

# Capstone project finance (final project)

[Finance](#)



Abstract The need to encourage house or homeownership has been in the government's strategic plan since 1934, however, the current financial policies and practices in the housingfinanceand the mortgage market has characterized by minimum flow of capital in the secondary mortgage market, confusion on the main control authority and various ill practices. This fact has necessitated various changes in the house and homeownership financial.

This study collected bothprimary and secondarydata, and found out that the government must set the right policies that will empower house and home consumers to circumvent biased practices and practice informed decision making, these sentiments. There must be an improvement in the foreclosure processing and mortgage servicing, notably, from the beginning of the last financial crisis, foreclosures and NAR tried to work by administrators and regulators to formulate criteria for decreasing the risk of foreclosure. There should be increased capital availability to creditworthy borrowers from all communities and states including Michigan.

The study has also revealed that more solution based research is necessary than general solution researches. Keywords: financial policies, house and homeownership, and mortgage. Dedication This project has been dedicated to those who believe that financial policy making is a jointresponsibility, for every United States citizen, and it should not be left to the government and politicians. It has also been dedicated to those who believe in acquiring their own homes as a step towards fulfilling the upper needs in the Maslow hierarchy of needs. Acknowledgement

First, I offer gratitude to God almightythe giverof life and strength to complete this project. Second, my gratitude goes to my Tutor and all  
<https://assignbuster.com/capstone-project-finance-final-project/>

participating members in the Capstone project committee. Third, I offer my greatest gratitude to all the members Corporation for Enterprise Development (CFED), who conducted the 2012 Assets & Opportunity Scorecard, they highlighted the lower score leading to a grade of C for Michigan State's Housing and Homeownership, and they brought to my attention the problem of low house and homeownership in Michigan.

Last but not least, is gratitude to the Michigan Chamber of Commerce (MCC), for suggesting the need to amend financial policies that encourage house and home ownership in the State of Michigan.

Table of Contents

List of Abbreviations8

Chapter 1: Introduction9

1. 1 Background of the Problem9

1. 2 Statement of the Problem9

1. 3 Purpose of the Project/Study10

1. 4 Significance of the Project10

1. 5 Nature of the Project11

1. 6 Research Questions12

1. 7 Theoretical Framework12

1. 8 Assumptions12

1. 9 Scope and Limitations13

Chapter 2: Literature review14

2. 1 Historical Overview: Development of American Housing and Home Financial System14

2. 2 Federal Housing Administration (FHA)14

2. 3 History of the FHA14

2. 4 The current FHA15

2. 5 The FHA Down Payment16

2. 6 The Mortgage Insurance17

2. 7 Stopping the FHA Mortgage Insurance18

2. 8 The Economic Effects of the FHA19

2. 9 The Current Housing Finance System20

2. 10 Tax Policy20

2. 11 Flows in the Housing Finance System22

2. 12 The Federal Housing Finance Agency (FHFA)23

2. 13 History of FHFA24

2. 14 Conservatorship of Freddie Mac and Fannie Mae24

Chapter 3: Description of the Research Design Used26

3. 1 Research Method and Design Appropriateness26

3. 2 Population26

3. 3 Informed Consent26

3. 4 Confidentiality27

3. 5 Data Collection27

3. 6 Instrumentation28

3. 7 Open and Closed Ended Questionnaires28

3. 8 Interviews29

3. 9 Reading29

3. 10 Validity and

Reliability30 Internal validity30 External validity30 Reliability30 3. 7 Data Analysis31 Chapter 4: The Results and Findings of the Project32 Chapter 5: Discussion of Results and Findings33 Chapter 6: Conclusion and Recommendations37 Chapter 7: References38 Chapter 8: Appendices41 Appendix 1: CFED Assets & Opportunity Scorecard 2012, Michigan State: Profile41

Appendix 2: Housing Financial Policy Changes in Michigan Questionnaire42

Appendix 3: Housing Financial Policy Changes in Michigan

Interview Questions44 List of Abbreviations CFED - Corporation for Enterprise Development FHA - The Federal Housing Administration FHFA - Federal Housing Finance Agency FHFB - Federal Housing Finance Board GSEs -Government Sponsored Enterprises HUD - Department of Housing and Urban Development IRS - The Internal Revenue Service LTV - Loan-to-Value Ratios MBS - Mortgage-Backed Securities MCC - Michigan Chamber of Commerce MMI - Annual Mutual Mortgage Insurance MRBs - Mortgage Revenue Bonds

MSHDA - Michigan State Housing Development Authority NAHB - National Association of Home Builders NAR - National Association of Realtors OFHEO - Office of Federal Housing Enterprise Oversight UFMIP - Upfront Mortgage Insurance Premium Chapter 1: Introduction 1. 1 Background of the Problem The recently released Corporation for Enterprise Development (CFED) Assets & Opportunity Scorecard 2012, under Michigan State: Profile, and further under House and Homeownership section, revealed that; the main challenging issue to be tackled in Michigan is the low rate of the house and homeownership.

Appendix 1 clearly shows that Housing and Homeownership Area in the Scorecard it has been ranked 32, and given a grade score of C. The House and homeownership in Michigan is seriously wanting due to the fact that, it had the least score in the scorecard, and it is closely followed by the challenge of attaining health insurance for all. Meanwhile, recent financial literature on the challenges of the current US housing finance policies; has attributed the reduced rate of the house and homeownership to poor financial policies regulating the house and homeownership industry.

Swindler (2011) discussion on the house and homeownership in the US, also blamed the low house and homeownership turnout in Michigan on; unfavorable financial environments supporting it. This is currently a crucial issue, and it has raised a lot of concern, especially with the residents of Michigan, and it is upon financial experts and researchers, to devise the means of improving the poor housing finance policies and practices.

## 1. 2 Statement of the Problem

The problem the existing poor house and homeownership consumer protections permitted low-quality, risky mortgage products, and that are predacious imparting to thrive, an outdated, and inadequate regulatory system that has remained unchanged since the 1930s, and which has failed to control the house and homeownership financial industry. There is a complicated securitization procedure that lacks accountability, standardization, and transparency. There is inadequate capital in the house and homeownership system: this has left various financial institutions unrehearsed to engross subsequent losses.

