GOVERNMENT UPDATE: HOW EMERGENCY ACTIONS ARE IMPACTING THE MARKET

Mortgage Industry Pandemic Summit

Hosted By: Altisource YOUR ONE SOURCE™

MAY 6
4:00PM – 5:00PM

Eric Kaplan – *Director, Housing Finance Program, Milken Institute*

Paul Leonard – *SVP for Government Affairs, Housing Policy Council*

Donald Griffin – *VP, Servicer Relationship & Performance Management, Single-Family Portfolio Management, Freddie Mac*

Edward Pinto – *Resident Fellow & Director, American Enterprise Institute Housing Center*

THEFIVESTARINSTITUTE MBA MORTGAGE BANKERS ASSOCIATION FORRESTER® National Mortgage News

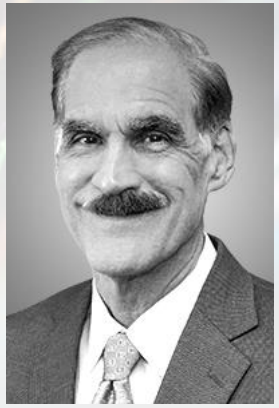
Moderator

MODERATOR:

WES ISELEY
Senior Managing Director,
Carrington Holding Company, LLC

Speakers

ERIC KAPLAN
Housing Finance Program,
Milken Institute



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Senior Vice President
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Housing Policy Council

DONALD GRIFFIN
Servicer Relationship
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EDWARD PINTO
Resident Fellow
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Institute Housing
Center

MORTGAGE INDUSTRY PANDEMIC SUMMIT

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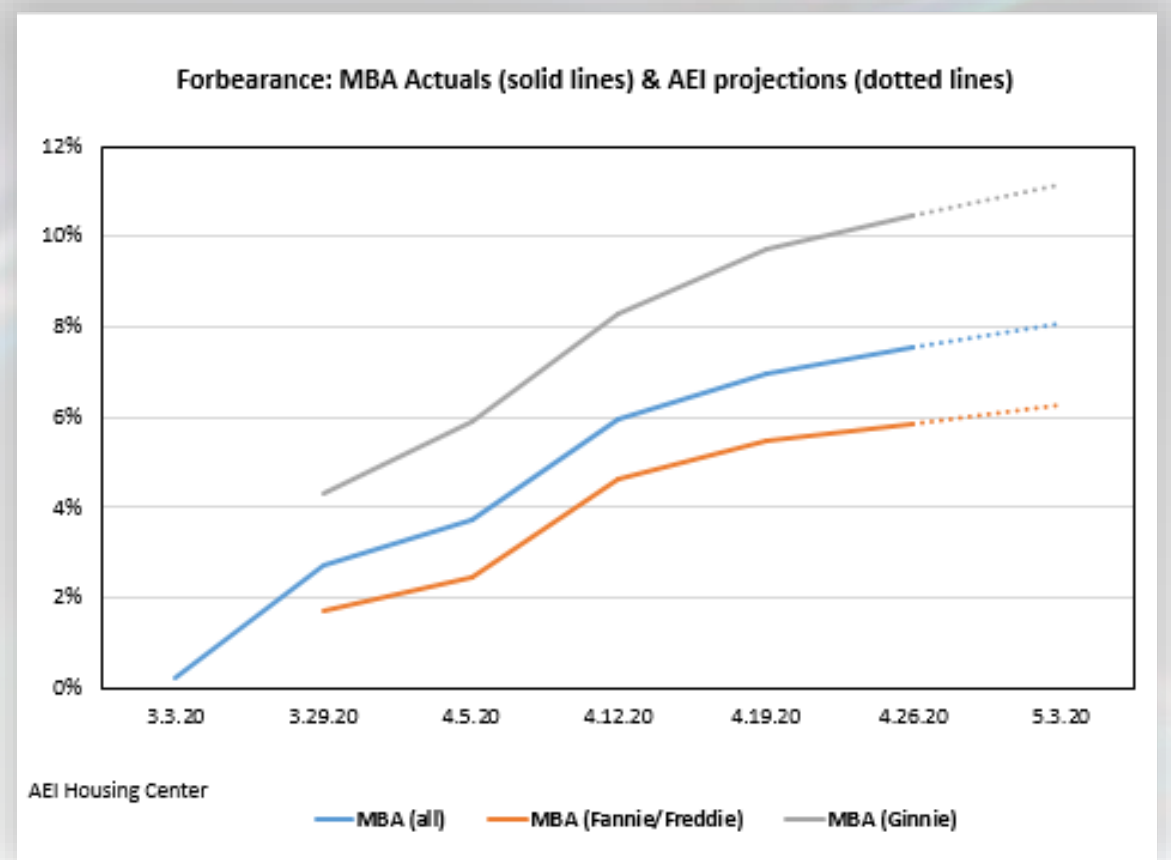
Estimated Forbearance Totals

