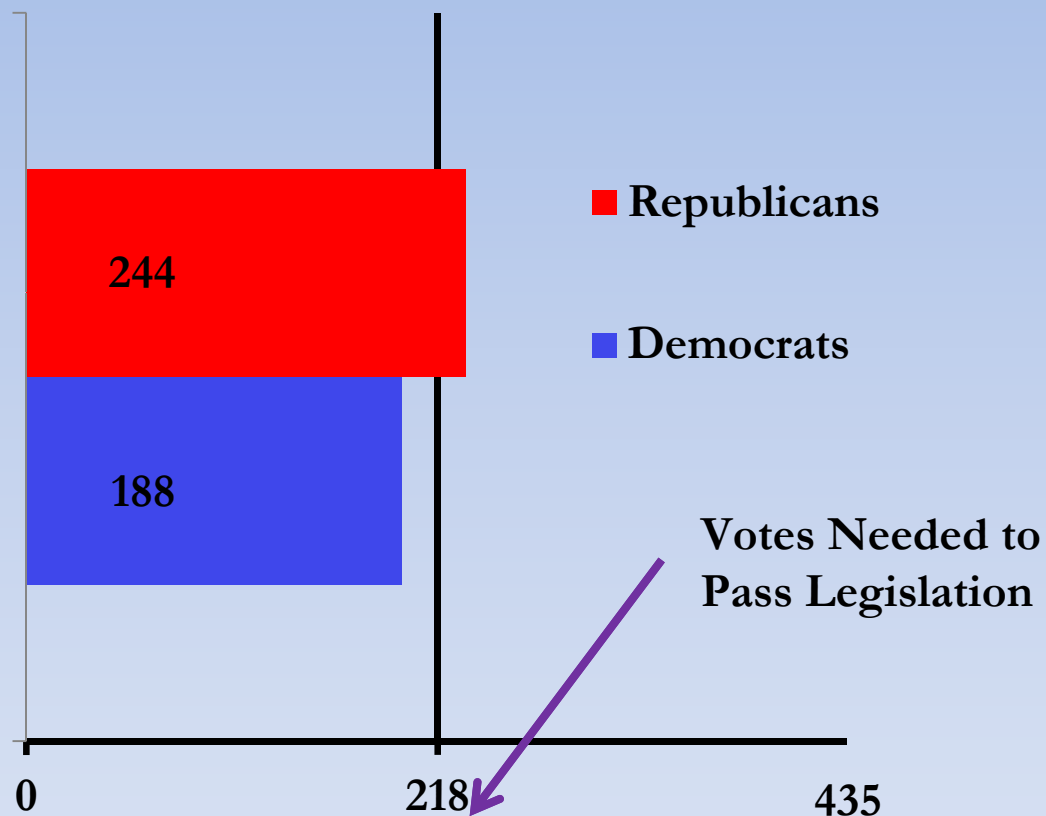


Politics, Policy, and Housing Finance: What Washington is Saying

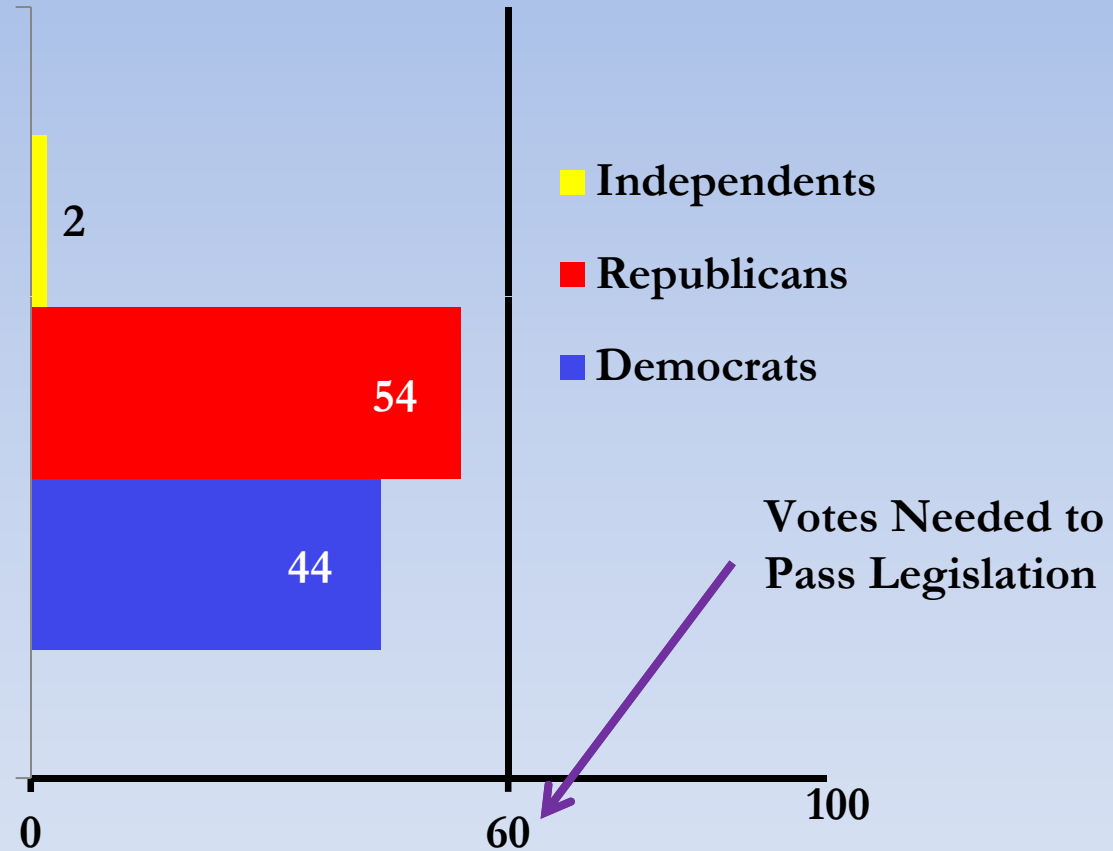
Charlie Dawson

Managing Director, Regulatory Policy and Industry
Relations

House of Representatives Balance of Power



U.S. Senate Balance of Power



...But Regulators Having Big Impact



National Economic Council



Consumer Financial
Protection Bureau

The Impact of Washington on Housing Finance

- State of Housing Economy
- Mortgage Credit Availability
- Reg Relief Legislation
- Prospects For Housing Finance Reform

