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## Fair Isaac to Pull the Plug on FICO Score Boosting Schemes for Mortgages

Fair Isaac Corp. says it will no longer take "authorized user" accounts into consideration when computing FICO scores, starting in September. The move to update the FICO scoring model comes as federal and state regulators have expressed concern to mortgage lenders and brokers about Web sites that allow borrowers with bad credit to "rent" the credit cards of people who have excellent credit histories, in a scheme that boosts their FICO scores by hundreds of points and enables them to qualify for lower financing rates. Although the Web sites are taking advantage of a loophole in the law permitting authorized user accounts, submitting mortgage applications with artificially inflated FICO scores is bank fraud and a violation of a number of other statutes. Fair Isaac believes the new scoring model will address "most of the problem," says public affairs manager Craig Watts.

*Realty Times (06/18/07); Harney, Kenneth R.*

## MBA Research Product Now Available - Mortgage Originations Survey Yearend 2006

The Mortgage Originations Survey Yearend 2006 covers mortgage origination activity during the third and fourth quarters of 2006. Detailed information is collected on first-lien and second lien originations for single-family properties. Origination data on various mortgage characteristics including loan type, product type, amortization type, first-time homebuyers and property type are collected in this survey effort.

According to the survey, second half of 2006 originations show a shift to fixed rate products from adjustable rate products. During the second half of 2006, survey participants originated \$681 billion in first mortgages and \$163

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## Subprime Crash Squeezes Out First- Time Home Buyers (Update1)

Josh Tullis, who in his eight years as a senior loan officer rarely felt compelled to reject a first-time home buyer's mortgage application, is sending people away empty-handed in 2007.

Tullis's latest clients are a married couple that banks ought to love. Between them they make \$70,000 a year and they've been renting the same apartment for three years with zero late payments, he said.

Lenders won't approve them because they don't have enough money in the bank, said Tullis, Virginia sales director at A. Anderson Scott Mortgage Group in Falls Church. With mortgage companies cracking down due to rising subprime defaults, Tullis needs them to sock away two months of payments for the \$500,000 townhouse in Fairfax.

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**Subprime Crash Squeezes Out First-Time Home Buyers ...from Page -1-**

"Six months ago, these folks might have qualified, a year ago, definitely," Tullis said. "It's a lot, lot harder than it used to be for first-time home buyers."

Subprime mortgage lenders have tightened credit guidelines so much they're squeezing about 500,000 first-time buyers out of the market, according to the National Association of Home Builders. A decline of that magnitude would reduce sales of new homes by 4 percent and sales of existing homes by 7 percent, and deepen the worst housing slump since the Great Depression.

Shares of homebuilders, including Toll Brothers Inc., fell more than 6 percent in the past year, while shares of apartment owners such as Sam Zell's Equity Residential advanced more than 10 percent as potential homebuyers keep writing monthly rent checks.

Tishman Speyer Properties LP and Lehman Brothers Holdings Inc., both based in New York, agreed last month to buy Englewood, Colorado-based Archstone-Smith Trust, the second-biggest U.S. apartment owner, for \$13.5 billion.

**Drop of 500,000**

About 2.5 million people will buy homes for the first time this year, down from 3 million in 2005, said Gopal Ahluwalia, staff vice president for research at the National Association of Home Builders in Washington, who based the estimate on analysis from the U.S. Census Bureau and the National Association of Realtors in Chicago.

"The impact will be negative for overall housing demand and keep the housing market in the correction phase for longer than it would have," said Celia Chen, director of housing economics at Moody's Economy.com in West Chester, Pennsylvania.

A lack of buyers means fewer sales even in neighborhoods where there are few if any subprime borrowers, affecting companies such as Toll Brothers, the largest U.S. builder of luxury homes.

Fewer than 2 percent of Toll's customers are subprime borrowers, said Chief Executive Officer Robert Toll.

Still, the company is feeling the effect of tighter money, he said in a conference call last month.

**'Housing Food Chain'**

"It appears that the impact of stricter lending standards, primarily arising from problems in the subprime market, is negatively affecting affordability at lower price points," Toll said. "This in turn can and probably does impact the entire housing food chain including some of our potential customers' ability to sell their existing homes."

