The Mortgage Corner

Mortgage Quality Highest in Decade

By **Harlan Green** / Special to CASA

RECORD LOW INTEREST RATES, along with low prices, are making housing more affordable than ever. This is also helping lower default rates, as average credit scores are soaring, and Debt to Income Ratios used to qualify borrowers have plunged since the end of the Great Recession. This tells us that the Fed's efforts to hold down interest rates until at least 2015 is producing results.

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The National Association of REALTORS' Housing Affordability Index showed that housing affordability is expected to set a record in 2012. The trade association is forecasting that its index of housing affordability will hit a record level of 194 in 2012, up from 186 in 2011, when the prior record was reached. NAR data goes back to 1970.

A reading of 100 means that a household with median income would have exactly enough income to qualify for buying a median-priced existing single-family home. A level of 194 for last year means that families had almost double the income needed for buying a median-priced existing single-family home. However, skeptics might note that NAR's index didn't fall below 100 even during the recent bubble. Indeed, the last time the index reached under 100 was in 1985, when mortgage rates were in double digits.

This is while average credit scores for so-called conforming loans purchased by Fannie Mae and Freddie Mac started rising in 2008 and remain high. In the third quarter, the weighted average credit score of single-family mortgages purchased by Fannie reached 761, while the score was 762 for Freddie-acquired loans. Those levels are up from the 730s in 2008. Consumer confidence in the housing sector grew last month, marked by continued positive attitudes toward home price, rental price, and mortgage rate expectations, according to Fannie Mae's December National Housing Survey results.

While credit-score standards have increased post-bubble, debt-to-income ratios have been falling. For home-purchase loans, the weighted average debt-to-income ratio at the time of origination is currently around 34 percent, down from a bubble high of about 40 percent. "The average debt-to-income ratios are back to basically the early 2000 levels for reasonable, sustainable mortgage payments," said Mark Fleming, Chief Economist for analysis firm CoreLogic. "Apart from credit scores maybe being a little bit too tight, all of the other aspects of the traditional metrics on which you underwrite mortgage loans are really back to reasonable and tried and true levels."

Continued price improvement is dependent on interest rates maintaining their lows for a sustained period. Fed Chairman Bernanke has promised to maintain such low rates until the unemployment rate has declined to 6.5 percent, which probably won't happen until 2015, as I've said.

More mortgage relief is coming from the $8.5 billion settlement with ten major loan servicers. The firms involved in this agreement are Aurora, Bank of America, Citibank, JPMorgan Chase, MetLife Bank, PNC, Sovereign, SunTrust, U.S. Bank, and Wells Fargo. Roughly 3.8 million borrowers whose homes were in foreclosure in 2009 and 2010 will receive cash compensation under the settlement, with payments ranging from a few hundred dollars to potentially as much as $125,000 in a small percentage of cases. Those eligible are expected to be contacted by the end of March, regulators have said.

Harlan Green has been the 11-year Editor-Publisher of PopularEconomics.com, a weekly syndicated financial wire service. He writes a Popular Economics Weekly Blog. He is an economic forecaster and teacher of real estate finance with 30-years experience as a banker and mortgage broker.