Uncertainty – Spring 2014

- QM Effective January 2014
- Shadow Inventory
- Loan Buybacks
- Bank Settlements
- QRM – 20% Downpayments?

Major Concern: Credit Availability

The Housing Economy [Numbers]

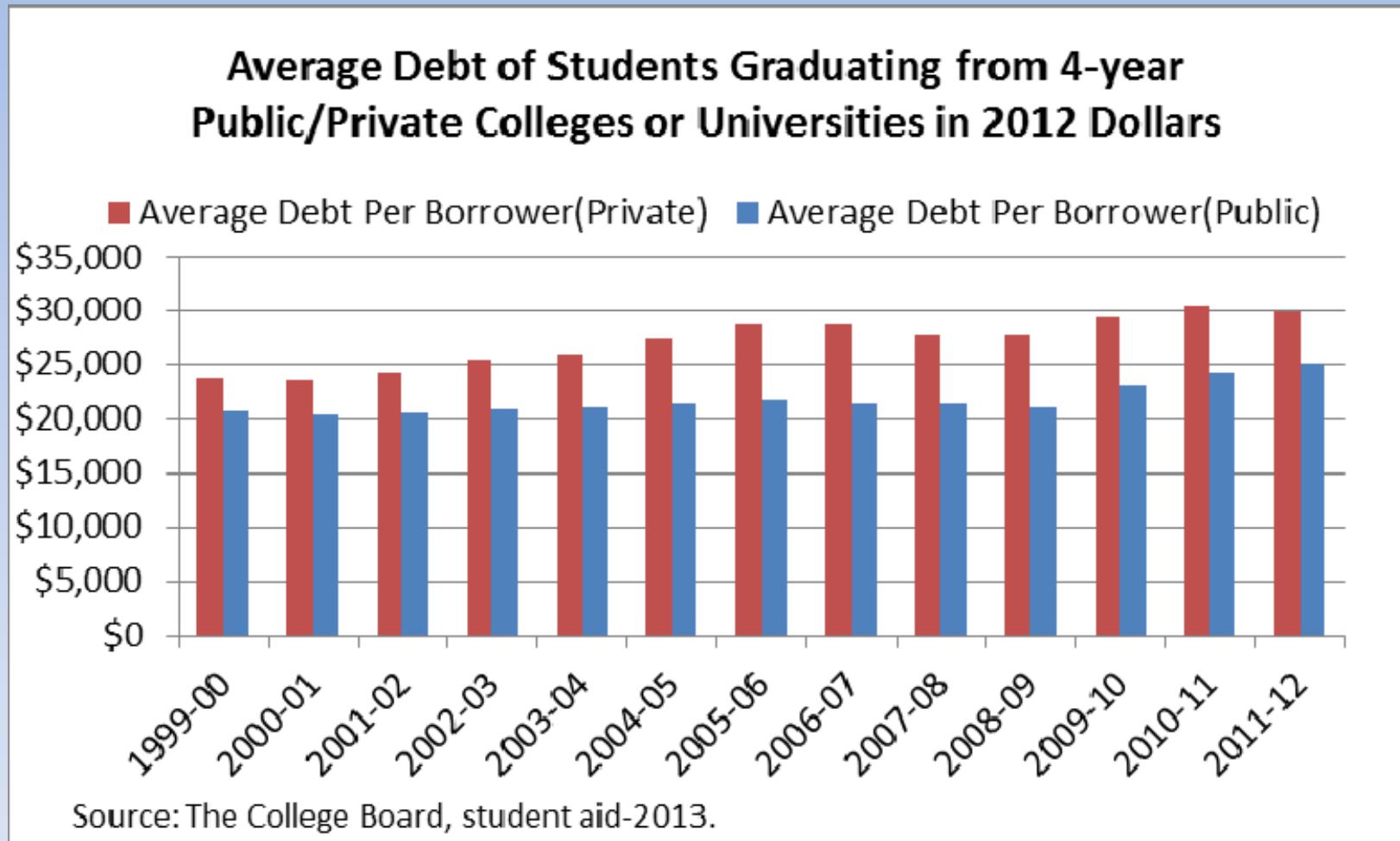
- May EHS sales numbers – up to 5.1% to 5.35 million.
- Increase in year-over-year for eight consecutive months and are 9.2 percent above a year ago (4.90 million).
- Nationwide, median price in May was \$228,700, which is 7.9 percent above May 2014.
- 39th consecutive month of year-over-year price gains.

