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As Home Rents Head Higher, Owning Regains Its Appeal

By DAWN WOTAPKA and NICK TIMIRAOS

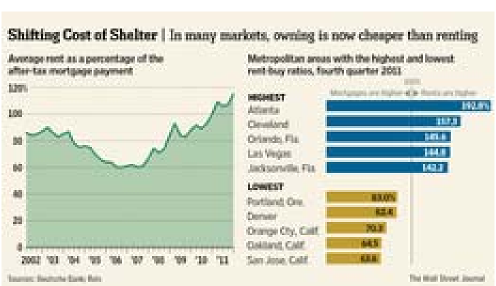
Climbing rents for apartments are combining with a continued decline in home prices to push once-reluctant home buyers into finally taking the plunge, say economists and real-estate agents, helping what appears to be a good start to the housing industry's all-important spring selling season.

WSJ's Dawn Wotapka examines an increase in rent costs nationwide and how it has resulted in would-be homebuyers being encouraged to take the plunge. Photo/David Zalubowski, file

Although increased buying activity from investors and second-home purchasers are also factors behind the recent pickup in home sales, real-estate agents say they are fielding more calls from anxious tenants complaining about rising rents.

"The rental market has been incredibly hot," said Ronald Peltier, chief executive of HomeServices of America Inc., which owns real-estate brokerages in 21 states. He says rising rents, coupled with slumping home prices and interest rates near record lows, are boosting demand for homes at entry-level prices.

Average apartment rents rose by 2.7% last year while the national vacancy rate dropped below 5% for the first time since 2001, according to a quarterly survey to be released Wednesday by Reis Inc., a real-estate research firm.



The broad and sustained growth of the apartment market contrasts sharply with an uneven and tentative housing recovery. During the first quarter, average apartment rents rose and vacancy rates fell in all 82 metropolitan areas tracked by Reis, when compared with a year ago.

The largest rent increases came in San Francisco and San Jose, Calif., which saw increases of 5.9% and 4.9%, respectively. Even boom-to-bust Las Vegas, which has struggled with falling rents in previous quarters, saw average rent rise 1.8% from a year earlier.

Property Report

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- Short of New Funds, Firm Takes a 'Pause'

Such increases are one reason why analysts at Zelman & Associates believe 2012 will be the first year since 2005 when the share of apartment renters that moves out to buy a house increases from the previous year. "The equation of renting versus owning is becoming much more favorable for owning," said Ivy Zelman, the firm's chief executive.

Unless the economy worsens, there is little sign that rent growth will slow until hundreds of thousands of new apartment units currently under construction hit the market over the next few years.

Nishu Sood, a housing analyst with Deutsche Bank who tracks housing costs, says that, historically, the cost to rent an apartment has been about 10% lower than the after-tax cost of owning a home. That rental discount began to fall in 2010 and disappeared entirely last year. By the end of 2011, Mr. Sood's research found that the cost to rent an apartment was about 15% higher than the cost to own a home. Conditions are "overwhelming in the favor of buying now. It is unequivocal," he said.

In San Jose and the Silicon Valley, where home prices have tumbled 36% from the mid-2007 peak, home affordability has more than doubled in the last five years, Mr. Sood said. Affordability has also improved in Long Island and northern New Jersey, where during the boom, renting was half as expensive as buying. Now, it is almost equal.

To be sure, not all markets have seen the same development. In Orange County, Calif., and New York City, where home prices are extremely high, renting is still cheaper. But even in New York, real-estate agents say sales of small studio and one-bedroom apartments are brisk because renters don't want to pay such high amounts to rent.

"The entry-level market is back," said Dottie Herman, president of Prudential Douglas Elliman.

Jennifer Regan and her husband went under contract to buy a three-bedroom home in Martinez, Calif., last month. With a 4.25% rate on a 30-year fixed mortgage, their monthly payments, including taxes and insurance, will be around $600 less than what it costs to rent a comparable house. "I couldn't believe it had gotten so expensive" to rent, said Ms. Regan, 36 years old, who is moving before her oldest son starts school this fall.