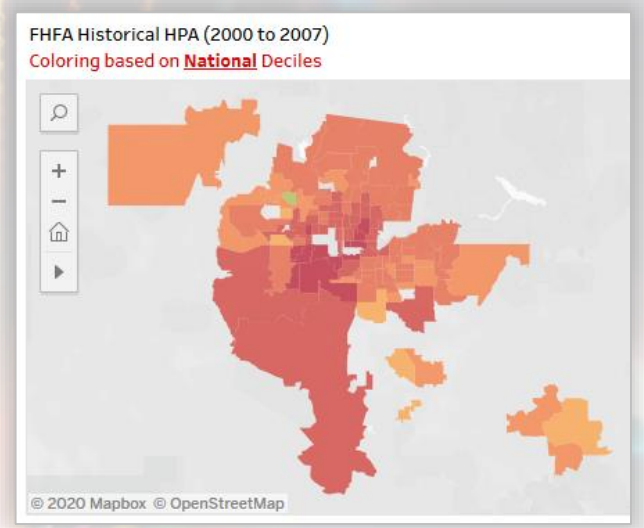
As of May 4, 2020

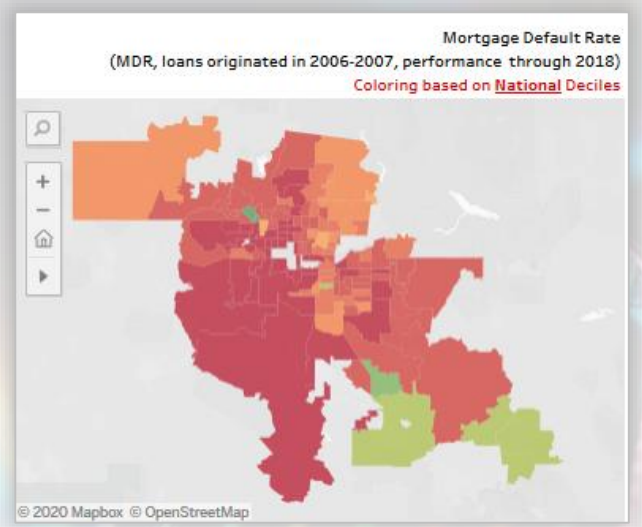
- An estimated 8.17% or **4.33 million out of 53 million loans**
- An estimated 11.36% or **1.25 million Ginnie loans**
- An estimated 6.33% or **1.90 million GSE loans**

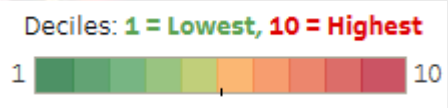


Phoenix: A Huge Boom/Huge Bust during Great Recession

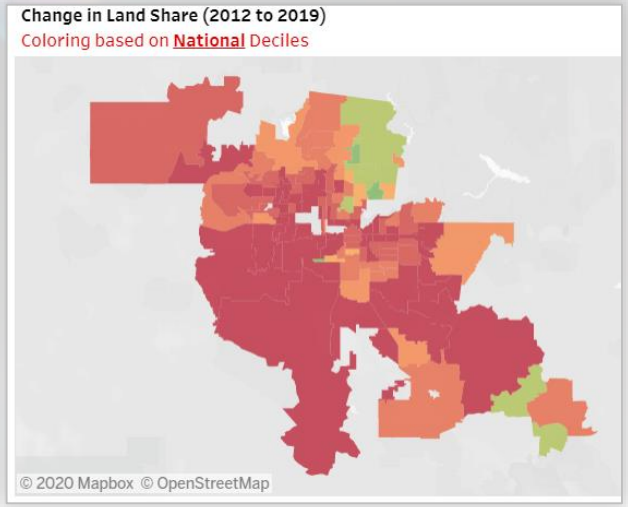
Last Boom/Bust

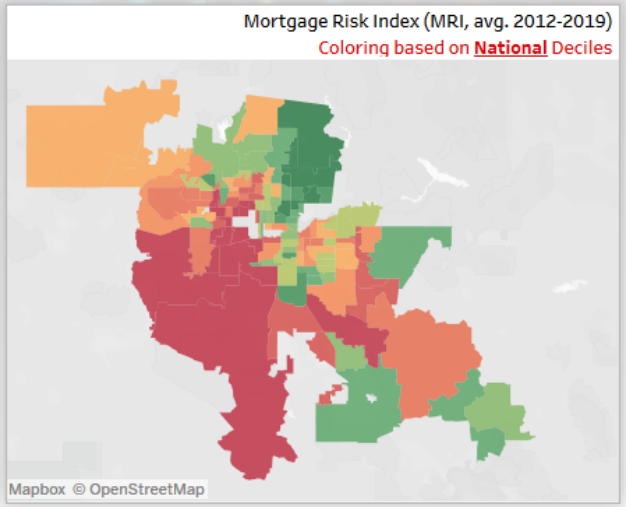






Current





Source: AEI Housing Center, www.AEI.org/housing,

Phoenix Metro: "Canary Zip Codes"