Market Faces a 3-Legged Narrative

- **Demand** constraints
- **Supply** constraints
- **Credit** constraints



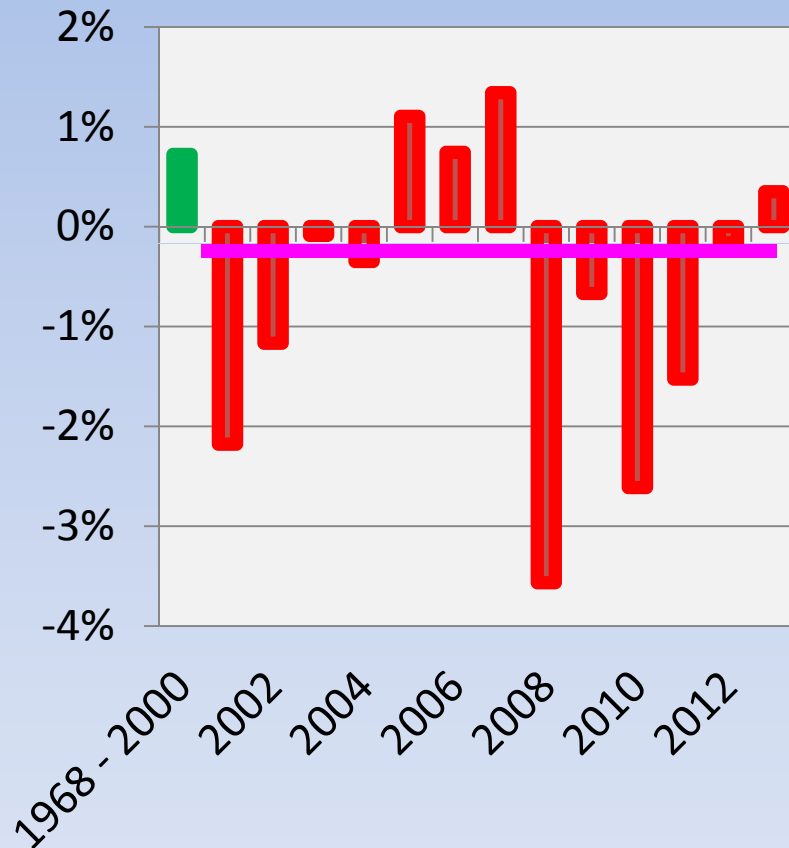
Student Debt Rising In Absolute Numbers and Share



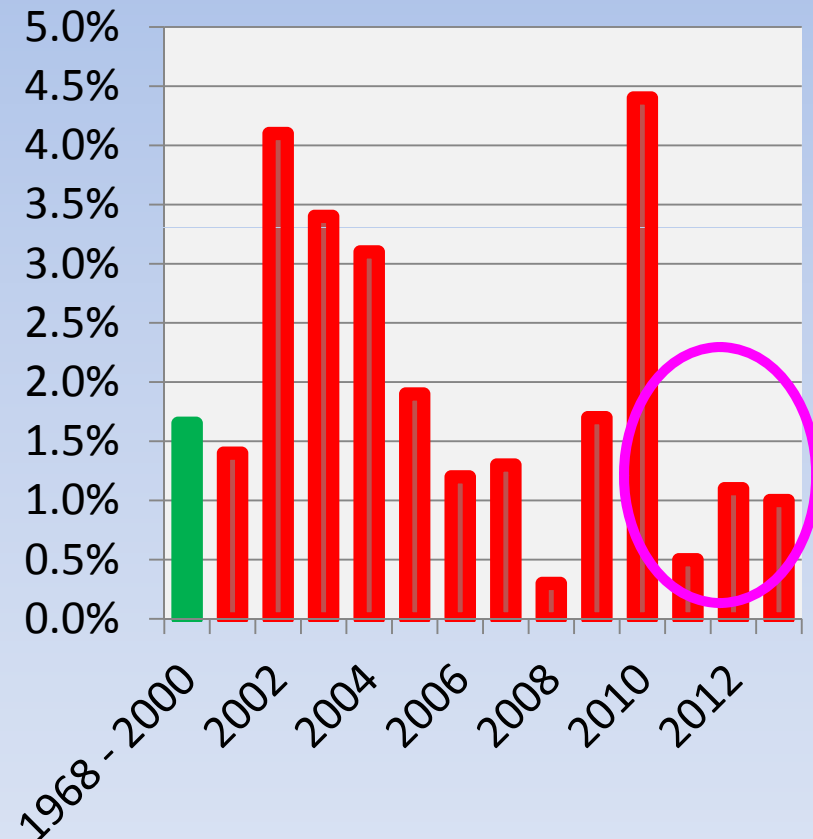
Students take on more schooling per capita in downturn + less gov't aid, but defaults climbing without jobs and income growth; drag on future consumption (DTIs)

