

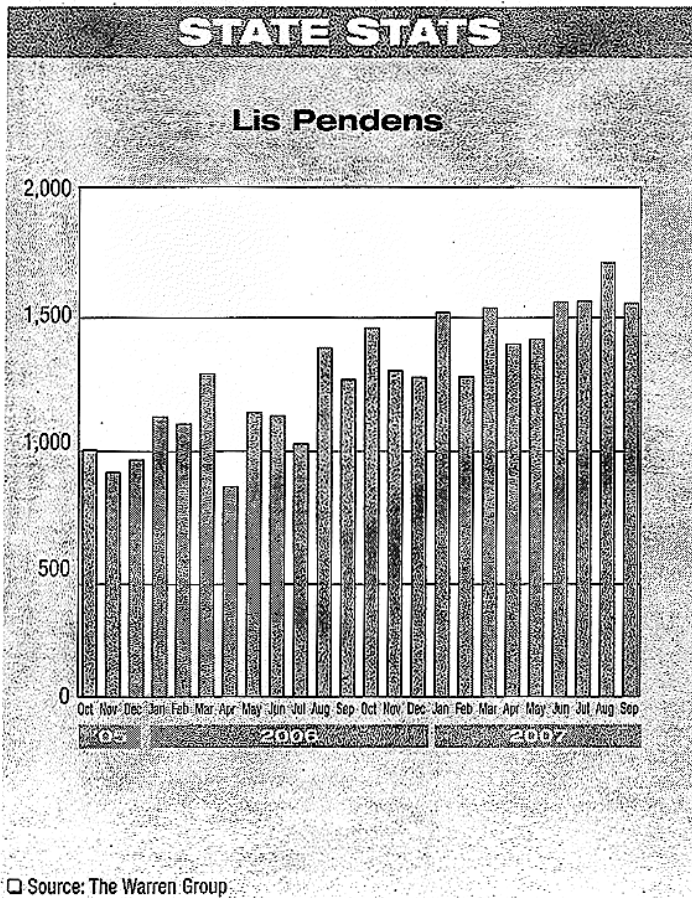
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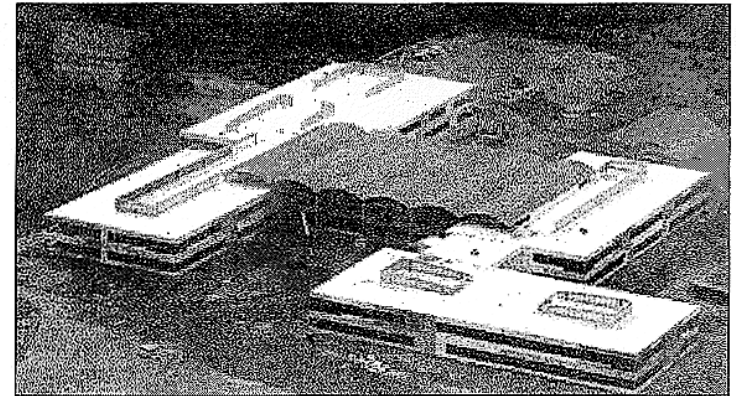
Mortgage Shakeup Developed Early in Conn.

By Jeff Haynes

JUST ONE MONTH INTO THE YEAR, the financial world's picture for 2007 started taking shape.

On Feb. 5, Middletown-based Mortgage Lenders Network USA filed for bankruptcy. The subprime lender's shutdown cost an estimated 800 jobs around the state and 1,800 across the nation. MLN abandoned plans for the 305,000-square-foot campus that it had begun building in Wallingford, which is now being developed for another use under the name Wallingford's Campus at Greenhill.

The warning came early in Connecticut, as the rest of the year was riddled with news of subsequent subprime lender shutdowns. The popular Web site known as The Mortgage Lender Implode-O-Meter (www.ml-implode.com) counts 209 companies nationwide that have "imploded," meaning that they have



Earlier this year, subprime lender Mortgage Lenders Network USA abandoned plans for the 305,000-square-foot campus that it had begun building in Wallingford.

either filed for bankruptcy, suffered a temporary but open-ended halting of major operations or had a "fire-sale" acquisition.

The national number of jobs lost dwarfs prior years.

This year's total number of announced mortgage lending job

cuts hit 81,681 through November, according to Chicago-based outplacement consulting firm Challenger, Gray & Christmas. That's up from 12,874 last year.

In the broader field of the financial sector, the announced layoffs total 147,395 through November,

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which is nearly triple last year's mark, according to Challenger, Gray & Christmas.

Connecticut initially appeared to recover quickly from the early hit. The state Department of Labor reported the finance and insurance sector had climbed from 123,800 jobs in November 2006 to 124,300 in August of this year. But in the department's latest report those gains have been lost, and employment in the sector for November 2007 is flat with last year, at 123,800.