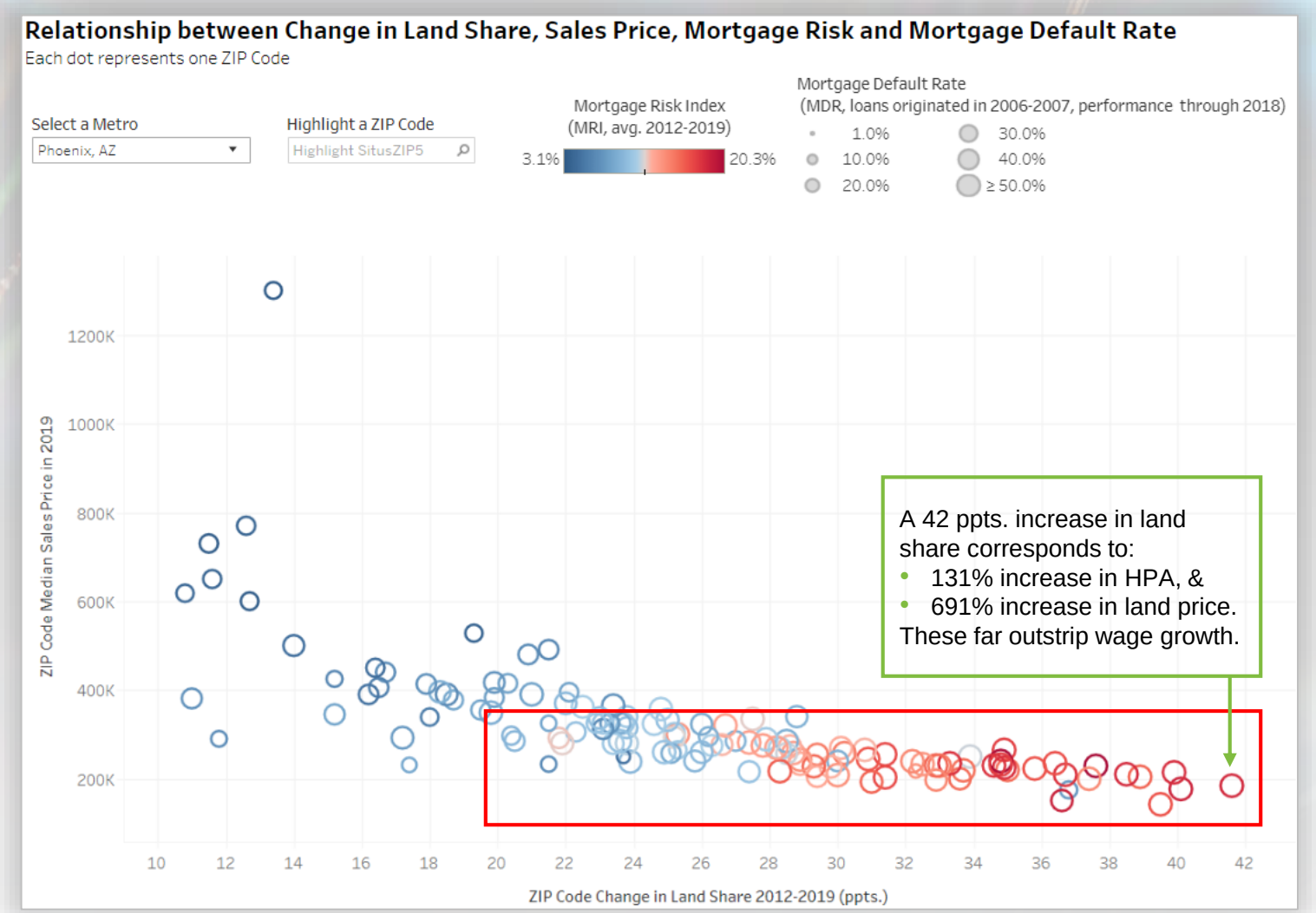
"CANARY ZIP CODES"

(red circles in red box)

A high percentage point change in land share combined with a high Mortgage Risk Index can help identify areas highly susceptible to price downturns.