The Housing Economy [Numbers]

Growth Rate of Household Income

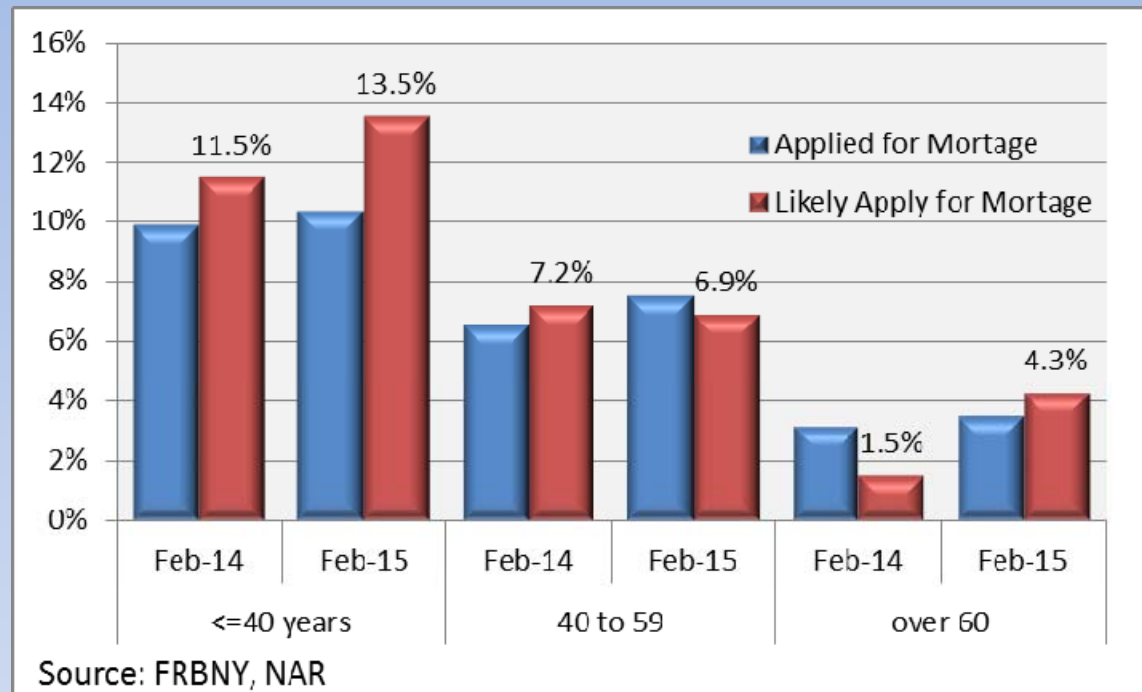


Business Sector Productivity Growth



Sluggish Income Growth is the Biggest Headwind to Affordability

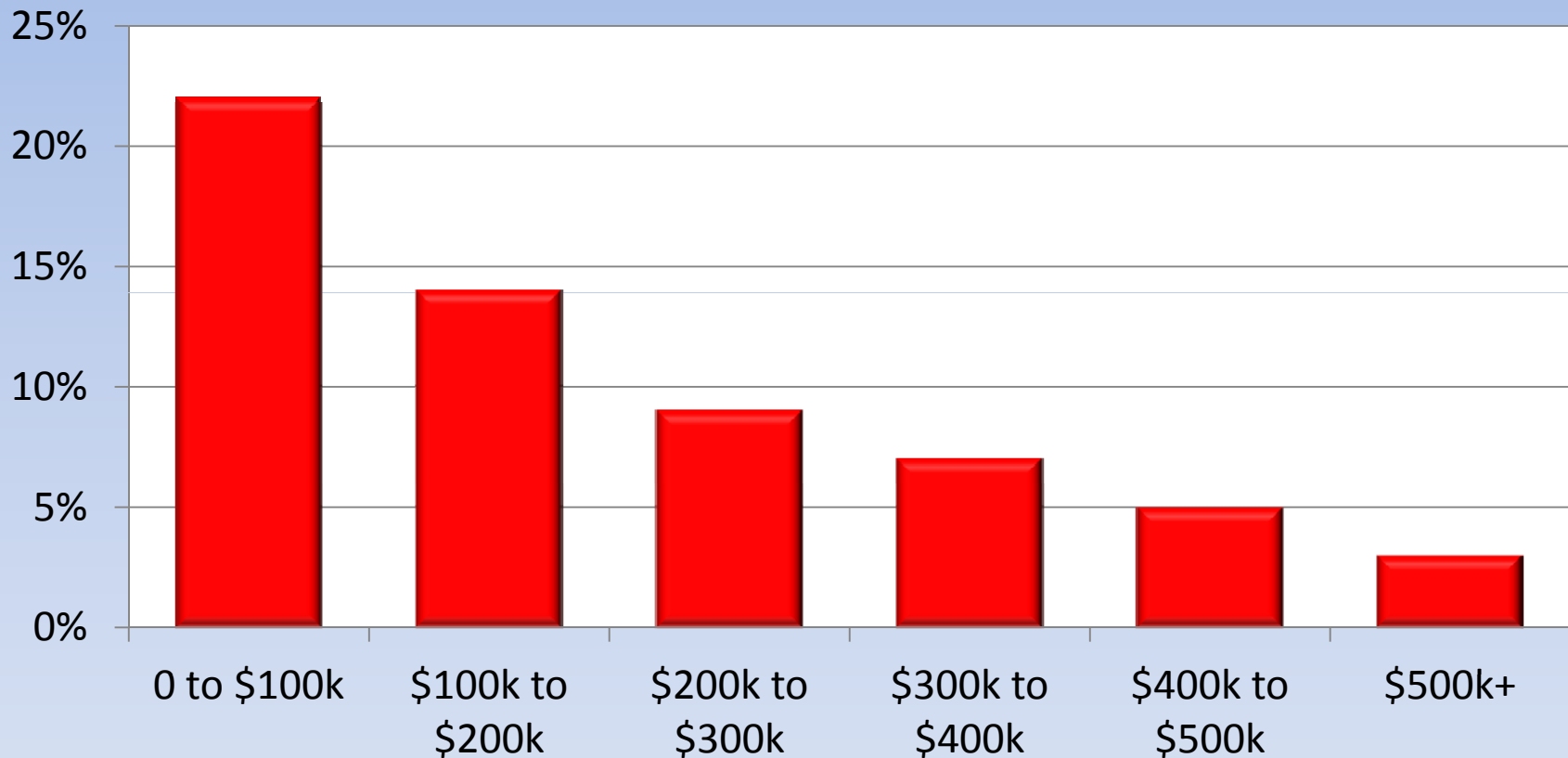
The Housing Economy [Numbers]



- Entry level buyers are key! [Pesky Millennial's]
- First-time buyers up to 32 percent...year ago, 27 percent
- Employment and confidence improving ... but incomes lagging [Pesky Mill...er, Baby Boomers]

Jump Back - The Housing Economy [Numbers]

