



2003: The Outlook for Mortgages

By Ron Haynie

As the mortgage industry comes out from the two biggest years in history in terms of volume, it's still anyone's call what 2003 will look like. Will rates rise enough to slow down the refi market? Or will rates take another dive? Will the coming year become a purchase money market? Will community bankers be able to replenish their loan portfolios with ARM products? Rather than try to cover all of these possibilities in this article, I provide some thoughts for adapting to a purchase money market. Let's face it, most bankers are tired of refinancing the same loans over and over.

If, in the coming year, we should see the mortgage industry swing back to a purchase money market, community bankers can make sure they're prepared by having a broad variety of mortgage products available to meet their customers' needs, and by making sure that their mortgage loan portfolio is in a condition that gives them the widest possible range of options.

With those objectives in mind, I offer these ideas for the community bank mortgage lender.

Look beyond the traditional. More and more bankers are discovering the benefits of so-called "hybrid" adjustable-rate mortgages. These hybrid products allow borrowers the benefit of an initially low interest rate for a fixed period of time (usually five, seven or 10 years), with rates adjusting annually for the remainder of the

life of the loan. Hybrid ARMs are good products for bankers to originate, to sell, and even to hold, because their adjustable rate features make them easy to match fund.

Reverse mortgages are another non-traditional product whose popularity is growing. Qualified borrowers who are 62 or older can tap into the equity of their homes;



this has become especially attractive to seniors facing a decline in investment and savings income. Baby boomers with older parents have also embraced reverse mortgages as a way to pay for long-term care or to help their parents remain independent and enjoy their golden years. With the majority

of the U.S. population heading toward retirement, interest in reverse mortgages is expected to grow. ACB member banks that are not already offering this product may want to consider doing so through ACB's alliance with Financial Freedom Senior Funding Corporation.

More broadly, lenders should review the tools they're currently using and take a look at other services available. ACB offers its members literally hundreds of products to help mortgage lenders expand their businesses through its partnerships with Fannie Mae, Freddie Mac, Countrywide Home Loans, Inc., and Principal Residential Mortgage, Inc. With homeownership at record levels, several of these products target first-time homebuyers who may be new to the banking system, or who cannot make conventional down payments. Fannie Mae's Community Homebuyer program as well as their My Community Mortgage products are examples of a high loan-to-value products and first time homebuyer products that can help bankers reach new segments of their communities while minimizing their risks.

Pay close attention to appraisals. Anecdotal information suggests that housing prices are at or near their peaks, but bankers should be watching their appraisals carefully regardless of their markets' position in the business cycle. The incidence of fraud traditionally rises in a hot mortgage market, and we are already seeing evidence

of this. Lenders may want to consider using an automated valuation model or AVM, along with a more rigorous quality control process, to prevent being a victim of appraisal fraud as the market cools off. These internal controls are more important for refinancing than for new purchases, where pricing is set by agreement between the buyer and seller rather than on tax assessments or previous appraisals.

Make sure your portfolio is in order. Transitions in the market are always the right time to refocus on maximizing the value of your mortgage portfolio. As interest rates start to rise, adjustable-rate products will become more attractive for both lenders and borrowers, and lenders may want to replace some of the fixed-rate loans in their portfolios with more rate-sensitive instruments. Lenders can maximize their options by making sure they know what they're holding in their portfolios and how much these loans are worth. Through their partnerships with ACB, Fannie Mae and Freddie Mac offer member banks portfolio stratification services that show the market value of a portfolio, screen it for credit problems, and offer pooling options at the best possible prices.

Get the most out of your technology investments. Mortgage lenders now have access to automated programs that provide consistent, impartial credit scoring, and also price loans appropriately for risk and market conditions. The next step will be comprehensive technology systems that provide loan approval, pricing, and an array of options for funding the loan. These "one-stop shopping" systems are just beginning to emerge, but I expect them to be widely available within the next 12 to 18 months. Because these systems can be customized to reflect individual institutions' lending policies, they can save time and help institutions manage a wide range of risks without eliminating each bank's unique focus. ACB's mortgage alliances and partnerships provide members with cost effective technologies that can help them reduce origination costs.

Housing has been the most solid economic sector during the upheaval of the past 18 months. While we all hope and expect to see a general recovery next year, there's no reason that housing shouldn't remain a pillar of the economy—as long as community bankers are prepared for changing conditions.

ACB stands ready to help its members manage these changes. Over 400 members

have signed up for these partnerships and are enjoying the many benefits they bring to their bank and their communities. Please call me at (202) 857-5580 for more information or visit www.AmericasCommunityBankers.com/Partners.

Ron Haynie is director of ACB Mortgage Solutions.



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