Tightened lending was a factor that "may have served to impede the glimmers of a rebound we had started to see in early February," Toll added.

Shares of the Horsham, Pennsylvania-based homebuilder declined 16 percent since the start of the year, compared with the 20 percent drop of the 16-member S&P Supercomposite Home Builder Index.

"You're safer taking a ride with Lindsay Lohan than being in homebuilder stocks," said David Lichtenstein, chief executive officer of Lightstone Group LLC in Lakewood, New Jersey, which owns malls and hotels. Actress Lohan was arrested May 26 for driving under the influence after crashing her car.

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*About 20 percent of U.S. mortgages issued last year were subprime loans to borrowers with bad or limited credit histories. One in four subprime home purchasers the last two years was a first time buyer, according to the Washington-based Mortgage Bankers Association.*

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**'Domino Effect'**

The biggest losers are homebuilders that cater to first-time buyers. Shares of Ryland Group Inc. in Calabasas, California, declined 24 percent this year; Centex Corp. of Dallas fell 22 percent; Fort Worth, Texas-based D.R. Horton Inc., the largest homebuilder by market value, dropped 20 percent; and Hovnanian Enterprises Inc. of Red Bank, New Jersey, slumped 40 percent.

"It all comes back to the first-time home buyer," said Gary Balanoff, a real estate broker at ReMax Select in Oviedo, Florida. "If they could buy, we'd see a much better housing situation for everyone because it would start the domino effect."

First-time buyers fortified with easy credit bought an estimated 26 percent, or about 322,000, of newly built homes in 2005, according to an analysis of data from the American Housing Survey of the U.S. Census Bureau in Suitland, Maryland. That year they also purchased about 40 percent, or 2.72 million, of existing homes, according to the National Association of Realtors.

**Subprime Mortgages**

The closing or sale of more than 50 mortgage companies and stricter credit rules will reduce subprime lending to \$350 billion this year, a 47 percent drop from the \$665 billion that the industry lent in 2005, according to Seattle-based Washington Mutual Inc., the largest U.S. savings and loan.

"There's no question borrowers had an easier time six months ago than they do right now," said Chris Hutchens, a loan officer with Alpha Mortgage Corp. in Wilmington, North Carolina.

About 20 percent of U.S. mortgages issued last year were subprime loans to borrowers with bad or limited credit histories. One in four subprime home purchasers the last two years was a first-time buyer, according to the Washington-based Mortgage Bankers Association.

**Rental Demand**

Federal Reserve Chairman Ben S. Bernanke said June 5 that tighter money

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**Subprime Crash Squeezes Out First-Time Home Buyers... from Page -2-**

will "restrain housing demand, although the magnitude of these effects is difficult to quantify."

At the peak of the five-year U.S. housing boom that ended last year, about 30 percent of apartment renters who moved out of their units did so to buy a home, according to New York-based UBS Securities LLC analyst Alexander Goldfarb. That number is now about 20 percent, he said.

Rents rose by an average 10 percent in New York, Los Angeles, San Francisco, Washington and Seattle, according to UBS. In 2007, rents may rise another 6.5 percent in those cities, UBS said.

"There's a strong demand for rental apartments as the home market is finding its bottom," Goldfarb said.

Sales of existing homes in the U.S. fell in April to the lowest level in almost four years, according to the National Association of Realtors.

New-home purchases surged 16 percent in April, the highest jump in 14 years, buoyed by an 11 percent price decline, the biggest since 1970, according to the Commerce Department.

**Delinquency Rates**

The number of subprime borrowers who were behind in their mortgage pay-

ments in the fourth quarter of 2006 was the most in more than four years, according to the Mortgage Bankers Association. All foreclosure filings rose 90 percent in May from a year earlier, according to Irvine, California-based RealtyTrac Inc.

Calabasas, California-based Countrywide Financial Corp., the biggest U.S. mortgage lender, made 60 percent of its subprime loans for home purchases to first-time buyers in the fourth quarter. The bank will reduce that to about 16 percent, Chief Operating Officer David Sambol said in a conference call.

Countrywide Chief Executive Officer Angelo Mozilo said in an interview that the cutback was made in response to concerns about the viability of subprime loans issued last year.

