The New York Times

June 28, 2012

Speeding Up Refinances

By BETSY VERECKEY

MANY large financial institutions are facing backlogs of mortgage applications as more homeowners take advantage of low interest rates and the government-sponsored Home Affordable Refinance Program, or HARP.

Borrowers looking to accelerate the process are finding some relief from brokerages and community banks that are not servicing HARP loans.

“We’ve heard stories about 60-day to 90-day loan waiting periods in some cases,” said Michael Fratantoni, the vice president for research and economics of the Mortgage Bankers Association, adding that larger banks are “running at full capacity.”

According to the Mortgage Bankers Association weekly survey released Wednesday, nearly 80 percent of the mortgage applications were for refinancing; previous weeks’ surveys showed roughly a quarter of the transactions were HARP-related. HARP was created by the federal government to simplify the refinances of homeowners with mortgages owned or guaranteed by Fannie Mae and Freddie Mac, who seek less onerous loan terms. The program was expanded last fall as HARP 2.0.

HARP borrowers typically refinance with the banks that originally serviced their loans, because those banks already have their information, Mr. Fratantoni said, and “there’s potential for it to be a less painful process.”

Still, tighter lending standards precipitated by the mortgage crisis have made for an arduous application process.

Andrew Latos, a real estate lawyer in Astoria, Queens, who has represented clients in transactions with big banks and who worked with a broker to service his own home loan, says he charges more for closings these days, because “a two-hour closing can quickly become a five- or six-hour closing.”

Mortgage brokers, for their part, are reporting an increase in business from those looking to streamline the entire process.

“We have direct contact with the banks, so we always know what’s going on with your file,” said Vanessa Thatcher, a senior loan officer with Atlantic Home Capital in Ronkonkoma, N.Y., explaining that a broker can keep track of the application as it “goes through so many hands” at a large financial institution. Ms. Thatcher charges a fee of 1 to 2 percent of the total loan amount.

Brokers can also act as financial consultants. “A good percentage of the people who call me to refinance, I tell them not to,” said Mark Yecies, the president of SunQuest Funding in Cranford, N.J. He recalled a borrower who recently came to see him after being told he was a prime candidate for a refinance. Mr. Yecies ran the numbers and found that a refinance didn’t make sense, because the majority of the borrower’s payment was principal.

Borrowers might also want to consider refinancing with a community bank. New York Community Bank, for example, does not service HARP-eligible borrowers and is able to respond faster to non-HARP refinance requests, said Stephen Trayte, a senior vice president and director of residential credit for the NYCB Mortgage Company, a subsidiary of New York Community Bank.

But even his bank has been experiencing delays because of higher volume. He recommended that borrowers lock in a rate.

“Normally, we do the whole transaction in less than 30 days,” said Mr. Trayte, estimating that the average time has reached 45 days. “There is about a 50 percent delay just because of the volume of activity, and that’s without having HARP transactions.”

To handle increased demand, big banks like Wells Fargo, Bank of America and JPMorgan Chase have been adding staff members and underwriting centers.

Wells Fargo recorded a 31 percent jump in HARP volume after implementing HARP 2.0, said Vickee J. Adams, a spokeswoman. She estimates that it takes 90 days to complete a refinance.

Borrowers will have a better chance of moving through the process in less time, she said, if they “follow the necessary steps to complete their applications and submit supporting documents in a timely fashion.”

THE WALL STREET JOURNAL.
WSJ.com

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More Homeowners Get Mortgage Principal Reduced, but Numbers Still Small

The number of troubled U.S. homeowners who have been able to get their home-mortgage balances reduced remains small but is on the rise, according to a federal banking regulator.

More than 10,400 homeowners received principal reductions from their lenders in the first three months of the year, the **Office of the Comptroller of the Currency** said Wednesday in its quarterly "mortgage metrics" report. The total was up 5.4% from about 9,870 in the last quarter of 2011 and more than double around 4,800 in the first quarter of last year.

Banks are granting homeowners write-downs mainly if they hold those loans on their balance sheet. They typically do so for loans that are significantly "under water"–meaning that the homeowner owes far more on the property than the home is worth.

