November President's Message

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Let's clear up what happened in Florida. The headlines are all very clear; Florida is number one nationwide in mortgage fraud and number two nationwide in foreclosures. For obvious reasons, it is likely that these two facts go hand in hand.

Looking back, the entire spectrum of mortgage fraud has taken place in Florida. From expansive flipping scams involving brokers, lenders, appraisers, real estate agents and title companies to loan originators and/or borrowers simply lying about the qualifying income; Florida has seen it all.

It would be irresponsible to not point out that much of the increase in the number of foreclosures rests solely on the fact that many Floridians acted like so many of their American counterparts. They simply bought above their heads. Many stretched their wallets and equity lines to buy second homes and investment properties with the dream of quick cash and early retirements. As we go forward, these folks also need to be remembered. Not remembered because they need a bailout, but because they don't. These folks made risky investments and will now need to live with the consequences of their financial decisions.

Mortgage fraud, while disgraceful, is nothing new. For as long as there have been mortgages, there have been originators and borrowers looking for ways to defraud and beat the system. So why do America and Florida continue to see an implosion in the banking and lending industries? Additionally, why are there so many foreclosures? The answer to both of these questions is the same; sub-prime mortgages.

When the bust first started, and foreclosure numbers started to rise, all finger pointing was directed towards the mortgage brokers. The mortgage brokers were forced to fend for themselves against state and federal legislation designed to punish them.

For over a year, the disregarded victim of the bust was the broker. The media and legislators blamed them for the condition of the mortgage market. They did not care that thousands of small businesses folded under the unearned weight of blame.

Then, bit by bit, the ugly truth began to shine through. First, a wave of local and national retail lending firms folded as their lines of credit, heavy with unsold sub-prime mortgages, failed. Then we saw many Wall Street investment banking firms, which in many cases owned their own sub-prime lending companies and securitized their own mortgages, begin to fail as their real estate backed securities went bust.

Shortly after these Wall Street firms began to fail, both Freddie Mac and Fannie Mae announced they had become insolvent. In a mad rush to stop the bleeding, the federal government rushed in and took control of these two giant semi-private firms. Both Freddie and Fannie attributed their losses to sub-prime loans.

The most recent victims of the bust have been huge banks. Quiet while the brokers were taking the blame, these huge banks had loaned billions in sub-prime loans and were taking huge losses. What they needed, and what they hoped for, was a quick market recovery. With time working against them the added weight of sub-prime losses quickly became more than many could bear.

I have outlined the results; now let's take a look at the cause. In the late nineties President Clinton set a goal to increase the availability of mortgage loans to low and moderate income Americans. Congress passed the Community Reinvestment Act, which forced Fannie and Freddie to lower lending guidelines in support of President Bill Clinton's goals. With expanded guidelines, more and more Americans were able to qualify for mortgages. The increased rates of these expanded guideline loans proved a winner on Wall Street. The perceived security of these mortgage-backed securities (MBS) was gobbled up by investors. Based on these results Wall Street began to seek out mortgage lending firms that could supply these higher risk, higher reward mortgage-backed securities. President George Bush echoed the call from his predecessor and encouraged more lending to more Americans.

Therefore, with the support of Congress, the President and the leading GSE's (Fannie and Freddie) more and more lenders created more and more sub-prime products. With additional sub-prime products a greater number of Americans could qualify for mortgages. More buyers meant less inventory and prices skyrocketed.

Some of you may read this and think the true villain is greed. I would agree that as the market run-up was taking place many parties, from originators to securitizers, were indeed blinded by greed. However, it was not the free market "running amuck" that caused the current problem. No, it was the intervention of government in the free markets that lead to our current situation. Our federal legislators decided to push more loan products into the market in order to allow more people to qualify for home loans. Many, on both sides of the congressional aisle, declared the majesty of the new America. The new America where everyone could own a home.

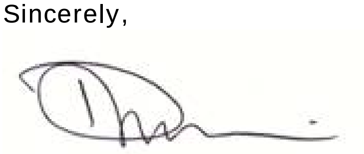
This shortsightedness, the forcing of now disgraced Fannie and Freddie to lend outside of their well-established lending parameters, lead directly to the crash we see today. The saddest part to me is that Congress blames everyone but themselves. "It's the brokers, no it's the investment banking firms, no it's the greedy CEOs of America's banks and insurance companies. It's the poor management of Freddie and Fannie."

So where do we go from here? First, the Federal government needs to allow the free market to clean up the mess it helped create. The best bailout Congress could offer the American People is to get out of the way. Sure, some large firms will fail, but most of the dying firms will be broken apart and purchased in pieces by other more stable firms. Second, Congress needs to release Freddie and Fannie back to the private sector. Not as the ugly, double-headed, semi-private duopoly monster Freddie and Fannie has become, but as 50 or 100 smaller private mortgage securitizing companies that can compete openly in the secondary mortgage market.

In Florida, we need two initiatives. Number one, the state needs to assist counties in setting up real property fraud task forces. These local police task forces would enforce the strict real property fraud laws already in place. Many of the more successful property fraud rings involve many levels of collusion and reap millions of dollars in ill-gained profits. Whole departments need funding to eradicate these predators from our state. Number two, higher standards are needed for entry into the mortgage origination industry. All persons that meet with consumers regarding mortgage financing need to be educated, licensed and have passed a background check. Criminals need to be barred from entry and renewal. The testing and licensing standards need to be elevated. More pre-licensure classroom hours and mandatory classroom testing need to be required. A statewide, industry funded guarantee fund needs to be implemented. Lastly, the costs associated with becoming a licensed mortgage originator in this state need to be increased. During the boom there were simply too many unscrupulous individuals who entered our industry.

These two simple initiatives, if implemented in Florida, would greatly reduce the likelihood of a repeat of the fraud-infested real estate boom of recent years.

Sincerely,



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