"We need to take a step back and make sure this readjustment hasn't gone too far," Mozilo said.

First-time buyers have a delinquency rate of up to 40 percent higher than other borrowers, said Andy Chawla, senior vice president for risk management at IMPAC Mortgage Holdings Inc. in Irvine, California.

**'The Game'**

Subprime lenders have responded by funding less of the purchase prices of

homes. Simply requiring a down payment of as low as 5 percent will disqualify one in four of the first-time buyers who were IMPAC customers a year ago, Chawla said.

"We're asking for skin in the game," Chawla said.

About 5 percent of the loans issued by Countrywide Financial this year will cover the full price of a home, down from 25 percent in 2006, Sambol said.

WMC Mortgage Finance Co., the Burbank, California-based division of General Electric Co., requires a minimum borrower contribution to the down payment of 15 percent, said spokeswoman Brandie Young. Until this year, the company issued loans for 100 percent of the home price.

Investment in the residential housing industry -- home purchases, new construction, renovations, brokers' commissions and expenditures for equipment built into structures, such as heating and air conditioning -- declined at a 17.2 percent annual rate in the first quarter of 2007, according to a study by the Mortgage Bankers Association.

**Weak Standards**

Shutting out borrowers won't improve those numbers, said Doug Duncan, the Mortgage Bankers Association chief economist.

"There were clearly weak underwriting standards in 2006 and the pendulum has swung pretty hard in the other direction," Duncan said. "It's probably gone further than it should have gone."

The swinging pendulum has Josh Tullis longing for the good old days of 2006. The loan officer said he hasn't given up trying to get a mortgage for the Virginia couple.

"A year ago people were biting off more than they could chew because everybody was getting into a house and everybody wanted a house," Tullis said. "If it's not the right time, we just stay in contact and we try it next month."

By Bob Ivry

**MBA Research Product Now Available – Mortgage Originations Survey Yearend 2006 ... from Page -1-**

billion in second mortgages. Due to consolidation, there are 84 participants, including almost all 30 top originators.

Some other key findings from survey include:

For first mortgages, fixed-rate loans- including interest only (IO) loans- accounted for 46.2 percent of loans (60.5 percent based on the number of loans) in the second half of 2006 compared to 43.3 percent (54 percent based on number of loans) in the first half of 2006.

IOs accounted for 28.5 percent of originations in the second half of 2006 compared to 25.6 percent in the first half of 2006. However, fixed rate IOs accounted for 21.2 percent of all IOs in the second half of 2006 compared to 24.3 percent in the first half of 2006.

First-time home buyer purchases represented 26.9 percent of home purchases in the second half of 2006, unchanged from 26.9 percent in the first half of 2006. Their average loan amount was \$197,044, which was less than the average loan amount of \$228,547 for non first-time home buyers.

## Overheated Housing Market Struggles to Recover, Harvard Joint Center Says

The U.S. housing market continues to struggle from sharp drops in housing demand and an oversupply of stock, according to the 2007 State of the Nation's Housing report from the Harvard University Joint Center for Housing Studies.

After setting records for home sales, single-family starts and house price appreciation in 2005, housing markets abruptly reversed last year, the report said. In 2006, total home sales fell 10 percent, starts dropped by 13 percent and nominal house price appreciation slowed. In markets such as California and the Washington, D.C. metropolitan area, inventories of unsold vacant homes, which had reached historic lows, reversed, with the months' supply of homes available extending to more than eight months.

The report said in many markets, home buyers on the margin of qualifying for mortgage loans finally pulled out, despite the availability of creative mortgage products that helped them keep up with higher house prices.

"As buyers left, home sales fell and house price appreciation slowed in some areas and fell in other areas. Investors and second homebuyers also started to leave. The air went out of the inflated housing market as higher home prices and interest rates finally tempered demand," said Nicolas Retsinas, director of the Joint Center. "Many buyers are now waiting on the sidelines hoping prices will fall."

The problems in the housing market put an end to the big lift that the economy enjoyed since the 2001 recession, the report said. In the latter half of 2006, the drop in home building shaved more than a full percentage point off national economic growth. Meanwhile, tightening of credit standards in the wake of worse-than-anticipated subprime loan performance further dampened demand. The National Association of Home Builders cited tightening standards in the drop-off in new home sales and the lowest levels of builder confidence in the housing market in years. Though builders cut back on housing starts, the numbers of vacant homes for sale rose by more than 500,000 from the fourth quarter of 2005 to the fourth quarter of 2006 and continued to rise in the first quarter.