Banks aren't permitted to grant principal reductions on loans sold to **Fannie Mae** and **Freddie Mac**, the federally controlled mortgage investors. The Obama administration at the start of this year offered new incentives to encourage Fannie and Freddie to allow write-downs, but their federal regulator has yet to decide whether to accept that offer.

Principal reductions made up 10.2% of all loan modifications completed in the first quarter, compared with 8.5% in the final quarter of last year and 3.0% in the first quarter of 2011, the regulator said.

Besides Fannie and Freddie, other government agencies including the **Federal Housing Administration and Veterans Administration** don't grant principal write-downs.

Fannie and Freddie use a similar form of loan help known as principal forbearance. That kind of assistance program doesn't require lenders to forgive debt. Instead, lenders set aside a portion of the loan and don't require any payments on it until the borrower sells the home or pays off the loan.

Lenders covered by the OCC report enacted more than 25,000 principal-forbearance plans in the first quarter last year, down from about 28,500 in the fourth quarter of last year but up from about 18,000 in the first quarter of 2011.

Foreclosure reviews to offer cash, legal remedies

Carolyn Said
Updated 04:01 a.m., Friday, June 22, 2012

Federal regulators probing banks' alleged mishandling of foreclosures said Thursday that some homeowners might get as much as $125,000 each in remediation and would retain the right to sue.

"We released a financial remediation framework today which ensures that similarly situated borrowers are treated consistently across servicers and to help borrowers considering applying for review to better understand what the potential compensation may be," said Bryan Hubbard, a spokesman for the Office of the Comptroller of the Currency, which is overseeing the Independent Foreclosure Review, along with the Federal Reserve.

The deadline to apply was extended by two months, until Sept. 30. More information is available at www.independentforeclosurereview.com.

The detailed framework lays out a variety of remedies and gives homeowners found to have been wronged the option to ask for their house back if it has not been sold to a third party and accept a smaller sum of money.

For instance, people who successfully completed trial loan modification plans but lost their homes anyway can get $125,000 plus whatever equity they had at the time of foreclosure, or can get $15,000 and their house back when that's possible. Those options are available to people who lost their homes when they were not in default.

Right to other remedies

Homeowners whose applications for loan modifications were denied in error can get $5,000 and their houses back if possible, or $15,000 plus whatever equity they may have had. People who requested a loan mod but never got the chance to apply can get $2,000; those who were never approached by their servicer to be offered a loan mod can get $1,000.

Consumer advocates said the most encouraging aspect is that people who accept compensation retain the right to pursue other remedies, such as lawsuits, but had a variety of critiques of the program.

"For the category of borrowers who should have received modifications but lost their homes instead, the remedy of $15,000 seems outrageous," said Kevin Stein, associate director of the California Reinvestment Coalition. "From a practical standpoint, that doesn't seem much different than people who were paying on their trial loan mods" who can get $125,000.

Hubbard said the distinction is that people enrolled in loan mod plans who lost their homes had contracts that the banks violated. The banks did not have a legal obligation to offer loan mods, so didn't break a promise for homeowners who didn't get a chance to be in a loan mod plan. The "vast majority" of people are more likely to have at least been in a trial loan mod plan, he said.

Paul Leonard, director of the California office of the Center for Responsible Lending, said he thinks the process, which calls for banks to hire independent consultants to do the reviews, lacks transparency.

"Most fundamentally, they haven't released the instructions about what the independent consultants are supposed to be doing," he said. "And there hasn't been any information disclosed about what those reviews have found to date."

Up to 4.5 million homes

The reviews, which grew out of the robosigning controversy but are not limited to robosigning issues, cover mortgages held by the nation's largest banks that were anywhere in the foreclosure process in 2009 and 2010. Regulators previously said as many as 4.5 million households may be eligible.

As of last month, 193,630 people had requested a free review and 144,817 were randomly selected for review by the consultants. Hubbard said only 11,000 reviews have been completed, and their remedies are not yet set because the framework was needed first. Regulators will provide a report after the entire process is complete, but Hubbard didn't know how long that would take.

Reaching homeowners

Critics said the response rate seems low.