Lastly, the 2008 US recession, proved that the house and homeownership servicing industry still remained ill-equipped to assist the requirements of investors, lenders and borrowers, especially when the housing and homes prices fell down (The Department of the Treasury and U. S. Department of Housing and Urban Development, 2011).

1. 3 Purpose of the Project/Study  
This project aims to:

- Find out the weakness of existing financial policies meant to encourage home and homeownership in Michigan.
- Find out various relevant financial policy changes that can encourage house and homeownership in Michigan.

Find out proof of the applicability of the discovered financial policy changes that encourage house and homeownership in Michigan.

1. 4 Significance of the Project  
This project aims at benefiting the people of Michigan State, and the general republic of the United States. The outcome of this project will assist the federal government, Michigan State Authorities, and all other stakeholders in homeownership to; understand how best they can improve their operations and financial policies to encourage homeownership in this state.

The main influence and justification of this project is: the reality of the low and decreasing rate of homeownership in Michigan State and the turbulences that are currently facing the US mortgage market. The Federal Reserve Bank of New York (2010), had released a report on current economic and financial issues in the US, and they revealed a low turnout in homeownership in the US and went a head to blame it on poor financial polies. Wiseman (2010) highlighted the issues around homeownership in the US, and he proposed various polies that could be used to encourage homeownership, but, he lacked a scientific research to back his ideas.

This missing links or research evidence to back bright ideas on financial policy changes is a serious problem, and it is the reason why this project aims at finding out credible evidence of various proposed financial policy changes that could be used to encourage homeownership in Michigan. 1. 5 Nature of the Project This project will mainly apply mixed research method, including a survey method and integrate it with other relevant finance supporting research methods.

It will collect both primary and secondary data, to illustrate the relevant financial policy changes that can be used to encourage homeownership in Michigan. An open and closed questionnaires are often used to collect data in the 100 branches of various homeownership financial institutions, and the other institutions closely associated with homeownership in Michigan. These financial and other institutions associated with homeownership in Michigan, will include: the public and private banks, Michigan State Housing Development Authority (MSHDA), the US Urban and housing department, and other mortgage and housing finance companies. This information will then have to be cross examined against various secondary literature, and the current document and applying housing finance policies that have been intended to be encouraging homeownership in the US. And the new ideas will have to be filtered, and finally, financial knowledge have to be will be applied to test the applicability of the selected new ideas, before discussing and interpreting them, so that they can be included in the final project document.

. 6 Research Questions This project aims at answering three main questions, namely: •What are the current weakness of existing financial policies meant to encourage home and homeownership in Michigan? •What are the various

relevant financial policy changes that can encourage house and homeownership in Michigan? •What can prove the applicability of the discovered financial policy changes that encourage house and homeownership in Michigan? 1. 7 Theoretical Framework

The NAR issue Analysis (2011) had supported the financial policies that: empower house and home consumers to escape from biased practices and make fully informed decisions before engaging in any transactions aimed at acquiring a house or home, improving foreclosure processing and mortgage servicing, and they also supported the need for guaranteeing that capital is accessible to creditworthy borrowers all over the United States. These were similar sentiments suggested by the American Congress by the Department of the Treasury and U. S. Department of Housing and Urban Development (2011) to the Congress. . 8 Assumptions This project has assumed that there have been existing literature, which will have to be used as secondary sources of information, since the topic on assisting US citizens to acquire houses and homes is as old as the legal financial policies that guide it. The second assumption is that the sampled respondents, who hail from the management of various house and home ownership financial institutions sector, are a group of financial experts who possess the necessary knowledge on how to change the financial policies to encourage house and homeownership. 1. 9 Scope and Limitations

The project will have to be limited to the respondents from the Michigan State only, and topic coverage wise; it will have to be limited to the housing financing institutions and policies, which revolves around features, like mortgages policies, and any other policies aimed at assisting US citizens



acquire homes, but, it will not touch the wider financial policies which could also influence homeownership in one way or another. Chapter 2: Literature review 2. 1 Historical Overview: Development of American Housing and Home Financial System Federal Housing Administration (FHA)

National Housing Act of 1934 led to the creation of the Federal Housing Administration (FHA), which one of the United States government agency concerned with housing is financing. It insured house and home loans made by private lenders and banks for a house or home buying and building. The main goals of FHA are to develop housing conditions and standards, offer a suitable home/house financing system through insuring mortgage loans, and to attain stability in the mortgage market. History of the FHA

The history of FHA can be traced back to the times of the Great Depression, when the failure of the banking system took place, and as results instigating an extreme decrease in houses and homeownership and loans. During this time, majority of the home mortgages were under short-term period. They were ranging between 3-5 years periods, the inflatable items were targeted at LTV (Loan-to-Value Ratios) that were below 50-60%, and there were no amortization (Goldfield, 2007). This banking crisis during the 1930s obligated all lenders to recover due mortgages.

The refinancing services were never available, and most borrowers, who had been unemployed by then, were unable to repay their mortgages. Therefore, numerous homes and house had to be foreclosed, making the housing/homes market fall. The banks calmed the foreclosed homes (Loan Collateral), but, the prevailing lower property values caused a comparative lack of assets. Since there had been minimal faith in the U. S. government

backing, limited loans were being dispensed and least new homes were being bought. In the year 1934 the United States federal banking System attained its reorganization.

Then the National Housing Act of 1934 that brought the creation of the Federal Housing Administration was passed, to initiate its operation. Its intention was to control the mortgage terms and interest rates and insure the entire industry. These practices applied on the new lending increased the quantity of people who could raise a down payment for a house or home, and manage to support the mortgage monthly debt service payments, thus also raising the size of the single-family-owned homes market (Gravin, 2002).

The main criteria that the FHA had applied was through various calculations, they computed the appraisal value centered on eight criteria, and it instructed its agents to loan more for greater appraised projects, up to a full amount that can be possibly. The two significant criteria which were being used are: “ The Relative Economic Stability, that instituted appraisal value of 40%, and Protection from adverse influences,” (Gravin, 2002). This made up a new 20%.

