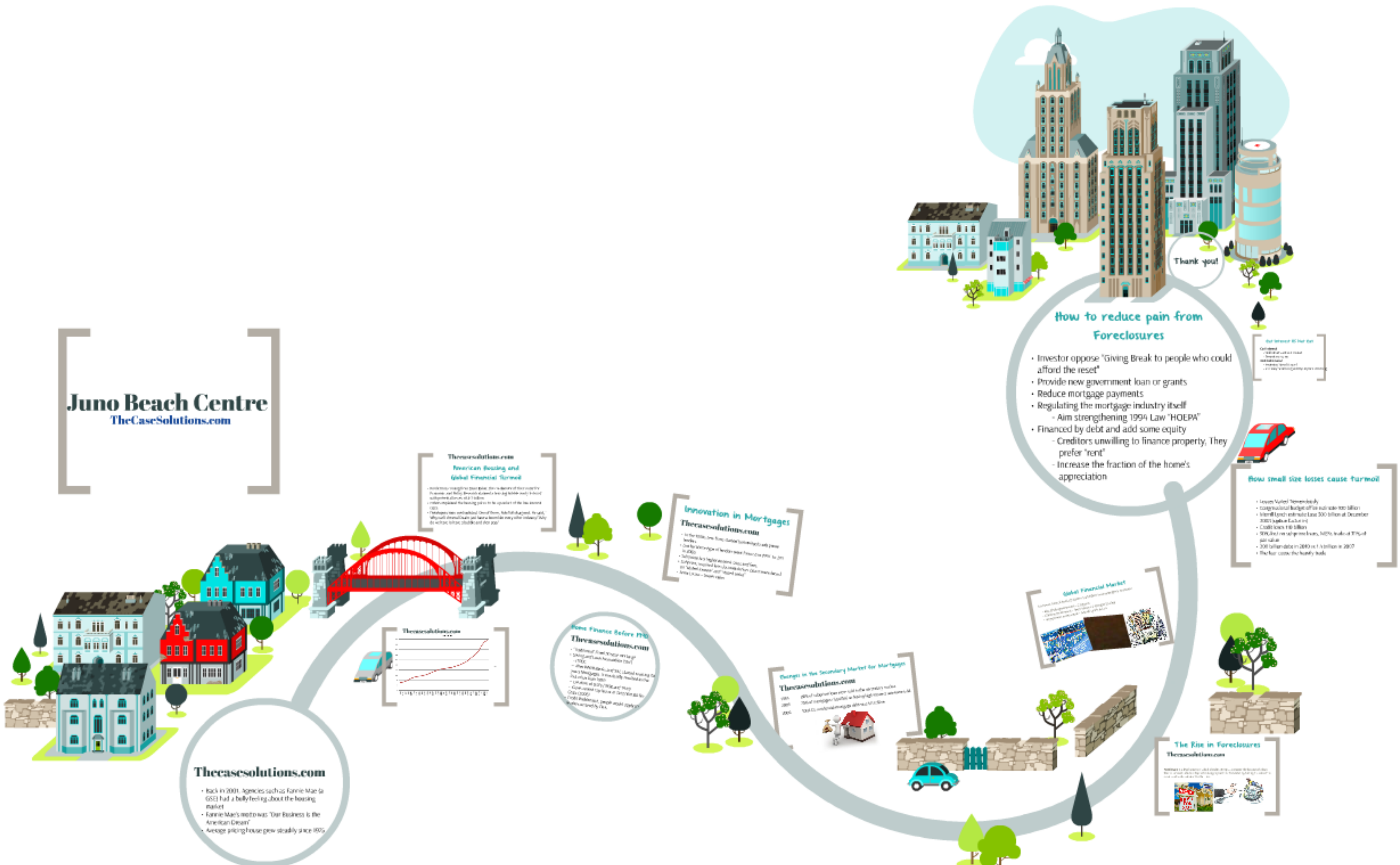
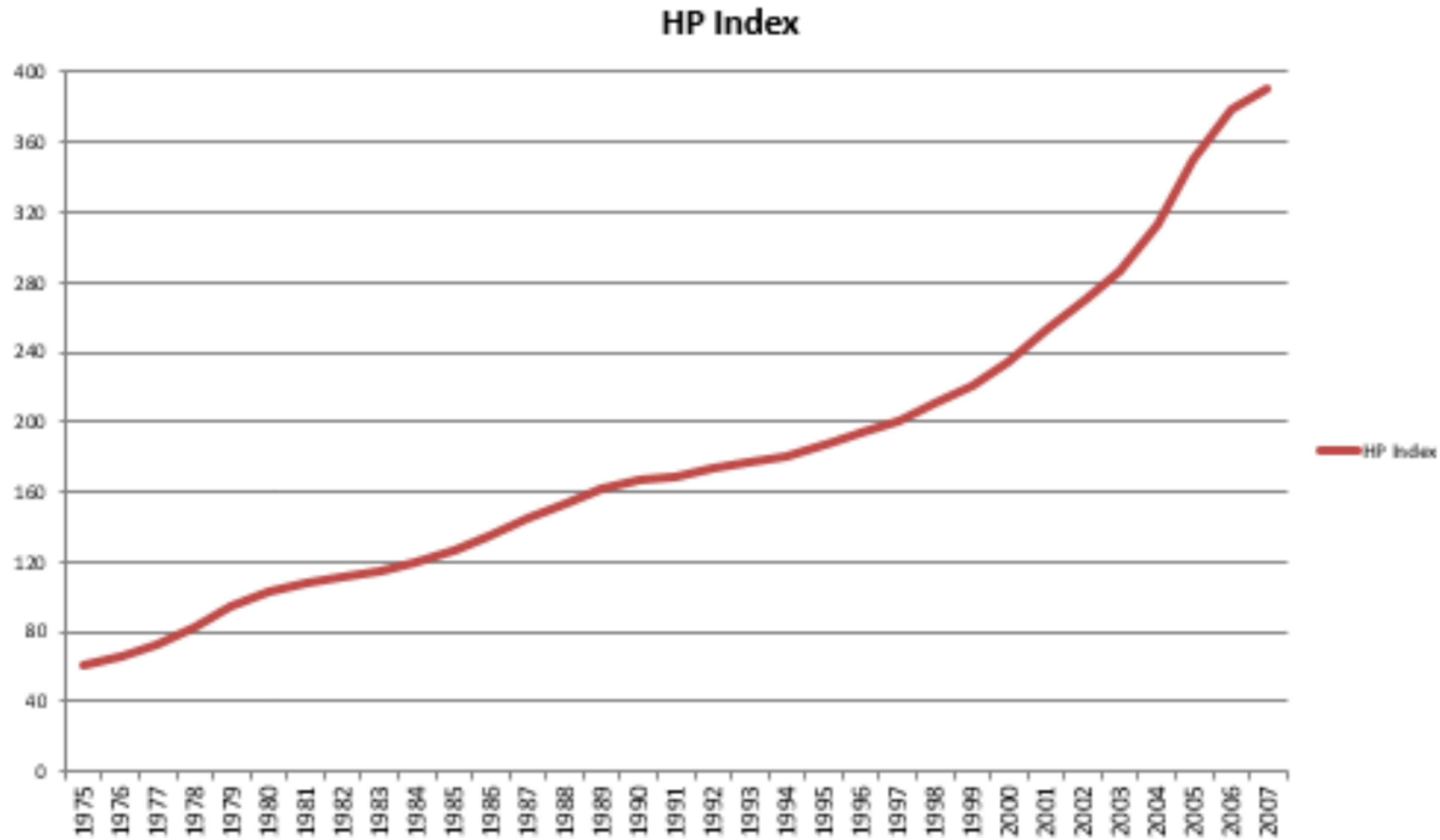