"We are glad to see that they have extended the time frame," said Jan Kruse, spokeswoman for the National Consumer Law Center in Boston. "We are glad to see that they are going to be compensating homeowners due to servicer abuses. The questions that remain are: Will this reach enough homeowners to make a difference, and will it adequately compensate homeowners?"

Banks covered by the review are: America's Servicing Co., Aurora Loan Services, Bank of America, Beneficial, JPMorgan Chase, Citibank, CitiFinancial, CitiMortgage, Countrywide, EMC, EverBank/Everhome Mortgage, First Horizon, GMAC Mortgage, HFC, HSBC, IndyMac, MetLife, National City, PNC, Sovereign Bank, SunTrust Mortgage, U.S. Bank, Wachovia, Washington Mutual and Wells Fargo.

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latimes.com

California lawmakers pass historic foreclosure protections

State lawmakers approve what would be the nation's strongest legislation to help financially troubled borrowers stay in their homes. Gov. Jerry Brown is expected to sign them this week or next.

By Marc Lifsher and Alejandro Lazo, Los Angeles Times

July 3, 2012

SACRAMENTO — California lawmakers have passed legislation that would provide homeowners with some of the nation's strongest protections from foreclosure and such aggressive bank practices as seizing a home while the owner is negotiating to lower mortgage payments.

After years of distress in the housing and mortgage markets, during which lenders seized nearly a million California houses, legislators Monday sent a pair of Assembly and Senate bills to Gov. Jerry Brown designed to help financially troubled borrowers stay in their homes.

The legislation would make California the first state to prohibit lenders from "dual tracking," the practice of negotiating with clients to modify a mortgage so that payments become more affordable while simultaneously pursuing foreclosure. In such cases, homeowners can wind up being evicted even though they had been working with the bank to modify their loans.

The measures would outlaw so-called robo-signing — the improper or faulty processing of foreclosure documents— and would allow state agencies and private citizens to sue financial institutions, under limited conditions, for economic compensation and for additional civil damages of up to $50,000 if lenders willfully, intentionally or recklessly violate the law. No lawsuit could go forward if the bank or servicer first fixes the problem with documentation or procedures, according to the bills.

The legislation, SB 900 and AB 278, also would simplify dealings between homeowners and their banks or loan servicers by requiring that clients be given a single representative to work with, helping to prevent bureaucratic runarounds.

"This has been an incredibly long and tortuous process to get the kinds of basic protections that borrowers have long needed throughout this six-year crisis," said Paul Leonard, California director of the Center for Responsible Lending in Oakland.

The banking and real estate industries opposed the foreclosure-prevention bills, calling them well-meaning but overly complicated and so legally ambiguous that they would spur frivolous lawsuits.

It is crucial that "we don't give borrowers and enterprising attorneys an opportunity to delay foreclosures at will," said Dustin Hobbs, a spokesman for the California Mortgage Bankers Assn.

Bankers also said the bills would increase real estate transaction costs, slow the housing recovery, tighten credit and lower home values.

Senate Minority Leader Bob Huff (R-Diamond Bar) on Monday called home foreclosure "a significant and life-changing problem for many Californians and many California communities."

"But rather than find realistic and reasonable solutions to help those in need, Democrats are wielding a sledgehammer on our fragile housing market," Huff said.

A two-house conference committee made a number of amendments in an effort to address some of the criticisms made by the banks.

Committee members narrowed the measures to apply only to modifications on primary, or "first-lien," mortgages. The compromises also limited the protections to owner-occupied residential properties with four or fewer living units. Mortgage holders who bought property for investments and so-called strategic defaulters, who turn in keys and voluntarily go into foreclosure, aren't covered by the proposed law.

On Monday, the Assembly voted 53-25 in favor of the pair of bills that came out of the conference committee; the Senate passed the bills on a 25-13 vote.

Brown, who hadn't previously indicated whether he supported the bills, issued a statement Monday saying the legislation "establishes important consumer protections that are long overdue." Gil Duran, Brown's press secretary, said that the governor "is expected to sign" the bills this week or next and that they would take effect Jan. 1.

