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These Are Not Your Housing-Bubble Alternative Mortgages

FINANCE: Lending Instruments on Upswing Bringing Needed Business
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Home loans for people who don’t meet the stringent underwriting requirements to be prime borrowers can still find financing, although it’ll cost more, housing industry sources said. And they appear to be doing so at an increasing pace.

The rising interest in so-called alternative mortgages — no longer called subprime mortgages, a term still with negative connotations — has prompted one national bank to hire loan officers specifically to handle them, while the industry seeks to compensate for diminishing business in areas such refinancing.

Mark Goldman, a lecturer on real estate at San Diego State University and a mortgage broker for C2 Financial, has been arranging more jumbo and nonconforming mortgages lately, he said, especially for borrowers whose financial data do not fit neatly into the parameters set by federal agencies.

Jumbo loans are those above $417,000 for most parts of the nation; in San Diego and most of California the conforming limit is $625,250. Loans above that amount will not be bought by Fannie Mae or Freddie Mac, the main government-controlled buyers of mortgages.

“I’m seeing more promotions every day on jumbo loans,” Goldman said. “We’re seeing more products, more pricing options and a little easing on the requirements.”

For example, he said, people who are self-employed and cannot clearly show regular wages can still qualify for a mortgage, though not one that the government will buy.

And while such borrowers generally must pay higher interest rates, jumbo rates have come down and are close to those charged on conforming mortgages, Goldman said.

Craig Brown, CEO at Rancho Financial, a private mortgage bank in Rancho Bernardo, said in recent months there are more conduits to sell the mortgages his bank makes, including major investment banks, real estate investment trusts and private equity companies.

Rancho Financial doesn’t hold any of the loans it makes, he said.

Borrowers can sometimes get interest-

only financing through lenders or structure a hybrid mortgage that has a fixed interest rate for set period before converting to an adjustable rate, Brown said.

Adjusting to New Rules

Lenders of all types are bracing for even tighter requirements that governmental agencies will implement next year as part of the Dodd-Frank banking reform law. Among these are lowering the maximum debt-to-income ratio of borrowers from 45 to 43 percent and limiting fees on loan originations to no more than 3 percent of the loan amount.

Brown said the mortgage industry will adjust to the new rules, but it will also likely revise the rules.

“These rules were drawn up at the height of the panic, and I don’t think panic thinking is clear thinking,” he said.

Jumbo mortgage loans accounted for 26.5 percent of all loans made in September for the six-county Southern California market, according to the most recent report by Dataquick. That compares with about 40 percent before the credit crunch began in August 2007, Dataquick said.

Manning Up for Alternative Mortgages

The uptick in jumbo mortgage lending was clearly evident at the Wells Fargo Bank, which said it hired 50 new nonconforming mortgage loan officers since the beginning of this year nationwide, including six in San Diego.

Wells Fargo has implemented a separate underwriting division for nonconforming loans as demand for such loans continues to rise, spokeswoman Amy Savicky Injaian said.

This summer, Wells Fargo and Chase Bank issued layoff notices to some 800 employees working at their local mortgage origination offices due to the downturn in new loan and refinancing business.

Michael Lea, a professor at SDSU’s The Corky McMillin Center for Real Estate, said he wasn’t surprised to hear about an increase in mortgage lending outside the criteria set by governmental agencies because refinancing volume has dropped

dramatically.

“When you have an easy product like refi go away, the tendency is to look for alternatives,” Lea said.

Strategies used by lenders include expanding product mix and loosening their underwriting to keep volume flowing, he said.

Still, that doesn’t mean the return of subprime as it was known before the recession, Lea said. The definition of prime has changed with qualifying borrowers needing a minimum FICO score of 725 along with a host of documentation attesting to their ability to repay the loan, he said.

And even for lenders making nonconforming loans, documentation and higher down payments are part of the package, unlike many subprime loans made prior to 2007.