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## FROM THE EDITOR

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If there are issues or events you would like to see covered in ABA FHLB Member INSIGHTS, or if you'd like to comment on an article or item, please email ABA Vice President and Sr. Counsel, Joseph Pigg at [JPigg@aba.com](mailto:JPigg@aba.com).

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## NEWS

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### **Federal Home Loan Bank of Seattle Agrees to Consent Order**

The Federal Housing Finance Agency (FHFA) and the Federal Home Loan Bank of Seattle's board announced on October 25th that the FHLBank has entered into a consent order requiring it to make capital management, asset composition, and other operational and risk management improvements. The agreement also states the bank will retain its "undercapitalized" status until the filing of its June 30, 2011 financial statement, at which time the bank may begin repurchasing member stock at par as long as the bank reaches and maintains certain financial thresholds.

The bank also announced the resignation of president and CEO Richard Riccobono and the appointment of Steven Horton as acting president and CEO, effective immediately. Riccobono was named CEO in 2007, and Horton has served as the bank's senior vice president and chief operating officer since May 2009.

[Read more.](#) [Read about Riccobono's resignation.](#)

### **Chicago, Indianapolis FHLBS join list of FHLBS Bringing Suit Over Private-Label MBS**

On October 15 the Federal Home Loan Banks of Chicago and Indianapolis filed complaints against several defendants regarding private label mortgage backed securities (MBS) sold to those Home Loan Banks between 2005 and 2007. The suits allege that the quality of the loans comprising the pools of securities was inconsistent with the descriptions provided in the pre-purchase documents prepared by the underwriters and issuers of the securities. Previously the Federal Home Loan Banks of Pittsburgh, Seattle and San Francisco have filed similar lawsuits. Read a letter from the Chicago FHLB suit [here](#).

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## WASHINGTON UPDATE

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### **ABA Meets With Treasury Officials on GSE, Mortgage-Market Reform**

Leaders of ABA's GSE and Mortgage Markets Committees and ABA senior staffers met yesterday with senior Treasury Department officials to provide input on reforming the mortgage markets and government-sponsored enterprises. ABA bankers have had ongoing meetings at Treasury and the White House on

those issues since August.

The meetings followed the association's July 21 comment letter to the Treasury and the Department of Housing and Urban Development that presented 11 principles to guide reforms to promote stable and liquid mortgage markets. ABA has emphasized, among other things, that it supports a well-regulated and noninvasive transition stage to responsibly unwind Fannie and Freddie's complicated and unsustainable government conservatorship status that began in September 2007. ABA has also strongly advocated that any actions taken with regard to Fannie Mae and Freddie Mac should do no harm to the Federal Home Loan Banks or their members.

The Obama administration has expressed a strong commitment to fundamentally reforming the nation's housing finance system, including Fannie and Freddie, and it plans to deliver a comprehensive housing finance reform proposal in January. [Read ABA's comment letter](#). For more information, contact ABA's [Bob Davis](#) or [Joseph Pigg](#).

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## INSIGHT

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### **Beyond A Moratorium**

By Bob Davis, EVP, Mortgage Markets, Financial Management and Public Policy

In the last few weeks there has been a frightening increase in the number of politicians calling for a nationwide moratorium on foreclosures. Thanks in part to statements by leaders on the left and right, the talk has shifted -- at least for now.

Most reasoned minds currently agree that a halt on all foreclosures, including legitimate ones whose paperwork is in order, would grind the housing market recovery to a halt and jeopardize the economy.

That's a relief. But considering that elements of the problem may not be quickly resolved, there are bound to be more rash solutions floated before the nation's top mortgage lenders finish their own internal reviews. Consumer activists also are unlikely to relent in their quest to stop all foreclosures. How can we keep the discussion rational and avert draconian measures that could do more harm than good?

Staying focused on facts will help. I've been encouraged to read acknowledgments in several prominent media stories that, while some -- potentially many -- foreclosure proceedings have been marred by short-cuts and incomplete records, few have been launched unfairly. At the end of the day, when the "i"s have been dotted and titles verified, the vast majority of the foreclosed-upon will still be in default and still face eviction.

In response to those who think banks should be forced to make more aggressive modifications, The Atlantic's Daniel Indiviglio wrote, "banks may have been negligent in their bookkeeping, but that doesn't suddenly mean defaulted homeowners are suddenly reincarnated as creditworthy borrowers who can now afford their houses."

The sad reality is that foreclosures are a necessary element of mortgage lending. Without lenders' ability to expeditiously collect on their collateral when mortgages are in default, no one would make a mortgage loan.

This is true around the world. Countries with poor private property rights and limited foreclosure options have very limited mortgage and housing opportunities. It would be a disaster for the American family if policymakers wandered down that path.

The sooner foreclosed properties can be turned over, the better. Ask anyone in a neighborhood plagued by

vacant homes or littered with foreclosure signs. But it's just as important to get the process right, or the efficiencies gained by an expedited process will be lost to delays and re-do's, and markets and the economy will suffer from uncertainty.

The lenders that have imposed their own foreclosure moratorium, pending a review and possible correction of their processes, get that. They have every incentive to move swiftly and reestablish any corners that may have been cut in their haste to process a record number of foreclosures.

ABA, which urged opposition to a moratorium in a [letter](#) to House and Senate banking panel leaders this week, will continue to urge policymakers to resist calls for a mandatory foreclosure freeze while this review takes place. A thoughtful, fact-based review of the mortgage servicing process can lead to housing market improvements that benefit all. By contrast, a drastic, knee-jerk change in foreclosure rights could lead to a housing market where buyers have to pay cash or inherit from a rich relative. That's not the kind of housing that builds strong communities.

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