The bills are the most controversial part of a Homeowner Bill of Rights legislative package, sponsored by California Atty. Gen.Kamala D. Harrisand written by 10 Democratic lawmakers, including the state Senate and Assembly leaders. The package is modeled on a multi-state, $25-billion settlement of a foreclosure lawsuit against five large banks; it would extend protections to more homeowners and would lock the provisions into state law.

"Passing these key elements of the Homeowner Bill of Rights represents a significant step forward for struggling homeowners," Harris said. "These common-sense reforms will require banks to treat California homeowners more fairly and bring more transparency and accountability to their practices in our state. Responsible homeowners will have a better shot to keep their homes."

The housing crisis has hammered California: Although mortgage delinquencies and home repossessions have eased, more than 362,000 California homes were in foreclosure or seriously delinquent as of March 31, Mortgage Bankers Assn. data show. About 30% of all California homes with mortgages would not be able to command a sales price high enough to pay off the mortgage, according to research firm CoreLogic.

If the bills had been law a few years ago, they would have saved many homeowners much time, anxiety and heartache, said Rose Gudiel, who knows the problems all too well. The state worker from La Puente ran into unexpected financial difficulties in 2009 and fell slightly behind on her mortgage payments.

For three years, Gudiel said, she tried to get a loan modification but couldn't get a straight answer about her status. She received a foreclosure notice in early 2011 but refused to vacate her home. The bank granted new terms only after Gudiel, backed by activists with the Alliance of Californians for Community Empowerment, made the news by getting arrested during a protest.

Gudiel, 35, said she can afford to stay in her three-bedroom house, where she lives with her parents and brother, now that her monthly mortgage payment has dropped to $1,800 from $2,400.

She said she likes the legislation: "It's a good thing, because at least you're able to get an answer and don't have to go through the extremes that I had to do."

Some of the proposed rules that state lawmakers approved Monday are already finding their way to borrowers because of the national mortgage settlement and other agreements reached last year between banks and federal regulators.

Alberto Gutierrez of Panorama City, another homeowner and alliance activist, said he gave up in frustration trying to get a loan modification from his bank last year. But recently the bank assigned him an officer to handle his case.

"Within the last four months," the 39-year-old Gutierrez said, "I have been able to make more headway than I did all of last year."

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THE ORANGE COUNTY REGISTER

Bidding wars could signal home sale recovery

By JEFF COLLINS
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When Andrew and Natalie Austin began shopping for a home last fall, they weren't prepared for war. But that's what they got.

Bidding wars were so common, they got outbid on three homes before someone finally accepted their offer on a two-story Mediterranean in Anaheim Hills.

"We would put an offer in, and within 24 hours, cash buyers would come in," Andrew Austin said. "It was frustrating."

Century 21 agent Valentina Sharp had the opposite problem when she entered a four-bedroom, three-bath house in Fullerton into the multiple listing service on a Friday night back in May. By noon the next day, she had the first of three offers. Within four days, the house sold for $11,000 more than the asking price.

"There are so many buyers out there, and so few homes," Sharp said. "If you prepare it, and it's priced right and it shows right, you always get multiple offers."

How things have changed.

After several false starts, housing experts are cautiously optimistic that a housing recovery might, just might, be under way.

Foreclosure rates are falling, and inventory – the number of homes for sale – has dwindled to pre-recession levels, they say. Interest rates are five percentage points below the historic average, homes are more affordable than ever and prices appear to be bottoming out.

All that has propelled hordes of smart buyers back into the market and created bidding wars for the most desirable and aggressively priced homes. Multiple offers are occurring across the board, affecting not just bank-owned foreclosures and underwater "short" sales, but standard sales of "non-distressed" homes as well.

Housing bear Stan Humphries, chief economist for Zillow.com, is among those seeing signs of a turnaround. For years, he warned that the market still was far from bottom.

"I feel a little more positive about the housing market," Humphries said at the National Association of Real Estate Editors conference in Denver nine days ago. "We see a lot of markets that have hit bottom."

Even more enthusiastic was National Association of Realtors Chief Economist Lawrence Yun.

