THE NEWS

Good Headlines?

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BY REBECCA WALZAK

Hey, guess what's new? According to Richard Parsons in his August 17th commentary, there is a boom in bank lending. Banks such as Suntrust and JPMorgan Chase are experiencing increases ranging from 15.5% to 23%. Likewise, real estate values are going up and up. The trifecta of this development is of course the re-emergence of loan products that we never thought we would see again.

What in the world is driving these trends? Well for one thing the inventory of previously owned homes is still rather low while builders are introducing new community developments in all areas of the country. For another, there are now down payment assistance programs either already available or under discussion and banks and investors are hungry for more yield in this continuing low interest rate environment.

The primary result of all this news is that banks and investors are expanding their risk appetites, and because they believe that loan quality is once again healthy, they are willing to add more risk to their portfolios. This is evidenced by the increasing volumes of lending activity. Of course, the lending activity reflected in the bank's number do not necessarily include those loans originated and funded by non-bank lenders which would increase those numbers even more. So should lenders break out the streamers and champagne? Are we back to the early 2000s with another round of increased borrowing just around the corner?

Whoa! Wait a minute. Aren't we still suffering under the regulations that were piled on after the collapse of 2008? While the obvious answer to that is a qualified yes, in reality the industry is starting to realize the opportunities available from these reversals of fortune. The question is not should we take advantage of these opportunities, but have we learned enough to avoid the same cataclysmic result. Let's take a look at the issues.

Credit risk, in the form of both underwriting policy and product development prior to the crash, was expanding to include some very hazardous policies. Stated income loans had been offered as early as 1988 to employees of companies that moved and were eligible for their relocation programs. In less than 12 months it became evident that even these stellar borrowers were having difficulty making payments on stated income loans. Yet any additional reviews of the potential for inaccurate income to be used in these loans was either never done or not published. Furthermore, credit criteria in the form of debt-to-income ratios were also pushed ever higher without any acknowledged analysis taking place. Now of course, the ATR and QRM requirements are in place for federally regulated institutions but what about those who are not?

Regardless of these issues, the most significant process failure prior to the meltdown was Quality Control. If nothing else was gained from this catastrophe we learned that the program dictated by the agencies was less than useless. Even though the steps were followed, lawsuits focused on this failure has run into the billions. Yet the agencies have done little to change the requirements despite the fanfare surrounding the new dictates.

So, now we find ourselves in an environment with rising home prices, low interest rates and banks taking on more risk. History tells us this does not look good. It would wise for all of us to remember, "those who fail to learn from history are doomed to repeat it". ❖

About The Author

rjbWalzak Consulting, Inc. was founded and is led by Rebecca Walzak, a leader in operational risk management programs in all areas of the consumer lending industry. In addition to consulting experience in mortgage banking, student lending and other types of consumer lending, she has hands on practical experience in these organizations as well as having held numerous positions from top to bottom of the consumer lending industry over the past 25 years.