Negative Equity Share



Nationally, Entry Level Homes are More Likely Underwater

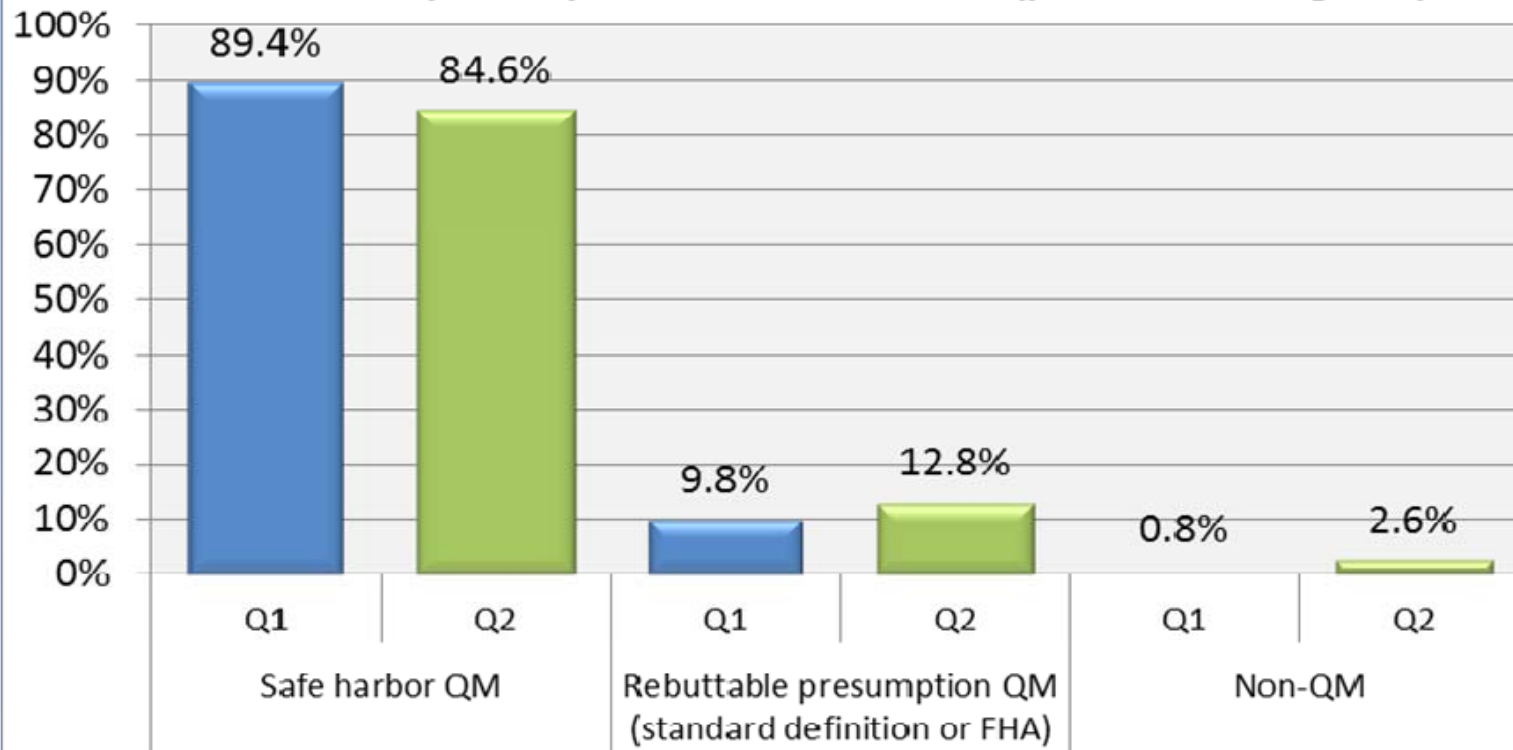
Source: Corelogic

Washington and Credit Availability



Credit Availability

In the 2nd quarter of 2014, what share