- Account for 39% of financed sales
- Borrowers have income of $64k vs. $97k for non-canaries
- Borrowers are 37% Black and Hispanic vs. 12% for non-canaries

Note: Data are for financed sales in 2018. HPA = Home Price Appreciation. Minority is defined as either Black or Hispanic. Analysis excludes American Indian, Asian, Pacific Islanders, and borrowers with an unknown race or ethnicity.

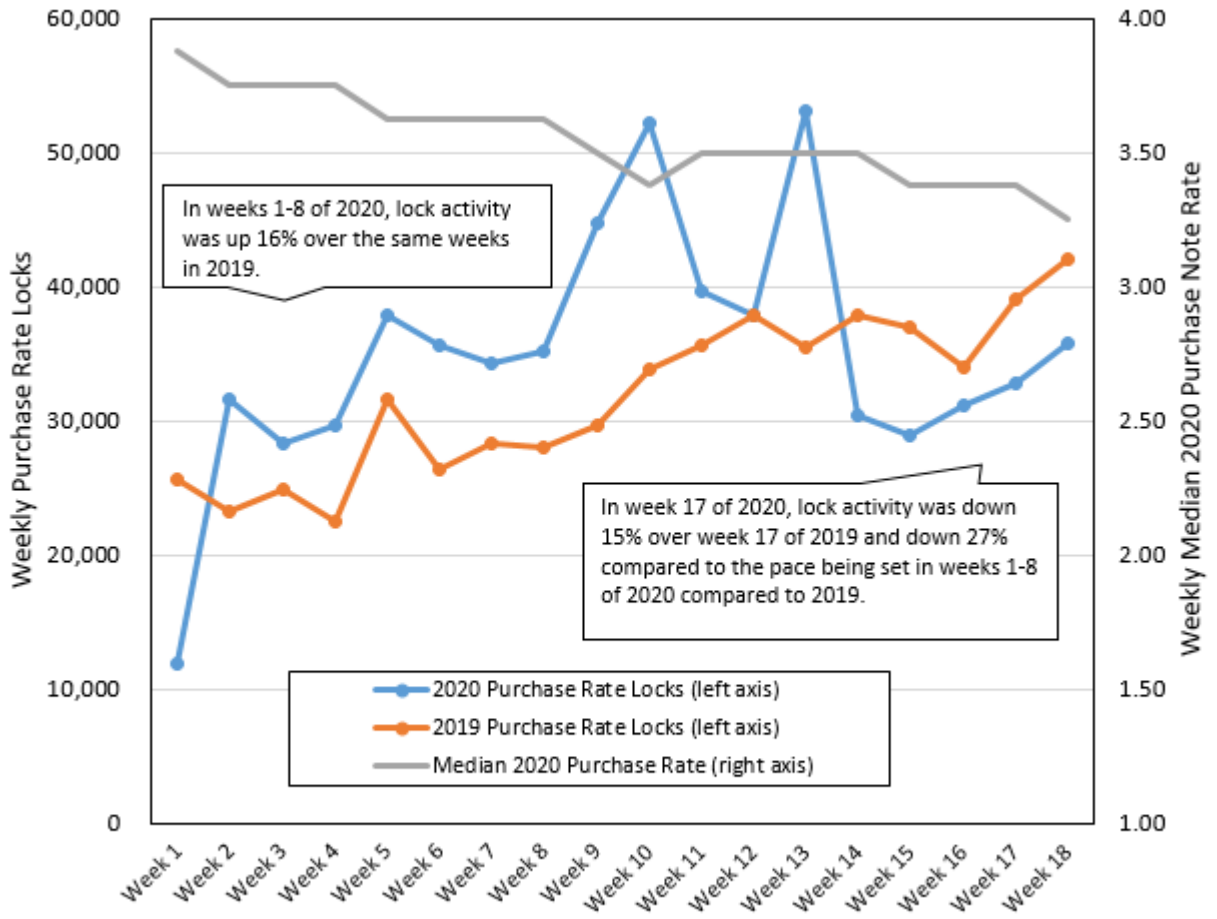


Source: AEI Housing Center, www.AEI.org/housing, and HMDA 2018.

Weekly Purchase Loan Rate Lock Volume

For the week of April 27, 2020 (week 18), purchase loan rate lock activity was 15% below that for week 18 in 2019.

Purchase loan rate lock activity may be down as much as 27% after taking into account that volume in January and February 2020 (weeks 1-8) was running 16% ahead of the same period in 2019.



Source: AEI Housing Center, www.aei.org/housing, and Optimal Blue.