The report said it is "unclear" how the wave of subprime loans with steep initial discounts that originated at much lower interest rates will perform when the discounts expire and the loans reset to higher interest rates. "Already, homes entering foreclosure increased by about 75,000 from the fourth quarter of 2005 to the fourth quarter of 2006," the report said. "Until some of the excess inventory is absorbed by the demand cycle and credit conditions stabilize, housing will continue to struggle and home prices will fall in more areas."

Looking forward, the report said the nation's biggest housing challenge remains housing affordability. "In just one year the number of households spending more than half their income on housing increased a startling 1.2 million to 17 million in 2005," said Joint Center Research Analyst Rachel Drew. "Even if prices or rents soften for a period...the nature of U.S. labor markets, the regulatory restrictions imposed on residential development, and the fiscal limits of government assistance to cost-burdened households will make affordability a long-term challenge."

The length and depth of the current correction will depend on the course of employment growth and interest rates, as well as the speed with which builders pare down excess supply, the report said. But the longer-term outlook for housing is more upbeat, said Eric Belsky, executive director of the Joint Center.

"While it will take time to work out current loan problems and work off the oversupply of homes, the long-term outlook for residential investment remains strong," Belsky said. "Largely, as a result of a record number of new immigrants arriving in the United States in the 1990s and larger numbers entering this decade, net household growth is poised to accelerate by about 2 million to 14.6 million households 2005-2015. In addition, incomes and wealth stand higher for most households in real terms than ten years ago. This should translate into solid growth in both new construction and remodeling spending over the next 10 years compared with the last 10."

*MBA (6/15/2007) Sorohan, Mike*

## HUD & GAO Argue Over FHA Policy

HUD says there is no need for Federal Housing Administration to test the introduction of zero-downpayment mortgages through a pilot program. The comments from HUD officials come in response to concerns raised by the Government Accountability Office in a new report to Congress that says now may not be the best time to offer a zero-down program, considering that housing prices are stagnant or declining. While GAO is concerned that a zero-down initiative could have a negative impact on the risk of default, HUD assistant secretary Brian Montgomery says the FHA is well-prepared to roll out zero-down loan products, that a "pilot is unwarranted" and that a zero-down program could offer some relief to subprime borrowers as their rates reset. Zero-down loans are being considered by Congress as part of FHA modernization legislation.

*National Mortgage News (07/09/07)  
Vol. 31, No. 40, P. 1; Collins, Brian*

## New Subprime Loan Rules Issued

U.S. financial watchdogs have released new guidelines meant to rein in the overly aggressive lending practices that triggered a mortgage default crisis, but while still preserving access to credit for responsible home buyers. As part of the new rules, the Federal Reserve and other regulators said lenders should confirm incomes and take into consideration possible rate increases when determining borrowers' repayment ability. Additionally, they declared, subprime borrowers should not face prepayment penalties when they refinance their loans

*Investor's Business Daily P. A1*

## MBA Urges Fed to Take Careful Look at HOEPA

The Mortgage Bankers Association, urged the Federal Reserve Board to improve and streamline disclosures to make the mortgage transaction process more transparent, but said any rulemaking process to change the federal Home Ownership and Equity Protection Act should be narrow in focus so as not to impede access to credit.

The Fed held a public hearing yesterday on HOEPA, the most recent in a series of hearings on the effectiveness of the federal statute passed in 1994, in addressing predatory lending abuses. Under HOEPA, the Fed was given broad authority to implement its provisions and has the responsibility to prohibit acts or practices it finds unfair or deceptive, or otherwise designed to evade HOEPA.

MBA Chairman John Robbins, CMB, said the Fed should use its authority to improve and streamline disclosures to simplify the existing disclosure scheme and to make the mortgage transaction more transparent. But he noted that MBA would be “concerned with the significant liability that lenders could potentially face” if the Fed moves ahead with a rulemaking process under section 129(1)(2) of HOEPA, saying that this approach could have a “negative impact on loan terms and mortgage products that currently offer great value to consumers.”

