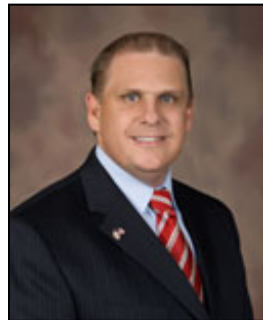


March President's Message

Having reached the mid-point of my term, I thought it appropriate to give you an overview of the state of our industry. I have been traveling throughout Florida visiting with chapters and have given this very speech. For some of you this will be a review. Some information may already be dated, as I am required to get these messages to press a month in advance of publication.

In this message, I'll look at the state of our industry. I will share with you FAMB's position as well as where we stand on past, current and future legislation. With some luck, each of you will have a slightly better understanding of just where our industry is today and how we got there.



D. Ritch Workman , CRMS
Workman Mortgage Company

The good news is that 2007 has come to an end. There are very few in this industry that can honestly say that last year was not exceptionally difficult. 2007 has proven to be a year of drastic change within our industry. From the fall of real estate prices, the crashing of the subprime market and the ever-tightening guidelines of FNMA and Freddie Mac, 2007 is a year most of us would like to forget.

Our profession is being faced with a multi-pronged attack. Property values in Florida are continuing to drop, lending guidelines are tightening and the federal government thinks new anti-broker laws are the answer.

So how did we get here? Here is a short overview:

With the availability of loose mortgage credit, known as subprime loans, the typical renter was now afforded an opportunity to buy. And buy they did. The subprime borrower came into the market and began buying homes at an astounding pace. This influx of new buyers naturally caused an increase in home prices. The spiraling increase in home prices then brought in the sophisticated speculative investors. Some wanted to buy long-term rental properties early in the value run up and others entered the market to buy low and sell high as a flip. For a while, all was good. Renters became owners and investors were making a profit. Unfortunately, this "easy money" also brought in unsophisticated investors. These speculative investors all wanted to reap the rewards of buying low and selling high. Fueled by the ever-increasing number of subprime borrowers and speculative investors, home prices skyrocketed.

As we all know, all good things must come to an end. Builders overbuilt and many homeowners, looking to cash in on the new values, had moved and listed their existing home for sale. This caused a huge oversupply and prices stopped rising.

So why the bust?

Well, two reasons, really. Reason number one involves our speculative investors. These investment buyers needed increased value in order to sell. More supply than demand means lower prices. Lower prices left many speculators unable to sell. Many of these speculators gave no thought to the "what if I cannot sell quickly" scenario and were simply unable or unwilling to make the monthly payments attributed to owning multi-properties.

Reason number two was the influx of our new subprime borrowers. As most of you know, about 15 years ago Wall Street, being very happy with the return and security of real estate backed securities, thought they could turn an even bigger profit by entering the higher risk mortgage market. The math made sense, higher risk equals higher rate and a higher rate equals higher return. Wall Street turned out to be correct. For nearly a decade mortgage backed securities securitized with subprime mortgages were winners. Investors gobbled them up and Wall Street made a lot of money. In the last few years however, competition fueled the loosening of lending guidelines. With a seeming disregard for buyers' ability to repay; lenders leaped at the opportunity to loosen their guidelines and fill the Wall Street coffers with even riskier subprime mortgages. Subprime mortgages were transformed from their original medium risk, large down payment high rate loans (the loan of last resort) to extremely high-risk mortgages with little or no down payment required and a relatively low adjustable rate.

And therein lies the problem. High loan to value loans require at least a stable real estate market. These homeowners need to be able to sell or refinance when facing trouble. When the prices fell, many could not escape their problems and stared into the face of foreclosure.

Bear in mind that many of these buyers were first time buyers. And not your typical first time buyer, but many were life long renters. These new buyers rode the wave of subprime loans; wanting to make sure they bought while they could still afford a home. They jumped into homeownership with little forethought given to the long-range costs. No thought was given to the peripherals of homeownership. For many, during their entire adult lives they would call the landlord when the water heater broke or the toilet overflowed. Sadly, many didn't realize that as homeowners they are their own landlords. For the homeowner, the only call to make is to a plumber.

