



Lessons from This Market

Someone once told me that you don't learn in easy markets; you learn in difficult markets. As we grapple with the end of the housing boom and the aftermath of what industry commentator Lou Barnes dubbed "the credit party," I think it's important to keep this in mind, and to focus on the lessons we can learn and apply.

It's about people

We've all heard the stories about people who went truly crazy during the boom, but I think that even those of us who congratulated ourselves for keeping our feet on the ground began, at some level, to regard mortgage lending as simply another (albeit a significant) financial transaction. But mortgage lending is different from stocks, bonds or other investments. A home purchase involves people—their hopes, their dreams, their communities, their families—to a much greater degree than a stock or bond purchase or another investment. While money is involved, a home purchase is much more than a financial transaction. Fundamentally, this is not a capital markets or academic exercise—it's about people.

There's a reason they're called niche products

The mortgage market is endlessly innovative, which has helped to increase homeownership rates to record levels. But the fact is, not all products are meant for all borrowers or mass production. The key has to be sustainability. Most borrowers, in fact, will do better with some equity, and with some limits on their exposure to payment shock.

As someone commented to me recently, "It's only an option ARM [option adjustable-rate mortgage] if you have options." As an industry, we need to make sure that our innovations are firmly based in the concept of sustainability and designed to ensure that homeowners can and will be successful over the long term.

Equity is good for everyone

Clearly, the days of 20 percent down payments are significantly reduced: Despite some recent declines, home prices are simply too high in most areas, and incomes too far behind, to allow young families and individuals to realistically save that much in a reasonable period of time.

It's also clear, however, that the market got ahead of itself with 100 percent loan-to-value ratio (LTV) loans. Some equity—even as little as 3 percent—helps everyone.

For lenders and investors, it's an indication of commitment from the borrower that's important for the long-term health of the loan. For borrowers, it means they've thought about the step they're taking, they feel they're ready and they have a stake in their home. For the mortgage finance system, it's a stabilizing force that helps to ensure long-term health.

This is not to say that 100 percent financing should never be made available; there are times when it's appropriate. But like other niche products, it should be matched with only the small group of borrowers whose individual circumstances make it appropriate, and who are likely to be successful as homeowners despite having no equity.



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Looking ahead, how are we to apply these lessons?

We must keep people in their homes. We have to figure out a way to help homeowners who are currently delinquent but have a chance for successful homeownership over the long term, and who want to pursue that chance. We need a robust national effort among servicers and trusted parties who can work with borrowers to pursue creative solutions that will allow people to keep their homes.

We also need to cut through the maze of potential cross-purposes that may exist in securitizations and pooling and servicing agreements. This is important not only for individual borrowers, but for the stability of our communities all over the country and the safety and soundness of the financial system. As professionals in the mortgage lending business, we have the knowledge and expertise to develop these kinds of solutions. Volunteering our expertise is not only the right thing to do; it's the only way to stop the unintended consequences of someone else doing it for us.

We must do more to eliminate fraud. One of the unintended consequences of the housing boom was that the potential for easy money proved irresistible and the volume



Executive Suite

going through the system was so great that, despite all of our best intentions, a lot of fraudulent transactions were completed. I think if we knew the true cost of this fraud, it would be staggering in human as well as in financial terms.

As an industry, we've faced this issue before and tried to eliminate it, but in the last several years we may have allowed ourselves to be distracted by other challenges, and perhaps discouraged by the complexity of the issues. This time, we must remain focused and committed, or risk going through yet another cycle.

It all comes back to sustainability.
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borrowers to be successful, for lenders and other industry participants to thrive over the long term—we have to remember the puzzle we're trying to solve, which is sustainable homeownership. If you solve that, you solve everything, including liquidity.

Douglas Adams, author of several novels, including *The Hitchhiker's Guide to the Galaxy*, wrote, "Human beings, who are almost unique in having the ability to learn from the experience of others, are also remarkable for their apparent disinclination to do so." As an industry, we need to prove him wrong.

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