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As Refinancing Wanes, Banks Are Wary of New Loans

By PETER EAVIS and JESSICA SILVER-GREENBERG

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The stars seem to be aligning in the housing market. Home prices have been rising for many months, and the federal government is providing immense support to bolster the mortgage market. The big banks that make home loans are strong enough to provide credit to borrowers, as seen in the fourth-quarter results reported Tuesday by JPMorgan Chase and Wells Fargo.

Yet despite the confluence of promising signs, little in the vast system that provides Americans with mortgages has returned to normal since the 2008 financial crisis, leaving a large swath of people virtually shut out of the market. Even as the housing market improves, new home loans are still scarce as interest rates have started to creep up — a situation that was starkly underlined in the two banks' results on Tuesday. The nation's biggest mortgage lender, Wells Fargo, extended $50 billion in mortgages in the fourth quarter, down 60 percent from a year ago.

Seth Wenig/Associated Press Mortgage lending was down 54 percent at JPMorgan Chase in the fourth quarter from a year earlier.

The nation's largest bank, JPMorgan, for its part, extended $23 billion in mortgages, down 55 percent from a year ago. The declines reflected the waning of the refinancing boom prompted by record low interest rates. Without substantial income from refinancing, the banks' mortgage businesses will now depend on making fresh loans to purchase houses, a business that, despite some revival, remains tepid.

"It's a very small market," JPMorgan's chief financial officer, Marianne Lake, said in a conference call on Tuesday. "One we haven't seen the likes of since the year 2000."

Much is riding on the appetite of large banks to make mortgages, both for the broader economic recovery and for Americans looking to own a home — long considered a way of obtaining a firm financial foothold.

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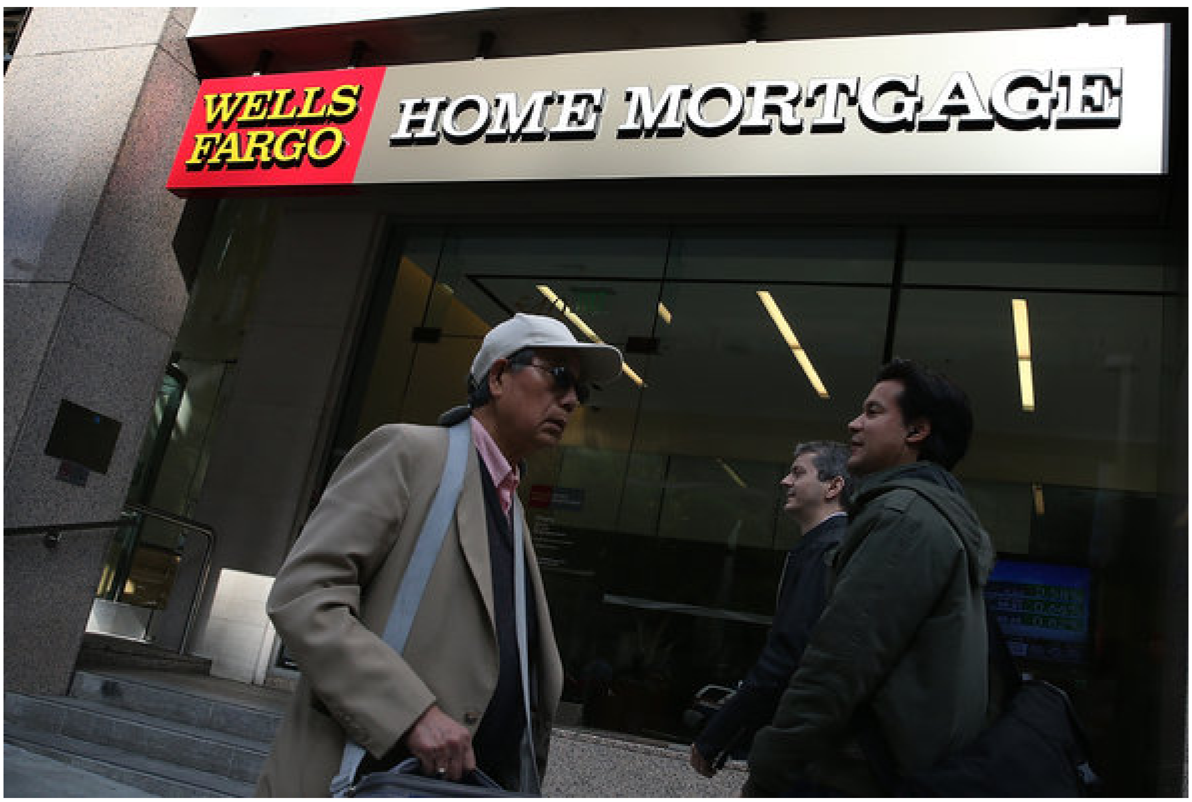
The results on Tuesday, though, reflect a deep timidity that persists among the banks, which have focused their lending almost exclusively on borrowers with pristine credit. That trepidation is driven by a mixture of factors. Battered by losses on subprime loans, the banks are wary of taking on risk and are skittish about exposing themselves to litigation related to any questionable mortgages.