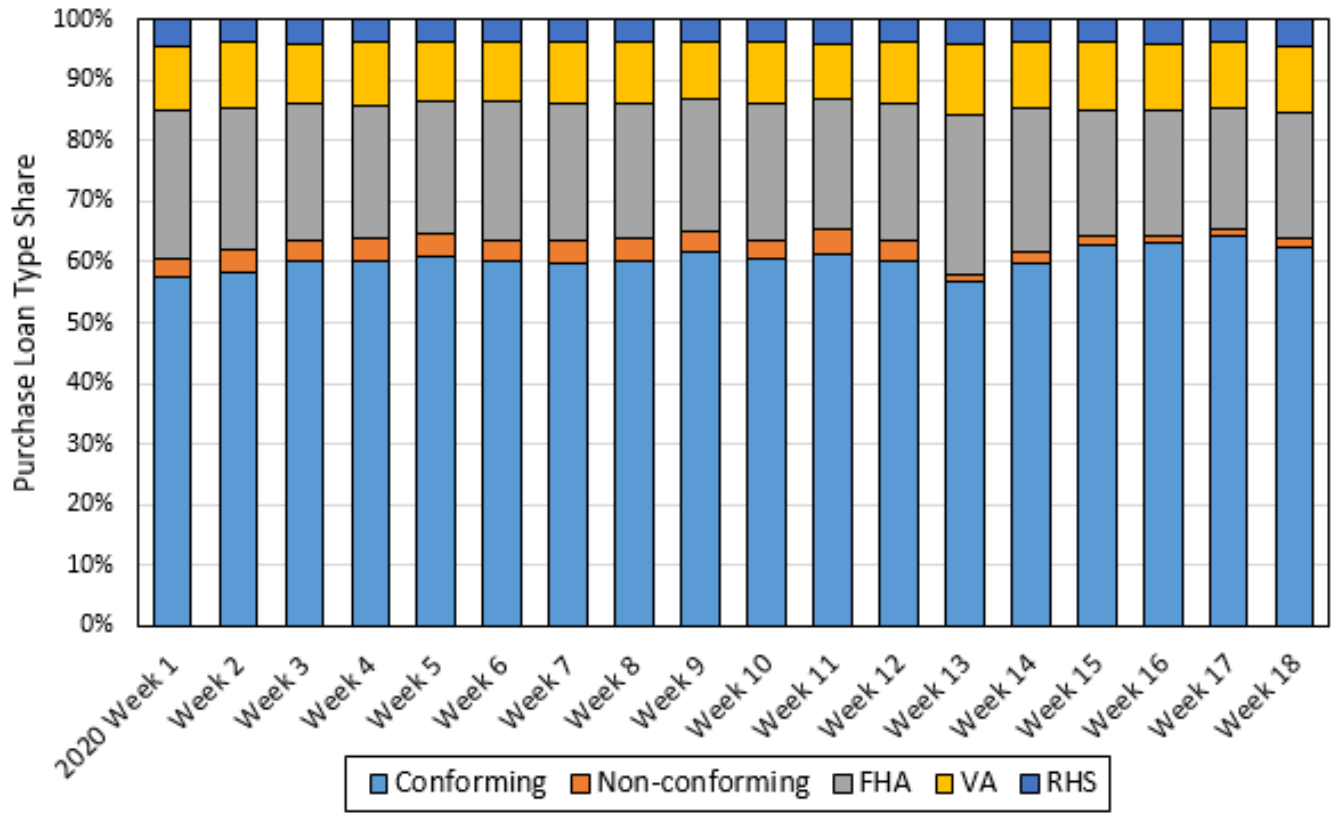
Source: AEI Housing Center, www.AEI.org/housing, Optimal Blue.

Purchase Loan Rate Locks by Loan Type

For the week of April 27, 2020 (week 17\8) the conforming share of purchase loan rate locks was 63%, up from an average of 60% during weeks 1-8.

The non-conforming share of purchase rate locks was 1%, down from an average of 4% from weeks 1-8.

FHA's share is down modestly. It now stands at 21%, down from an average of 23% during weeks 1-8.



Source: AEI Housing Center, www.aei.org/housing, and Optimal Blue.