By the time of World War II, FHA supported many projects of worker's housing, like the Kensington Gardens Apartment Complex in Buffalo, New York (Gravin, 2002). The current FHA The Federal Housing Administration joined the Department of Housing and Urban Development (HUD) in 1965. As from 1934, the HUD and FHA had managed to insure way above 34 million housing and home mortgages, and it has also insured 47, 205 mortgages for multifamily projects. Presently, the FHA is insuring approximately 4. million mortgages for single family, and also insuring 13, 000 multifamily projects in

<https://assignbuster.com/capstone-project-finance-final-project/>

its current portfolio (Monroe, 2002). The Federal Housing Administration is the lone US government agency that is totally self-funded. Arguably, even if it asserts to operate exclusively on its own revenue, without any taxpayers money, there is an understood assurance that the taxpayer will aid them in hard times of financial need. In the year 2008, the US budget planning HUD had requested high budget allocation bulging at \$143, 000, 000 budget deficit stanching from the FHA run program.

It is the first time after 30 years that HUD had prepared an appeal to the Congress for a taxpayer funding. Even though the FHA has been constitutionally obligated to be budget impartial, the relevant agencies are projecting taxpayer financed subsidies of \$ 500 million dollars over the coming three years, this is incase there are no changes put in place on the FHA program (Goldfield, 2007). Succeeding the subprime mortgage crunch, the FHA, along with Freddie Mac and Fannie Mae, converted to be the source of ost of the United States housing mortgage financing. The portion of home and houses purchases which were funded with FHA mortgages grew from 2% to over 30% of mortgages in the US as conservative mortgage lending could not weather the credit crunch. In the absence of the subprime market, a number of the riskiest mortgagors ended up going to the Federal Housing Administration for assistance, and this made FHA suffer from considerable losses (Woodward, 2008). The FHA Down Payment The mortgagor's down payment can arise from various sources. This 3. % amount can be fulfilled with the mortgagor using their own money or from a support of a family member, labor union, employers, or a government agency. From 1998, non-profits continues to assist with down payment gifts to mortgagors who buy

homes and the house, where the vendor has approved to repay the non-profit and pay an extra processing fee. In May 2006, the Internal Revenue Service (IRS) had resolved that their idea was not a "charitable activity" and has managed to revoke that status of supporting non-profit for groups settling down payment support in that way.

The FHA has subsequently ceased the down payment support program using third party non-profits. Several bills were presented to the Congress to try to bring-back the non-profit program. The Mortgage Insurance Mortgage insurance guards mortgagees from borrowers mortgage repayment default. When a property or housing/home purchaser borrows an amount of money greater than 80% of that property's value, the financier will possibly need the borrower to acquire a private mortgage insurance to cover the financier's risk.

Nonetheless, in case the lender had to be approved by FHA and the mortgage amount is within the FHA set limits, the FHA will have to offer the mortgage insurance, which is likely to be more affordable, particularly for borrowers with higher risk. Financiers can characteristically acquire FHA mortgage insurance covering the 96.5% of the assessed value of the house, home, or any building. These FHA mortgages are being insured using a mixture of UFMIP (Upfront Mortgage Insurance Premium) and MMI (Annual Mutual Mortgage Insurance) premiums.

The UFMIP is a whole amount extending from 1 - 2.25% of the loan total value (it is dependent on the duration and LTV), funded by the mortgagor in whichever way, it can be funded using the loan or cash at closing. The MMI, though is a yearly payment, is overallly encompassed in mortgage payments

<https://assignbuster.com/capstone-project-finance-final-project/>

in monthly basis and ranges from 0 – 1. 15% of the loan value (also, this is dependent on duration and LTV).

In case a mortgagor has had a credit history rated as poor to moderate, the MMI perhaps is far less expensive with an insured loan from FHA, than with a conformist regular loan irrespective of LTV, this can occasionally go as low as 1/9, as more contingent on the credit score of the borrower approval status, loan size, and LTV. Conventional mortgage rates of insurance increase with the decreasing credit scores; while FHA rates of mortgage insurance does not differ per credit score. The conventional mortgage premiums fluctuate vividly, if the credit score of the borrower is below 620.

Owing to a suddenly increased risk, many mortgage insurers do not write their policies, when the credit score of the borrower is below 575. Nonetheless, when they write their policies for mortgagors with low credit scores, the annual premiums might be up to 5% high of the loan amount. Stopping the FHA Mortgage Insurance The FHA insurance payments comprise of two parts: UFMIP and the yearly premium paid on a monthly basis referred to as the MMI. This UFMIP is compulsory payment that can be funded into the loan or paid in cash.

It increases a definite amount to the monthly payments; nonetheless it does not resemble PMI, or the MMI. An individual purchasing a home using an FHA funded loan, he or she pays monthly mortgage insurance up to a 5 year period or till he covers 78% of the assessed amount. The MMI payments are superior to all FHA Acquisition Money Mortgages, Streamline Refinances, and Full-Qualifying Refinances. The idea of canceling or stopping FHA insurance

program, concerns only the MMI. It is different from other forms of conventional funded mortgage insurance.

The value of UFMIP compiled on a loan by FHA is prorated through a 5 year period, denotation that if a homeowner sells or refinances during the loan's first 5 years, they are permitted to an incomplete refund of the amount of UFMIP paid at the inception of the loan. If he has funded the UFMIP within the loan, he cannot stop this compensation part. The insurance payment on a thirty year FHA loan has to be paid for a minimum of 5 years. The MMI premium has to be terminated spontaneously when the unpaid start balance is exclusive of the pfront premium, and extents to 78% of the lowest initial property assessed value or sales price. Mortgagors who do pay additional payments to the mortgage principal of the FHA, might have to take the ingenuity by using their lender to terminate the insurance by referring to the 78% rule, however, this is possible after 5 years of consistent payments for loans lasting for 30 year. The PMI termination, nevertheless, can be lessened using extra payments or a fresh assessment to prove that the house or home as added value. The Economic Effects of the FHA

The formation of the Federal Housing Administration effectively improved the housing market size. Through, persuading the banks to lend yet again, also through standardizing and changing mortgage procedures and instruments, home and house ownership has improved from 40% during 1930s to approximately 68% in the year 2000. In 1938, which is 4 years after the formation of the Federal Housing Association, only a 10% of the value of the house was being required to purchase it, the remaining 90% was being funded through a 25 year, FHA-insured, self-amortizing mortgage loan.

