

## Loans Will Never Be The Same



On February 11, 2011, the Obama Administration (through the Department of the Treasury and the Department of Housing and Urban Development) delivered a report to Congress that provided a path forward for reforming America's housing finance market - LOANS WILL NEVER BE THE SAME.

The report is entitled "Reforming America's Housing Finance Market" and is available at <http://www.treasury.gov>.

### Top 10 Take-aways from the Report:

1. There will be a shift from the purchase / sale housing market to the rental housing market;
2. Low income housing will be encouraged in both rural and urban markets;
3. Loans for the purchase of multi-family homes will be encouraged, while loans for single-family homes will be more scarce;
4. In efforts to shift to a more privatized lending industry:
  - a. The conforming loan limit will be lowered, which is the highest loan amount for governmentally backed loans;
  - b. The maximum loan size that can qualify for Fair Housing Administration (FHA) insurance will be lowered in order to lower FHA's market share from 30% to 15%, which was its historic market share;
  - c. The minimum down-payment for governmentally backed loans will increase to 10%; and
  - d. Public guarantees will be more costly by way of reflecting actual cost of loan risk instead of shifting the risk to the taxpayer;
5. In efforts to increase consumer protection:
  - a. The Dodd-Frank Act, which prevents steering of borrowers by brokers and originators to more expensive products, will be fully implemented;
  - b. Loan originators will be required to retain 5% of loan risk at securitization thereby incentivizing originators to be more mindful of risk; and
  - c. Underwriting standards will require lenders to verify a borrower's ability to repay;
6. In efforts to increase governmental efficiencies:
  - a. There will be increased coordination and / or consolidation between existing governmental finance options; and
  - b. A new national standard will be implemented with respect to mortgage servicers, which are the companies that process and manage mortgage payments and borrower inquiries;
7. There will be a new focus on the securitization chain with an increase in standardization, accountability and transparency for investors;
8. A new focus on lien priority will be implemented where mortgage documents will define the process for second lien workouts, thereby permitting an increase in modifications and short sales;
9. Banks will be directed to hold more capital on their balance sheets in order to withstand future downturns; and
10. Finally, your credit score will be protected from corporate whims because rating agencies will be overseen by the Office of Credit Ratings as part of The Securities and Exchange Commission (SEC).

Interestingly, this is a small government report coming from a democratic administration. Yet, remember that this is just the administration's views and will require legislation from the Congress before its fully enacted. In fact, the report offers 3 options into the future, not a clear direction forward. Nonetheless, real estate professionals should start hedging their strategies based upon this report as those who leverage change in market principles will get ahead financially. The key is to shift human capital at brokerage houses in order to capitalize on the changes before they occur.

My take-away is to concentrate on the rental markets because the administration's plan is to ultimately eliminate a homeownership option for speculators; individuals without the means to afford a mortgage without appreciating home values. Therefore, many potential homeowners will be pushed out of the market and instead, they will be placed into the rental market.

Lieb at Law is also happy to announce the addition of our newest associate attorney, Jamie D. G. Svenson, Esq. Please join us in congratulating Ms. Svenson and welcoming her to the East End Community.

*Andrew M. Lieb is the Managing Attorney of Lieb at Law, P.C. and of the firm's NYS Licensed Real Estate School. You can reach Mr. Lieb with questions or comments at [Andrew@liebatlaw.com](mailto:Andrew@liebatlaw.com) or 631.878.4455. Please see our website at [liebatlaw.com](http://liebatlaw.com) to register for FREE real estate continuing education classes.*

