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Lenders Bracing for Weaker Home Prices in Certain Regions

NEW YORK, March 28 (LendingIntelligence.com) — Weakening home prices in certain markets could negatively impact mortgage lenders going forward. Many lenders, though, said they have been anticipating the softer pricing.

"The industry has been expecting softening in certain markets for some time," said Jay Brinkmann, an economist at the Mortgage Bankers Association of America. "While there are still some markets that are hot, there are others where pricing is weaker, but it's not that much of a surprise overall."

The Federal Deposit Insurance Corp. issued a report this morning that urged monitoring of select markets where weakening home prices could hurt loan quality.

Citing several influences, from the aftermath of Sept. 11 to rising unemployment last year, the report raised red flags for areas including Atlanta, Boston, Chicago, Dallas, Kansas City, Memphis, New York and San Francisco.

"Home prices are driven by employment numbers, so in areas where you see big unemployment numbers, you'll see prices dropping," said Brinkmann. "The FDIC report is basically reaffirming what many have been thinking, based on important indicators, such as unemployment."

Though lenders in other regions may not be feeling the pinch, they are still addressing the risk.

"We are seeing our usual seasonal growth numbers," said Rick Huard, assistant vice president at Bank North Group Inc., which is based in Portland, Maine.

However, Huard said Bank North limits its loan-to-value (LTV) ratio to avoid problems if home prices depreciate.

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"Typically, depending on the size of home, we either limit the LTV to 89% on certain loans, and on others, limit it to 80% of the home's value," he explained.

Meanwhile, Brinkmann said many areas where pricing could have deteriorated faster were bolstered last year by mitigating factors such as influxes of new renters, and new buyers attracted by low interest. Also offsetting the downward trend were many investors who pulled money out of underperforming stock investments and plowed it into real estate holdings.

"A large number of people bought houses as investment properties," said Brinkmann. "With the stock market returns being what they were the last two years, they've sought to diversify their holdings and buy homes to use as rental properties. It's anecdotal evidence, but still indicates one of many trends that affects pricing."

Earlier this month, Freddie Mac released its own report, showing that growth in housing values slowed dramatically during the last quarter of 2001.

Highlights of the FDIC regional reports include:

Atlanta--The current downturn may adversely affect the Region's insured institutions that have relied on rapid economic growth, such as those experiencing their first recession or institutions with concentrations in traditionally higher risk loans.

Chicago--Despite years of economic restructuring, the recession is still felt keenly in the Region. Rapidly falling interest rates improved margins, but may challenge asset/liability management strategies.

New York--The aftermath of September 11, 2001, further weakened the Region's economic outlook. Insured institutions appear better positioned to weather this economic downturn than the last recession; however, credit quality and interest rate risk challenges lie ahead.

San Francisco--Declining demand for real estate could signal the potential for credit quality weakening among the Region's construction lenders.

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