Money won't flow any easier, at least for first half of 2009

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What will Obama do?

Once that central question is answered, the course of the 2009 lending climate will become more clear. But regardless of what measures the new president's team takes to revive the economy, the consensus among South Florida lending professionals is that the first six months of the year will be an extension of last year's tight climate.

"Because of human nature, the banks are immobilized because no one wants to make a bad decision," said Shari Olefson, a South Florida real estate attorney and partner with Kluger Peretz Kaplan & Berlin. "That's on the new transaction front, but it's also on the workout front. At some point, we have to get past that and lending will happen. A lot of it is going to depend on what the government does. They're kind of the wild card player at the poker table now. No one knows what kind of hand they're holding and no one knows if they will follow traditional rules."

The Obama administration's first 180 days will be crucial and its most important task will be to "bring back the confidence of the people," said Marcos Kerbel, a consultant and veteran international banker who teaches finance at Florida International University. "Once that's established, people will slowly go back into the market again over the long term. Yes, liquidity is needed, but you can only get returns when you invest for the long term. You're not going to build much capital just on CDs."

The government's stimulus package and fiscal policy are "hopefully going to stimulate this economy," said Mehdi Ghomeshi, chief executive of Great Florida Bank in Coral Gables. "We're going to start to see people buying, and they will need a bank to finance it."

Many lenders and economists have also observed that with mortgage rates hitting a 37-year low and a surge of interest in refinancing, pent-up demand for home loans could break loose later in the year — if borrowers can loosen lenders' grip on money.

"Before the end of the year, I do see it getting better," said Scott Hodson, president and chief executive of the Mortgage Force in Coral Gables. "Initially the first three to six months, lending is still constricting. We had guidelines that came out that are effective in the first week of January that almost make it impossible to finance a condo in the state of Florida. That's such a huge market for us that it's going to continue to constrict prices."

The dilemma that's shaping up in 2009 is that as mortgage rates and housing prices fall enough to entice buyers back into the market, they will have a difficult time qualifying for financing.

MELANIE BELL

Attorney Shari Olefson of Kluger Peretz Kaplan & Berlin says lending is stalled now 'because no one wants to make a bad decision.'

"You've gotten to the point where you probably have less than 5 percent of the population that can qualify to finance a home," Hodson said. "The pendulum has swung way too far in the opposite direction. There needed to be a correction but, unfortunately, it has overcorrected, and I'm hopeful that's going to straighten itself out in the first three to six months."

Hodson said any loan that has to be done through a government agency confronts guidelines that are simply too strict.

"I do have people that want to buy," Hodson said. "I constantly have calls on new purchasing, but putting 30 or 40 percent down, they simply can't do that. It's just insane."

Ken Thomas, an independent banking consultant in Miami, said the "good times" in banking came to an end in the summer of '07, meaning "what lending we'll see, instead of no-doc or low-doc, it's going to be high-doc, super-doc, max-doc. Cash is king, higher down payments, more guarantees."

Thomas said banks simply are not comfortable with aggressive lending, because so many of them have problem loans that they're still dealing with.

"At many of the banks, non-performing loans are still increasing," Thomas said. "Until we see non-accrual loans start to decrease, we're not going to see any type of new lending. Banks are going to be focused on dealing with existing problems, not creating new ones. Regulators with their tough examinations, they're all over the banks to make sure that they're well-reserved and that they're cleaning up the bad loans they have, which probably means continued contraction as well."

That's a recipe for a lot of frustrated, would-be homebuyers.

"You think you've finally found a price you can deal with on a house, a foreclosure, a short-sale, a commercial piece of property, and all of a sudden that's just half the battle," Thomas said. "If there's no financing,

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there's no deal."

What about all the bailout money the Treasury Department gave to the banks to stimulate lending?

"There's going to be increased pressure on banks that took the [bailout] money to lend more than they'll want to," Thomas said. But with regulators clamping down, he said, banks are getting conflicting signals from Washington.

Though the lending picture is likely to remain grim for the next several months, Hodson said there is cause for optimism.