Afterward, the ending of World War II, and the subsequent prevailing condition, made the FHA assist the returning veterans to acquire homes. When the rising energy costs and inflation endangered the existence of thousands living in a private apartment during the 1970s, the FHA's emergency funding reserved cash-strapped houses afloat. During the 1980s, while the US economy did not fund a growth in the house and homeowners, FHA assisted to stabilize the dropping prices, enabling the probable homeowners to fund as the private mortgage insurers moved out of states producing oil (Mitchell, 1985).

The ultimate effects of the FHA can be realized in cities and by marginal populations. Almost half of FHA's urban area business is being situated in dominant cities, a fraction that is far higher above the conventional loans percentages. The FHA likewise lends to a greater fraction of Hispanic Americans, African-Americans and younger population, credit restricted borrowers, causing an in homeownership on the named groups, but, that is not enough.

As the United States capital markets matured after many years, the FHA shockingly has witnessed a decrease in their impact. In the year 2006, the FHA had a return less than 3% of overall issued loans in the US. After the 2006 FHA failure revelation, the Congress and other interested parties have questioned the role of the US Government in the mortgage insurance business, and how financial policies can be amended to encourage house and homeownership and most respondents and analysts advocated for the abolition of the FHA.

The consequent weakening in the credit markets and the recent world recession, nevertheless, has fairly explained criticism of the FHA. Currently, <https://assignbuster.com/capstone-project-finance-final-project/>

FHA insures about 40% overall new mortgages, but, its impact is still wanting. 2. 2 The Current Housing Finance System Tax Policy It is a common knowledge and many financial experts often cite, deductibility of housing and home property taxes and mortgage interest as the main source of federal support to encourage house and homeownership.

As expressed in this long quote by the 32nd President of the United States Franklin Delano Roosevelt: " The movement toward progressive taxation of wealth and income has accompanied the growing diversification and interrelation of effort which marks the industrial society. Wealth in the modern world does not come merely from individual effort; it results from a combination of individual effort and of the manifold uses to which the community puts that effort.

The individual does not create the product of his industry with his own hands; he utilizes the many processes and forces of mass production to meet the demands of a national and international market ... Social unrest and a deepening sense of unfairness are dangers to the national life which we must minimize by rigorous methods. People know that vast personal incomes come not only through the effort or ability or luck of those who receive them, but also because of opportunities for advantage which Government itself contributes.

Therefore, this duty rests upon the Government to restrict such incomes by unusually high taxes. " (Duclos & Makdissi, 2002). But, we can mention categorically that; various literature indicates that encouraging homeownership had been factored in the initial formulation of deductions and taxes, thus the interest expense deduction is not limited to deductions



of state and local taxes, and housing mortgage interest, and this is according to the Tariff Act of 1913 and the Revenue Acts of 1864 and 1865 (Arestis, Mooslechner & Wagner, 2010).

Numerous analysts interpreted that the real tax subsidy for house and homeownership as an elimination of homeowners' implied rental income put of the taxable income, but not as a deductible on property tax and mortgage interest (Arestis, Mooslechner & Wagner, 2010). The Act of 1997, on Taxpayer Relief, substituted the rollover of capital advantages for homeowners who purchase additional house and the elimination of up to \$125, 000 in advantages for owners who are 55 or above with an elimination of advances up to \$500, 000 for proprietors of some age ? ing for joint returns. It gave a higher incentive for owning a home, but, it eliminated a discouragement for walking out of owning a home or transacting to a lowly priced home. Another tax incentive that is provided by the federal tax system after instructing the local and state government agencies to support house and homeownership for those with moderate income and ? rst time buyers was the application of MCCs (Mortgage Credit Certi? cates) and MRBs (Mortgage Revenue Bonds). MRBs are securities for tax-exempt issued by local or state housing ? ance agencies, to increase mortgage capitals for ? rst time house or home buyers (Arestis, Mooslechner & Wagner, 2010). There have also been the temporary housing-related tax incentives amongst others that will have to be discussed as the literature review progresses.

## 2. 3 Flows in the Housing Finance System

There has been a mix up in the housing markets and the policies that were meant to encourage house and home ownership, and it has turned out to be a crisis, various studies have tried to

explain this crisis, but, they have not found a perfect cause that can explain it.

Baily (2011), had identified that the US housing market was characterized by misjudgments, Misbehavior, and missed opportunities, mainly on Wall Street. American people must be protected and encouraged to own houses and homes, but, the discussed below points hinders this achievement: \* Reduced consumer protections encouraging; low quality and risky mortgage products and greedy lending targeted mainly at multiplication of the financiers wealth.

The evident presence of unregulated mortgage brokers and inventors encouraged complex mortgage products that ended up increasing sharply, the rates required and down payments. \* The outdated and inadequate regulatory regime had been and currently is unsuccessful in controlling the system: as a fact especially following the history that was earlier presented, the regulatory boundaries have been largely since the 1930s, they have encouraged the inancial system that were earlier being committed to supporting house and homeownership finance to function with almost no oversight. \* The complex securitization procedure lacked accountability, standardization, and transparency: The market progressively depends on complex securitization procedure containing securitizes, mortgage brokers, ratings agencies, originators, and investors and they tend to fuel the home prices to increase. \* The insufficient capital in the housing finance system left financial agencies unprepared to engross losses. The systemically-significant financing agencies were never mandated to hold sufficient capital against the actual mortgage risk reflected in their balance sheets since these institutions were already permitted to have lower capital compared to

securities supported by the issued mortgages than if they reserved the equivalent mortgages themselves. \* The mortgage servicing industry is ill-equipped as they service the needs of the lenders, borrowers, and investors when the home prices go down. 2. 4 The Federal Housing Finance Agency (FHFA)

The Federal Housing Finance Agency (FHFA) is a self-governing federal agency formed as the replacement regulatory agency consequential to constitutional merger of the OFHEO (Office of Federal Housing Enterprise Oversight) and the FHFB (Federal Housing Finance Board), and the HUD (U. S. Department of Housing and Urban Development government) sponsored enterprise mission team, engrossing the regulatory authority and powers of the two authorities, with stretched regulatory and legal authority, and, plus the capacity to substitute GSEs (government sponsored enterprises) into conservatorship or receivership (Wilshusen, 2010).

