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AHM Simposio
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- **Macro Risks in Mortgage Lending**
- **Risk Mitigants – we are all in this together**
- **Win-Win in Loss Mitigation**



Creeping Macro Risks

- Loans chasing borrower
- Easy market entry, resulting in excess competition
- Lack of self-regulation
- Over-leveraging
- Market perception run amok
- Unintended consequences of new structures
- Political focus on single goal – e.g. homeownership
- Lack of operational controls internally
- Mis-aligned accountability



Financial Mitigants – Do they still work?

1. Subordination
2. Over-collateralization
3. Mortgage insurance
4. Bond insurance/wraps

Nobody gets paid if homebuyers
won't or can't pay.

**Originators and servicers need to
take back accountability.**

Risk sharing entities will insist on
accountability and it is in the best
interest of the industry to do just that.

Old Fashioned Risk Mitigants

- Market boiling over, turn down heat
- Underwriting – fully documented, verified and realistic
- LTV ratios – appropriate for the market, credit .
- Lenders – primary originations.
 - Brokers maybe, developers no!
- Property valuation standards enforced

Old fashioned cont'd

- Lender track record and management depth
- Customer disclosure and communication
- Strength of servicing bench
- Carefully considered internal risk management and controls
- Partners and stakeholders

Macro Loss Mitigation

- Cooperation among players
- Strengthen trust in the mortgage industry
 - Transparency , integrity
- Government support where appropriate,
 - Temporary, systemic focus, consumer sentiment, good regulation, social sector
- Liquidity – monitor continually

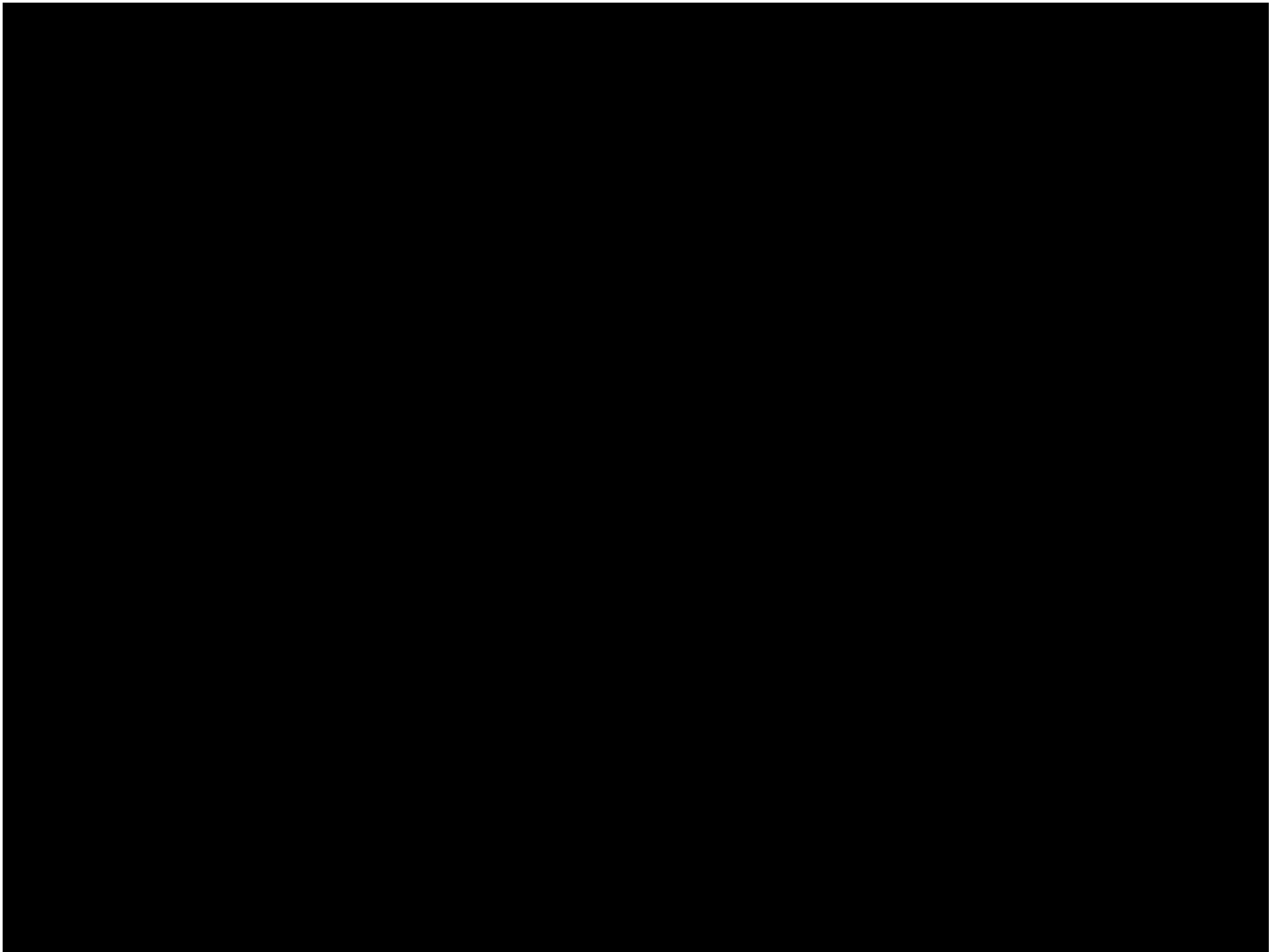
Micro Loss Mitigation

- Listen first to understand the problem
 - Job loss, death, illness
 - Poor quality property
 - Excess debt
 - Fraud, never qualified
- Trust but verify
- What motivates the borrower to work with you?
 - Pride and integrity
 - Roof over head
 - Attached to location
 - Retain/recover investment
 - Credit record

What de-motivates them?

- Doesn't expect another job
- Catastrophic loss – unrecoverable
- Ignorance of process and fear lender will kick him out
- Belief that house will never regain value
- Poor quality construction, poor services
- Fraud – never intended to pay
- Never really understood concept of ownership
- External representations about non-payment
- Belief he has been cheated by lender or developer
- Expectation that government will bail him out

Best scenario for loss mitigation
and recovery of mortgage
markets?



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