

MAA 2007 Year in Review

2007 was a busy year for members of the Mortgage Action Alliance. We engaged in over thirty issues on the state and federal level producing over 40,000 communications - a record with policymakers. I'm proud of our efforts, but we must ensure that policymakers understand our industry as they consider legislation and regulations which will affect our daily work.

In 2007, representatives from the Mortgage Bankers Association (MBA) testified before Congress on 18 occasions as compared to 8 appearances in 2006, which shows how intensely the spotlight was focused on the real estate finance industry. Presidential candidates have references the mortgage market on the stump and in their paid advertising to highlight their stances on the issue. As an industry, we must be prepared and take a proactive role in 2008.

FEDERAL UPDATE

Despite the challenges we face, including the introduction of over 100 bills affecting our industry, it has been a year of victories on Capitol Hill - some large, some small. But MBA presence in the halls of Congress has never been so prevalent or essential. From meetings with bi-partisan leadership to discuss market conditions, to meetings with Senate Finance and House Ways & Means Committees' staff to discuss tax issues, MBA has helped shape the discussion of every issue our industry has faced. Here are some of the top issues from 2007:

ANTI-PREDATORY LENDING AND MORTGAGE REFORM

As the news of market turmoil took center stage, House Financial Services Committee Chairman Barney Frank (D-MA) introduced H.R. 3915, the "Mortgage Reform and Anti-Predatory Lending Act of 2007," which passed the House on November 15 by a vote of 291 to 127. If enacted, this legislation would: establish a federal duty of care in offering mortgage products; require licensing of all mortgage originators; prohibit steering; create an ability to repay standard; lower HOEPA triggers; attach limited liability to secondary market securitizers; and require an escrow account for first-lien mortgages in certain circumstances. Although MBA did not support the bill, we participated in numerous meetings and negotiations to improve it.

In December, Senate Banking Committee Chairman Christopher Dodd (D-CT) introduced S. 2452, the "Home Ownership Preservation and Protection Act." This bill would: establish federal standards for offering mortgage products; prohibit steering; create an ability to repay standard for subprime and nontraditional mortgages; require escrows for taxes and insurance for subprime and nontraditional mortgages; require servicers to attempt loss mitigation before filing for foreclosure; and would attach liability to any person who purchases, holds, or is otherwise assigned a subprime or nontraditional mortgage. MBA has major concerns with this bill and will work diligently to ensure that any legislation passed in 2008 is workable.

FHA REFORM

For many years, FHA modernization has been a key part of MBA's advocacy agenda. In 2007, MBA achieved a major victory by leading the effort to support House and Senate passage of FHA modernization legislation. In April, Chairman John Robbins, CMB, testified before the House Financial Services Committee on the need for modernizing the program and in September the House passed the bill. Moreover, 2007 MBA Vice Chairman, David Kittle, CMB, testified at a Senate Banking Committee hearing in July. As the year ended, MBA worked with an industry

coalition to push the Senate to pass its bill. Grassroots efforts and numerous meetings with lawmakers and their staff finally resulted in Senate approval of this legislation 93-1 on December 14. While the House and Senate need to reach agreement on the differences between their respective bills, we expect that a final bill to go to the President in early 2008. In recent years, the House has often passed legislation only to have it stalled in the Senate. Now with the Senate finally acting, we have overcome a major obstacle.

TERRORISM INSURANCE

MBA achieved a major victory on December 27, when the President signed H.R. 2761, the "Terrorism Risk Insurance Program Reauthorization Act of 2007." With the last extension scheduled to expire on December 31, 2007, it was essential that Congress pass a long-term solution. In March, Vice Chair of MBA's Commercial Real Estate/Multifamily Finance Board of Governors Steven Graves testified at a House Financial Services Subcommittee hearing. In October, 2008 MBA Chairman Kieran Quinn, CMB, spoke at a U.S. Chamber of Commerce Symposium on terrorism insurance. MBA also took several of its commercial members to Capitol Hill to meet with Senate Banking Committee staff to give them industry's perspective on the need for an extension and how the uncertainty affects their everyday business. H.R. 2761 extends the program for seven years and includes provisions that support coverage for domestic acts of terrorism and calls for a study of nuclear, chemical, biological and radiological insurance and a study of the availability and affordability of terrorism insurance in certain markets.

BANKRUPTCY REFORM

As Congress looked for ways to help struggling homeowners, legislative proposals that would allow bankruptcy judges to modify the mortgage contract terms, including a "cram down" of principal on primary residence loans, began to make their way in both Houses of Congress. Allowing cram downs would increase costs to consumers, make it far more difficult to sell mortgages in the secondary market and, ultimately, reduce liquidity. MBA and a coalition of industry groups sent over 10 letters to the Hill on this issue and met with Members and staff of both the House and Senate Judiciary Committees and Republican and Democratic leadership. In October, MBA testified at a House hearing on this issue and submitted written testimony for a December Senate Judiciary Committee hearing on bankruptcy reform. Although the House Judiciary Committee approved H.R. 3609, the "Emergency Home Ownership and Mortgage Equity Protection Act," MBA was able to keep the vote partisan with only one Republican voting in favor of the measure. MBA will continue to advocate against onerous bankruptcy reform.

