



## Borrowers face scrutiny thanks to credit crunch

By [Tom Shean](#)  
The Virginian-Pilot  
© February 10, 2008

Spurred by the Federal Reserve, the nation's banks have slashed their prime lending rates to the lowest levels since June 2005.

Rates for conventional 30-year, fixed-rate home mortgages have dropped to levels not seen since mid-2005.

So it's a good time to borrow, right?

Yes, but you'd better have good credit. And if you're shopping for a first mortgage or home equity line of credit, be prepared to provide more equity than was required in the past.

Nationally and in Hampton Roads as well, the availability of money has tightened, a sign of a weakening economy.

There are other signs as well. The number of Hampton Roads homes in some stage of foreclosure last year climbed to 2,372, almost three times the 860 total in 2006, according to RealtyTrac, a firm that monitors foreclosures nationwide. The volume of consumer bankruptcies in the region jumped 54 percent in 2007 from the year-earlier total.

Bankers and economists express confidence that Hampton Roads will escape the sort of deterioration in home values witnessed in other markets. That's partly because of Hampton Roads' strong job market, said Greg Grootendorst, deputy executive director for economics at the Hampton Roads Planning District Commission.

The region's jobless rate - 3.5 percent in December - has remained well below the national rate of 5 percent in December.

Nonetheless, the national slide is affecting the availability of money here, particularly for home loans from major banks. In response to guidance from the giant home-mortgage buyer Fannie Mae, for example, Bank of America boosted the down payment amount from 5 percent to 10 percent for first-mortgage borrowers using its most popular home-mortgage program, said Terry Francisco, a spokesman for the Charlotte, N.C.-based bank.

Because of the broad decline in home prices, the bank also has scaled back the loan amount for its home equity lines of credit from 100 percent to 90 percent and will further reduce its loan-to-value ratio in some parts of the country, Francisco said.

This could slow the economy further. Consumers, often drawing equity from their homes, have driven the economy the past few years.

Between 2001 and 2005, for instance, the combination of low interest rates and rapid appreciation of home values enabled homeowners nationwide to take out more than \$760 billion by means of cash-out refinancing, former Fed chairman Alan Greenspan and James Kennedy, a Fed economist, estimated in a paper published by the Fed last March.

Some Hampton Roads borrowers have benefited from the declining interest rates. Because the rates on home equity lines of credit and credit-card debt are pegged to banks' prime rates, "people have a little bit more disposable income," Vinod Agarwal, an economics professor at Old Dominion University and a member of the university's Economic Forecasting Project, said.

The Federal Reserve's attempt to spur economic growth by cutting rates has yet to produce a torrent of credit for consumers. In its latest quarterly report of bank lending practices, the Fed said last week that almost 53 percent of the institutions surveyed tightened their standards for prime mortgages. Meanwhile, 59 percent of the participating banks told the Fed they've tightened their standards for home equity lines of credit.

This tightening has been particularly evident in parts of the country where home prices have tumbled, including California, south Florida, Phoenix and Las Vegas, said Holden Lewis, who monitors mortgage lending for the online publisher Bankrate.com.

While Hampton Roads continues to avoid the real estate carnage witnessed elsewhere, bankers acknowledged that they too analyze loan applications, especially those for home mortgages and home-equity products, more closely. That includes paying greater attention to the income figures provided by applicants whose paychecks are tied to residential real-estate activity, said Phil Rudisill, senior executive vice president for loan administration at Portsmouth-based TowneBank.

Because of the heightened sensitivity to risks involving residential real estate, "we're proceeding more cautiously," he said.

Two years ago, many borrowers in search of a first mortgage were able to get one by means of "no doc," low doc" and "stated-income" loans that required little documentation. That's not the case today.

"No matter where you are, if you're a borrower, you're expected to account for your income, assets and debts," Lewis of Bankrate.com said.

Old Point National Bank in Hampton and Monarch Bank in Chesapeake reported recent upturns in the volume of their first-mortgage applications. At Old Point, part of the increase has come from homeowners with adjustable rate mortgages seeking to lock in a fixed rate before their existing mortgage reprices, Louis Morris, its president and chief executive officer, said.

However, lenders have good reason to be more cautious when providing home equity loans and home equity lines of credit. If a borrower defaults, their institutions can recover something from the loan only after the holder of the first mortgage has been paid.

Some national lenders have cut the amounts of credit available to customers with existing home equity lines of credit. Hampton Roads bankers say they've avoided taking that step.

"We haven't made any decisions to adjust existing credit lines, but we are looking to see if we've had any credit deterioration in those accounts," said TowneBank's Rudisill, its loan-administration executive.