It isn't always easy for individual home buyers to make it to the closing table, however. Lending and appraisal standards remain tight, keeping many would-be buyers out of the market. And aspiring buyers are competing with savvy investors who have turned buying and reselling foreclosed homes into a business. Last week, the National Association of Realtors trade group said the number of homes purchased by investors rose 65% during 2011 to 1.2 million, representing 27% of all sales.

And for some renters, the housing crisis has shaken their desire to become owners. "If I was going to buy, I feel like I would be just in the same problem that other homeowners are having with the market," said Laurel Slutsky, 24, who just renewed the one-year lease on her Chicago two-bedroom.

"Right now, all my friends and I are hopping around neighborhoods, and I don't see the benefit in buying and staying in one place."

—Josh Barbanel contributed to this article.

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CNNMoney
A Service of CNN, Fortune & Money

Low-ball appraisal: Mortgage denied

By Les Christie @CNNMoney March 30, 2012: 5:28 AM ET


PHOTO: BETTER HOME AND GARDENS REAL ESTATE GENERATIONS

This home outside Mobile, Ala., sold for $180,000 but the appraisal was low at just $170,000. The buyer ultimately won an adjustment.

NEW YORK (CNNMoney) -- You find the home of your dreams. You're pre-approved for a mortgage. You've scheduled the closing. Then ... the appraisal comes in too low and the deal blows up.

Even as some mortgage standards have eased, hitting a needed appraisal value is proving a frustrating blocker for buyers and sellers and those looking to refinance.

If a buyer commits to a $200,000 home, but the appraisal comes in at just $180,000, the bank will finance only on the lower value -- and the buyer must come up with the difference.

Leslie Sellers, a real estate broker in **Clinton, Tenn.**, has a client who recently went to contract on a Norris, Tenn., home. The appraisal came in 10% short.

"I explained to the appraiser that houses in Norris are older and sell for higher prices than other parts of the county," said Sellers, past president of the Appraisal Institute, a trade group. "[The appraiser] told me he was going with his value. We lost the sale."

The banks are one reason appraisals are coming in low. If they have to repossess a home, they don't want to get stuck with one worth far less than the mortgage.

"It's not like the lenders say, 'We want you to come in low,'" Sellers said. "It's more like, 'We want you to account for everything.' Some appraisers hear that and overcompensate."

Multi-million dollar foreclosures

It's particularly tricky if the home is in a falling market. There's even a box to check on standard appraisal forms saying "declining value," according to Gloria Shulman, the founder of Centek Capital Group, a Beverly Hills mortgage broker. That indicates **falling home prices** and banks will slash another 5% off the loan.

Foreclosures complicate appraisals too. **These homes sell for about 30% less** than similar non-foreclosure homes but appraisers often use them for comps.

In Alabama, Stephanie Young recently went to buy a three-bedroom, two-bath in Chunchula, outside **Mobile**. She was approved for an FHA loan and the sale price was $180,000.

Her agent, Josh Tanner of Better Homes and Gardens Real Estate Generations, said the appraiser told him there were no good comps.

"The appraiser had used a foreclosure sale that was right on a busy road," said Tanner. "That pulled the whole value down."

Young was stuck, needing $10,000 to make up the shortfall. The sellers couldn't come down. They were nearly underwater on their mortgage and lowering the price would push it into short sale territory. That requires bank approval, which could take months.

Young ultimately won an adjustment from the appraiser and the deal is scheduled to close this week.

Another path buyers can take after a bad appraisal is to renegotiate the home's sale price. Katie and Dave Dowling found a townhouse in Roxbury, N.J. The pair, who are teachers, liked the place better than other units in the complex.

"It came with a lot of upgrades," said Katie. "It was just nicer."

Unfortunately, the appraiser didn't take notice of better cabinets and appliances or other features. He appraised the home 3% lower than they needed.

Their solution was to ask the sellers to come down. They consented to a 2% haircut and the Dowlings came up with the other 1% themselves.

They expect they'll get the house, but they might not have if they didn't have extra cash to bring to the closing -- and a willing seller. ■

Will BofA's foreclosure rental program hit Calif.?