MORTGAGE INSURANCE DEDUCTION AND DEBT FORGIVENESS

In December, the President signed H.R. 3648, the "Mortgage Forgiveness Relief Act of 2007." This legislation provides a three-year extension of the mortgage insurance deduction and provides tax relief to those homeowners who restructure their loan to avoid foreclosure or who have lost their homes in foreclosure. The current tax code treats the cancellation of debt as income for tax purposes, which increases families' tax liabilities.

GSE OVERSIGHT REFORM

MBA continues to advocate for a stronger regulator for Fannie Mae, Freddie Mac and the Federal Home Loan Banks. 2007 MBA Chairman John Robbins, CMB, testified at a House Financial Services Committee hearing to examine legislative proposals on GSE reform. In May, the

House passed legislation to create a strong regulator for the GSEs. Although legislation has been introduced in the Senate, the Banking Committee has yet to engage in a GSE oversight reform debate in this Congress. We believe it is imperative that Congress pass GSE reform as part of its efforts to address the subprime fallout. MBA will continue to work with Congress as it addresses reforming the GSE regulatory system.

MORTGAGE FRAUD PREVENTION

MBA was very active in 2007 to help prevent mortgage fraud. In March, MBA Chairman John Robbins, CMB, signed a memorandum of agreement with the FBI stating that the two organizations are working together to promote voluntary adoption of a new Mortgage Fraud Warning Notice. In June, MBA's Lender Technologies Corporation issued a Request for Information regarding the development and implementation of a national mortgage fraud prevention database. MBA also worked with Congress on legislation to fund mortgage fraud prevention programs. In October, MBA released a mortgage fraud policy paper to help inform and shape debate surrounding the issue and its affect on the real estate finance industry.

MODERNIZATION OF REMIC TAX RULES

In November, the Internal Revenue Service (IRS) released proposed regulations on Real Estate Mortgage Investment Conduit (REMIC) loan modifications. The proposed regulations would expand the list of permitted loan modifications to include certain modifications of commercial mortgages. The IRS agrees with MBA that changes to current regulations are necessary to better accommodate evolving commercial mortgage industry practices. MBA has been working on this issue with Congress and the IRS for four years and looks forward to working with the IRS as it finalizes the new regulations.

MBA 2007 STATE ACTIVITIES

In 2007, over 5,000 bills affecting the mortgage industry were introduced in state capitals across the country. As the year progressed, governors, state regulators and attorneys general paid increasing attention to the mortgage industry. MBA's state government affairs team mobilized and collaborated with state MBAs to educate legislators and regulators on the potential impact of various proposals. In addition, the team continued its outreach and education efforts by participating in discussions with the Republican and Democratic Attorneys General Associations and the Republican and Democratic Governors Associations, as well as the U.S. Conference of Mayors, the National Conference of State Legislatures, the Council of State Governments and the American Legislative Exchange Council.

As part of the effort to educate legislators, MBA testified eight times in the states, submitted written testimony and data for six additional hearings and submitted more than ten comment letters to state regulators and attorneys general during 2007. MBA Chairman John Robbins, CMB, testified before the New York Legislature and MBA Chief Economist Doug Duncan testified in Michigan, California and Nevada to discuss current market conditions. MBA's newly-formed State Advocacy Fund (SAF) proved to be a crucial tool in our advocacy efforts across the country by providing us with the opportunity to meet with lawmakers and significantly influence legislation in over 10 states.

2007 also provided MBA the opportunity to participate in working groups, task forces and summits on a number of issues including efforts to combat predatory lending, fight mortgage fraud and prevent foreclosures. MBA staff traveled to Florida, Michigan, Ohio, and Nevada to participate in

homeownership summits, allowing MBA to encourage financially distressed borrowers to reach out to their servicers for assistance.

2007 STATE HIGHLIGHTS

- Anti-predatory lending legislation topped MBA's priority list for 2007 and we were successful in several states this year. MBA and the Oregon Mortgage Lenders Association educated lawmakers on the negative impact that Senate Bill 965 would have had on homeownership in the state and ultimately, the bill was tabled due to lack of support.
- After months of working with the North Carolina Legislature, MBA and the MBA of the Carolinas led lawmakers to make several significant changes to HB 1817, the "Covered Loans Act." While we did not support the legislation, we were able to strike many of the bill's most onerous provisions, most notably the section that would have held lenders liable for brokers' actions.
- The industry also faced loan originator licensing bills in several states this year and MBA and the industry were able to defeat bills in Arizona and New Mexico. MBA was also successful in having numerous changes made to a Pennsylvania rule on the conduct of licensees that were incorporated into its final Statement of Policy and ensured that the rules implementing the licensing law in New York did not extend beyond its intended scope.
- MBA also successfully defeated a Louisiana "Brick and Mortar" licensing proposal that passed the LA House by a vote of 101-1. The bill would have required any residential mortgage lender conducting business in Louisiana to maintain a physical presence in the state. MBA testified in opposition and worked with its members and the Louisiana Consumer Finance Association to educate the Louisiana State Senate Commerce Committee, which ultimately rejected the bill.
- In California, MBA worked closely with the state MBA throughout the year on many issues. Together, through several meetings and negotiations with Governor Schwarzenegger's office, we improved an agreement with servicers to accelerate modifications for borrowers in default. MBA also assisted in making the California MBA's "Day at the Capitol" its most successful in history.