

Financial FAQs

Qualified Mortgages Will Impede Housing Recovery

By **Harlan Green** / Special to CASA

AS IF WE NEED MORE EVIDENCE that the Consumer Protection Finance Bureau and government regulators have listened to the wrong people when drafting their Qualified Mortgage requirements (that lowers the maximum debt-to-income ratio to 43 percent for non-agency mortgages, disallows interest only options, and 40-yr amortization for starters), while Fannie Mae and Freddie Mac add huge fees and stricter underwriting criteria to anyone below a 700 credit score (which is almost perfect in today's trying markets), the latest new-home sales should convince us.

The Census Bureau reports New Home Sales in June were at a seasonally adjusted annual rate (SAAR) of 406 thousand, while May sales were revised down from 504 thousand to 442 thousand, and April sales were revised down from 425 thousand to 408 thousand. Inventories rose to a 5.8-month level from 5.2 months in May.

The National Association of Home Builders tried to put a good face on the numbers. "With continued job creation and economic growth, we are cautiously optimistic about the home building industry in the second half of 2014," said NAHB Chief Economist David Crowe. "The increase in existing home sales also bodes well for builders, as it is a signal that trade-up buyers can move up to new construction." Regionally, new-home sales were down across the board. Sales fell 20 percent in the Northeast, 9.5 percent in the South, 8.2 percent in the Midwest, and 1.9 percent in the West.

But, this is not good news for housing advocates so late in the recovery. For one thing, government regulators and the Obama administration are way behind the housing curve in choosing to tighten credit standards long after the problem of too easy credit was solved. The Federal Reserve and regulators have outright banned low teaser rate, negatively amortized, 'liar' loans, and loans that don't require income and asset verification. Mortgage delinquencies are down, existing-home sales are back to a five million annual sales rate, and record low interest rates should make it easier to qualify.

So why are regulators still chasing

phantoms, and continue to punish lenders five years after the housing bubble burst? Instead, it's time to encourage them to lend some of their record \$1 trillion in excess reserves held by the Federal Reserves in MZM accounts (i.e. at zero interest). Without a housing recovery, there will be no substantial economic recovery, say many major economists.

For instance, former Fed Chair Bernanke has said too-tight credit conditions have squeezed both prospective homebuyers and builders. "Why has the recovery in housing been so slow? One important factor is restraints on mortgage credit," Bernanke said in 2012, adding that total outstanding mortgage credit has shrunk by about 13 percent since its peak in 2007.

Just how weak are home sales? Five years after the end of the recession, sales of new single-family homes still remain far below an annual average of more than 770,000 over the 20 years leading up to a 2005 peak, government data show.

Fannie Mae is growing more optimistic this month about U.S. sales of new single-family homes, and now sees 2014 hitting the highest level in seven years. Fannie's FNMA July housing-market forecast estimates that sales of new single-family homes will reach 486,000 this year — the most since 2007 — a bit higher than June's estimate of 478,000, which would have been the greatest since 2008.

However, despite the uptick in the July forecast, over the past year Fannie has slashed its outlook for new-home sales, showing just how disappointing the market's been in 2014. Back in July 2013, federally controlled Fannie had expected 2014 sales of new single-family homes to hit 588,000.

Rising mortgage rates, a low supply of new homes, and unusually poor winter weather each took a bite out of residential sales this year. It's also been tough for many borrowers to meet lenders' strict credit standards, as we said. But it is home sales, and new-home sales in particular, that have to improve to boost inventory and keep housing prices in the affordable range.

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