Juno Beach Centre
TheCaseSolutions.com
Thecasesolutions.com
American Housing and Global Financial Turmoil
Innovation in Mortgages
Thecasesolutions.com
Changes in the Secondary Market for Mortgages
Thecasesolutions.com
Global Financial Market
The Rise in Foreclosures
Thecasesolutions.com
How small size losses cause turmoil
Thecasesolutions.com
• Back in 2001, Agencies such as Fannie Mae (a GSE) had a bully feeling about the housing market
• Fannie Mae's motto was "Our Business is the American Dream"
• Average pricing house grew steadily since 1975
How to reduce pain from Foreclosures
• Investor oppose "Giving Break to people who could afford the reset"
• Provide new government loan or grants
• Reduce mortgage payments
• Regulating the mortgage industry itself
- Aim strengthening 1994 Law "HOEPA"
• Financed by debt and add some equity
- Creditors unwilling to finance property. They prefer "rent"
- Increase the fraction of the home's appreciation
Thank you!

Juno Beach Centre

Thecasesolutions.com

- Back in 2001, Agencies such as Fannie Mae (a GSE) had a bully feeling about the housing market
- Fannie Mae's motto was "Our Business is the American Dream"
- Average pricing house grew steadily since 1975


HP Index
400
360
320
280
240
200
160
120
80
40
0
1975
1976
1977
1978
1979
1980
1981
1982
1983
1984
1985
1986
1987
1988
1989
1990
1991
1992
1993
1994
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
2006
2007
HP Index

American Housing and Global Financial Turmoil

- Predictions coming from Dean Baker, the co-director of the Center for Economic and Policy Research claimed a housing bubble ready to burst with potential losses of 2-3 trillion.
- Others explained the housing prices to be a product of the low interest rates
- Developers were contradicted. One of them , Bob Toll disagreed. He said, " Why can't the real Estate just have a boom like every other industry? Why do we have to have a bubble and then pop?

Home Finance Before 1990

Thecasesolutions.com

- "Traditional" Fixed 30 year mortgage
- Saving and Loan Association (S&L)

  -- HOLC

  -- After WWII Banks and S&L started creating 30 years Mortgages. It eventually resulted in the S&L crisis from 1980

  -- Creation of GSEs (1938 and 1970)

  -- Government cap loans at $417,000.00 for GSEs (2006)
- Credit Problematic people would apply to lenders insured by FHA.

Innovation in Mortgages

Thecasesolutions.com

- In the 1990s new firms started borrowing to sub prime lenders.
- List for these type of lenders went from 63 in 1993 to 205 in 2005.
- Subprime has higher interest rates and fees.
- Subprime required less documentation. Loans were based on “stated income” and “stated value”
- Arms Loans – teaser rates

Changes in the Secondary Market for Mortgages

Thecasesolutions.com

1995	28% of subprime loan were sold in the secondary market
2005	73% of mortgages classified as having high interest rate were sold
2006	Total US residential mortgage debt was $11 trillion

The Rise in Foreclosures

Thecasesolutions.com

Foreclosure is a legal process in which a lender attempts to recover the balance of a loan from a borrower, who has stopped making payments to the lender, by forcing the sale of the asset used as the collateral for the loan.