

## What's Happening in the Mortgage Market? (by Roger Schlesinger from townhall.com)

Roger Schlesinger's Mortgage Minute is heard on hundreds of radio stations and daily on the Hugh Hewitt radio show and Michael Medved shows. Roger interacts with his hosts and explores the complicated financial markets in order to enlighten his listeners and direct them along their own unique road to financial freedom. Roger is the President and founder of Manhattan West Mortgage.

The head of our mortgage bank suggested I write a column on the challenges that the mortgage industry is facing and I agreed. I had one concern: I need to find out myself!

Not easy! The industry is suffering my greatest fear: "airplanes really can't fly, it's just that everyone in the plane thinks it can so it maintains through this positive energy". A bit crazy, but no more than what is happening in the industry. Everyone on Wall Street feels that every property in America is in danger of going into foreclosure and therefore they do not wish to buy the mortgage backed securities. No bids means eventually, no business.

Before I get into the underlying problems, and some ways to solve them I want to give some background. There are three main ways that mortgage loans get funded: GSE's, Portfolio Lending and Securitized Mortgage Pools. GSE's are Government Sponsored Enterprises such as Fannie Mae, Freddie Mac and Ginny Mae. These enterprises are sponsored by Congress and supply most of the money for the conforming loans in this Country. In fact Conforming Loans get their name from the fact that they conform to the rules of Fannie Mae and Freddie Mac. These loans are currently limited to a \$417,000 maximum for single family residences except in Alaska and Hawaii where the maximum is \$625,000. Duplexes, triplexes and four -plexes have higher limits.

Banks can portfolio (use their depositors money to fund) any type of loans they wish but I find that the loans they put into their portfolios are typically arms with fixed periods from 3 years through 10 years. They have their own underwriting criteria and are fairly specific as to the type of borrower they are looking for to be the recipient of their loans.

Securitized mortgage pools, made up of a wide variety of loans, are sold to investors generally through a Wall Street conduit. These loans can run the gamut from fixed to variable, from sub-prime to Alt A and prime loans as well. The pools are assessed for risk and are sold at corresponding interest rates: higher for more risky pools, lower for less risky mortgages. The big problem in the mortgage industry is in this area of loans. There aren't currently any bids as the investors are totally unsure of what is happening to the collateral: the underlying mortgages. How many foreclosures are there? Where are the biggest risks in terms of products and categories of borrowers. What should the pricing be for these loans and borrowers? REALIZE that in the end it is what the loans will sell for to the investor who finances these mortgages that will determine the rates paid by the borrowers.

What does all this mean to the consumer / borrower, who needs or wants to refinance, get cash out of their property or buy a house? If the borrower can fit into the conforming realm, \$417,000 or less for his or her loan then the problem isn't to big. If the borrower can fit into the underwriting guidelines of the bank's portfolio products and desires that particular type of loan he or she is okay. It's the rest where the problems arise.

What I am seeing happen is lenders are raising rates by at least a point (extremely unusual) in the sub-prime and Alt A markets particularly. In the prime market, rates are not coming down,

even though the Treasury rates are falling. Up until the last two weeks, when the 10 year Treasury note moves the mortgage backed securities follow, both up and down. Not now. The risky loans are being curtailed by the lenders which are the higher loan to value loans and the shorter term arms. One sub-prime lender moved all their potential 2 year fixed loans to 3 year fixed loans without raising the interest rate. They just decided they needed to go further so they moved the 3 years to 5 year fixed arms without a corresponding rate hike. Why?

Every lender is trying to find the perfect scenario that will soothe the Wall Street investor which will let the money flow from investor to lender to borrower once again. Anything short of this will put a tremendous crimp in the real estate market, which has already been in the midst of a major sales slow down. Although many believe this will force prices down in the real estate market, which also would have a detrimental affect in our economy, it may not work that way. Foreigners from areas with stronger currencies than ours, Europe, Canada and Asia to name a few, are already getting a discount on our assets as their currency strengthens against our dollar. They could come in and buy our real estate which could cause shortages that eventually would force prices up. Anything is really possible if we don't quickly find order in the financing industry.

We do not need additional government regulation, more and more negative press and those who find trying times a "license to steal". We need the best and the brightest to solve the problems through a real assessment of the value of mortgages in this Country and not "experts" giving their opinions through the various media outlets and adding fuel to the fire.

We need a return to the basics of the industry that has financed the home ownership all these years. That doesn't mean getting rid of every loan that someone thinks is bad. It means that everyone who takes a loan should have complete understanding of the ramifications of that loan. Consumers MUST bear some of the responsibility in the financing of their houses because in the end they are ultimately responsible for the debt.

In a short while this all will be past history and we will go on with business as usual. I hope that good comes from this in the form of better products, sensible guidelines and a more informed consumer. If that happens this current disruption may turn out to be extremely beneficial.

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