"The market is healing," Yun told reporters at the NAREE conference. "This time next year, there could be a 10 percent price appreciation. I would not be surprised to see that."

SALES SPRINGING BACK

DataQuick numbers bolster the optimism.

During the spring home buying months of March through May, 9,055 Orange County homes have changed hands this year. That's up 17 percent from the spring of 2011, and it's the strongest spring sales tally in six years.

Low prices are helping to fuel that demand.

The average median home price – or price at the midpoint of all sales – was $418,333 this spring, 2 percent below spring 2011 and the second-lowest spring price since the mortgage meltdown in 2007.

But even prices could be rebounding this year. For the first time in 18 months, May's median home price for Orange County was higher than the same month a year earlier, according to DataQuick.

"House prices are increasing again this spring," said Mark Fleming, chief economist of data giant CoreLogic. "They're doing it much differently than in years past because there's a much more fundamental supply-and-demand balance nationally."

Coldwell Banker broker Scott P. Brady, president of the Anaheim-based Pacific West Association of Realtors, said local agents were surprised at how quickly the market turned around this spring – particularly at the lower-priced end of the market.

"Buyers collectively woke up one day and said it's cheaper to buy than it is to rent. (Mortgage) rates are at all-time lows, prices are down 30 percent from the peak for single-family homes, and you put those two together ... anybody who can buy a home, flat out wants to buy a home," Brady said.

"It may be anecdotal, but my belief is, and I've talked to pretty much everybody, homes that couldn't sell six months ago at a certain price, now sell very quickly at the same price. I certainly think that in the last six months, we've seen prices not only bottom out, but probably go in the other direction."

There are new headaches.

Agents noticed that rising prices make it harder to get a loan appraisal that's high enough since appraisals are based on past sales – some as old as six months ago, when prices still were in the doldrums.

"The biggest concern you get now when people sell a home is will it appraise," Brady said.

BOTTOMING OUT

Tolga Tarhan, 30, voted with his wallet that the housing market finally has hit bottom.

Tarhan, co-owner of NetBrains, a software engineering firm, and fiancée Jackie Williams, 28, made a down payment on a brand new condo in the Irvine Co.'s popular Stonegate project in north Irvine last December. They moved into the two-story, two-bedroom home in May.

"I felt like we were sort of at the bottom," Tarhan said. "If the market was still going down, I would have rented another year."

Tarhan and Williams started looking at existing homes last summer, hoping to get a house. But the new-home market seemed like a better deal, so they decided to compromise for now, and if Tarhan's business does well, they'll rent out this condo and buy a house down the road.

"We have extremely attractive interest rates, extremely attractive prices," he said.

"Buyers have come to their own conclusions that it is smart to buy now," Steve Thomas of ReportsOnHousing.com wrote in his latest report. "The only trouble with that is scores of shrewd buyers have figured it out all at the same time. Thus, there is tremendous competition."

Thomas reported that Orange County's "distressed inventory" of foreclosures and short sales now account for 18 percent of the market, down from 35 percent of the market in the spring of 2011.

"There is a palpable sense that we not only have reached bottom, but that we are starting to recover," he wrote.

CASH IS KING

Redfin agent Paul Reid said that in some ways it's reminiscent of the housing peak, but with a key difference: No longer do you see 100 percent, no-down-payment mortgages.

"Now," said Reid, "cash is king."

Homes in the $300,000 to $500,000 price range are most in demand.

"If you have a house in that price range and it's standing, it's going to get offers," he said. "You have a lot of investors, and you have a lot of first-time buyers. It makes sense. ... There's a lot of cash that's looking for a place to go."

Andrew and Natalie Austin decided to quit being renters because they didn't want to miss out on the low interest rates and the low prices, Andrew Austin said.

The Austins looked at 25 homes during their house hunt, and quickly abandoned hopes of scoring a bargain short sale.

"There's definitely an influx of buyers," Andrew Austin said. "And not many sellers."

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Rents keep rising, while home prices inch higher

By Les Christie @CNNMoney July 3, 2012: 10:26 AM ET

NEW YORK (CNNMoney) -- As if record low mortgage rates and beaten down home prices weren't enough to get prospective home buyers off the fence, there's another factor that has made the case for buying even stronger: rising rents.