By Lily Leung

Friday, March 30, 2012

Bank of America is testing a new idea that turns underwater borrowers facing foreclosure into renters in select states: Arizona, Nevada and New York.

The program, called "Mortgage to Lease," is not available in California -- among the states hardest hit by the housing crisis -- at least not yet.

"This program just began a week ago, so it’s way too early for us to have any announcement of specific expansion plans for this very limited pilot to other markets," said bank spokesman Rick Simon on Thursday, in an email reply to the U-T San Diego.

"Certainly, as a hard-hit state and the state where we have the largest customer base," Simon added. "California will be considered."

HOW IT WORKS: Borrowers transfer title to their homes to Bank of America, and in return, they can rent their homes for up to three years at an amount that's below their home-loan payment. Homeowners in the pilot program will not be responsible for property taxes or hazard insurance. Bank of America also forgives the outstanding home-loan balance.

DO I QUALIFY?: Only if you were among the less than 1,000 borrowers who were pre-selected by Bank of America. Those who were solicited have loans owned by the company, have been behind on payments for more than two months, still live in the home and **fit other criteria**.

WHY IS THIS A LIMITED PROGRAM?: The bank is still testing the waters of the idea with borrowers, investors and others. If Bank of America considers this test successful, then the company will broaden the program to involve real estate investors.

WHY DO THIS?: The process of completing foreclosures is both time-consuming and expensive for banks. So banks are constantly looking for ways to mitigate losses.

Other coverage on this:

> **BofA Tests an Option to Foreclosure** (Wall Street Journal)
>
> **Bank of America faces hurdles in rentals** (Fortune)
>
> **Bank of America starts foreclosure rental program** (Associated Press)

Have story tips, a hot property listing or a question? **Email me**: **lily.leung@utsandiego.com | Tweet me**: **@LilyShumLeung | Subscribe to this blog**.

April 2, 2012

Investors Are Looking to Buy Homes by the Thousands

By MOTOKO RICH

RIVERSIDE, Calif. — At least 20 times a day, Alan Hladik walks into a fixer-upper and tries to figure out if it is worth buying.

As an inspector for the Waypoint Real Estate Group, Mr. Hladik takes about 20 minutes to walk through each home, noting worn kitchen cabinets or missing roof tiles. The blistering pace is necessary to keep up with Waypoint's appetite: the company, which has bought about 1,200 homes since 2008 — and is now buying five to seven a day — is an early entrant in a business that some deep-pocketed investors are betting is poised to explode.

With home prices down more than a third from their peak and the market swamped with foreclosures, large investors are salivating at the opportunity to buy perhaps thousands of homes at deep discounts and fill them with tenants. Nobody has ever tried this on such a large scale, and critics worry these new investors could face big challenges managing large portfolios of dispersed rental houses. Typically, landlords tend to be individuals or small firms that own just a handful of homes.

But the new investors believe the rental income can deliver returns well above those offered by Treasury securities or stock dividends. At the same time, economists say, they could help areas hardest hit by the housing crash reach a bottom of the market.

This year, Waypoint signed a $400 million deal with GI Partners, a private equity firm in Silicon Valley. Gary Beasley, Waypoint's managing director, says the company plans to buy 10,000 to 15,000 more homes by the end of next year. Other large private equity investors — including Colony Capital, GTIS Partners and Oaktree Capital Management, in partnership with the Carrington Holding Company — have committed millions to this new market, and Lewis Ranieri, often called the inventor of the mortgage bond, is considering it, too.

In February, the Federal Housing Finance Agency, which oversees the government-backed mortgage companies Fannie Mae and Freddie Mac, announced that it would sell about 2,500 homes in a pilot program in eight metropolitan areas, including Atlanta, Chicago and Los Angeles.

And Bank of America said in late March that it would begin testing a plan to allow homeowners facing foreclosure the chance to rent back their homes and wipe out their mortgage debt. Eventually, the bank said, it could sell the houses to investors.

Waypoint executives say they can handle large volumes because they have developed computer systems that help them make quick buying decisions and manage renovations and rentals.