Since the 2008 financial crisis sent housing values plummeting, the banks' mortgage business has largely hinged on government largess rather than the origination of new home loans. When the Federal Reserve, for example, reduced interest rates in recent years, the cuts prompted millions of homeowners to refinance their loans and reduce their monthly payments.



Justin Sullivan/Getty Images Mortgage lending was down 60 percent at Wells Fargo in the fourth quarter from a year earlier.

Some bank executives strike a cautiously optimistic tone, arguing that banks will have to make more loans to purchase houses to replace the refinancing frenzy.

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But first, some bankers say, they have to navigate new mortgage rules that were set up in the aftermath of the crisis to promote safer loans. To spur lending, the government entities that backstop the most mortgages may also have to expand the range of mortgages they guarantee.

Until then, a significant amount of borrowers with less-than-perfect credit scores remain largely shut out of the market.

"The people being left out right now are those whose credit scores are average," said Julia Gordon, a director at the Center for American Progress. "It's just your typical American family with a credit score in the high 600s or low 700s." (A credit score lower than 620 is generally considered subprime.)

Still, some mortgage experts say they see signs of a thaw in the mortgage market that might loosen the loan spigot a bit. A potential catalyst, they say, is the appointment of Melvin L. Watt as the director of the Federal Housing Finance Agency, which regulates Fannie Mae and Freddie Mac, the entities that guarantee most of the country's mortgages. Mr. Watt, according to some mortgage analysts, may decide to approve small but important changes that result in Fannie and Freddie's guaranteeing a wider swath of mortgages. Ms. Gordon, for instance, suggested that Fannie and Freddie could backstop more loans in rural areas and guarantee a larger number of smaller loans. "We are not talking about subprime lending or lowering existing standards," she said.

Right now, some bankers sound receptive toward Mr. Watt. "I believe he has the same interests that we all do, and that is to make home lending available to creditworthy Americans," John G. Stumpf, the chief executive of Wells Fargo, said in an interview on Tuesday. "We are willing to work with him to make that happen."

And, as the economy recovers, some mortgage bankers are starting to look more seriously at borrowers who fail to qualify for a government-guaranteed loan.

"For some period of time, we have done a small amount of loans that fall just outside the agency guidelines," said Mark K. Mason, the chief executive of HomeStreet, a Seattle bank. For instance, he said that his bank might lend to young professionals who lack a long history of earnings.

While industry analysts have said that the new mortgage rules that aim to make loans safer for borrowers could deter banks from making loans to those with less-than-excellent credit histories, Mr. Mason said he did not think the new rules were particularly stifling. Eventually, he said, banks will want to have loans that yield more on their books and they will start to lend to a wider selection of borrowers. "That will lead to more credit availability," he said.

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Still, some mortgage experts are skeptical that the current policy makers can engineer a sensible middle path when they try to expand the availability of credit.

The danger of overshooting, and repeating the subprime excesses, is high, they say. One big temptation will be to lend to borrowers who only make small down payments, they argue.

“If we go back to a world where we do low- or no-down-payment lending for subprime-quality borrowers, we will back in a mess,” Mark A. Calabria, a director at the Cato Institute, said. “There is a way to do this right, and the question is whether we’ll do it right.”

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