U.S. rents rose an average of 5.4% over the 12 months ended June 30, according to real estate website Trulia. Demand from former homeowners displaced by foreclosure and potential homebuyers who failed to qualify for mortgages have helped to send rents skyward.

"With rents rising faster than prices in most markets, buying is getting even more affordable relative to renting," said Jed Kolko, Trulia's chief economist.

Meanwhile, asking prices on homes listed for sale inched up a mere 0.3% over the same period, according to Trulia's data. And while that's the fourth increase in home prices in five months -- an indication that prices may be starting to recover -- the gains are modest compared to the increases in rental rates over the past 12 months.

Where renters have been hit hardest: Among the 25 largest housing markets in the country, the steepest rent increase was seen in **San Francisco**, where new renters are paying 14.7% more than they did a year ago. Meanwhile, over the same period, asking prices on homes for sale climbed a mere 2.5% in that metro area.

Related: Best cities to buy rental properties

Oakland, **Denver, Miami** and **Boston** also recorded double-digit rent increases ranging from 10.3% to 11.2%. Yet, only in one of those cities, Miami, did asking prices increase at a higher percentage than rents. In Boston, asking prices on homes actually fell 0.3%.

Smaller metro areas that recorded large rent increases included **Fort Worth, Texas**, at 15.5%, Edison, N.J., Colorado Springs, Colo., and **Columbus, Ohio**. Of those markets, **Colorado Springs** had the most substantial gain in asking prices on homes for sale, an uptick of 4.3%. In Edison, prices declined 9%, according to Trulia.

Will home prices keep climbing? Most of the markets that saw the biggest home-price increases were among those hit hardest by the foreclosure mess.

In fact, seven out of the 10 metro areas with the largest price increases have a high percentage of homes in foreclosure, including **Phoenix** (up 18.9%), Miami (up 16.1%), and **Cape Coral, Fla**. (up 14.9%).

Related: Most affordable cities to buy a home

As a result, Kolko does not expect the rallies to continue. "These increases will shrink or reverse as the backlogged foreclosures in these metros hit the market," he said.

Longer term, he said, home price gains will be better in slower growing markets that were spared the worst of the bubble and have strong job growth, cities like Denver, **San Jose, Calif.**, and **Austin, Texas**.

"Their recent price gains are less dramatic than Miami and Phoenix but are less at risk," said Kolko. "Slow and steady wins the housing recovery." ■

Find homes for sale

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latimes.com/business/realestate/la-fi-harney-20120701,0,7521771.story

latimes.com

FHA rescinds tough new credit restrictions on loan applicants

The withdrawn policy change, which had been scheduled to take effect Sunday, would have affected borrowers with collections or disputed-bill accounts in their credit files.

By Kenneth R. Harney

3:53 PM PDT, June 30, 2012

WASHINGTON — In a policy switch that could be important to thousands of applicants seeking low-down-payment home mortgages, the Federal Housing Administration has rescinded tough new credit restrictions that had been scheduled to take effect Sunday.

The policy change would have affected borrowers who have one or more collections or disputed-bill accounts on their national credit bureau files in which the aggregate amounts were $1,000 or more. Some mortgage industry experts estimate that if the now-rescinded rules had gone into effect, as many as 1 in 3 FHA loan applicants would have had difficulty being approved.

Under the withdrawn plan, borrowers with collections or disputed unpaid bills would have been required to "resolve" them before their loan could be closed, either by paying them off in full or by arranging a schedule of repayments. In effect, if you couldn't resolve the outstanding credit issue, you might not be able to obtain FHA financing.

The rescinded policy would have replaced more lenient rules that allow loan officers to discuss the accounts with applicants and determine whether they represented material risks that the borrower might fail to make the mortgage payments.

Disputed bills are commonplace in many consumers' files, but may not indicate serious credit risk. Rather, they might simply be a disagreement between merchant and customer over price, quality of the product or the terms of the credit arrangement.

