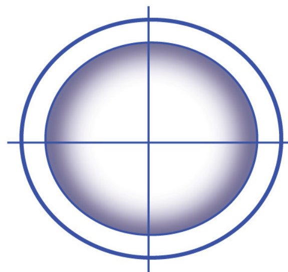

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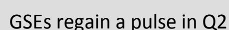
Real Estate & Economic Roundup

Highlights & Observations from Select Reports

September 7, 2012 by William L. Pittenger, MAI, SRA

Each week the **Mortgage Bankers Association (MBA)** surveys the largest mortgage lending firms to gain an understanding of how many mortgage loan applications are received for both purchase and refinance as well as on a composite basis. The survey is published each Wednesday morning and captures an estimated 40% of mortgage loan applications received the previous week. The survey is important as it signals the degree of confidence in residential real estate and the general direction of the market. Viewed weekly, the results can be volatile and the MBA makes no revisions. Over time, however, the surveys tend to reveal meaningful trends.

The composite index (purchase + refinance) slipped 2.5% last week. That is the fifth consecutive week of decline. Moreover, both components, purchase and refinance, retreated as well. The purchase index declined fractionally last week by 0.8%. It remains down 0.6% from four weeks ago and fractionally higher (0.5%) from a year ago. Refinance applications have led the way most weeks as a result of continuing record low interest rates. That component accounted for 78.7% of prospective loan volume as represented by applications. Nevertheless the volume of refinance applications still declined 3% from the previous week. Volume is down 21% over the last four weeks but still up 19.7% over a year ago. The refinance index accounts for around four out of five mortgage loan applications.



GSEs regain a pulse in Q2

The purchase applications index is reflecting the residential real estate market as a whole and is struggling to gain traction. It has been virtually flat since hitting bottom in the middle of 2010 and remains near a 15 year low.

Fannie Mae and Freddie Mac are back in the black. In the second quarter, both companies turned profitable for the first time since being forced into conservatorship nearly four years ago. As housing shows signs of improvement, both government sponsored enterprises (GSEs) are as well. Roughly half the mortgages in both portfolios have been issued since 2008. That, combined with stabilizing housing values, more robust underwriting, lower loan to value ratios, write off of the worst of the worst and reversal of certain previous provision expense (reserves) which goes straight to the bottom line, both companies showed a solid profit. Fannie recorded a $7.8 billion profit in the first half of 2012 against a $16.9 billion loss a year ago. Freddie earned $3.6 billion against a loss of $5.3 billion last year. The cost to taxpayers of bailing out the two mortgage giants peaked at $151 billion at year end 2011. Today it is estimated at $142 billion and the Treasury Department estimates the bailout cost will total $28 billion a decade from now.

In a separate report, changes to the Treasury's bailout agreement with Fannie Mae and Freddie Mac may be quietly signaling the end to both companies as we knew them. The changes make it clear that neither company will be permitted to resume its former role. Each company will be required to wind down its portfolio by 15% per year rather than the previous 10% per year requirement. The new rules do not remove the federal government as the main guarantor of U.S. mortgages. The GSEs will continue to issue mortgage backed securities as long as private issuers stay on the sidelines. Treasury also made it clear that neither company would return to being private anytime soon, if ever. Instead they will continue to be run like public utilities and all profit will be returned to Treasury rather than being distributed as dividends.

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