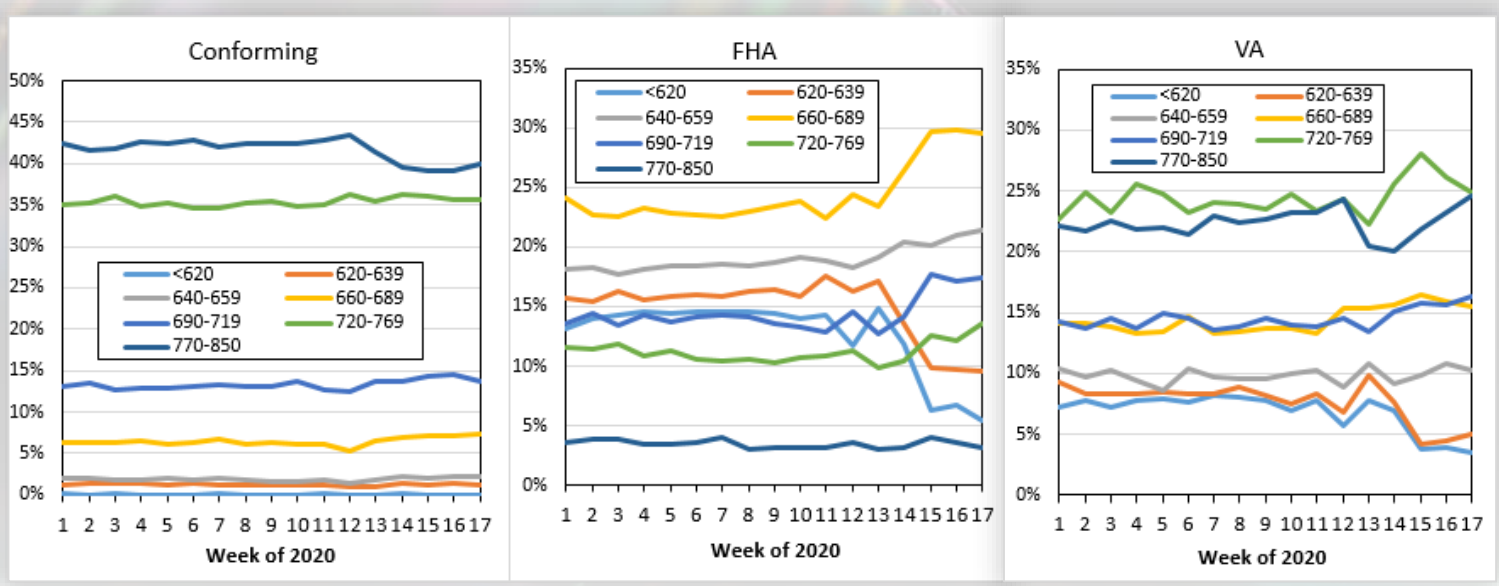
Source: AEI Housing Center, www.AEI.org/housing, Optimal Blue.

FICO Distributions for Conforming, FHA, and VA (weekly, purchase loans)

Among conforming borrowers, the share of borrowers with a FICO score of 770+ has decreased from 43% to 40% over recent weeks, while the share of borrowers with scores below 720 has increased from 23% to 24%.

The share of FHA borrowers with a credit score below 640 has halved from 32% to just 16%, while the share of borrowers with a FICO of 660-689 has increased from 23% to 30%.

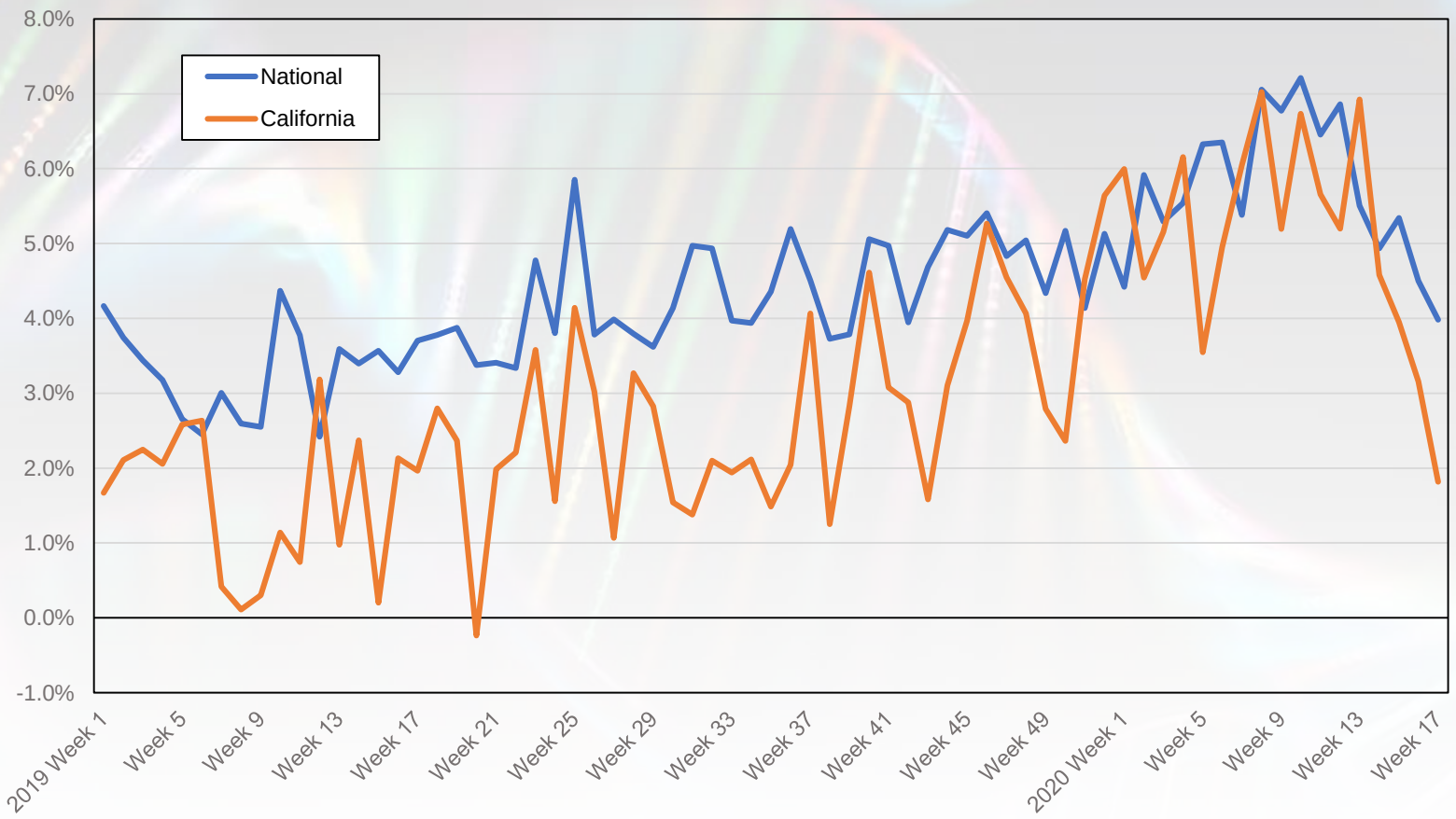
The share of VA borrowers with a credit score below 640 has declined from 16% to just 9%.