Open collection accounts are also common but tend to be viewed more ominously by lenders since they often indicate nonpayment over an extended period. Unpaid creditors frequently charge off unpaid accounts, then sell the files to collection agencies who pursue the customer and report nonpayments to the national credit bureaus — Equifax, Experian and TransUnion.

Critics of the policy complained that it tilted the scales too heavily in favor of creditors and disproportionately harmed FHA's traditional core borrowers — low- to moderate-income families, first-time buyers and minority groups. Other critics argued that the policy would not help the FHA weed out serious credit risks since private lenders already are doing so by imposing their own credit score and other restrictions on applicants, known as "overlays" in the mortgage industry.

Clem Ziroli Jr., president of First Mortgage Corp. in Ontario, says that although FHA accepts FICO credit scores as low as 580 — FICO scores run from 300 to 850, with lower numbers portending higher risks of default — many large lenders require 640 scores or higher. Why? Because they are super-cautious in the post-housing-bust marketplace and don't want to be required by the FHA to "buy back" a mortgage that had a marginal FICO score at application, then went to foreclosure.

As it is, the FHA's recent average scores are far higher than historical norms. According to an analysis by Ellie Mae, a company that tracks conventional and FHA loan originations, the average FICO score for an FHA-approved loan to buy a house in May was 713. Though down slightly from March, when average FICOs for purchases hit 724, according to Ellie Mae, both scores suggest a strong trend toward financing applicants who have relatively fewer issues in their credit files. This contrasts with the FHA's long-standing tradition of helping "low- to moderate-wage earners and the underserved" — often minorities — to buy homes, Ziroli says. During much of the last decade, the FHA routinely financed borrowers with credit scores in the low to mid-600s.

Deputy Assistant Secretary Charles Coulter says the FHA's ongoing interest in reevaluating its credit policies — such as the rescinded collections and disputes rule — is "to find a balanced yet flexible approach to promote access to affordable credit while protecting the mortgage insurance fund." The FHA plans to issue a new rule soon that addresses collection accounts and disputes separately rather than lumping them into a single standard, agency sources said.

Meanwhile, if you plan to apply for an FHA loan and you think you have collections or disputes on file, here's the good news: You won't be forced to pay off or resolve the accounts before closing, but you are likely to have your application referred for manual underwriting, in which a loan officer takes a hard look at the facts and circumstances of your collections or disputed accounts. This will almost certainly slow down your approval. There are exceptions, according to the agency, such as when the disputed account is both less than $500 and more than 24 months old.

But beware lenders' overlay practices. They may get you turned down even if the FHA's more generous rules say you are acceptable.

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Study: Mortgage 'Mods' Help Borrowers – With Other Loans

Last week, the Journal's Jon Hilsenrath wrote about "an economic divide that separates Americans not by income or wealth but by their access to credit." Because of the housing crash that marred the credit records of millions of homeowners who missed mortgage payments, many Americans are unable to take advantage of low interest rates and the dirt-cheap money being lent by banks as a way of jump-starting the economy.

A study released recently by credit-rating agency TransUnion helps explain the situation. According to TransUnion, borrowers who received mortgage modifications after missing payments are more reliable borrowers in the future — for all types of loans, including credit cards and auto loans — than those who did not receive modification. Modifications can involve reducing interest rates, extending the term of a loan, waiving fees and, more rarely, writing down the principal balance of a loan.

TransUnion looked at 5 million mortgages originated before 2008 to borrowers who later fell behind by 120 days or more and received a modification. Borrowers who then took out a new credit card fell behind on their credit-card payments 13.6% of the time. In comparison, homeowners who did not receive a modification fell behind 17.1% of the time on new credit cards.

This might sound like a great argument for more widespread mortgage modifications, a topic that has been kicking around Washington for the last few years. But the TransUnion report also highlights a hard truth of the post-mortgage crash economy: About six in 10 borrowers who have received a modification were delinquent once again in the 18 months following the modification. In other words, for the majority of borrowers who got into a jam on their home loans and received help, mortgage modifications were an exercise in futility.

The main takeaway of the report, says Steve Chaouki, a vice president with TransUnion, is that the act of getting a modification "signals that borrowers are trying to make themselves better." Lenders should look at borrowers with a mortgage modification on their credit histories as better credit risks that those who just have a delinquency.