If there was a silver lining in the mortgage world, it may be for community banks.

"The mortgage business is coming back [their way] slowly but surely," said Lindsay Pinkham, senior vice president of the Connecticut Bankers Association. "They're noticing it, which puts a smile on their face."

But for those community banks welcoming back customers, or the mortgage lenders left standing after all the implosions, three words have taken on a new importance: tightening credit standards.

The changing standards took different meanings for different lenders. Some lowered the acceptable loan-to-value limit, requiring borrowers to make larger down payments. Others took more critical looks at property appraisals, while others raised acceptable credit scores.

And the trend reached the government-sponsored enterprises the Federal National Mortgage Association and the Federal Home Loan Mortgage Corp., Fannie Mae and Freddie Mac.

"The tightening of credit standards is happening like a ripple effect across the board," Kim Neilson, senior vice president at New Britain-based McCue Mortgage, told *The Commercial Record* in November. "[Fannie and Freddie] are now going to start assessing an additional fee to borrowers based on their credit score. Their break off at this point in time is a [Fair Isaac Corp., or FICO] score of 680."

The change will mean borrowers with lower scores will pay more: A score of 660 to 679 will mean another 0.75 points; 640 to 659 will cost an additional 1.25 points; and 620 to 639 will mean another 1.75 points, Neilson said. A point is 1 percent of the value the loan.

"That [change] is going to make it more expensive for a borrower who has a lower FICO score," Neilson said. "So what they're doing is going to risk-based pricing, and they didn't have that before."

"That certainly suggests that there is a tightening of standards, when you're going to increase the cost to the borrower based on their credit score," Neilson added. "It's a big change for Fannie and Freddie. It's just the tightening of the credit in the market."

'The Leading Edge'

While industry observers have welcomed more conservative underwriting standards, there is a fear some borrowers will be shut out from access to credit. Questions also remain on other factors – besides borrowers' bad credit – that need to be addressed to keep the mortgage meltdown from repeating.

"I consider it the mortgage crisis. I don't really limit it to the subprime crisis," said Patrick Begos, founding partner of Westport-based law firm Begos, Horgan & Brown. The firm's areas of practice include debtor and creditor disputes, as well as real estate purchases and sales.

"That [subprime] was really the leading edge of things. That was where the major amounts of defaults began happening. I don't know that's really spilled too much into the prime mortgages yet, but I think it will. The problem is really systemic; it's more than just poor people defaulting on their loans," Begos said. "I think we're still trying to get our arms around the problem – figuring out what's happening, why it's happening and what some possible solutions might be. And I don't think

we're really there yet."

While the industry searches for solutions, the full effect of delinquent loans and foreclosures remains to be seen.

In its final report, the state's Subprime Mortgage Task Force estimated there are about 71,000 active subprime mortgages statewide, with outstanding loan balances totaling more than \$15 billion. More than 8 percent of those mortgages are seriously delinquent. The report also found that approximately 21,000 adjustable-rate subprime mortgages will reset to a higher interest rate between October 2007 and 2009.

That's one of the reasons Begos expects the losses will continue to stack up.

"My gut tells me we're still on the way up. I think that more banks are going to be writing off debt," Begos said. "I think that more loans are going to go into default. Clearly, there's an expectation that a lot of loans are going to reset in the next couple of months."

The toll exacted by bad loans and declining property values hit hard in the third quarter, as the industry-wide write-downs on mortgages and mortgage investments totaled a reported \$46 billion.

The losses are coming at a tough time for banks, as bankers wait for the yield curve – which measures the difference in return between short- and long-term investments – to regain some of its slope.

"The yield curve has provided a difficult

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Since late 2006

209

major U.S. lending operations have "imploded"

Latest imploded:

Last addition: December 22, 2007
HomeFront Mortgage Inc.
PNC Bank H.E.
Family First Mortgage Corp.
First Fidelity Financial
BSH Financial!

Top Non-Imploded:

Assurity Financial Services (Retail): A-	100% about 2006 revenue
Assurity Financial Services (Wholesale): A-	"Best Risk management underwriting know"

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operating environment," Pinkham said. This has meant narrowing margins for banks, as well as the search for alternate, non-interest sources of income, such as service fees, he added.

"The yield curve is not favorable to banks," Pinkham said. "And it's not just in Connecticut, but throughout the [United States]."

Getting out of 2007 may not necessarily mean getting out of the woods.

Citing a report by the U.S. Government Accountability Office, Begos said that \$13 trillion in residential mortgages was originated between 2003 and 2006 alone. "Most of those are on the secondary market," he noted. "They've been bought and sold a number of times."

"They've been sliced and diced by investment banks – deconstructed and pieces sold off. And that's not just subprime mortgages," Begos said. "So the systemic problems that are happening are going to affect everybody's mortgage. If there's that much in mortgages outstanding ... what are the [banks'] write-offs going to be?"