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THE REAL DEAL

ONLINE

Mortgage market molasses

While NYC residential lending is loosening in some corners, the industry is moving slowly in its recovery

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By *Melissa Dehncke-McGill*

The debt crisis may be rocking Europe’s economy, but in a strange twist, it’s actually had something of a positive effect on New York City’s mortgage market — at least for now.

In this month’s Q&A, *The Real Deal* talked to mortgage brokers and mortgage experts, who said that investors are pouring capital into U.S. Treasuries, which is, in turn, helping to keep mortgage rates low and attractive to buyers.

Of course, the turmoil in the global economy is not all good news. It is, of course, also rattling buyers’ confidence. And the mortgage industry is still depressed compared to a few years ago, as evidenced by the fact that the mortgage industry itself employs a fraction of the people it once did.

Those who have opted to buy in New York have probably noticed a slight loosening of underwriting standards for condos. And there are plenty of lenders trying to get a piece of the action in New York.

But mortgages backed by Fannie Mae and Freddie Mac are still limited to buyers who can put at least 20 percent down and have credit scores of 740. Buyers can qualify with less, but they’ll pay a higher interest rate and have higher payments.

Meanwhile, one source reported that jumbo lending is starting to come back. But another noted that the future for “private-label residential mortgage securitization” is bleak, adding that that is “obviously a key to opening up the jumbo market.”

He also pointed out that unlike conforming loans, which are fully dictated by strict Fannie and Freddie guidelines, jumbo lending is “all over the map.” For example, one lender may require 20 percent down, while another requires 30 percent.

For more on what’s going on with refinancing activity, as well as how new FHA loan limits and year-end bonuses are expected to affect residential lending, we turn to our panel of experts.

Guy Cecala

Publisher - Inside Mortgage Finance Publications

There’s obviously a lot of uncertainty tied to the global economy right now with the debt crisis in Europe. So what’s going on with lending for residential properties in NYC?

Generally the global debt crisis and the problems in Europe are good for mortgage borrowers in New York. The more turmoil there is in the world, the more investors want to plow their investment dollars into U.S. Treasury securities as a safe haven. And, most mortgage rates

are tied to Treasury rates. That’s why we haven’t seen mortgage rates rise in the last two years. They keep going down even though there’s no economic reason for them to be doing so. [Still], turmoil in the global market doesn’t help home-buying activity overall, which is what would be needed to push up home prices.

Lending obviously tightened drastically after the meltdown in 2008 and has been pretty tight for a while now. Are you seeing any changes on the lending front?

Mortgage underwriting hasn’t changed at all in the last year or two. And, it’s not likely to change going forward. ... [But] there seems to be some loosening of condo un-

derwriting requirements, which is a big factor in markets like New York. ... It's not going to change the overall underwriting. You still need a very good credit score, equity or a down payment, but whole buildings won't be blocked out so you can't get any financing. There's also an ongoing loosening of underwriting in the private sector, meaning banks that are doing portfolio loans or larger balance loans. Those started out extremely tight in 2009 and have progressively gotten looser. Instead of requiring 40 percent, they went to a 30 percent down payment earlier this year, and now some banks think 20 percent is okay.

What are the most positive and negative trends you're seeing right now in the NYC mortgage industry?

[On the positive side], there are a lot of lenders who want to do business in New York and it's a fairly competitive market. [Buyers have] choices. [On the negative front], credit is still tight — even though there is competition and lenders want to make loans. That's limiting volume and activity. If you're going to demand a 20 percent or more down payment and a 740 or higher credit score, that's going to automatically limit your universe.

So what sort of down payment, income and other documentation are banks demanding now from borrowers in NYC?

That really hasn't changed. [Like I said], the rule of thumb is, if you want a Fannie Mae or Freddie Mac mortgage — up to \$625,500 — you need a minimum 20 percent down and a credit score of 740 or higher. You can qualify with less, but you will pay a higher rate and have higher payments. FHA is slightly looser; you can get a lower down payment requirement and pay mortgage insurance. But that's going to add on to your mortgage payment. Private lenders — particularly on loans over \$729,750 or outside the reach of the government program — are still extremely tight: a 750 minimum credit score and generally down payments of at least 20 to 30 percent.

There was a report recently that found that nationally the refinancing share of mortgage activity fell last month. What are you seeing with refinancings in NYC?

Most homeowners have already refinanced or they can't. Unfortunately, home-buying activity has not picked up any of the slack. Nationwide we are anticipating producing lower mortgage volume in 2012 than we did in 2011, due entirely to the fact that refinancing activity is expected to go down, while home-buying activity is not increasing.