"I will tell you that I'm seeing a lot of activity in the central part of the state only because their price levels are so much lower than ours," Hodson said. "That leads me to believe that will flow southward eventually as things loosen up."

He said the first thing that had to happen "is where the Fed made the borrowing rate almost zero," Hodson said. "Eventually, the banks that are still out there and want to start making money are going to either own portfolio products. In other words, things that they won't be selling to agencies, and they'll mark those things up to 6 or 7 percent but that spread is so profitable that they'll come out with their own programs. It will take several months to get that rolling. It's just not rolling yet. Everything's in place for that to happen."

A.M. HOLT

The Mortgage Force's Scott Hodson said the lending 'pendulum' is due to swing toward more available financing by the end of 2009.

Abel Montuori, chief lending officer for Doral-based U.S. Century Bank, said: "It's all in the consumer confidence, and that's still not here. I don't see anything happening for the first six months of the year unless there is a humongous amount of dollars put out by the government for infrastructure and things like that and people feel that the government is taking the right steps."

Montuori said the bank has carried its lending strategy into the new year.

"The portfolio is a lot of owner-occupied, residential rental units, we did a lot of commercial industrial loans, we were fortunate in that we were able to capture a lot of good customers that are coming from other banks," he said. "We see that continuing in the coming year."

One area Montuori is excited about is the surge of interest in refinancing.

"We opened a mortgage lending unit in 2007 and unfortunately that's when things were turning, and we were never able to actually get that unit to produce the way we wanted it to produce for us," he said. "We do very little portfolio lending for residential because we can't compete with the rates out there in the normal environment. That will give this unit a kick that will be beneficial for the bank."

Olefson said that the residential lending market seems poised to come back before the commercial lending side does, "just because people need a place to live. The rates are great, the prices are back down to three or four times annual income, they're back in line to what you would pay for rentals."

The gap between selling and asking prices is slowly narrowing, she said.

"It's getting closer and investors are getting savvy to what motivates the bank," Olefson said. "Investors can get better deals from banks towards the end of the month and definitely towards the end of the quarter. It will all settle into place slowly and the loss is going to end up being shared — borrowers who borrowed more than they should have and lenders who lent more than they should have and the government."

She said one problem with residential absorption is going to be what she calls "Mercedes-Benz" residences that were built in areas where people can afford Toyotas.

"They were building these units that were selling at six, seven, eight times income and that's not what people can afford," Olefson said. "So the question is what do we do with these units now? There are going to be some people who get really good deals because there's some value there when you have stainless steel sub-zero appliances and granite counter tops in bigger than usual units. People who buy those are going to get a really good deal."

Residential lending will be back to more traditional standards, especially for first-time home buyers and retirees, Olefson said.

"You've got a whole series of people who have given back their properties by choice now at this point," she said. "This started as a sub-prime mortgage crisis. I think that piece of the problem is really going to start correcting itself in 2009. Banks will figure out a way to deal with residential foreclosures and already they're planning not to take properties back. I have clients in Miami Beach who are trying to give their condos to the bank and the bank doesn't want them, because they already have so many condos in Miami Beach."

As the market sorts out the residential glut, the focus will shift to other problem areas.

"We're still left with the bigger financial crisis that it exposed and for real estate tha really speaks to the commercial markets," Olefson said. "All of these guys with strip shopping centers and businesses with credi lines — there's no way that banks are goin to renew them. Commercial and business is going to get a lot worse. I've heard stories of banks just kind of carte blanche calling loans that they even think are going to be troubled.

"For residential, it's going to get easier because banks have to do deals and the prices are getting more comfortable and t guidelines are more realistic now. But I do know anyone who is lending on anything commercial now."

Even so, some continue to see opportu ties in commercial lending — if it's proper done.

"I know that every time you say commercial real estate people start closing wi dows and doors and there's no evil there, Montuori said. "It's just that it was done a little in haste and without paying attention covenants and things that are necessary avoid credit that will not pay dollars later.

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