FHA Housing Stabilization and Homeownership Retention Act of 2008

Discussion Document

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Bank of America
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Executive Summary

$400 billion, or 43% of subprime mortgages, could default in the next five years.

- The current size of the securitized non-agency US mortgage market is approximately $2.6 trillion.
- Declining house prices, higher interest rates, and a general tightening of credit have led to rapidly escalating levels of delinquency and default among borrowers, causing many Americans to lose their homes – and the possibility that an unprecedented number will enter foreclosure over the next several years.
- Approximately $339 billion, or 13% of all non-agency mortgages, are at high risk of default over the next five years due to payment shock from rate reset or payment reamortization loans.
  - $739 billion, or 28%, are at moderate to high risk of default over the same period.
- We expect $400 billion, or 43% of subprime mortgages, to default in the next five years.
- We believe that any intervention by the federal government will be acceptable only if it is not perceived as a bail-out of the bond market.

Executive Summary (cont.)

The benefits of a federal government program would include slowing the rapid national decline in house prices.

- As a number of public and private individuals have suggested, the government can mitigate the social and economic costs of massive numbers of foreclosures by establishing a program with the mandate to:
  - Determine an acceptable short payoff amount based on the current appraised value of the home for eligible loans in imminent risk of default;
  - Refinance eligible loans through an approved lender into fixed-rate replacement mortgages with:
    - Current loan-to-value ("LTV") ratios less than or equal to 90%,
    - Reductions in monthly payment of at least 30% along with certifications of ability and willingness to pay, and
    - A "soft" second mortgage that protects the Government's investment in the property along with an agreement that lets the Government share in future appreciation of the property;
  - Use the proceeds of the refinancing to submit the short payoff to the current lender or servicer;
  - Insure the replacement mortgages through FHA; and
  - Package the new loans into pools and sell them into the capital markets in the form of mortgage-backed pass-through securities with a full faith and credit guarantee from Ginnie Mae.