (40.6 percent); and Phoenix-Mesa-Scottsdale, Arizona (40.2 percent).

The latest *HDI Market Report* ranked Cleveland's metropolitan statistical area as the highest-performing major housing market in the newest report. Cleveland's year-over-year price gains reached 43.2 percent, while its quarter-over-quarter price gains hit 29.2 percent. Memphis, Tennessee, ranked second with quarterly price gains of 24.2 percent, while Milwaukee-Waukesha-West Allis, Wisconsin, saw 23.9 percent quarterly price gains. Ranking fourth in quarterly home-price gains was New Orleans, with 23 percent, while coming in fifth was St. Louis with quarterly price gains of 20.4 percent.

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