"We realized that there is a tremendous amount of brain damage around acquiring single-family homes, renovating them and renting them out," said Colin Wiel, a Waypoint co-founder. "We think this is a huge opportunity and we are going to treat it like a factory and create a production line to do this."

Mr. Hladik, who is one of seven inspectors working full time for Waypoint's Southern California office, is one cog in that production line.

On a recent morning, he walked through a vacant three-bedroom home with a red tiled roof here about 60 miles east of Los Angeles, one of the areas flooded with foreclosures after the housing market bust. Scribbling on a clipboard, he noted the dated bathroom vanities, the tatty family room carpet and a hole in a bedroom wall. Twenty minutes later, he plugged these details into a program on his iPad, choosing from drop-down menus to indicate the house had dual pane windows and that the kitchen appliances needed replacing.

The software calculated that it would take $25,413.53 to get the home in rental shape. Mr. Hladik adjusted that estimate down to $18,400 because he deemed the landscaping in good shape. He uploaded his report to Waypoint's database, where appraisers and executives would use the calculations to determine whether and how much to bid for the house.

With just three years of experience, Waypoint is one of the industry's grizzled veterans. But critics say newcomers could stumble. "It's a very inefficient way to run a rental business," said Steven Ricchiuto, chief economist at Mizuho Securities USA. "You could wind up with an inexperienced group owning properties that just deteriorate."

The big investors are wooed by what they see as a vast opportunity. There are close to 650,000 foreclosed properties sitting on the books of lenders, according to RealtyTrac, a data provider. An additional 710,000 are in the foreclosure process, and according to the Mortgage Bankers Association, about 3.25 million borrowers are delinquent on their loans and in danger of losing their homes.

With so many families displaced from their homes by foreclosure, rental demand is rising. Others who might previously have bought are now unable to qualify for loans. The homeownership rate has dropped from a peak of 69.2 percent in 2004 to 66 percent at the end of 2011, according to census data.

Economists say that these investors could help stabilize home prices. “If you have a lot of foreclosures in one community you will improve everybody’s home values if you take them off the market,” said Diane Swonk, the chief economist at Mesirow Financial. “If those homes are renovated and even rented, it is a lot better than having them stand empty.”

Until now, Waypoint, which focuses on the Bay Area and Southern California, has been buying foreclosed properties one by one in courthouse auctions or through traditional real estate agents.

The company, founded by Mr. Wiel, a former Boeing engineer and software entrepreneur, and Doug Brien, a one-time N.F.L. place-kicker who had invested in apartment buildings, evaluates each purchase using data from multiple listing services, Google maps and reports from its own inspectors and appraisers.

An algorithm calculates a maximum bid for each home, taking into account the cost of renovations, the potential rent and target investment returns — right now the company averages about 8 percent per property on rental income alone. By 5:30 on a recent morning, Joe Maehler, a regional director in Waypoint’s Southern California office, had logged onto his computer and pulled up a list of about 70 foreclosed properties that were being auctioned later that day in Riverside and San Bernardino Counties.

Looking at a three-bedroom bungalow in San Bernardino, he saw that Waypoint’s system had calculated a bid of $103,000. Mr. Maehler, who previously advised investors on commercial mortgage-backed securities deals, clicked on a map and saw that rents on comparable homes the company already owned could justify a higher offer. The house also had a pool, which warranted another price bump.

By the time the auctioneer opened the bidding on the lawn in front of the San Bernardino County Courthouse at $114,750, Mr. Maehler had authorized a maximum bid of just over $130,000.

As the auction proceeded, Waypoint’s bidder at the courthouse remained on the phone with Mr. Maehler in the company’s Irvine office about 50 miles away.

“Stay on it,” Mr. Maehler urged as the bidding went up in $100 increments. The bidder clinched it for $129,400.

The sting of the housing collapse, driven in part by investors who bought large bundles of securities backed by bad mortgages, makes some critics wary of the emerging market.

