

Mortgage Activity Down 35 Percent in Q3

Of all the industries affected by the economic downturn – and there are many – the mortgage business has perhaps taken the biggest hit.

Banks and mortgage companies are reeling from a perfect storm of housing crisis, credit crunch and dwindling consumer confidence, and the numbers prove it with each monthly or quarterly cycle.

It happened again in third quarter (July through September) 2008 as mortgage activity declined 35.2 percent, according to the latest Lender Analysis report from real estate information company Chandler Reports, www.chandlerreports.com.



HARD SELL: “For sale” signs like this one in High Point Terrace in East Memphis are staying up longer as potential buyers find it more difficult to obtain home loans. -- PHOTO BY ERIC SMITH

Just 2,820 new residential mortgages were filed in Shelby County in Q3, down from 4,354 in Q3 2007. The dropoff is even more staggering, 51.4 percent, compared to the 5,802 new residential mortgages filed in Q3 2006. (The report includes only new noncommercial mortgages taken at the time of sale and does not include refinancings.)

Mortgage professionals understand that after a few years of rampant subprime lending, severe fallout is the result.

“We’re paying some dues for some things that happened, but we’ll come out of it,” said [Lisa Reid](#), executive vice president and mortgage division manager at [Magna Bank](#). “It’s just going to take some time.”

Of the essence

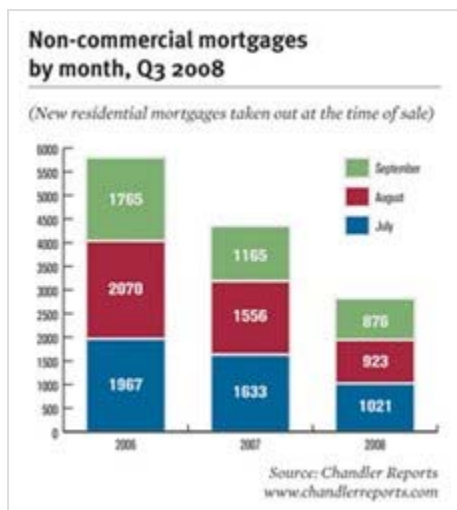
The average mortgage amount didn’t decline as dramatically as the number of mortgages, but it still dropped. Q3 saw an average mortgage amount of \$154,295, down just 2.7 percent from \$158,588 in Q3 2007 and down 1.1 percent from \$155,993 in Q3 2006.

But the total mortgage volume in terms of dollars reveals the true impact of the slump. Q3’s total was a mere \$435.1 million, marking a 37 percent decrease from \$690.5 million in Q3 2007 and a 51.9 percent decrease from \$905.1 million in Q3 2006.

All that said, it’s important to note that mortgages are being made every day, even if it is at a slower clip than past years. Loan money hasn’t completely dried up, as some people are led to believe by the daily dose of doom-and-gloom news.

“I’m afraid the public is under the mistaken impression that there’s not money available for mortgage loans, and that’s wrong,” said [Mary Floyd](#), senior vice president at [Financial Federal Savings Bank](#). “Money is available at attractive rates.”

It's available, sure, but lending guidelines have tightened and mortgages have become more expensive for borrowers with poorer credit. That gives a clear advantage to one segment of the population.



“Those that have the higher credit score are going to get the better rates,” Reid said. “The consumer in general needs to be conscious of their credit, and if they have credit issues, they need to work on them so they can be homeowners in the near future – and get better pricing that way.”

Toward firmer ground

The mortgage landscape is decidedly different than it was a year or two years ago, when money was available for anyone who wanted a home. Now, with tightened credit and loan-level price adjustments, it's also imperative for lenders – not just borrowers – to adapt to this new environment.

“Every moment of every day it's evolving,” Reid said. “These lenders have to stay on top of their game; every day there's something different. And we're going to be going through this for a while, I think.”

Reid has a good handle on the changes as her institution, [Magna Bank](#), was the top lender in Shelby County in Q3 in terms of total dollar amount.

In that three-month span, [Magna Bank](#) (formerly 1st [Trust Bank](#) for Savings) made 175 new residential mortgages averaging \$190,365 and totaling \$33.3 million, according to the Chandler Reports data.

Magna was followed by [First Tennessee Bank](#) NA (158 loans averaging \$179,072 and totaling \$28.3 million); Wells Fargo Ltd. (155 loans averaging \$181,243 and totaling \$28.1 million); [Community Mortgage Corp.](#) (193 loans averaging \$140,557 and totaling \$27.1 million); and [SunTrust Mortgage Inc.](#) (136 loans averaging \$173,453 and totaling \$23.6 million).

As Reid noted, the top lenders are all household names, a trend that's occurring more and more in these uncertain economic times.

“There's definitely a flight to quality lenders now because of safety reasons,” Reid said. “The consumer knows they can trust the traditional-type lenders, and that's where they're going.”

Rules of the road

Not all lenders are feeling the pinch to the same degree as the institutions making headlines on Wall Street.

“Even with all the turmoil going on in the stock market and so forth, it's pretty much business as usual right now,” said West Beibers, president of [Delta Trust Mortgage Corp.](#) “We're still seeing some tightening going on from the mortgage insurance companies ... but most of the loans being done in the Memphis area right now, the vast majority are FHA.”

Beibers said the perception is indeed out there that the industry has come to a standstill. Recently, some of his mortgage professionals were approached by real estate agents wondering if there is any residential mortgage money. He said they needed to be informed of what's really happening.

“We told them, ‘No, we’re making loans right now, even as we speak,’” Beibers said. “A lot of the things that you’re seeing on TV is happening in the commercial paper market in these really big, big companies. That’s not really where we are as far as residential mortgage finance.”

As one of Beibers’ mentors told him years ago, there are three simple rules for mortgage companies: Never make a loan to someone who can’t or won’t pay you back; don’t refinance what you don’t own; and don’t set your borrower up for failure.

“If you follow those three rules,” he said, “you’ll have a very happy life in the mortgage industry.”