What's the size of the mortgage industry like in terms of employees these days?

It is way down. There are a lot of people who've been

laid off; it's a flexible business in terms of hiring. When you have the volume, you hire a lot of loan officers or shift business to brokers. When you don't have business, you lay them off and cut back. We were generally in cutback mode for a lot of 2011. I hear of smaller lenders hiring, but the big boys generally aren't, and that's where the big numbers are. That's not likely to change. The rules dictating how mortgage brokers are compensated were recently changed. Instead of being paid based on the interest rate of the loan, brokers are now being paid up to 3 percent of the loan value itself. How is that impacting the industry?

It's basically part of a continuing trend to blacklist or reduce activity for mortgage brokers. Mortgage brokers used to be on a level playing field — if not an elevated playing field — when it came to their ability to originate loans and sell them to larger lenders. There are fewer larger lenders that will even deal with brokers these days. As a borrower you are less likely to get a great deal from a broker now than you were two or three years ago.

Alan Rosenbaum **CEO - Guardhill Financial**

What's going on with lending for residential properties in NYC?

Residential lending remains cautious in that most lenders will approve or reject loans based on adhering strictly to the guidelines, rather than underwriting the deals based on whether they make sense. This has been the standard for the last year. In the boom times, most lenders were approving loans based on underwriting guidelines that required much less verification.

What kinds of residential buyers in NYC are most likely to get loans these days?

Buyers with a down payment of 20 to 35 percent, depending on loan size, are able to obtain excellent financing today.

What is the most worrying trend you're seeing in the NYC mortgage industry right now?

That the larger banks are de-emphasizing mortgage lending.

Matt Hackett **Underwriting Manager - Equity Now**

What is the most worrying trend you're seeing in the NYC mortgage industry right now?

It is sort of nationwide, but the uncertainty in the mortgage market as a whole. There is no real solid future for private-label residential mortgage securitization, which is obviously a key to opening up the jumbo market. Any

loan over \$625,500 needs to go on a bank balance sheet — or get securitized. [But] there is a ton of ambiguity around the laws and what's going to happen to the private-securitization market. That [ambiguity] has basically stalled that market. ... That's the biggest issue for jumbo loans in New York.

What differences are you seeing in NYC between conforming and jumbo loans?

Everything, really. One market is based on two automated underwriting systems — the conforming market. Everything is dictated to the T by the Fannie and Freddie guidelines. But everything is also standardized and easy to deal with and relatively streamlined. The jumbo product is all over the map. There isn't a huge secondary market for it. Everyone is putting it on their balance sheet and they all have their own guidelines and views that they want you to follow. One local bank could say 80 percent for a loan amount and another could say 70 percent. You have to do a lot more homework if you're applying for a nonconforming loan.

Has refinancing activity dried up? And is home buying picking up the slack?

I have not seen home-buying activity picking up the slack, but I also haven't seen refinancing activity dropping precipitously in New York. We are a company that does mostly refinances, so I wouldn't say that I had my finger on the pulse of the purchase markets, but we are still getting tons of refi applications.

FHA loans became popular in NYC a few years ago. But there were concerns about some loan originators steering buyers to FHA loans because they're more profitable to service. What kinds of concerns still exist about FHA here?

On April 1, a law came into effect that loan originators are not supposed to be paid based on the profit of the loan. Theoretically that should have eradicated that issue. I'm sure it hasn't, because even though the law says you can't compensate loan officers based on profitability, from what we are seeing out there talking to loan officers, there seem to be some people that think they can get away with breaking that law. [But] at least [the law] is a step in the right direction.

What's the size of the industry like compared to the recent past?

It has to be less by a big margin. Some of these employee-regulatory laws put a tremendous onus on people because we can't just hire somebody. We have to take months and months until they get licensed. ... The industry has been pretty downtrodden. It's not at the low point of maybe 2009, when everybody was depressed. I think now only 75 percent of people are depressed.

Brooke Jacob

Chief Loan Officer - The Everest Equity Company

What kinds of buyers in NYC are least likely to get loans these days?

The most difficult purchase transactions to finance are new condo developments where one or more of today's basic lending guidelines are lacking. Examples are insufficient number of units sold; any one investor owns more than 10 percent of the units in the project; too many units are non-owner-occupied; greater than 35 percent of total square footage is commercial use; the sponsor or seller is cutting deals for some buyers; and comparable units appear overpriced. Lenders are issuing mortgages for new construction projects, but it really helps when developers have done their research.

What is the most positive trend you're seeing right now in NYC?

