

Real Estate by AnnaMaria Andriotis

## 3 Signs the Mortgage Market Has Hit Bottom

After more than two years of misery in the housing market, the worst may finally be over.

A handful of recent developments in the mortgage market all point to an easing of lending standards, which have been onerously high since 2008. Private lenders and the federal government have reinvigorated the jumbo mortgage market, making bigger loans more available to more borrowers. And in general, would-be homeowners can now qualify for a loan with a lower credit score and make a smaller down payment – in some cases, as low as 5%. Those moves, taken together, mean that more borrowers have access to mortgages, a necessary precondition for housing to rebound.

“When you see those moves on the upswing, it gives you a hint of what’s coming later on,” says Chip Cummings, president of Northwind Financial, a consulting company for mortgage and realtor firms.

Of course, these are only the first signs of what could be a very long recovery. So far, the changes in the private lending market are aimed strictly at the best loan applicants, those with credit scores of 700 or higher. Riskier borrowers are still undesirable in the eyes of the banks – even the Federal Housing Administration has raised the floor on credit scores for prospective applicants. And without a drop in unemployment and other economic improvements, demand for the new mortgages may not keep pace with supply. But the moves do suggest that lenders, at least, are more willing – and the easier it is to get a loan, the easier it is to get a house.

Here’s a closer look at the three changes.

### More jumbo mortgages

Prior to 2007, jumbo mortgages – any loan over \$417,000 in average markets – made up 22% of the mortgage market. Today, they’re about a 6% sliver. But private lenders are getting back into the jumbo market. These supersized loans are up 3% from January to May, according to the most recent data available from CoreLogic, a mortgage-data company. Wells Fargo (WFC) almost doubled its jumbo lending to \$3.7 billion in the second quarter (compared to a year ago), and Chase (JPM: 39.33%, -0.19, -0.48%) is up 16% for the same period, with plans to keep growing.

The sheer size of these loans suggests more risk for the lender. (If the borrower defaults, the lender could take a bigger hit.) But for the high-quality borrower, it’s risk the banks now seem willing to take, says Keith Gumbinger, a vice president at HSH Associates, a mortgage-data tracking firm. If foreclosures are low, private lenders are likely to extend jumbo mortgages to a broader group of borrowers in the next year or so. Meanwhile, smaller local lenders have also gotten into the market, Cummings says.

For better borrowers, this means more options. A Fannie- or Freddie-backed mortgage can go up to \$729,750, but private lenders can go higher when they keep the loan on their books – an advantage for someone house-hunting in expensive cities like New York, Boston or Washington (and a potential boon for those housing markets overall). Interest rates on jumbo mortgages backed by private lenders are about 1% higher than those backed by the government.

### **Smaller down payments**

As a consequence of the mortgage meltdown, even qualified borrowers found themselves scrambling to make hefty down payments – commonly 20% or more. But over the last year, that threshold has dropped, making mortgages more available to people with less available cash. For new mortgages, the average loan-to-value ratio – how much people borrow relative to the appraised value of their house – has been slowly increasing, a sign that buyers are financing a bigger proportion of the purchase price.

Of course, the no-money-down days are unlikely to return any time soon. As of May, borrowers were still putting down 28% of the purchase price on average – still substantial, but also significantly less than the 34% down payment they made the year before, according to CoreLogic. And that's going to continue to drop, says Scott Stern, CEO of Lenders One, a mortgage banker cooperative, as more 10%-down loans become available. "They've been increasing in availability within the past six months and we expect continued loosening," he says.

### **Lower credit scores**

Similarly, a borrower's credit no longer needs to be completely spotless in order to get a loan. The requirements are still high but seem to be creeping down: In May, the average borrower's credit score stood at 757, eight points lower than it was a year prior. But even borrowers with scores in the mid to high 600s can qualify for a mortgage these days, says Stern. "As recently as a year ago, that credit was almost unavailable."

**All these changes, small as they may be, indicate that mortgage lenders are willing to take on more risk and test the boundaries of what makes a high-quality borrower. And as the appetite for lending increases, more applicants could qualify – a good sign the housing market is moving in the right direction.**

**Courtesy of JB Goodwin**