“I don’t have a lot of confidence that private market actors who now see another use for these houses as rentals, as opposed to owner-occupied, are necessarily going to be any more responsible financially or responsive to community needs,” said Michael Johnson, professor of public policy at the University of Massachusetts, Boston. Waypoint executives say they plan to be long-term landlords, and usually sign two-year leases. Once the company buys a property, it typically paints the house and installs new carpets, kitchen appliances and bathroom fixtures, spending an average of $20,000 to $25,000. It tries to keep existing occupants in the house — although only 10 percent have stayed so far — and offer tenants the chance to build toward a future down payment.

Waypoint’s inspectors are evaluating hundreds of properties that Fannie Mae and Freddie Mac are offering for sale. Because the inspectors are not allowed inside these homes, they are driving by 40 of them a day, estimating renovation costs by looking at eaves, windows and the conditions of lawns.

Rick Magnuson, executive managing director of GI Partners, Waypoint’s largest investment partner, said “the jury is still out” on whether Waypoint — or any other investor — can manage such a large portfolio. But, he said, “with the technology at Waypoint, we think they can get there.”

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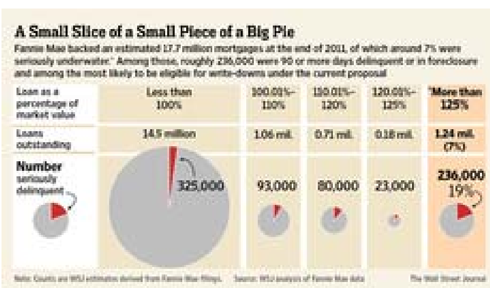
April 2, 2012, 11:51 AM ET

Is Mortgage-Debt Forgiveness Worth the 'Moral Hazard'?

It's been one of the most vexing problems of the mortgage crisis: Do policies to restructure loans for underwater borrowers encourage homeowners who don't need help to default?

The federal regulator for mortgage-finance giants Fannie Mae and Freddie Mac said creating such a "moral hazard" is one of his top concerns now that the Treasury Department has offered to subsidize the costs of debt forgiveness for loans backed by the firms.



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"What I'm really worried about is what happens if you put an incentive shift out there that says, 'If you can demonstrate hardship, you can have your debt forgiven,'" said Edward DeMarco, the acting director of the Federal Housing Finance Agency, in an interview with The Wall Street Journal.

Right now, about three-quarters of homeowners who are deeply underwater on mortgages backed by Fannie and Freddie are still making payments. ("Underwater" borrowers owe more than their homes are worth.)

There's been little research on the subject, in part because the speed and depth of the housing price-crash of the past five years has little national precedent.

One study suggests such concerns aren't without reason. In 2008, Bank of America agreed to modify mortgages in a settlement related to allegedly predatory lending practices at Countrywide Financial Corp. A study published in January 2011 by economists at Columbia University concluded that Countrywide's relative delinquency rate "increased substantially…during the months immediately after the public announcement of settlement."

Moreover, the borrowers most likely to default after that announcement "were the borrowers least likely to default otherwise."

Christopher Mayer, an economist at Columbia Business School and one of the study's authors, says the risk of those strategic defaults is "certainly something to be worried about." But he adds: "You can't point to this and say, 'Well we can't do any modifications.'"

Most modifications today reduce monthly payments by lowering the interest rate, extending the loan term, and offering forbearance, where payments aren't required on a portion of the loan balance. So far, Mr. DeMarco says the performance of modified mortgages depends most heavily on how much a borrower's monthly payment has been reduced—not the extent to which a borrower is upside-down on the mortgage.

"We're just not seeing the borrowers' willingness to pay vary by their loan-to-value," said Mr. DeMarco.

But advocates of write-downs say banks can design programs that help limit their appeal to only the most desperate homeowners. “You need to introduce frictions to achieving principal write-down so that those who really need it, get it, and those who don’t really need it will see that the other guy is getting not a windfall,” says Laurie Goodman, senior managing director at Amherst Securities Group LP.

One potential “friction,” for example, could limit the program only to borrowers who were delinquent at the time the program was announced. Others have suggested a debt-for-equity swap that would allow Fannie and Freddie to share in any future appreciation.