This is one of the authoritative bodies of interest to this project. History of FHFA The permitting law founding the FHFA is: “ the Federal Housing Finance Regulatory Reform Act of 2008”, which is Partition an of the greater “ Housing and Economic Recovery Act of 2008”, (Public Law 110-289), contracted on July 30, 2008 by the then US President George W. Bush. A year afterward the FHFA and OFHEO went out of existence. Every prevailing, decisions, and regulations, of the Finance Board and OFHEO had continued to be influential until superseded or modified. Conservatorship of Freddie Mac and Fannie Mae The FHFA manager Lockhart proclaimed that he had put Freddie Mac and Fannie Mae and Freddie Mac under the conservatorship of the FHFA on September 7, 2008 (The Financial Crisis Inquiry Report, 2011).

<https://assignbuster.com/capstone-project-finance-final-project/>

Just to give a brief history; the Federal National Mortgage Association is the normally called Fannie Mae, it was created in 1938 when the Great Depression as an effort of dealing with the crisis that faced the mortgage sector. It is a US Government Sponsored Enterprise, nevertheless, it has remained a publicly traded company from the year 1968.

Its main role was to enlarge the tributary mortgage market through securitizing mortgages in using MBS (mortgage-backed securities), enabling mortgagees to reinvest their properties into additional lending and as a result growing the population of lenders in the mortgage market through decreasing the dependence on thrifts. The Federal Home Loan Mortgage Corporation, referred to as Freddie Mac, is also a public government sponsored enterprise. It was founded in the year 1970, to enlarge the tributary market for mortgages.

Beside other government sponsored enterprise, Freddie Mac purchases secondary market mortgages, merges them, and then selling them to investors as a mortgage-backed security on the open market. The US secondary mortgage market raises the quantity of money obtainable for mortgage lending and raises the money accessible for the new house and home purchases. The earlier mentioned action of putting Freddie Mac and Fannie Mae under conservatorship being termed as "one of the most sweeping government interventions in private financial markets in decades" (The Financial Crisis Inquiry Report, 2011).

This would only commit the highly avoided, employing of taxpayers' money into funding GSEs. The debate is never ending, but, it was a sign of the failing financial power to support house and homeownership in the US. The <https://assignbuster.com/capstone-project-finance-final-project/>

action has brought various challenges to FHFA, which are evident through the number of law suits agents it and other homeownership financial institutions. In 2001, the FHFA sued UBS plus other 17 financial institutes, FHFA accused them of parodying approximately \$200 billion as mortgages vended to Freddie Mac and Fannie Mae and many other suits have followed.

This signifies the lack of sound control in the market, because there are lots of fraudulent deals in still persisting in this market (The Financial Crisis Inquiry Report, 2011).

Chapter 3: Description of the Research Design Used  
The purpose of this qualitative and qualitative study is to discover to the weakness of existing financial policies, discover relevant financial policy changes in the existing financial policies, and proof of the applicability of the discovered financial policy changes that encourage house and homeownership in Michigan.

### 3. 1 Research Method and Design Appropriateness

The mixed research methodology and design, that allows the collection of both qualitative and quantitative data is the most favorable for this project. The mixed research design enables the collection of expert opinion when least knowledge is present in respect to a financial problem and the researcher pursues to raise understanding and prospects for resolutions (Creswell & Clark, 2007). This method was appropriate as the project was to improve housing finance knowledge that is present among the US citizens identified through various studies and research (Creswell, 2003).

### 1 Population

The data will have to be collected from the top management of the sampled financial institutions, which are in direct association with financing housing and homeownership in the State of Michigan. All the

institutions and their branches will be then listed and then fed to sampling software to come up with randomly selected 100 institutions, a branch of an institution will have to be viewed as an institution. Then two people per institution are interviewed, after filling the questionnaires

### 3. Informed Consent

The sampled institutions will first be contacted through the mail, and, if they confirm their participation in this project, they are presented with an early informed consent form, which they will have to fill. Their respective institutions will also have to issue them with a human subjects approval document, in the form written official document, with a valid letter head and signed, this to allow the sampled staff to participate in this project.

### 3.3 Confidentiality

Apart from the names highlighted in various official documents concerning this project, there is no other place that the names of the participants will feature; the researcher will not disclose the names of the participants and the names of their institutions, despite the fact that they are captured in the questionnaire and the interviews transcript for communication purposes.

### 3.4 Data Collection

First, the primary data is collected using questionnaires and interviews, the sampled institutions are listed according to the geographical location and their availability of the participating respondents.

Then, the questionnaires are emailed to the respondents, and they will have one week to fill them and email them back to the researcher. Thereafter, on the day of the interview the respondents in various institutions are interviewed only if they have successfully filled and submitted the questionnaire. The respondents are then interviewed for about 10 minutes, but, there is no fixed time for the interview duration. Remember they had

already been informed about the project requirements during the earlier debriefing, this was to enable them prepare for the actual data collection through the questionnaire and interview.

Then, after the data are collected in all the institutions they will be compiled together for data processing and analysis. Secondly, after the collection of the primary data, the secondary data are collected through; actual reading of various assembled relevant published research literature, highlighted in various textbooks, journals and online sources. They will also be compiled and assembled for data processing and analysis. 3. 5 Instrumentation Open and Closed Ended Questionnaires The questionnaire will be one comprising both open and closed sections.

The instructions on how to fill the questionnaire, and the relevant details on how to send the reply mail of the questionnaire, are captured on the actual questionnaire, which are represented in the Appendix 2. The questions in this section to be answered using yes or no, some sampled closed ended questions are: \* Does the US house and home financing policies need change? \* Do you support increased regulation in the mortgage sector? \* Have you been affected negatively by the current the current home financing policies? \* Have you been following the debate on housing financial reform?

