Mortgage Meltdown – Is Every State Impacted?

Good morning and thank you for taking your valuable time to learn more about the current status of the mortgage lending industry. I am glad to have the opportunity to address this gathering and represent the Oklahoma Mortgage Bankers Association.

Thirty-five percent of homes owned today are owned outright and there is no delinquency or foreclosure with no loan involved. Of the remaining 65 percent of owned homes, over 93 percent of loans secured by financed homes are performing as agreed. Of the 7 percent of the 65 percent who become delinquent, a scant 1 percent of all homes are truly at risk of foreclosure after the borrower is unable to bring the loan current or work out a solution with their servicer.

Eighty-six percent of the states in America would argue that there is no mortgage meltdown. Just seven states, California, Florida, Arizona, Nevada, Michigan, Ohio & Indiana accounted for one-half of foreclosure filings in the most recent quarter. California, Arizona, Nevada and Florida are experiencing market corrections with most MSA’s experiencing reductions in home values that are largely corrections to rapid values increases in the past few years. Non-owner occupied properties are leading the rise in delinquency in these four states. Michigan, Ohio & Indiana have been experiencing manufacturing job losses. Michigan alone, has lost in excess of 300,000 jobs over a five-year span. Overall economic pressures created by these very significant job losses have clearly impacted housing in those states. In addition, Louisiana and Mississippi are still experiencing higher home loan delinquencies, due in part to hurricane damage.
Clearly, the mortgage industry has undergone and is continuing to experience transformation. Sub prime loans are largely a thing of the past. Borrowers unable to document income and assets who need high loan-to-value financing are not likely to find a lender who can approve their loan request.

These changes are necessary as the mortgage industry returns to more sustainable lending practices as well as safe & sound underwriting standards. Every state is impacted by these changes and should be.

I would like to address the mortgage lending industry in my home state, Oklahoma. The Mortgage Bankers Association has provided some statistics covering about 88 percent of the loans serviced in America I would like to share with you. Survey numbers indicate that Oklahoma has 421,620 loans serviced in our state. Of those loans, 391,769 are performing as agreed. That’s 92.92 percent that have no delinquency of any kind. Oklahoma has just 56,235 sub prime loans and nearly 82% of those have no delinquency either. 1.74 percent of the loans in Oklahoma are in some stage of foreclosure with only .82 percent of prime loans in any stage of the foreclosure process. ARM loans represent a scant 7.94 percent of all loans in Oklahoma, much less than the national average of just above 13 percent.

Oklahoma is in the middle of the pack with respect to foreclosures and delinquencies for the most part. Last month, Oklahoma was one of only five states that saw a reduction in foreclosure percentages YOY from September of 2006, however, our sub prime foreclosure rate is higher than most other state rates.
Oklahoma’s largest three mortgage lenders are all locally owned, two banks and a mortgage company. Each lends over $1 billion to Oklahoma homeowners year after year. Many other local and national lenders are key participants in Oklahoma home lending. Oklahoma is blessed with some of the most affordable housing in America, which means fixed rate loans from FHA, Fannie Mae, Freddie Mac and VA dominate our lending environment. Fixed rate loans will never have an increase in note rate or principal and interest payments. Fixed rate loans are safer for borrowers and certainly have less inherent risk for lenders.

Oklahoma has experienced a “mortgage meltdown” of sorts but it started on July 5th, 1982. Penn Square Bank failed and the oil & gas industry suffered significant negative impacts in the following months as many other financial institutions either failed or halted energy lending. Much of my state’s economy was dependent on oil & gas as were those of Colorado, Louisiana & Texas. Delinquency and foreclosure rates were much higher then than now in Oklahoma. Many borrowers were faced with negative amortization loans and declining home values combined with an economy losing net jobs. Not a good situation then or now.

There was no government bailout then and none was needed. Did Oklahoma’s lending industry change? Yes. High loan to value loans were much more difficult to obtain. Some private mortgage insurers ceased accepting Oklahoma properties. The mortgage lending in Oklahoma was forever changed but survived.

Today, Oklahoma’s economy is much less dependent on the energy sector and our housing prices are appreciating reasonably. Oklahoma house prices are not appreciating at less sustainable double digit appreciation rates like some areas of our country were
and some perhaps still are. Rather like the tortoise in the race, our appreciation rates are steady, sustainable and suggest a healthy real estate environment.

Oklahoma is not immune to mortgage industry issues and I am certainly not suggesting that to be the case. Oklahoma passed the second anti-predatory lending law in the nation in 2000, well before the current mortgage market conditions were such a national topic of interest. There are now 31 states and localities with anti-predatory lending laws. Some of these laws are better than others and some are simply not necessary.

Back to the mortgage industry in general. Many mortgage sources agree that most mortgage company profits peaked in 2003 and to sustain declining revenues, many mortgage investors relaxed underwriting standards. In many cases, those standards were too relaxed and allowed borrowers to obtain loans they should not have been able to obtain. In other cases, unscrupulous brokers offered loans that were not necessarily the best for the borrower to maintain over the life of the loan. And in some cases, borrowers simply over borrowed their ability to repay with reduced or no documentation loans far too easy to obtain.

Underwriting and lending standards today are much closer to what they were in the past and should always have been. Borrowers are required to document their income, assets and ability to repay the loan in a timely fashion, much like they were required to do so when I made my first home loan many years ago.

The recent sub prime market corrections have not only the attention of our industry, but that of the states and Congress as
well. As a lender in my home state for 29 years, I would suggest that it’s our industry that needs to take the lead role in reform, not states or Congress. Some pending legislation is simply an over reaction to the current mortgage lending market and has the capacity to do more harm that good.

The Oklahoma Mortgage Bankers Association joins with the National Mortgage Bankers Association in advocating reforms at the national level that would simplify the mortgage lending process. OMBA also supports a uniform national standard to combat predatory lending in conjunction with MBA.

Rather than take a shotgun approach, I would suggest that we need to look at the good laws and regulations already in existence. Many consumer advocate groups are using the current sub prime “crisis” as fodder to advance their agendas rather than looking at borrower issues as a whole.

We all agree that consumers should be and must be protected from mortgage fraud at every level. Our industry needs to do a better job of placing many at risk borrowers in touch with homeownership counseling services. Many first time borrowers already benefit from counseling as part of the loan application and approval process before ever signing a note and mortgage or deed of trust. More borrowers would benefit from counseling before closing on their home loan and as issues affecting timely repayment arise throughout the life of their loan.
Since many of you are from states other than Oklahoma, I have asked that Paul Richman, MBA’s Senior Director of Governmental Affairs take a portion of the time CSG allotted to me to address each of us on the mortgage market in general.

I thank each of you for the opportunity to provide some insight on my industry and I will be happy to take any questions from you in a few moments.