Bloomberg News

William Dudley, president of the Federal Reserve Bank of New York

The program under consideration by Fannie and Freddie would only modify loans for homeowners who are already behind on their payments or highly at risk of default—and not all of those borrowers would receive write-downs under complex formulas that haven’t been made public. In other words, borrowers who default in order to receive help could end up getting nothing.

Some advocates of principal write-downs say that lenders may actually be creating a moral hazard today by failing to craft adequate solutions for deeply underwater homeowners. William Dudley, president of the Federal Reserve Bank of New York, earlier this year spoke out in favor of principal reductions for borrowers who are current on their mortgages.

> *I am uncomfortable with the notion that “underwater” borrowers who owe more on their mortgages than their homes are worth should have to go delinquent before they have a chance of securing a reduction in their mortgage debt. I believe we should also develop a program for earned principal reduction for borrowers who are underwater but keep on making their mortgage payments...*

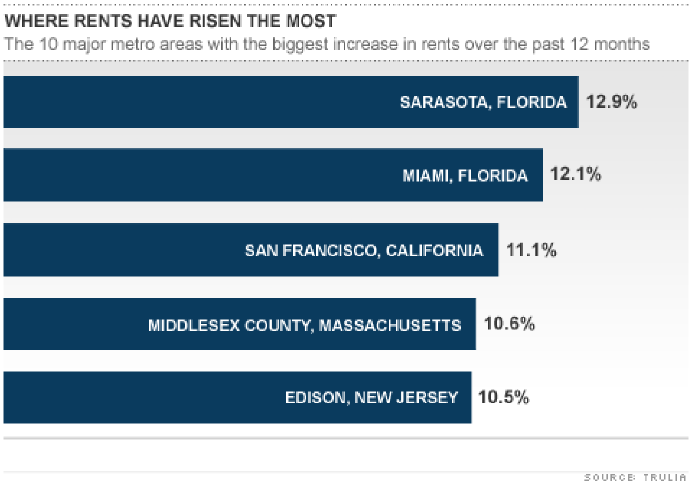
> *It is admittedly challenging to predict how underwater borrowers will ultimately perform and this performance will be sensitive to the path of home prices. Nonetheless, analysis by my staff that looks at likely borrower behavior over an extended time horizon suggests that without a significant turnaround in home prices and employment, a substantial proportion of those loans that are deeply underwater will ultimately default — absent an earned principal reduction program.*

Readers, what do you think: Should policy makers bite the bullet and encourage more loan forgiveness to prevent a big uptick in strategic defaults in the coming years, or is that only going to invite a greater moral hazard?

CNNMoney
A Service of CNN, Fortune & Money

Rents keep rising as home prices stagnate

By Les Christie @CNNMoney April 5, 2012: 4:36 PM ET



"Buying a home is more affordable than renting now in almost every part of the United States," said Jed Kolko, chief economist for Trulia.

NEW YORK (CNNMoney) -- Renting used to be cheaper than buying. But in many U.S. cities that's no longer the case, as rents continue to climb and home prices stagnate.

While asking prices for homes declined 0.7% over the past 12 months through March, rents rose 5%, according to a report released Thursday by real estate listing site Trulia.

The median rent for all types of rental homes hit $1,350 a month in March, up from a median of $1,285 a month 12 months ago, Trulia reported.

"Buying a home is more affordable than renting now in almost every part of the United States," said Jed Kolko, chief economist for Trulia.

Several metro areas recorded double-digit percentage increases in rental rates.

In Sarasota, Fla., the average rent jumped 12.9% year-over-year, the biggest increase of any of the 100 largest metro areas Trulia surveyed. **Miami** and San Francisco saw the next biggest increases, with rent hikes of 12.1% and 11.1%, respectively.

The metro areas that sustained the highest rent increases were a decidedly mixed bag, but obviously shared one factor: rising demand for a limited supply of rental units.

Low-ball appraisal: Mortgage denied

The national vacancy rate for apartments fell 0.3 percentage points during the first quarter to 4.9%, its lowest point since late 2001, according to a separate report from Reis Inc., a real estate research firm. With such limited availability, it has put pressure on rentals of all types.