“MBA encourages the Board to use its authority narrowly to address specific abuses in the market with clear and objective compliance standards,” Robbins said. “Too broad an approach could significantly increase the cost of mortgage credit and could limit or even completely eliminate the offering of certain loan terms and products.”

Fed Gov. Randall Kroszner, who chaired yesterday’s hearing, said rising foreclosures in the subprime market over the past year have led the Board to consider whether and how it should use its rulemaking authority to address these concerns. He noted, however, that in doing so, the Fed must “walk a fine line.”

“We must determine how we can help to weed out abuses while also preserving incentives for responsible lenders,” Kroszner said. “A robust and responsible subprime mortgage market benefits consumers by allowing borrowers with blemished or limited credit histories to become homeowners, access the equity in their homes, or have the flexibility to refinance their loans as needed.”

Under HOEPA, the Fed and the Federal Trade Commission have a number of tools at its disposal for enforcement, including

disclosures by lenders, rules to prohibit abusive practices, principles-based guidance with supervisory oversight, less formal efforts to work with industry participants to promote best practices and consumer education materials. Kroszner said the Fed is conducting a “thorough review” of its policies with respect to each of these tools.

Kroszner also noted that the Fed is “keenly aware” of the substantial volume of disclosures and other documents that mortgage lending already entails, and is sensitive to the risk that too much information may be of practically as little value to many consumers as no information at all.

“Accordingly, we intend to consider mortgage disclosures comprehensively, with an eye to improving their usefulness to consumers, while remaining mindful of the total burden for industry,” Kroszner said. “We will engage in extensive consumer testing of mortgage disclosures, to ensure that disclosures provide information that consumers can readily use. Our goal is better disclosures, not necessarily more disclosures.”

Kroszner also said that the Fed would carefully look at its rulemaking authority to address abusive practices without restricting consumers’ access to beneficial financing options and responsible subprime credit.

Robbins said MBA will submit written comments to the Fed at a later date to specifically address prepayment penalties, stated-income and low-documentation loans, escrows and ability to repay standards, which were the focus of yesterday’s hearing.

Kroszner acknowledged that “at least some of these practices can be beneficial to at least some consumers. For example, an informed borrower might choose a loan with a prepayment penalty in exchange for a lower interest rate or lower closing costs. On the other hand, prepayment penalties also can be abusive, such as when a borrower is unaware that an adjustable rate mortgage loan has a substantial prepayment penalty that will extend beyond the first adjustment of the loan’s interest rate, making it costly or impossible for the borrower to refinance the loan to avoid a higher interest rate and payment. We hope to gather information that helps us determine whether rules can prevent the abusive use of loan terms or practices while preserving their use in instances where they provide benefits to consumers.”

*Sorohan, Mike*

## FBI Lacks Resources to Fight Boom in Mortgage Fraud

The Mortgage Bankers Association says the FBI simply does not have enough bodies to handle a fraud epidemic in the industry, which reportedly lost more than \$4 billion in 2006 alone as a result of the problem. Banks’ efforts to get the federal agency to investigate cases of fraud are largely futile, according to MBA lobbyist Corey Carlisle, who says “you’re hearing banks talk about ‘marketing your cases’ to law enforcement.” Some 2,500 FBI agents—many of them specializing in finance—have been reassigned to focus on ter-

rorism, and the White House never budgeted in funding to replace those agents. A \$6.25 million funding request by MBA to pay 30 new FBI special agents, two federal prosecutors and 15 regional task forces has gone unfulfilled to date; but an FBI spokesman says the agency is teaming up with other agencies and with industry groups to compensate for the dearth of available agents.

*Seattle Post-Intelligencer (07/05/07); Lathrop, Daniel*

## MBA Summary of Bachus Anti-Predatory Lending Bill

On July 12, House Financial Services Committee Ranking Member Spencer Bachus, R-Ala., introduced H.R. 3012, the Fair Mortgages Practices Act of 2007. MBA has prepared a brief summary of the legislation.

The bill includes provisions that would establish a licensing system for all mortgage originators, including mortgage brokers; a new consumer disclosure and home buying information booklet; new requirements for subprime mortgages; creation of a new housing counseling office in HUD; and establish new appraisal requirements.

