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The Mortgage Bankers Association releases Keys to Expanding Credit Access

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The Mortgage Bankers Association (MBA) released Keys to Expanding Credit Access: A Common Credit Box And Clearer Representations and Warranties. This concept paper outlines steps to ensure lenders have the confidence to lend to the full range of qualified borrowers. Aligning the GSEs' underwriting standards and creating clear standards for representations and warranties, is essential for a smooth transition to a sustainable secondary market operating with an explicit, limited government guarantee.

MBA's concept paper is the fourth piece of a five-part plan which recommends immediate steps the Federal Housing Finance Agency (FHFA) and Fannie Mae and Freddie Mac can take to ease the transition to a new secondary mortgage market regime.

As policymakers debate the future government role in housing finance, these transition steps are essential to ensuring a stable mortgage market and preserving the operational flexibility to accommodate a range of policy outcomes.

"If we are to have a fully functioning secondary market that provides sustainable access to credit for qualified borrowers, then the development of transparent and consistent credit underwriting standards are of the utmost importance," said Debra Still, CMB, MBA's chairman. "Any reform of the secondary mortgage market must have clear, outer boundaries of sustainable credit and clear representations of warranties to insure a vibrant, competitive, marketplace."

MBA's concept paper suggests that FHFA set the parameters for acceptable underwriting criteria by both GSEs and then allow them to offer credit terms within this outer boundary. Also, MBA believes that Fannie Mae and Freddie Mac should be required to synchronize their underwriting engines by year end for all mortgage terms and products offered.

The paper also calls for greater clarity in the GSEs' representations and warranties framework. The improved framework should have the following key elements:

- * Holding lenders responsible for what they control, i.e. origination and servicing practices;
- * Clearly defining material underwriting breaches;
- * Requiring a causal link between the breach and a default; and
- * Establishing a performance benchmark after which representations and warranties are extinguished.

"Confusion and uncertainty around representations and warranties standards continues to cause lenders to add their own overlays to the existing GSE credit standards," said Bill Cosgrove, CMB, MBA's vice chairman. "As a result, lenders are only offering mortgages to those with the most pristine credit for fear that any borrower default will trigger costly repurchase requests. This is a major contributor to the tight credit environment that is holding back the housing recovery."

Thus far, MBA has released three other concept papers, In the weeks ahead, MBA will release its

final concept paper which will address FHFA's Common Securitization Platform initiative.

MBA is the national association representing the real estate finance industry, an industry that employs more than 370,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets; to expand homeownership and extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of over 2,400 companies includes all elements of real estate finance: mortgage companies, mortgage brokers, commercial banks, thrifts, Wall Street conduits, life insurance companies and others in the mortgage lending field.

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