Source: AEI Housing Center, www.AEI.org/housing.

Optimal Blue Data Indicate that the Rate of HPA Has Started to Decelerate with the Onset of the Coronavirus Pandemic

Weekly Year-over-Year Home Price Appreciation: National and California



CURRENT ENVIRONMENT DUE TO COVID-19

PAUL LEONARD
Senior Vice President for Government Affairs,
Housing Policy Council

CURRENT ENVIRONMENT DUE TO COVID-19:

- Unprecedented Environment: Operations of Government Impacted by COVID-19
- Congress and Administration operating remotely to great extent
- Different and Broader than 2008 crisis and recession
- Government faced with dealing with broad economic impact, not just mortgage market
- Impact on renters, homeless population as well as homeowners

POLITICAL & POLICY ISSUES FOR MORTGAGE INDUSTRY:

Short-term:

- Renewed focus on Servicer treatment of Borrowers- reviving Congressional concerns from 2008 crisis
- Broad Borrower Forbearance required by CARES Act- how are servicers communicating options?
- Advocates and Congressional Desire for uniform Post-forbearance Options
- Conflicting desire of Congress to keep mortgage credit flowing for purchases and refinances vs adding risk to market
- Liquidity Facility for Non-bank Servicers

POLITICAL & POLICY ISSUES FOR MORTGAGE INDUSTRY:

Long-term:

- Review of Capital Standards for Non-Bank Servicers
- More scrutiny of mortgage servicing in general
- Impact on timing and approach to Housing Finance Reform debate

FREDDIE MAC UPDATE

Donald Griffin
VP, Servicer Relationship & Performance Management,
Single-Family Portfolio Management
Freddie Mac

What We Are Seeing:

- From our clients – as expected, as the crisis progressed, Servicers began reporting an influx of call volume from homeowners who are looking for relief.
- They were working to manage this volume as they were repositioning their staff to a remote work environment. Given this scenario, our servicers were responding reasonably well.
- And they've reported that call volume has recently become more manageable.
- We continue to hold regular meetings with Servicers and as we get additional feedback, we will work to provide clarity where we can.
- From a market perspective and what we're seeing, we expect delinquencies to increase given the forbearance offerings and the rapidly increasing unemployment rates.

What Have We Done:

Recap: Recent Guide Updates for COVID-19

Bulletin 2020-10

April 8, 2020

Announced clarifications to temporary servicing measures in response to inquiries around the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act").

