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Non-Agency Mortgage Market Is the Worst Ever, Wakefield Says

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An Article Written By Jody Shenn

K. Terrence “Terry” Wakefield, head of Wakefield Co., a Milwaukee-based mortgage-industry consultant, comments on the home-loan market. Wakefield is a former Salomon Brothers executive who helped run a mortgage lender that began as joint venture between Salomon, now part of Citigroup Inc., and a predecessor to Prudential Financial Inc.

He spoke in a telephone interview today.

On the market for U.S. mortgages not expected to be packaged into bonds guaranteed by government-chartered companies Fannie Mae and Freddie Mac:

“This is unquestionably the worst it's been. I've never seen a secondary market, since it was founded back in the late 1970s, where you couldn't sell loans. Where there was no bid.”

On the future for bonds without guarantees from government-linked entities:

“I'm not suggesting the non-agency mortgage-backed securities market is dead. It will resuscitate but under a very different set of rules, because the rules of the past do not work.”

On the market for conventional loans:

“Say what you want about Fannie and Freddie, they've proven that they are a reliable source of liquidity. And you've got to have liquidity if you're going to make mortgage loans.”

On third-party mortgage brokers:

“Investors are not going to buy any more loans originated by brokers in the old model. I think their role in the process is going to fundamentally change.”

Brokers will stop working on loans after taking applications, he said. “The broker will just move on to procure another customer. This whole notion of them having control over other things when they're paid a fee based on loans closing needs to change.”



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Taking control away from mortgage brokers “is always a difficult process. The good news is the situation right now is so dire, they'll probably listen.”

On underwriting:

“All of these practices that are imprudent -- such as stated income loans where you'll lend somebody 95 percent of a property's value without lifting a finger to verify they can pay you back -- that's over. And that was a big piece of the business over the last couple of years.”

“I would say 30 to 40 percent of the business done in the last couple of years was done under imprudent lending standards. I just see no circumstance in which those types of practices return.”

On the economic fallout:

“The United States economy is driven by ‘the consumer.’ And when their home stops appreciating, and in many cases start depreciating, it has a very sobering emotional impact on their spending habits.”