# MADISON'S TIMBER PREVIEW

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The US mortgage system continues to stumble through an ongoing series of audacious manipulation, with no signs of abatement. If anything, scarcely-deterred mortgage lenders will soon be up to their old tricks again, if they are not already. Meanwhile, government intervention in the housing market and with mortgage incentives has proven either useless or downright detrimental to the recovery of US home prices.

An article Monday in *Forbes* accuses US Treasury Secretary Timothy Geithner of "ignoring and misrepresenting the lessons of the financial crisis by perpetuating the myth that the source of the crisis was a lack of regulation".

As the various parties fight between each other, placing blame and denying responsibility, the US consumer is left to muddle through it all and determine on an individual basis when is the best time to plunge back into home ownership. Perhaps that initiative is best, perhaps the amount of government intervention in mortgage lending and home buying has prolonged the duration of the downturn.

Two years too late, the Federal Housing Finance Agency Office of Inspector General, Steve Linick, Wednesday released a report saying that although the FHFA learned about abuses by Freddie Mac's mortgage servicers in 2008, the regulatory agency didn't begin paying attention to them until August 2010. The number of seriously delinquent loans owned by Freddie Mac increased 376 per cent to 453,000 from 1Q 2008 through 4Q 2010, according to the report.

Which of course begs the question: which US government department is going to release a report in two years saying the FHFA Office of Inspector General took too long to respond to this delayed FHFA response? The absurdity begins to loom rather large.

In the meantime, savvy eyes are looking forward, not back. There are aspects of the US real estate market and home building that make those sectors again attractive to investment. If done properly.

Indeed, despite government and agency muddling, there has been a big improvement in homebuilder sentiment in recent months but this advance will be fleeting unless commercial banks resume lending for residential mortgages. US commercial banks account for 80 per cent of the mortgage lending made by financial institutions. Encouragingly, banks appear to be warming up to the idea of increasing their mortgage loan book in a material way, said *ForexPro* Thursday. As their chart below shows, the level of closedend residential loans, or first and junior liens on closed-end loans secured by 1-4 family residential properties, outstanding has swelled to a cyclical high of US$1,547 billion at the end of February. For the first time since 2009, US banks are about to report an increase in residential mortgage loans on a year-over-year basis in 1Q 2012. Residential mortgage loans are running at 3.9 per cent currently, according to *ForexPro*.

US mortgage rates for 30-year loans fell to 3.88 per cent Thursday morning, lowering borrowing costs as the economy and demand for housing strengthen, Freddie Mac said in a statement. The rate was 3.87 per cent last month, the lowest in Freddie Mac records dating to 1971. The average 15-year rate decreased to 3.13 per cent from 3.17 per cent, according to the McLean, Virginia-based mortgage-finance company.

Applications for US home mortgages dipped last week as refinance demand sagged, though activity in home purchases picked up, the Mortgage Bankers Association said Wednesday. Its seasonally adjusted index of mortgage application activity, which includes both refinancing and home purchase demand, fell 1.2

per cent in the week ending March 2. The MBA's seasonally adjusted index of refinancing applications was down 2 per cent, but the gauge of loan requests for home purchases gained 2.1 per cent. The refinance share of total mortgage activity fell to 77 per cent of applications, the lowest level since December, from 77.9 per cent the previous week.

The purchase application index has been highlighted as a particularly important data series as it very broadly captures the demand side of residential real estate for both new and existing home purchases.

In residential real estate, the recent news of Fannie Mae's pilot auction of a bulk sale of 2,500 homes was a signal to many housing experts that bulk buying is about to undergo a quantum change. The coming auctions will not only put mammoth amounts of inventory up for bid; they will also streamline and automate current procedures.

Amherst Securities managing director Laurie Goodman believes such bulk sales are the key to cleaning out the foreclosure pipeline before any kind of housing recovery gains traction, according to the Reuters.

Please refer to the January 13, 2012, issue of your *Madison's Timber Preview* for information on the proposed Real Estate-Owned (REO) deal.

The first set of properties available are concentrated in the hard-hit metropolitan areas of Atlanta, Chicago, Las Vegas, Los Angeles, Phoenix, and parts of Florida. Nearly a quarter are located in LA, 21 per cent in Atlanta, and 15 per cent in Southeast Florida.

Of the 2,490 single-family properties up for grabs, only 429 are vacant. The remainder are currently occupied by tenants, giving the winning bidder an established line of rental income.

Investors will be able to submit bids on the entire portfolio of properties, but also will be able to submit offers on all the properties in any given market. The FHFA didn't specify a timeline for the auction process, but the pilot sales could take place over the course of several months, said people familiar with the matter, according to the *Wall Street Journal*.

The National Association of Realtors Economist, Lawrence Yun, has gone on record saying this type of auction is not necessary because there are plenty of buyers looking for homes.

In fact, the US real estate business started gaining momentum in late 2011. The National Association of Realtors has said that the number of people who signed home sales contracts rose in the last three months of 2011 after dropping for three straight months. In January, they hit the highest level since April 2010. Meanwhile, sales of previously occupied in homes in January were at the highest level since May 2011.

In another development this week, Fannie Mae said it would take steps to more tightly control force-placed insurance, the rates of which are often artificially inflated and carry significant commissions and fees. The agency did not give a timeline for the new policy, although the biggest insurers; Assurant and Balboa Insurance Group have already been notified of the impending changes.

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