That with all the pent-up demand from slower sales in the past three years, many buyers are finally getting off the fence to sign purchase contracts.

What is the most worrying trend?

Due to the current economic climate, year-end bonuses are disappointing for many prospective buyers. This can be a downer on confidence and, as a result, would-be buyers may further delay their decision to purchase.

What impact do you expect the increase in FHA loan sizes to have here in NYC?

New York homebuyers have been waiting for FHA's loan-size increase. The new limit of \$729,750 offers relief for buyers in the outer boroughs, but not for Manhattan buyers, where the average sales price of an apartment is well over \$1 million. It was \$1.46 million in the third quarter.

Jeffrey Appel

Sales Manager - MetLife

How is the refinancing market in NYC?

The refinancing market will stay active for the foreseeable future, but as we reach the bottom of the rate cycle, the volume is likely to diminish.

What impact do you expect the increase in FHA loan sizes to have here in NYC?

This is a great benefit, particularly for condominiums that are FHA approved. By raising the FHA limit there will be more opportunity for those who do not have the 20 percent down, but can service the cost of the home. New York is not a cheap place to be a home seeker, between purchase price and required closing costs. This change in the lending limit will allow more people to own a home and earn equity as the market corrects in

the midterm.

What's the size of the industry like compared to the recent past?

The industry is smaller and more consolidated, but the people still in it are more knowledgeable. With new licensing and continuing education requirements for mortgage professionals, I believe it's a better environment for consumers. I think we will continue to see people exit the profession.

Melissa Cohn

President - The Manhattan Mortgage Company

What is the most positive trend you're seeing in the NYC mortgage industry?

The influx of new jumbo lenders.

What's the most worrying trend?

That existing co-ops and condos are not working to become more Fannie and Freddie compliant, making it very difficult for people to buy in their buildings and for owners to refinance in their buildings. Some of the buildings simply can't afford to do so. For example, Fannie Mae requires that you have 10 percent of the annual budget in reserve and that there is a line item in the budget to make sure that you continue to accrue the 10 percent in reserve. Some buildings don't have the cash, or the boards are not willing to increase maintenance or common charges in order to create the reserve. It's a real issue.

What are you seeing in NYC with refinancing activity? Has it dried up?

Refinancing has not dried up, and the good news is that purchase activity has definitely increased, which is why you are seeing refinancing as a smaller share of total mortgage activity. A couple of months ago, we were looking at 80 percent of our business being refinances and 20 percent purchases; I think we are at 65 percent to 35 percent now.

Fannie and Freddie are obviously still financially struggling. What impact is that having in NYC?

Fannie and Freddie are making it more expensive to get mortgages these days. They have new overlays in terms of the cost of financing. So, for example, it used to be when financing up to 75 to 80 percent, there would be no additional cost if you had good credit. That's not the case anymore. So even if you have a credit score over 740 and you want to finance 80 percent, they are imposing additional fees and have also ratcheted down the credit score tiering so it gets more expensive very quickly. They are also making fewer waivers and making fewer exceptions on buildings that don't meet Fan-

nie and Freddie guidelines. They're making it harder to get financing in general.

Rolan Shnyder

Director of New Development Lending - H.O.M.E. Bank

What's going on with lending for residential properties in NYC?

For New York, getting co-ops and condos approved has been getting more and more difficult. There are still updates coming out pretty regularly on guidelines. We have also seen the regulatory agencies — FHA, Fannie Mae — making constant updates to their guidelines.

What sort of documentation are banks demanding now from NYC borrowers?

Documentation hasn't really changed except for the fact that we have more choices for doing what's called "stated-income loans," loans where you don't need to prove income. "Reduced documentation" is another term for it. For borrowers that have 40 to 50 percent to put down and don't want to verify their income, there are more loans available. ... Banks are comfortable with that because the person has so much equity in the property. If the person has a great credit history, it's a risk they are willing to take.

What changes have you seen in the jumbo-loan market in NYC?

A year ago you had to put down 25 percent, 30 percent and 35 percent to get those jumbo mortgages. I'm seeing more banks allowing jumbo mortgages with 20 percent down. I would think it's because the jumbo market has done very well and banks are confident with pricing and are starting to lend again.

What's the size of the industry in NYC compared to the recent past?

The barriers to entry have definitely increased. I think there are a lot less people left in the industry, but I think the people that are left are educated and the competition is getting stronger.

Rule changes mean that brokers are now being paid up to 3 percent of the loan value rather than being paid based on the interest rate. Does that mean the lower end of the market will get ignored?

I would say yes. I think that is going to hurt the lower end of the market. I think they are going to be ignored.