And the questions requiring ticking the preferred option still under the closed ended section are; \* Which is the most influential institution in the provision of the house and home financial assistance? List MSHDA - Michigan State Housing Development Authority NAHB - National Association of Home Builders FHA - Federal Housing Administration FHFA - Federal Housing

<https://assignbuster.com/capstone-project-finance-final-project/>

Finance Agency The open ended section will contain one question which is: asking what changes should be made on the house and home financial policies?

Interviews The interviews will be used to collect, further opinions and to clarify the data collected earlier on using the questionnaires. The main opinion will be requesting for their opinion on: “ Fannie Mae, Freddie Mac having drawn \$170 billion in taxpayer funds, Many Republicans want to end federal backstop in housing and the Conforming loan limits on government’s mortgages expiring Oct. 1” (Virtanen, 2011). Appendix 3 named the Housing Financial Policy Changes in Michigan Interview Questions; contain a set of questions that will guide the interview sessions, with the respondents.

The main concern will involves the Type of Loan that best suits house and home buyers, the Interest Rate & Annual Percentage Rate that would not burden the house and home buyers, the Discount Points and Origination Fees that would encourage house and homeownership in Michigan, and minimizing Prepayment Penalty that discourages house and homeownership. These key questions will ensure that fruitful information is attained on financing housing and homeownership in Michigan. Reading

This is applied in the secondary data collection, as earlier mentioned various reading skills are to being applied to collected data from the secondary literature. 3. 6 Validity and Reliability Internal validity The internal validity can be treated by the researchers’ knowledge, data collection procedure and instruments, and biased documentation. This is mitigated now that the all the researcher have consulted various financial research experts to ensure



that they have a sound knowledge on data collection, documentation, data processing and analysis.

Independent people are employed for the data collection, and the random selection of the participants helps to militate against biased data collection. External validity Threats to external validity apply mainly through three main factors: time, place, and people (Creswell & Creswell, 2009). People threat could be created by selection of people from individual organization, but, this is avoided using a selection encompassing various different financial institutions and associated institutions in the home financing industry.

Threat to validity by place replicates the setting in place for the data is collected process (Creswell & Creswell, 2009), this has been avoided through conducting the interviews in the best desired place with the institution, a person can also respond only once and finally no respondent is allowed to take a break during the data collection process. The time of data collection is chosen to be in the morning hours when most of the respondents are fresh in the mind, and now that we are dealing with the management level of the institutions, they can easily create time.

Reliability The validity is met through the number of participants sampled to participate in this project. The large number is according to the nature of this study, which aims at collecting as many views as possible. The second reliability is, the increase through strict adherence to the set research procedure and methods, the clear step will have to be followed without skipping or by passing any, and this is to avoid any confusing in the project.

A short pilot study will also be carried out to evaluate the strengths and weaknesses of the research procedure. 3. 7 Data Analysis Data analysis starts with testing the questionnaires and data collection. The subsequent data analysis procedure will involve: sorting, and identification of various themes and ideas, and processing to identify various relationships in the responses from both the questionnaires, and interviews.

Finally, the outcome is then summarized into lists of written ideas, and percentages. The data retention is done through computer programs, write-ups of field notes, transcription conventions and procedures, and any other relevant tool that will be identified later. The collected data are grouped into various relevant themes, then, the most extreme and irrelevant data are eliminated by a software program, then the remaining data will be further tested for inconsistencies.

The finally selected data will be analysed and tested for applicability, using various financial calculations, for example, the proposed favorable mortgage repayment rate, will be tested by calculating the average cost of maintaining that mortgage, and the expected financial impacts of that rate to the US economy. After this stage only applicable data will be compiled for the final presentation. Chapter 4: The Results and Findings of the Project Out of the 200 respondents, 178 successfully submitted the questionnaires on time fully filled, and they successfully completed the interview.

The responses are summarized in the table below: The No. of Respondents| The Ideas Expressed| 81% of the respondents (144 Respondents) | Expressed that the economic and housing reclamations remain very fragile| 90% of the respondents (160 Respondents)| Accused the housing and  
<https://assignbuster.com/capstone-project-finance-final-project/>

homeownership interest groups to have the objective to “ cause destruction”. | 79% of the respondents (141 respondents) | Further explained that the financial experts and policy-makers must let go their political scorn for Freddie Mac and Fannie Mae. 98% of the respondents (174 respondents)| Insisted that the roles of the GSEs are important, but, they should not rely on tax payers’ money to run their operations. | 60% of the respondents (109 respondents)| Insisted that the suggested government plans appear to substitute policy that permits home and house prices to remain to decline because of condensed credit accessibility that is not economically productive. | Overall 91% of the respondents | Suggested that the current housing finance policies require change. |

The secondary literature, fully suggested that: reduction in loan limits is very appropriate, raising guarantee fees (g-fees), for the GSE will increase the acquisition cost of mortgage, the FHFA and the GSEs should decrease their risk-layering to inspire more lending, and last but not least, many of the secondary literature suggested decreased portfolios of both Freddie Mac and Fannie Mae. Chapter 5: Discussion of Results and Findings Both the respondents and the secondary data revealed that most people demand major changes and fast changes in the housing finance policy especially the mortgage market.

The outcome of this project expressed the following; both primary and secondary expressed that the economic and housing reclamations remain very fragile. The more time need to be dedicated for the homeownership and housing sector in to recover and stabilize before extreme, but highly needed, changes are formulated as required. Many interested groups have suggested

that it is their objective to “ cause destruction”, as a changeover from momentous government involvement within the housing and homeownership market takes place.

The respondents believed that: \* financial experts and policy-makers must let go their political scorn for Freddie Mac and Fannie Mae, they should pay attention on the significance of the secondary mortgage market and now that this market has played a positive role in allowing Americans to attain bearable house and homeownership and ascending motion in the larger American society. \* Regardless of their noticeable mistakes and shortcomings, the GSEs played valuable and positive roles in housing mortgage finance.

