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Fewer choices in mortgage market

Subprime woes put many state brokers at risk

By DAN RICHMAN
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Ongoing turmoil in the subprime mortgage industry could wipe out many Washington-based mortgage brokers, and it will dramatically narrow the choices available to homeowners seeking loans or refinancing, mortgage and real estate experts said Thursday.

Also hurt could be home builders, home inspectors, title insurance companies and appraisers.

"It will have a broad impact over the next year," said Adam Stein, president of the Washington Association of Mortgage Brokers.

Washington state had about 1,200 independent mortgage brokers as of last summer. Of those, "30 percent may not survive the year," he said.

Many brokerages are small businesses, with only five to seven employees, he said. If their balance sheets aren't strong enough, they may not have enough internal capital to stay in business, he said.

Brokers help prospective homeowners, or owners seeking new mortgages, to find financing. But the market for mortgage-based securities has virtually dried up.

That's because some Wall Street firms underestimated the number of defaults in the pools of mortgages they bought up, said Larry Mylnechuk, managing principal at Novellus Capital Management LLC in Bellevue.

"The market is closed now. It's just closed," Mylnechuk said. That means capital available to fund all mortgages is scarce.

Rates have actually dropped on the most salable mortgages -- so-called agency loans, such as 30-year fixed-rate loans bought up by Fannie Mae and Freddie Mac.

But brokers and lenders specializing in subprime and "Alt-A" loans -- less risky than subprime, but more risky than agency loans -- are finding inventory tight. That makes business tough for both them and their would-be customers.

"Those companies will find themselves in a bit of a squeeze," said Jason Bloom, co-founder of Elliott Bay Mortgage brokerage in Bellevue. "There's not the diversity of loan products out there to offer."

He said his own 20-person business is not experiencing a downturn, adding that he is "cautiously optimistic" that the business will weather the storm.

Others have not been so lucky.

First Magnus Financial Corp., a Tucson, Ariz.-based national mortgage lender, halted new lending activity Thursday and shut down operations. It had been on track to fund $36 billion in loans this year.

A recording at the company's Tukwila office delivered a stark message:

"In the light of the collapse of the secondary mortgage market, First Magnus will not fund any future mortgage loans, and is no longer accepting any mortgage loan applications or funding any mortgage loans previously originated but not yet funded. ... If your loan has not been funded, First Magnus will not be able to fund your loan."

In April, Mortgage Investment Lending Associates Inc. of Everett, a lending wholesaler founded in 1989, abruptly shut its doors, leaving 300 people out of work. It blamed the downturn in subprime mortgages.

"We've been closely watching more than a half-dozen lenders doing business in Washington," said Deb Bortner, director of consumer services for the state Department of Financial Institutions. "They're unable to fund loans in their pipeline."

None of the monitored lenders is based in this state.

When some lenders active in Washington shut down with loans in their pipeline, they are required to disclose to that agency all their pending business and to refund all clients' fees paid into escrow. But only those that lend at 12 percent or higher must observe those requirements. That includes Mortgage Investment but not Magnus, Bortner said.

Loan seekers with solid credit ratings seeking agency loans shouldn't be affected by the subprime brouhaha, Bloom said.

Those with worse ratings, or those seeking Alt-A or subprime mortgages, will have a tougher time getting money. Even those seeking jumbo loans -- 30-year fixed-rate mortgages with a balance of more than $417,000 -- may find interest rates up and eligibility criteria tightened.

"Consumer choice in Washington right now is being dramatically restricted," said Stein, head of the mortgage brokers' group. "For alternatives for someone with less than perfect credit, the rate has gone through the roof -- if they're available at all."

Real estate giants John L. Scott and Windermere said they have seen no downturn in sales because of the subprime-mortgage crunch.

"We're not turning buyers away in droves. A few loan programs have gone away," said Bart Harrington, president and chief executive of Windermere Mortgage Services, an independent company affiliated with Windermere Real Estate.

Mainly, he said, those that have disappeared accepted poor credit scores and required no money down and non-verified income statements. Measured by dollars and units, Windermere Real Estate's business is up 27 percent year over year, he said.

"When rates were 17 percent, *that* was a problem," Harrington said. "Now, if you've got some down payment and a decent credit score, you're gonna get a loan. I see these as good times."

Erik Hand, president of Response Mortgage Services, which serves John L. Scott, agreed that credit guidelines have tightened up but that only buyers with little to no money for a down payment are having a hard time finding loans.

Homeowners holding current mortgages won't be affected by the turmoil, except if they seek to refinance. Lenders can't change a loan's terms unilaterally or call it in, Bloom said.

As of mid-June, 6 percent of Washington mortgages were subprime adjustable-rate loans, compared with 6.6 percent for the country as a whole, according to the Mortgage Bankers Association in Washington, D.C.

Of those Washington mortgages, 8.75 percent were delinquent in the first quarter, compared with 13.87 percent nationwide. More recent figures weren't available Thursday.

Last month, Washington Mutual stopped granting subprime loans without the need to prove income and subprime adjustable-rate mortgages with initial terms of less than five years.

"We remain committed to providing a range of mortgage products to meet our customers' individual needs, including subprime loans," spokeswoman Darcy Donahoe-Wilmot said in an e-mail Thursday.