In cities like Miami that were hit hard by the housing bust and recorded a **high number of foreclosures**, all of the displaced residents have to live somewhere.

"A lot of people who were owners lost their homes in the bust in these places," said Kolko. Many of them turned to the rental market, boosting demand and driving up rents, he said.

Other cities have put constraints on the construction of new multi-family housing, thereby limiting supply. For example, in **San Francisco**, where the median rent is a whopping $2,625, there are few tracts of land available to develop, raising demand for housing and pushing rents there higher.

Several Rust-Belt cities also saw large rent increases in the past year, including **Indianapolis**, where rents went up 9.7%, and **Columbus, Ohio**, where they jumped 9.3%.

These cities have seen big gains in the industrial sector, which have led to a growing number of jobs and higher rents, said Kolko. As hiring levels off, he does not expect the big rent increases to continue.

Buying a home is cheaper than renting

Meanwhile, asking prices for homes nationwide crept lower over the past 12 months, according to Trulia.

That, along with record low mortgage rates, has made buying a home more affordable than it's ever been and a bargain compared to renting. However, many Americans will not be able to seize this historic opportunity to become homeowners, said Kolko.

Unemployed, too broke to come up with a down payment or with credit scores too battered to qualify for a mortgage, many people simply cannot qualify to buy a home right now, according to Kolko

With fewer consumers able to make the leap into homeownership, rents could continue to climb higher, he said. ■

Find homes for sale

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April 4, 2012, 8:30 AM ET

Are Mortgage Credit Standards Loosening? (Hint: No)

It's no surprise to anyone who has applied for a loan recently that banks are being far more careful. But a new report shows just how tight conditions have become — and how even borrowers with favorable credit profiles are being denied.

Loans closed by banks and mortgage lenders in February had borrowers with a credit score of 750, up from 740 six months earlier, and an average loan-to-value ratio of 76%. The average denied loan had a credit score of 699 and a loan-to-value ratio of 83%.

"Talk about high-quality loans — those are pristine," says Jonathan Corr, chief operating officer of Ellie Mae, a mortgage software provider that tracks the characteristics of loans run through its platform.

Most mortgages today are being backed by federal agencies such as the Federal Housing Administration or through mortgage-finance giants Fannie Mae and Freddie Mac. While lenders will still underwrite FHA-backed loans with credit scores of 620 and down payments as low as 3.5%, they have sharply tightened up their lending standards for Fannie- and Freddie-backed mortgages out of concern they'll have to buy back the loan if it defaults.

For refinancing, the Ellie Mae report shows that the average borrower going through Fannie and Freddie had a credit score of 770, considered extremely high. (The highest score is 850, but not many borrowers are above 800.)

To get a different idea of how hard it's become for some borrowers, consider this: the average credit score for a "conforming" refinance mortgage through Fannie and Freddie that was denied in February stood at 720, which had traditionally been considered good credit.

Conforming loans approved to purchase new homes had an average credit score of 764 and an average down payment of 22%. Applications that were denied had an average credit score of 732 and an average down payment of 19%.

While banks first began tightening credit standards as the housing downturn deteriorated four years ago, "it still seems like it's getting a little tighter," says Mr. Corr.

Moreover, Fannie and Freddie are charging higher fees to borrowers who have less-than-perfect credit or down payments of less than 25%. The upshot is that "if you want to get the best rates that are out there right now, you need to have a really high credit score," says Mr. Corr. If you're below a 740 credit score, "you can qualify, but you're maybe not getting the lowest rates."

FHA borrowers tend to have less pristine credit profiles, though even that has changed. The agency has often served first-time buyers.

The average credit score for a refinance applicant who received an FHA loan in February stood at 722, up from 706 in August. Purchase loans backed by the FHA that were approved had an average credit score of 701 with an average down payment of 5%.

FHA loans could be harder for some borrowers to come by beginning this week, when a new rule took effect barring FHA loans to borrowers with outstanding credit disputes of at least $1,000. Previously, the restriction didn't automatically bar someone from getting an FHA loan, though it did require court-ordered judgments to be paid off.