After realizing the true cost of homeownership many wanted out. But, with values dropping quickly and having bought their homes with little or no down payment, there was no way to get away from that mortgage. Many simply "gave it back to the bank" and went back to the comfort of renting.

Seeing a declining real estate value market and increased number of foreclosures, Wall Street shut the door on subprime loans leaving many lenders with billions of dollars of subprime loans sitting in lines of credit. Unable to maintain their lines, many liquidated their loans to other servicers for pennies on the dollar. Many ended up in the bankruptcy courts. Tens of thousands of employees found themselves unemployed.

The combination of Wall Street's loss of appetite for any mortgage with increased risk and the subsequent closure of hundreds of national lenders sent shock waves through banks, lenders and securitizers. Wall Street not only stopped buying the riskiest loans, they also refused to purchase any loan not backed by FNMA or Freddie Mac. This greatly reduced the availability of jumbo, reduced documentation and the long established Alt-A loan.

And that is what brought us to the present. Few buyers and even fewer mortgage products. Today's buyers have just about the same options as did our grandparents including VA, FHA and FNMA. Many buyers are being punished for the loose underwriting guidelines of the subprime market. The loan I have on my own home no longer exists in the marketplace.

So who is to blame? Here is the flow chart of accountability:

Wall Street created the demand for high-risk mortgage back securities. Competition to fill this demand caused lenders to continually loosen the guidelines and increase the availability to lend to more and more consumers. Mortgage originators and brokers rushed to fill these orders. Consumers threw caution to the wind and bought and bought and bought.

In case you can't follow that flow chart, the bottom line is there is enough blame to go around. So where do we go next? Prices must stabilize. As we see stabilization in values we will see a decrease in foreclosures and thus a return to Alt-A lending. This compares to the unregulated and unsupervised dot com boom of the nineties, but on Wall Street we will not see a return to subprime lending.

The best thing you can do to help Florida is to hope for lots of snow, not here, but everywhere else. Join me in hoping that the North sees more freezing rain and snow than previous years. The colder, wetter and icier the winter for our friends up North, the sooner we will see the return of the natural southern migration of our Northern retirees.

In conclusion, we got here with an unsustainable, unrealistic increase in real estate values. This price run up was fueled by an unprecedented number of first time buyers and speculative investors. When an over saturated market took a down-turn in value these high loan to value high risk loans proved to be poor investments and Wall Street pulled the plug. The resulting shock waves have left Americans with seriously fewer mortgage options.

The fix to our credit crunch is time. We need a natural return of values. The risky loans are extinct and no legislative fix is needed. The markets responded swiftly and any interference by Congress could increase and prolong the credit crunch.

This brings me to the latest legislative update. As most of you already know, the honorable Barney Frank has introduced HR 3915. This bill passed the House a few weeks ago. If this bill were to become law, we would survive. Sure it has issues, but at least it treats all originators equally. You can learn more about this legislation online at www.famb.org.

Some good news on the legislative front is that we were personally called by Senator Martinez and asked by him to get involved in framing a Senate Bill on which he wants to sign. I am happy to report that Senator Martinez, in cooperation with Senator Feinstein, have introduced their bill. This bill, S2595, includes all originators.

More exciting news. Governor Charlie Crist also called us directly and asked us to help him create mortgage relief legislation to help Floridians facing foreclosure. As of yesterday morning you are now looking at a Governor appointee. I have been appointed by Governor Christ to represent mortgage brokers on his task force. This is the first time in FAMB history that we have been asked to work directly with the Governor in framing possible regulatory or legislative initiatives.

In summary, I want you to know that your Association is solvent and strong. We, as mortgage brokers, are facing many trials. I want you to know that we can win this fight. We will need to be bold dynamic and aggressive, but together we will do more then just survive, we will WIN. Together we are strong.

Sincerely,

A handwritten signature in blue ink, appearing to read "D. Ritch Workman". The signature is stylized with a large initial "D" and a long horizontal stroke extending to the right.

D. Ritch Workman, CRMS
FAMB President

To view previous President Messages [Click Here](#).