These positive and valuable elements of the GSEs should be retained and allowed to continue to the future of this finance system. \* Freddie Mac and Fannie Mae GSEs are being faced out; but, crucial elements of their functions must be retained to allow the U. S. to attain an affordable and efficient transformed mortgage finance system. \* Presented observations proved that the that the government’s involvement in the housing market pulls away capital from various groups, “ higher productive”, institutions impedes the statistic that 15% of the US national GDP is accounted for by housing accounts and 2. million work opportunities are created when there are yearly home sales of \$5 million, and it is about each home bought, more than \$60, 000 is injected into the economy for home improvements, home appliances purchases, and other associated items. \* The suggested government plans appear to substitute policy that permits home and house prices to remain to

decline because of condensed credit accessibility that is not economically productive.

A keen analysis of the outcome indicates that facing out of on Fannie Mae and Freddie Mac from mortgage market might reduce home and house affordability and admittance for people who manage to own homes and houses, this will make greater profits for influential banks in America, while forcing the majority of medium banks to fail, causing bigger risks to home and house consumers and exposing taxpayers funds to mischief, and in the longer duration hurt the job creation and the general economy.

The ultimate twisting up and down of the GSEs has made many experts to see the need for reforming the GSEs and instituting ways of bringing private capital back to the mortgage secondary market. Nevertheless, some people trust that the government involvement is vital in the secondary mortgage market to guarantee the constant stream of mortgage capital to various if not all markets under any economic situations.

Closing these GSEs minus mechanism for continuous government involvement in the secondary market in economic recessions and other turbulences will upsurge the probability of a forthcoming housing finance system catastrophes. Suggested rise in down payment quantity, increased down payment necessities a load on individuals and families in numerous markets, however, particularly high cost city dwellers. This saving to meet the down payment been cited by many secondary literature and financial surveys as the main expressed barriers to house and home purchases in America.

A 10% down payment is challenging for numerous first time purchases and for others upgrading to bigger cost markets from lower cost markets. The change, joined with the planned fall in FHA support limits and the instillation of FHA personal income limits, implies that first time houses and home buyers in higher cost city market will have to spend significantly more money in private capital costs or postpone their purchases in spite of attaining incomes essential to cover the costs purchasing homes with conventional loan with acceptable PMI or lower down payment FHA.

Furthermore, the ultimate QRM inceptions will impose another obstruction when LTV bounds for QRMs are put beyond the reasonable down payment amount and mortgagees are unable or reluctant to offer conventional products that which conforms to QRM set test. The recommended reduction in loan limits, will impact high cost zones negatively when the cost of capital to the house consumers shall rise considerably. Though, the financial experts have specified that the retreating of government ontribution in loans to an amount up to \$729, 500 shall spike private capital to the mortgage market place, indication to that consequence is actually limited. The present oversize market is nearly fading away because of the severe restrictions put on possible home and house buyers through private capital. Raised guarantee fees, the so called g-fees, for the GSE, similarly as the increased down payments shall raise the acquisition cost of mortgage capital to various credits worthy house and home buyers, raising the g-fees shall become an extra load for possible home and house buyers.

To counter this effect, the NAR has advocated to FHFA and the GSEs to decrease their risk-layering to inspire more lending. There is a developed

recognition that sensible guaranteeing is necessary; but, this over-correction has converted more costly and this prohibiting home and house buyers who can solicit home payments from contributing in the market. The earlier mentioned Winding down the Government Sponsored Enterprises Portfolio, has made various quarters like NAR support decreased portfolios of both Freddie Mac and Fannie Mae; but, full abolition should not be the objective for a fresh secondary market body.

The Narrow Qualified Residential Mortgage (QRM) safe harbor, is a great idea if the regulatory organizations create a QRM, which is meaningfully tauter than the present credit standards, it implies that many creditworthy mortgagors taken as higher risk mortgagors. Chapter 6: Conclusion and Recommendations The government must set the right policies that will empower house and home consumers to circumvent biased practices and practice informed decision making, these sentiments had also been expressed way back in May 2005, in a document that highlighted the NAR's Responsible Lending Policy.

The suggested policies must seek to promote choice and clarity, stop abusive practices, and, as well as, robust guaranteeing standards, which requires mortgagees to authenticate the consumer's credit worthiness. There must be improvement in the foreclosure processing and mortgage servicing, notably, from the beginning of the last financial crisis, foreclosures and NAR tried to work with administrators and regulators to formulate criteria for decreasing the risk of foreclosure. The good NAR's determination to offer direction to restructure short duration sales and various insurance tools ave tried to encourage homeownership, through providing worried

homeowners alternatives other than the humiliation of eviction from their homes because of foreclosure. There should be increased capital availability to creditworthy borrowers from all communities and states including Michigan. The way forward under this is through; safeguarding the vigorous secondary mortgage market through facilitation of flow of capital into the larger mortgage market, for every type of home or housing including rental in during any market situation as being the main recommendation for this project.

Chapter 7: References Arestis, P. , Mooslechner, P. , & Wagner, K. (2010). Housing market challenges in Europe and the United States. Basingstoke, UK: Palgrave Macmillan. Baily, M. N. (2011). The Future of Housing Finance: Restructuring the U. S. Residential Mortgage Market. Brookings Institution Press Creswell, J. W. (2003). Research design: qualitative, quantitative, and mixed methods approaches (2. ed. ). Thousand Oaks, California. Sage Publication. Creswell, J. W. , & Clark, V. L. (2007). Designing and conducting mixed methods research. Thousand Oaks, Calif. SAGE Publications. Creswell, J. W. , & Creswell, J. W. (2009). Research design: qualitative, quantitative, and mixed methods approaches (3rd ed. ). Los Angeles: Sage. Duclos, J. , & Makdissi, P. (2002). Socially-efficient tax reforms. Sherbrook: University of Sherbrook, Department of Economics. Federal Reserve Bank of New York. (2010). Current Issues in Economics and Finance. Goldfield, D. R. (2007). Encyclopedia of American urban history. Thousand Oaks: Sage Publications. Gravin, A. (2002). The American city: what works, what doesn't.. New York: McGraw-Hill. Mitchell, J.



