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Lenders return to condo market, but cash deals remain king

By Marilyn Bowden

While the residential mortgage market has loosened up for high-income buyers with good credit, experts say a return to pre-recession standards isn't likely.

"We're positively seeing a lot more lenders starting to lend in the condo market in the fourth quarter of last year and this year," said Mark Pordes, president of Pordes Residential Sales & Marketing, which focuses on luxury properties.

"Even for buyers from Latin America there is mortgage money available again for condos. As a matter of fact, there's even some for condo hotels, with a 40% down payment."

Still he said, about 80% of these transactions are all-cash deals.

Chris Damian, chief lending officer at Gibraltar Private Bank & Trust, said over the past six months a number of players have come back to the market.

"For the affluent buyer, right now there are plenty of options," he said. "There are not a lot of banks lending, but those who are out there are tripping over themselves to get them."

Many banks have loan goals to meet and shareholders to please, Mr. Damian said, and are looking at 2011 as a growth year.

"At Gibraltar, we never really stopped lending," he said. "In fact, 2010 was a record year. We made more than $240 million of residential loans in South Florida, mainly on the high end.

"Folks with consistent employment and good credit can command unbelievable rates and opportunities in the secondary market."

But real estate attorneys say there are still many, many problems.

"Except for the Federal Housing Administration (FHA)," said Michael Posner, a partner at Ward Damon, "the era of low-money-down mortgages is gone. People need to start with 20% down if they want to finance a house in today's market, and for that you need a good credit score – over 720.

"The problem is that the other 50% of people who aren't able to document income well or have lower credit scores or don't have enough money to

Photo by Maxine Usdan

"There are not a lot of banks lending, but those who are out there are tripping over themselves to get" affluent condo buyers, says Chris Damian, the chief lending officer at Gibraltar Private Bank & Trust.

put down will have higher interest rates of 7%-9% – if they can get a mortgage at all."

A look at the history of the mortgage market suggests that better terms for the ordinary buyer aren't likely in the near future, said Bill McCaughan, a partner with K&L Gates.

"Years ago, you could not get a mortgage loan unless you put 20% down," he said, unless it was guaranteed by the Veterans Administration, or VA.

"Then Private Mortgage Insurance, or PMI, companies began offering somewhat similar, but not identical, insurance where they would guarantee a portion of the loan, and lenders went up to 90% and even 95%."

At the height of the boom, Mr. McCaughan said, some were even offering 125% of the value of the property, "under the theory that everyone knows the price of real estate always goes up."

Now that that bubble has burst, he said, "lenders realized they can't continue to do this, so it's back to where they want 20% or more down. That will be the case, I believe, for a while."

Another barrier, Mr. McCaughan said, is the disappearance of the secondary market. Banks would sell the loans to mutual finds and other investors who would then sell mortgage-backed securities to thousands of investors, spreading the risk.

"It takes a $100-million investor to buy a tranche of loans," Mr. Posner said, "and they are not there now. Low rates hurt in that respect, because if lenders can't find buyers, they can't make loans."

Before the housing market can recover, he said, unemployment has to go down so that people are making money and can afford to buy homes, and existing foreclosures, which are driving down values, have to get flushed out.

"Low appraisals are causing problems," Mr. Posner said, because lenders will only lend up to 80% of the value of the appraisal price.

"Even if you have decent credit and income," he said, "banks are excessively underwriting these loans. Everybody is running with their tail between their legs because they're terrified of bad loans. Four years ago, if you were breathing you could get a loan. Now they want blood."

But more due diligence on the part of lenders is healthy, Mr. McCaughan said.

"It used to be that someone at the bank funding a mortgage would pick up the file, look at the loan application and make a determination," he said. "With the secondary market, it was all done on a computer screen that factors in a default rate of 3%."

"The good news is that time heals all wounds," Mr. Posner said. "We need the market, and it is one of the most self-correcting things. Rates will go up, which in the short run will hurt consumers but encourage lending."