"Getting a mod is not necessarily the easiest thing to do, so it says a lot about the consumer's thinking. If you spend the effort to get a mod, it means you see a path out of your financial situation," Mr. Chaouki says. "It's almost like an affirmation of their desire to improve themselves."

Of course, this is to be expected in the midst of a prolonged economic downturn with sluggish job growth. But it's troubling because mortgage modifications have been pitched by some people as an economic stimulus that will provide more spending money for down-and-out homeowners. If those same homeowners need another bailout just 18 months later, that hardly seems like a lasting improvement on the situation.

According to TransUnion, the states with the worst rates of credit recidivism – or falling into delinquency after a modification – are Delaware (67.5%), Rhode Island (66.3%), Maine (64.3%), Florida (64.4%) and Texas (64.2%).

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WSJ.com

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The Tax Rules for Renting Out Your Vacation Home

By LAURA SAUNDERS

Summer is here, and so is this year's crop of summer rentals. In some areas, the market for vacation properties is even perking up after a string of down years.

If you are a vacation-home landlord or thinking of becoming one, it is time to review the tax rules on rental income from second homes.

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Vacation homes at the Port of the Islands development in Naples, Fla.

This isn't beach reading. Apart from one simple provision, this area is among the messiest in the tax code—"worse than luxury-car depreciation and almost as bad as the alternative minimum tax," says CPA Douglas Stives of Monmouth University in New Jersey.

First, the good news: One of the tax code's best freebies allows homeowners who rent out their property for 14 or fewer days a year to pocket the rental income, tax-free. Often called the "Masters exemption" because it is used by homeowners near the Augusta National Golf Club, who earn as much as $20,000 during the annual tournament, this provision also is popular with people living near Super Bowl sites or national political conventions.

It's available to anyone renting out a home, and the income doesn't have to be reported on the owner's tax return as long as the rental period is 14 or fewer days. The taxpayer can't take depreciation or maintenance deductions, but can deduct mortgage interest and property taxes on Schedule A.

This generous break can be taken only once a year, experts say, and it can't be taken at all if the home is rented for longer than 14 days.

Things get much more complicated if a home is "mixed-use"—meaning the owner uses it himself and rents it out. In that case he has to count the rental days and determine what percentage they are of the total number of days the property was used. That gives the percentage of expenses such as maintenance, utilities, property taxes, mortgage interest and depreciation that are deductible from the rental income.

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Here's a simple example: A homeowner has a beach house that is rented from June through August, and the owner's family uses it the last week of May and the first two weeks of September. Otherwise the house is closed.

So there are 113 total days of use, of which 92 are rental days. That means 81% of the expenses listed above can be written off against the rental income on the owner's Schedule E, according to Abe Schneier, a tax specialist at the American Institute of CPAs. The other 19% of the expenses aren't deductible, except the mortgage interest and property taxes, which appear on the owner's Schedule A.

Details matter. Days used by the owner to repair and maintain the property don't count anywhere in the tally, but taxpayers should be sure to document them carefully, because the Internal Revenue Service is suspicious about these deductions. The gold standard of proof is "contemporaneous records" such as time-stamped store receipts or a log.

"It wouldn't hurt to take pictures," Monmouth's Mr. Stives says.

Other caveats: The IRS may try to count days used by immediate family members as "personal days," even if relatives pay a market rent. Depreciation doesn't apply to land, only to structures, but it does extend to furniture and appliances. Whatever you do, don't exchange checks of the same amount with friends or relatives to create fictitious rental income.

What if, after all your figuring, the Schedule E shows a loss? The complications continue. If a taxpayer's personal use is more than 10% of the total days rented, then the losses aren't deductible, except for property taxes and mortgage interest.

If the personal use is less than 10% of the days rented, however, then joint filers with $100,000 or less of adjusted gross income can deduct up to $25,000 of losses against their ordinary income—a nice benefit. The deduction phases out for incomes above that and disappears at $150,000. But the unused losses carry forward and can be deducted in the future.

The bottom line: If you want to be a summer-rental landlord, either keep it simple or keep good records.

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