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Patience, renewed consumer lending key to economic recovery

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American consumers plagued by the recession have been likened to “zombies.”

Beset by debt and fears of a double-dip, they weren't spending. Many were hammered by lousy credit, in part because they were defaulting on mortgages and other loans. Fearful of taking on even more debt, they weren't borrowing. One economist called debt-struggling consumers “zombies,” predicting they'd stay that way for years to come.

It didn't really matter, though, because banks had been burned by their too-lenient lending policies during the run-up to the recession.

In South Florida, where South Americans still are paying cash for area condominiums and second homes, buyers from the Northeast and even local market move-up buyers still are looking for mortgages – and still can't get loans.

Home-buyers couldn't get mortgages. Developers couldn't get funding for residential projects. The economy effectively had been strangled.

If the economy is to find its way back to a sound, sustained recovery, banks must play their part and start lending again.

Nowhere could this do more good for a struggling economy than in South Florida. Today, residential prices, whether for single family properties or luxury condominiums, are off their peak highs of 2006; nationally, prices remain down around 30 percent. They're down 55 percent in South Florida, according to Zillow.com. Homes are affordable — at least to consumers able to get financing.

Conditions are improving for consumers to borrow – and lenders to lend. Consumers have become more responsible. Credit scores are on their way back up. Equifax, the consumer credit data company, reported that scores in May were their highest in four years. The Federal Reserve noted that loan delinquencies have dropped 30 percent over the past two years and the consumer debt payments-to-income ratio was its lowest in 17 years. The Federal Reserve Bank of New York also reported that consumers cut their debt by \$1 trillion over the past two years.

On the lending side, interest rates have stabilized. Those banks that have returned to residential lending are doing so responsibly. They're closely tracking key parameters on each application, ensuring borrowers are credit worthy. We've also seen growth in institutional lending. Banks have relaxed what had been very restrictive lending guidelines enforced following the housing and mortgage bubble. With financing in place, some developers have returned to the business of building.

Of course, lenders still want an attractive debt-to-income ratio. They still have relatively strict guidelines in place. Where a FICO score in the high 500s could have earned a borrower a mortgage, borrowers today need a score no lower than the mid-700s. They should be paying their bills on time, and have no bankruptcy or judgments against them.

The need for consumers to meet these guidelines is more pressing as there are fewer lenders in the market. Fewer lender options mean those that remain can be more restrictive.

Those in today's the higher-tier market can be affected and cash buyers are not left unscathed. They're more cautious about the properties they're buying, especially those considered second or vacation homes. Prospective borrowers have more hoops to clear. Where 10 percent down could get a buyer a million-dollar home in 2006, today 30 percent is the norm.

Even definitions have changed. A unit in Canyon Ranch Living Miami Beach that sells for \$500,000 is considered a second home and a jumbo loan. Thus, the loan-to-value ratio is higher than what's required for a primary residence — closer to 40 or 50 percent. Borrower credit-worthiness, in turn, is higher. For those residences in "condominium-hotels" like ONE Bal Harbour residential towers, if the unit lacks a kitchen, banks are less interested in lending at attractive rates.

Banks are in business to lend. They only make money by putting money out into the market. It's a new reality and a different process. It's slower, more restrictive and more selective. Money's out there for the credit-worthy — at least those who can check those 15 boxes.

Lenders looking for credit-worthy borrowers are seeing a recovery. Sound borrowers looking for banks willing to loan are finding them. In the end, zombies seem to be leaving the market altogether.

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