MADISON'S TIMBER PREVIEW

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Now that media hysteria over the RIDICULOUS government 'shutdown' in the US is behind us -- for the moment at least -- it's time to get back to ongoing pressing issues. As US home building continues its spotty recovery, attention turns to the availability of mortgages, mortgage rules both new and old, and the latest information on mortgage lending practices.

The US government shutdown had "a notable impact" on the mortgage market, warned the Mortgage Bankers Association (MBA) Wednesday. Purchase applications for government programs dropped by more than 7 per cent last week to their lowest level since December 2007, said Mike Fratantoni, MBA's vice president of research and economics, in the MBA's Weekly Application Survey. Plus, the government share of purchase applications plunged to its lowest level in almost three years.

Elsewhere, "US showing signs of re-entering 'housing bubble,' Fed official says", screamed a *Reuters* headline Thursday morning.

"I'm beginning to see signs not just in my district but across the country that we are entering, once again, a housing bubble," Dallas Fed President Richard Fisher told reporters after a speech in New York Wednesday. "So that leads me ... to be very cautious about our mortgage-backed securities purchase program.'

An analytic report from San Francisco-based research company Ellie Mae reveals that banks and mortgage lending firms relaxed their standards in September, as several metrics hinted at an easing of criteria in order to qualify for a mortgage loan. Ellie Mae President Jonathan Corr said in a statement Thursday that credit score requirements to qualify for a mortgage loan have gone down considerably since Ellie Mae started tracking the metric in August 2011. The average FICO score for closed loans fell from 734 in August to 732 in September, and while this was a miniscule drop, it was nonetheless 15 points lower than their level in January 2013 and at the lowest level since August 2011.

"When you drill down farther, the change is even more apparent," observed Corr. "For example, 31 per cent of the closed loans in September had FICO scores under 700, compared to 17.46 per cent of closed loans in September 2012."

In addition, homeowners who want to refinance encounter lower credit hurdles. Homeowners who refinanced into Fannie Mae or Freddie Mac mortgages in September had an average credit score that was 23 points lower than home buyers who received financing that month.

At the same time, investors, law firms, and banks are facing off against homebuilders and real estate agents in a battle over the US government's role in guaranteeing home loans, said the Financial Times October 11.

The American Securitization Forum (ASF), which represents the financial industry dedicated to packing and selling loans, is writing to the Federal Housing Finance Agency (FHFA) Friday to urge it to drop the threshold that the government guarantees mortgages from US$417,000 to US$400,000.

Writing that "this level of government involvement is neither sustainable nor advisable", Tom Deutsch, head of the ASF, said that "reducing the conforming loan limits would push more mortgages out of the government-sponsored enterprise market and into a functional private-label securitization market".

However, on Tuesday a group of 15 trade associations, including the National Association of Home Builders and National Association of Realtors, wrote to the FHFA to argue that it was illegal for it to lower the limit without congressional approval and the proposed change would “leave the American dream out of reach for many families.”

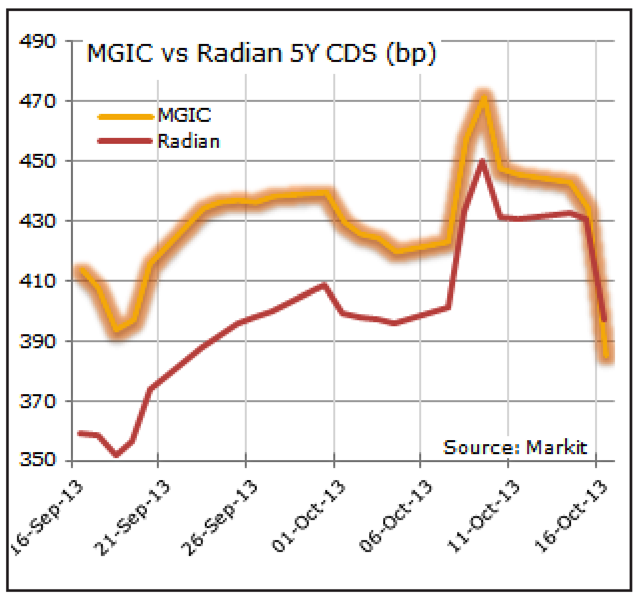
On a related topic, the complexity of so-called 'reverse mortgages' -- those favoured by retired homeowners -- increased at the beginning of October when the Federal Housing Administration put into place new regulations designed to lessen the likelihood of defaults and also to shore up the insurance fund that backs the mortgages. The changes will decrease the total amount of home value that seniors will be allowed to tap into and will also limit the amount of cash they can access in the first year of a reverse mortgage.

Lori Trawinski, a senior strategic policy adviser with AARP’s Public Policy Institute, said that borrowers will have access to about 15 per cent less of their equity, and they will be paying a higher mortgage insurance premium if they need a lot of money up front, according to the *St. Louis Beacon* Thursday.

The public, of course, is greatly interested in outstanding penalties for mortgage lenders and insurers which profitted greatly from risky lending during the 2005-2006 US housing boom.

At the end of September, for the first time since the financial crisis, the government faced off in court against a major bank over lending practices during the mortgage mania, wrote Gretchen Morgenson in the *New York Times* September 28. Lawyers for the Justice Department contend that Countrywide Financial, a unit of Bank of America, misrepresented the quality of mortgages it sold to Fannie Mae and Freddie Mac, the taxpayer-owned mortgage finance giants, starting in 2007. Fannie and Freddie incurred gross losses of US$850 million on the defective loans and net losses of US$131 million, the government said.

Regardless, America’s largest banks have almost met their obligations to provide relief to struggling homeowners under the US$25 billion national mortgage settlement, even as government officials question the way some institutions have handled the process. On Wednesday, the court-appointed monitor of the settlement said Bank of America, JPMorgan Chase, Wells Fargo, and Citigroup were more than halfway done with their requirements to offer borrowers aid in the form of loan forgiveness, short sales, forbearance or refinancing.



In September, JPMorgan Chase tried to settle a US$6 billion claim by the FHFA.

SunTrust Banks agreed to pay nearly US$1.2 billion to resolve investigations from several authorities into its mortgage practices, the bank said on Thursday. SunTrust will pay US$468 million in cash and US$500 million in relief to consumers in order to resolve claims from the US Department of Housing and Urban Development and the US Department of Justice. Also on Thursday, the bank announced it agreed to pay Fannie Mae an additional US$228 million to repurchase loans which the mortgage company had bought but later said did not meet its requirements. The settlements led the bank to take a related charge of US$323 million in 3Q.

Despite all this, the market marches onward as it always does.

US mortgage insurers MGIC and Radian both saw their spreads jump Wednesday in a sign that the US mortgage market is returning to health, according to data from Markit.

MGIC surprised the market by announcing a 2Q of profit after six years of annual losses. The company reported continuing falls in delinquencies as well as lower mortgage rates and house prices.