P. (1985). Federal housing policy and programs: past and present. New Brunswick, N. J. : Center for Urban Policy Research. Monroe, A. (2002). How the Federal Housing Administration affects homeownership. Cambridge, Mass.? : Joint Center for Housing Studies, HarvardUniversity. NAR Issue Analysis (2011). Reforming America’s Housing Finance Market. Retrieved, 1st April, 2012, from, [www. realtor. org/... /government\\_affairs\\_GSE\\_analysis\\_021211. pdf](http://www.realtor.org/.../government_affairs_GSE_analysis_021211.pdf) Swindler, S. (2011). " Homeownership: yesterday, today and tomorrow. " Journal of Financial Economic Policy. Vol. 3 Issue: 1, pp. 5 – 11.

The Department of the Treasury and U. S. Department of Housing and Urban Development (2011). Reforming America’s Housing Finance Market a Report to Congress. Retrieved 1st April, 2012, from, [www. michaelcarliner. com/HPD98-OwnershipPolicy. pdf](http://www.michaelcarliner.com/HPD98-OwnershipPolicy.pdf) The financial crisis inquiry report: final report of the National Commission on the Causes of the Financial and Economic Crisis in the United States (Official government ed. ). (2011). Washington, DC: Financial Crisis Inquiry Commission. Virtanen, B. W. (2011). Housing finance reform in America. Hauppauge, N. Y. : NovaSciencePublishers.

Wallison, P. J. , Pollock, A. J ; Pinto, E. J. (2011). Principles for Reforming the Housing Finance Market. National Mortgage News. Retrieved 4th April, 2012, from, [http://www. aei. org/article/economics/financial-services/principles-for-reforming-the-housing-finance-market/](http://www.aei.org/article/economics/financial-services/principles-for-reforming-the-housing-finance-market/) Wilshusen, G. C. (2010). Information security opportunities exist for the Federal Housing Finance Agency to improve controls: report to the Acting Director of the Federal Housing

Finance Agency. Washington, D. C. : U. S. Govt. Accountability Office.  
 Woodward, S. E. (2008). A study of closing costs for FHA mortgages.

Washington, DC: U. S. Department of Housing and Urban Development,  
 Office of Policy Development and Research. Chapter 8: Appendices Appendix  
 1: CFED Assets ; Opportunity Scorecard 2012, Michigan State: Profile  
 Appendix 2: Housing Financial Policy Changes in Michigan Questionnaire

\_\_\_\_ PART 1 AND 2: OPEN AND GLOSED ENDEND QUESTIONNAIRE

\_\_\_\_ Thank you  
 for participating in filling the house and homeownership financial policy  
 changes questionnaire.

Please submit the completed questionnaire by 31st March, 2012.

\_\_\_\_ PERSONAL  
 DETAILS (These details are required for communication purposes only and  
 will not be disclosed) NAME:| | POSITION:| | NAME OF THE ORGANIZATION:| |  
 CONTACT DETAILS TELEPHONE:| | EMAIL:| |

INSTRUCTIONS FOR COMPLETING THE QUESTIONNAIRE

This questionnaire is in electronic format to facilitate its completion and to  
 enable the responses to be automatically prepared for analysis.

Question 1. 1 - Please type your response of YES or NO immediately just  
 after the question and the question mark.

Questions 1. 2 - Please type your responses in the appropriate columns of each table.

Use your TAB key to create additional lines in the tables where necessary.

-----

Questions 1. 3 and 1. 6 - Type your responses immediately after the questions and this is limited to 500words per question.

-----

---

HOUSE AND HOMEOWNERSHIP FINANCIAL POLICIES Your responses to these questions will provide data relating to the current housing financial policies.

It will also provide data that will enable charging of the housing current financial policies.

1. 1

---

Please answer with Yes or No, the following questions: •Does the US house and home financing policies need change? •Do you support increased regulation in the mortgage sector? •Have you been affected negatively by the current the current home financing policies? •Have you been following the debate on housing financial reform? 1. 2 Describe the most discouraging process or discouraging thing during each of the three steps in mortgage acquisition.

TASK| INFORMATION REQUIRED| Mortgages: The Basics, Part I: Starting out| | Mortgages: The Basics, Part II: Securing your loan| | Mortgages: The Basics, Part III: Closing the deal | | 1. 3 Which is the most influential institution in the provision of house and home financial assistance and why? MSHDA - Michigan State Housing Development Authority NAHB - National Association

of Home Builders FHA - Federal Housing Administration FHFA - Federal Housing Finance Agency

1. List and explain the preferred policy changes in the mortgage industry?
1. 5 List and explain any housing financial policy changes that are relevant to encourage house and homeownership in Michigan?
1. 6 How does the information you get on house and homeownership compare with what you need to complete the house or homeownership process? (i. e ideally what would you like to have that is not currently available to you). Use the scale from 1-5 to indicate the importance of the required resource. 1 - not task-specific - of general benefit - to provide indirect or minor support 3 - to contribute directly to the task but not essential 4 - to provide significant benefits or added value 5 - critical Please complete this questionnaire by and SUBMIT. If you have any questions about how to complete it, please contact [person] by phone [phone number] or email [email address]. Thank you [name] [position title]

Appendix 3: Housing Financial Policy Changes in Michigan Interview Questions

1. Which Type of Loan is best for buying a house or home?
  - Fixed-rate loans.
  - Adjustable-rate loans.
  - Interest-only loans.
  - Negative-amortization loans.
2. What is the Interest Rate ; Annual Percentage Rate that would not burden the house and home buyers?
  - Many lenders do not compute APR correctly.
  - There is no way to accurately compute an APR rate for an adjustable loan.
  - It does not account for early payoffs. If your interest rate is adjustable, ask about its:
    - Adjustment frequency
    - Maximum annual adjustment
    - Highest rate (Cap)
    - Index
    - Margin
3. What are the Discount Points and Origination Fees that would encourage house and homeownership in Michigan? Sometimes lenders charge origination fees in addition to points.
  - Points " buy down" the interest rate, meaning the more points you pay, the lower the interest rate.

<https://assignbuster.com/capstone-project-finance-final-project/>

•Points are also tax deductible, even if the seller pays some or all of the points. 4. Is There a Prepayment Penalty that discourages house and homeownership? •How much is the prepayment penalty? •What are the terms of the prepay? Some are in effect only during the first 2 to 5 years of the loan. •Would the prepayment penalty apply if I refinanced through you at a later date?