Committee Chairman Barney Frank, D-Mass., is expected to introduce his own bill later this year.

## HMDA Suits Backdrop for Committee Hearings

Lenders' fears regarding a requirement that they begin issuing pricing data for some higher-cost loans under the Home Mortgage Disclosure Act (HMDA) have been realized, as a class-action lawsuit against 12 lenders has been filed by the National Association for the Advancement of Colored People accusing them of imposing higher interest rates on black borrowers. Attorney Andrew Sandler of Skadden, Arps, Slate, Meagher & Flom LLP—who represents some of the lenders named in the litigation—expects similar lawsuits to be filed in the coming months. Meanwhile, the House Financial Services oversight subcommittee has planned a hearing for July 25, in which federal bank regulators are expected to voice support for the rule and consumer advocates will likely push for expanded disclosures. The hearing will focus on the fact that no cases have been brought by the U.S. Justice Department even though regulators referred 134 cases of possible discrimination to the agency over the past three years. According to HUD's deputy assistance secretary for enforcement and programs, Bryan Greene, "The data alone is not going to tell you if they are discriminating because the data doesn't have key information on who gets the loan and at what price so the data that we receive helps us to target which lenders we might pursue."

*American Banker (07/25/07) P. 1; Hopkins, Cheyenne*

## Bill to Simplify Mortgage Disclosures

A bill in the works by Reps. Patrick McHenry, R-N.C., and Al Green, D-Texas, both members of the House Financial Services Committee, would make changes to the Real Estate Settlement Procedures Act. Under the proposal, lenders would have to provide a one-page disclosure form to borrowers, replacing documents currently in use that McHenry deems "increasingly complex, convoluted, and cumbersome." Based on a form created by American Enterprises Institute resident fellow Alex Pollock, lenders would have to spell out the introductory interest rate, the fully indexed rate, the "maximum possible" rate, prepayment penalties and their triggers and balloon payment amounts and due dates. Due to borrowers three days prior to closing, McHenry believes the form is a suitable alternative to banning loan practices

*American Banker (06/18/07) P. 20; Adler, Joe*

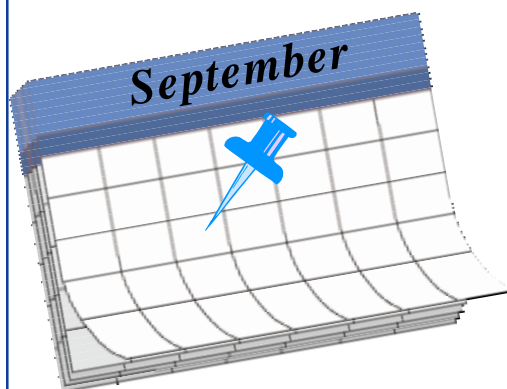
## MBA Opposes OFHEO Proposal to Allow A Drop in Conforming Loan Limit

On July 19, MBA submitted a comment letter opposing proposed guidance released by the Office of Federal Housing Enterprise Oversight, the regulator of Fannie Mae and Freddie Mac. The guidance discusses what OFHEO would do about the GSEs' conforming loan limit in the event of a decline in housing prices and proposes a method for reducing the CLL.

MBA believes that OFHEO does not have authority to make an increase under current law and we think that it would be misguided public policy to bring down the CLL at a time when liquidity could be problematic. Freddie Mac also opposed a decrease. Fannie Mae suggested that OFHEO use a threshold, perhaps 5 percent, before implementation of a decrease.

## 2007 Annual Fall Conference

September 11 – 13, 2007, in Omaha, NE



Join us for a great line-up at the 2007 NMA Annual Fall Conference. Tuesday is filled with a great selection of educational breakout sessions, with lunch with Mary Kay Mueller. Wednesday you'll be motivated to be the best with Bill Sparkman "The Coach" presenting "Changing Strategies in a Changing Market" in the morning and Garrison Wynn presenting "The Truth about Customer Service: Being the Best vs. Being Consistently Chosen" in the afternoon. Dinner that evening is with Josh Denney, Directory, Government Affairs, MBA. We'll wrap things up Thursday with golf at The Pines Country Club in Valley, NE.