of your production was for safe harbor QM, rebuttable presumption QM, and non-QM (production weighted)?

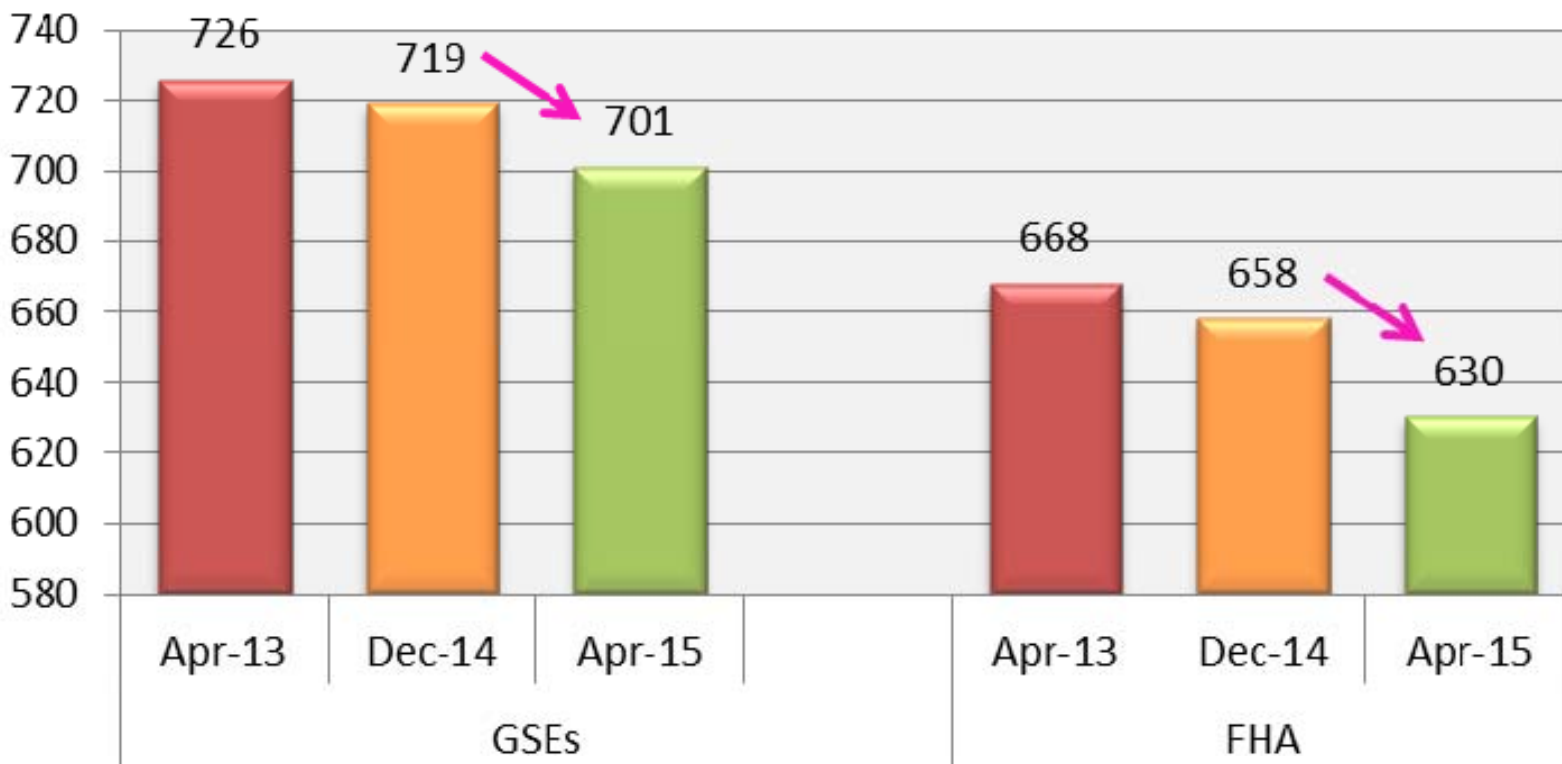


Source: NAR

Non-QM Lending Improving

Rejected FICOs Drop Dramatically: Credit Box Opening??

