



Federal Financial Analytics, Inc.

PETROUS FORECAST FEDERAL RESPONSE TO “NIGHTMARE” MORTGAGES

“The Basel brou-ha-ha plays an important role in the growing number of non-bank acquisitions of bank mortgage lenders. In two recent cases, Merrill Lynch and Morgan Stanley have done big deals....To the degree mortgage lending moves from bank to non-bank, it is not only exempt from the non-traditional mortgage guidance – at least for now – but also from punitive capital rules. This gives them, we think, a very interesting edge”.

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WASHINGTON, D.C. – Today, Federal Financial Analytics’ managing partners Karen Shaw Petrou and Basil N. Petrou, together spoke to the 2006 Mortgage Market and Housing Finance Conference sponsored by Bank of America on Kiawah Island, South Carolina. The talk provided the outlook on both the regulatory and legislative front as residential-market numbers continue to worsen.

The Petrous focused on an array of pending federal events, including major guidance on non-traditional mortgages due shortly from the federal banking agencies. “We think final non-traditional mortgage guidance will be out by mid-October” the Petrous said “and it will be pretty much as proposed. Importantly, it will cover not only originations, but also sales to the secondary market – a boon, we think to Fannie and Freddie’s declining market-share since lenders will return to more conventional, conforming loans. This should also be a boost to private mortgage insurers, since the new guidance doesn’t like piggyback mortgages and

subjects them to an array of sanctions, especially when the second is layered into a high-risk mortgage product”.

On the legislative front, the Petrous discussed pending GSE reform legislation, saying, “We think a bill will be sent to the President before the year is out...although we make this bet with diffidence and humility.”

The full text of the speech is attached.

Federal Financial Analytics, Inc. has for the past twenty years counseled large financial institutions and even their regulators on major legislative, regulatory and policy issues that pose strategic risk. It does not lobby on behalf of clients, but advises them on appropriate responses in light of identified challenges, working on an array of GSE, Basel II, and acquisition-value issues. The firm publishes numerous information and analytical services, including Financial Services Management and GSE Activity Report.

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