Mark Sampson

This Article

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Battle of the Bank Buybacks - Part III

by Preston Howard

He finally blinked!

After almost four months of “day–to-day, hand-to-hand combat,” Bank of America’s (BofA) chief decided to come to the negotiating table to start a discussion regarding repurchases of multiple mortgage pools. However, he didn’t go willingly. Instead, it came down to the old philosophy that “there is strength in numbers” when opposing the enemy.

Not only did Freddie Mac and the Federal Reserve of New York cry foul against the nation’s largest home lender regarding its repurchase agreements, but also Blackrock (one of the largest managers of pension funds), PIMCO (the world’s largest bond fund), along with 13 other large mortgage purchasers have lined up to force BofA’s hand in addressing billions of dollars of delinquent mortgage pools.

BofA claims that it hasn’t changed its strategy. However, the stock market said it did. BofA stock slid almost 5% in one day due to the change in philosophy and strategy. Now, the concern revolves around what this will do to the bank, other institutions facing similar repurchase requests, and we, the members of the real estate industry who count on BofA, Wells Fargo, US Bank, and JP Morgan Chase to fund our deals. The number of foreclosure and short sale properties currently working their way through the system is staggering. Likewise, the delinquent mortgages behind these properties are just as staggering. The average mortgage pool sold on Wall Street is about $300 million. BofA may be on the hook for over 150 pools with a liability in excess of $450 billion!

As we look back, we must consider lessons learned in Finance 101. At the end of the day, it is all about risk versus reward. BofA took calculated risks. As a mortgage professional, I have always considered BofA to be one of the most conservative lenders in the business. If a deal had a scent of instability, they wouldn't do the deal. If they funded the deal, their documentation requirements were some of the most unbearable for the client. With their perceived risks being so low, so were their returns. I honestly don't believe that these negotiations will heighten their appetite for risk. In fact, it will almost undoubtedly create the opposite effect. Given the losses they may incur, the reward will be miniscule.

Therefore, I foresee that major shareholders, board members, and bank credit officers will be in no mood to tolerate any risk whatsoever. BofA will officially replace the FHA as the 'lender of last resort.' Any other lenders who capitulate to their mortgage investors repurchase demands will most likely follow the same path. If you look at The Mortgage Lender Implode-o-Meter website, almost 400 lenders are out of business or are simply out of the real estate industry. With each lender exodus, there goes another piece of the competitive pie to keep costs low.

Unfortunately, each snippet of bad news in the mortgage industry adds to the implosion list and further concentrates the purse strings into the hands of a select few. Accordingly, with so few real lenders left to make new loans, the costs to finance loans will increase significantly (good ole' fashioned supply and demand). Hence, unless more financial institutions come back to the market with a healthy appetite to make new mortgage loans (either backed by a private label or the government), we are susceptible for more treacherous (and costly) days ahead.

Battle of the Bank Buybacks - Part II

Preston Howard is a mortgage broker and Principal of Rose City Realty, Inc. in Pasadena, CA. Specializing in various facets of real estate finance, he can be reached at howardpr@rosecityrealtyinc.com.