Average Rejected FICOs Tumbled in March



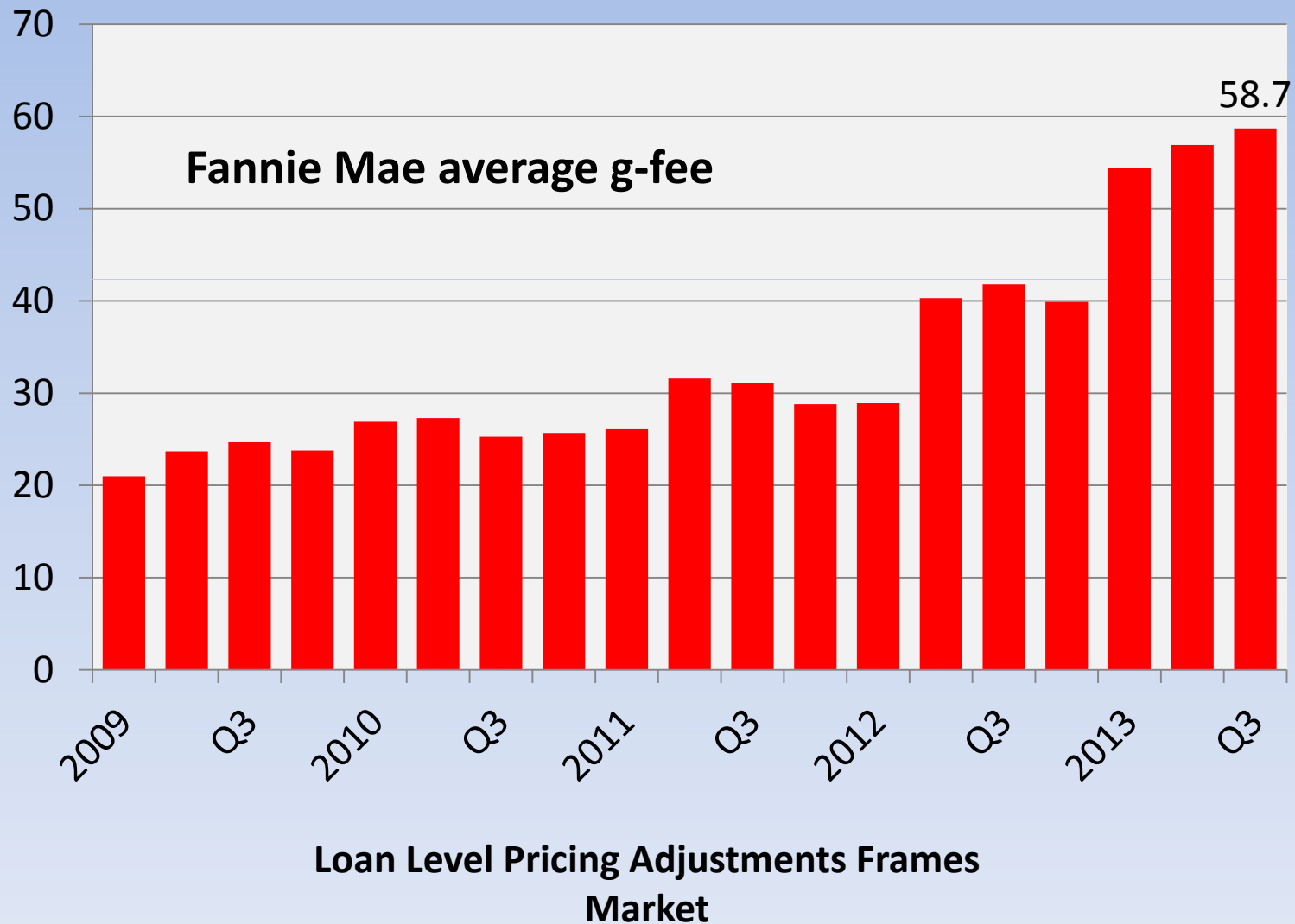
Source: Ellie Mae, NAR

SENATE BANKING BILL – REG RELIEF

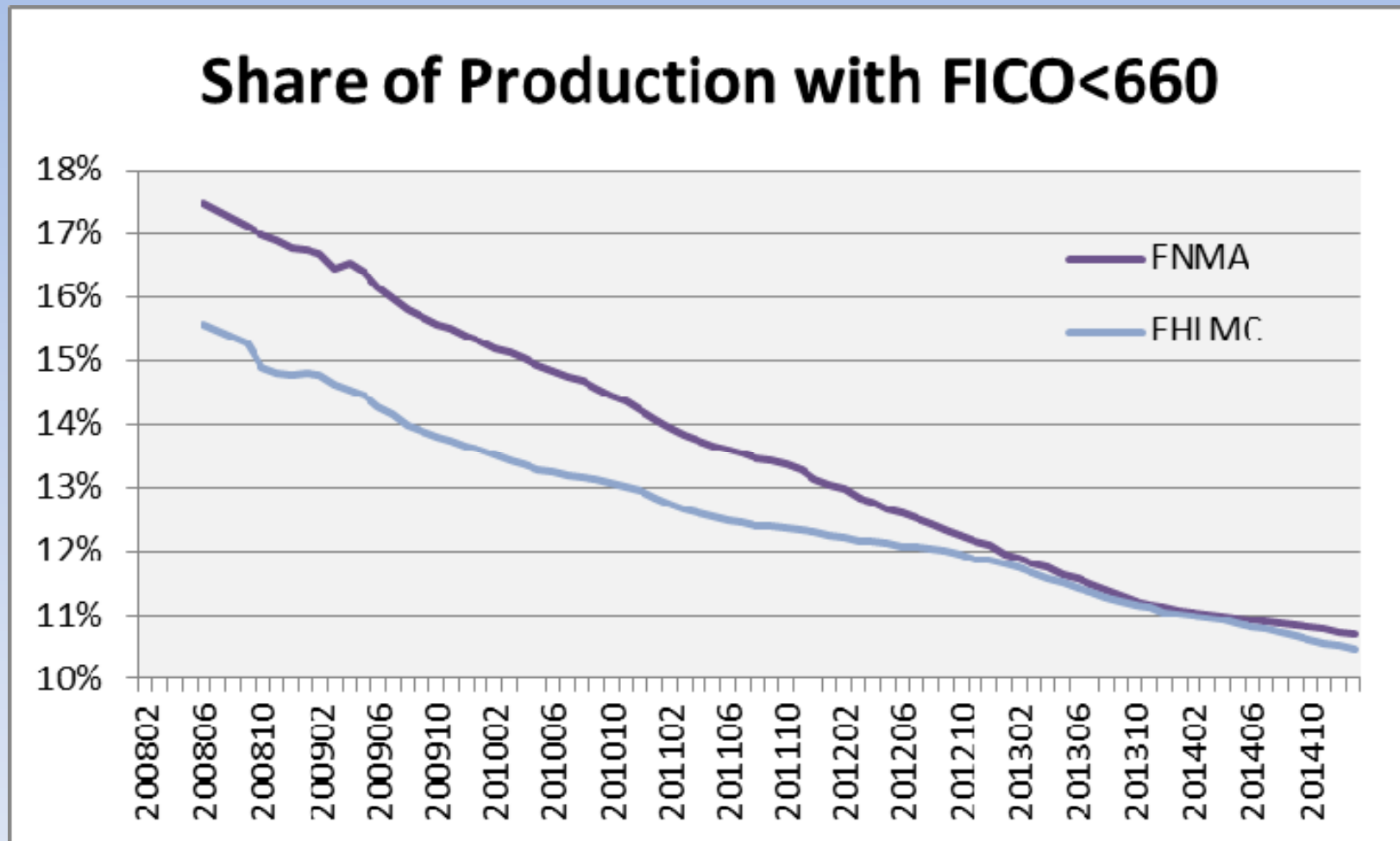
- QM Liability Relief For Portfolio Lenders.
Sustainable Lending?
- Exemption Size? \$2BN, \$10BN, \$50BN?
- Other Mortgage Business Models?



Fannie Mae Fees – Just Pristine Borrowers?



Pricing Reinforces Current Focus



Housing Finance Reform



What Do the GSEs Do?

- Securitize loans into MBS
 - Common securitization platform
- Provide liquidity for special pools
 - ?
- ~~Earn profits on retained portfolio (investments)~~
- Guarantee timely payment to investors in MBS
 - Servicer issues, etc.
 - Government backstop?
- Act as guarantor (insurer) of mortgages behind private mortgage insurers (PMI)
 - Mortgagee issues

Issue Advocacy



Congress: You hold the key to continued economic growth...

This week, thousands of REALTORS® will be on Capitol Hill representing the over one million members of the National Association of REALTORS® who support legislation that strengthens real estate markets and our economy.

The keys to economic growth are policies that encourage investment and homeownership, and that keep our communities strong.

- Continuing access to the 30-year fixed rate mortgage
- Protecting the mortgage interest deduction
- Maintaining pro-growth tax policies for commercial real estate

The REALTORS® who will stand ready to work with Congress to keep our economy moving forward.



To learn more, log on to www.realtor.org

REALTOR® is a registered trademark that identifies members of the National Association of REALTORS®

The keys to economic growth are policies that encourage investment and homeownership, and that keep our communities strong.

- Continuing access to the 30-year fixed rate mortgage
- Protecting the mortgage interest deduction
- Maintaining pro-growth tax policies for commercial real estate

Why Do We Need Reform?

- New system needs capital. Tax payers absorb losses
- Under capitalization is a form of subsidy
- Political environment in opposition
 - \$187 billion losses during crisis
 - Continued Government Support



More Capital/ROE = Higher Rates = Fewer Sales



Remember How Everyone Else Thinks!

Questions?