- Credit reporting
- Foreclosure moratorium
- Bankruptcy motions for relief from automatic stay
- Forbearance plans
- Quality right party contact (QRPC)
- Learn more

Bulletin 2020-7

March 25, 2020

Guidance for Servicers in response to the continued challenges resulting from COVID-19:

- EDR reporting mortgages impacted by COVID-19 (default reason code 032)
- Temporary relief from certain property inspection and preservation requirements
- Additional updates
- Learn more

Bulletin 2020-4

March 18, 2020

Temporary measures that support your efforts to help borrowers who may face hardships due to COVID-19:

- Reporting to credit repositories
- Evaluating borrowers for loan modifications
- Approving borrowers for forbearance plans
- Suspending foreclosure sales
- Learn more

What Have We Done:

April 8th Bulletin Updates

	Previous Bulletins	NEW Guidance
Bankruptcy Motions	Servicers must file a motion for relief from automatic stay, upon certain milestones based on the length of delinquency or post-petition payments per Guide Sections 9401.6 and 9401.7.	Servicers are temporarily relieved from meeting these milestones.
Credit Reporting	Servicers must not report to credit repositories a Borrower who is on an active forbearance plan, repayment plan or trial period plan as a result of a COVID-19-related hardship.	Adjusted language related to credit reporting for borrowers impacted by COVID-19 to align with the FCRA and CARES Act.
Forbearance Plans	We authorize Servicers to approve forbearance plans for all Borrowers who have a COVID-19-related hardship, regardless of property type.	Servicers can enter into or extend the forbearance plan beyond a date that may result in a delinquent amount exceeding the cumulative total of 12 months of the borrower's monthly mortgage payment.
Foreclosure Moratorium	Applies to foreclosure sales only.	Applies to all foreclosure actions (see examples detailed in the Bulletin).
QRPC	Servicer must initiate outreach attempts no later than 30 days prior to the end of Borrower's COVID-19-related forbearance, and attempt to contact them until QRPC has been established or until a forbearance plan has expired.	For a forbearance plan evaluation, if Servicer is unable to complete QRPC in accordance with all Guide requirements, they must still offer a forbearance plan to a borrower in compliance with the CARES Act, as applicable. Servicer is not required to determine occupancy when establishing QRPC for loss mitigation options.

COVID-19 FORBEARANCE RELIEF AND PLS

ERIC KAPLAN
Housing Finance Program,
Milken Institute

COVID-19 Forbearance Basics

Federally backed loan Agency (must sell to GSEs) Government

CARES ACT APPLIES

- Up to 6 months initially
- Second period of up to 6 months

Non-Agency Loan

CARES ACT DOES NOT APPLY

- Some states require up to 3 months
- Portfolio vs. PLS – different dynamics

POST-FORBEARANCE?

- No legislative mandate in any channel
- Federally backed loans: no mandatory lump sum repayment per regulators
- Non-agency loans: ???

Forbearance in Non-Agency

Portfolio/Balance Sheet

- Includes portfolio/balance sheet holders (banks, REITS, funds, etc.)
- Typically up to holder subject to terms of servicing agreement
  - Delegated authority in holder or servicer?

PLS

- IRS Revenue Procedure 2020-26
- Depends on deal documents
  - Servicer, Controlling Holder, Servicing Administrator?

Providing Forbearance in PLS

COVID-19 FORBEARANCE RELIEF AND PLS: A CALL FOR SELF-GOVERNANCE
Milken Institute – Center for Financial Markets, Housing Finance Program
(Kaplan, Stegman, Tozer)

https://milkeninstitute.org/reports/covid19-forbearance-relief-and-pls-call-self-governance

- Structural analysis (as opposed to “aspirational”)
- “Uniform Structural Best Practices”
  - First/Early Payment Defaults
  - 120-day delinquency breach review triggers
  - Delinquency triggers for bond cash flows
  - Other (e.g., advance reimbursement)

A Call for Self-Governance in PLS

- Failure to develop uniform structural best practices could lead to interpretive differences that "give rise to a surge of lawsuits that would likely have an outsized reputational and market-chilling impact. In 2008, it was too late to unite to solve the issues that caused the PLS litigation tidal wave. ***There is still time in the wake of the COVID-19 crisis to prove that the PLS industry can self-govern with consideration for the best interests of both consumers and the housing finance system.***"

- "***The COVID-19 crisis makes it imperative for the PLS industry to coalesce around the development and implementation of structural best practices regarding forbearance.*** This effort will help mitigate – at least within the PLS universe – the pandemic's far-reaching harm to consumers and disruption of the housing market. It would also constitute a meaningful step in the post-financial crisis struggle to justify the relevance of PLS in housing finance."

> **"As the COVID-19 crisis resolves, there will be efforts to evaluate how well or poorly the PLS industry and market performed, and why, just as there were in the aftermath of the Great Recession…Pinpointing who was helped and who was hurt should go a long way in determining the role of PLS going forward.**

Q&A

Mortgage Industry Pandemic Summit

THANK YOU FOR ATTENDING

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