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Down payments soar for Hawaii mortgages

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By [Andrew Gomes](#)
Advertiser Staff Writer

Cash.

It used to be that very little, if any, was needed to buy a home, and that helped scores of Hawai'i residents in recent years buy property in one of the nation's costliest housing markets.

But the cash down payment — historically one of the biggest barriers pricing people out of the local real estate market — has risen with a vengeance in the wake of the subprime mortgage lending meltdown that's produced stricter loan underwriting.

For one Honolulu homebuyer, loan terms abruptly revised last month demanded the borrower come up with \$120,000 cash — double the \$60,000 already committed as a down payment to purchase a \$600,000 Downtown condominium.

Abe Lee Realty agent Jonathan Ford, representing the buyer, who did not give permission to be named, said his client was in escrow to buy the condo until lender Countrywide Home Loans withdrew terms for a loan the company earlier preapproved.

Ford said Countrywide, the largest residential lender in Hawai'i, needed either the extra \$60,000 from his client or a \$40,000 price reduction from the seller.

"That wasn't going to happen," he said. "I told the lender that's ridiculous."

But Countrywide, Ford said, refused to budge only eight days before the sale's closing deadline. "I thought (my client was) going to lose this home," he said.

A local Countrywide manager referred a request for comment to Countrywide's California headquarters, where officials did not respond.

It is unclear how limited or widespread jarring homebuyer experiences like this may be, and what broader effect on home sales and prices might result from changes in mortgage lending.

LOANS STILL AVAILABLE

Local mortgage brokers and real estate agents say there's an incorrect perception among consumers that loans aren't available for subprime borrowers, and that loan prices are rising for all borrowers regardless of credit-worthiness.

"The perception is of a credit crisis out there," said Roland Shar, president of the Hawaii Association of Mortgage Brokers. "Even qualified buyers may feel hesitant to buy at this time."

WHO'S GETTING SUBPRIME LOANS?

According to [Bankrate.com](#), a subprime borrower generally is someone with a credit score below 620. Some lenders also include borrowers with credit scores of 660 or higher if they make a down payment of less than 5 percent or do not document income or assets.

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Lenders say loan products have changed almost daily in the past few weeks, but in general it's become more difficult and more expensive to obtain a loan if borrowers have subpar credit, don't have documented income histories and — above all else — lack cash.

Loans even have become somewhat tougher and more costly for people with good credit if they don't have a down payment of at least 5 percent of the purchase price.

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Cash requirements, while perhaps relatively small in some Mainland markets, are amplified in Hawai'i where O'ahu's median single-family home price in the second quarter was \$665,000 — fourth highest in the nation. O'ahu's median condo price was \$328,000, topping the \$223,800 national single-family home median price.

"Traditionally, the barrier to home-ownership is the down payment," Shar said. "To have the 10 percent or 20 percent down payment is more difficult in Hawai'i."

Besides down payments, various loans now come with more staunch requirements, such as adjustable-rate mortgages featuring ultra-low teaser rates for as little as a year.

Previously, borrowers could qualify at the low introductory rate. Now borrowers typically must qualify at the higher, fully indexed rates.

However, the home lending market is not worsening for borrowers on all fronts.

One big bright spot in Hawai'i is that local banks have not raised rates for jumbo conforming loans — in Hawai'i defined as loans for up to \$625,500 that will be bought by national loan guarantors Fannie Mae or Freddie Mac. On the Mainland, many lenders raised jumbo loan rates.

Also, interest rates have been holding at historically attractive levels.

"If there's anything that's been forgotten in this whole thing, it's that interest rates have remained fairly calm," Shar said.

There are still loan products available for people who lack a down payment, which too is good for the housing market, though these loans generally cost more than they did just a few months ago.

For instance, Kendall Hirai, executive director of the Hawai'i HomeOwnership Center, said the My Communities no-down-payment loan offered by Fannie Mae to first-time buyers recently had one percentage point tacked on to the normal interest rate.

"These are not risky loans," Hirai said. "These are pretty solid buyers. You just created a higher barrier. One percentage point is a lot."

HIGHER DOWN PAYMENT

With the My Communities product, provisions allow riskier borrowers to obtain the loan, but that comes with even higher interest rate add-ons, Hirai said.

Shopping online for a loan quote can be discouraging too. Using the online loan calculator of Inter Island HomeLoans, an affiliate of Countrywide, no loans are available without at least a 5 percent down payment.

To buy a \$328,000 home, that means \$16,400 cash plus closing costs and a \$60,000 annual income. On a \$665,000 home, that's \$33,250 down plus closing costs and a \$126,000 annual income.

Mark James, a longtime local mortgage executive and former regional vice president for American Home Mortgage, said that based on American Home's past business, he estimates 10 percent of buyers who qualified for loans under lending standards of the recent past couldn't get a loan today.

For instance, one subprime loan American Home made was an 80 percent first mortgage and 20 percent second mortgage to borrowers with credit scores of at least 580. Those loans are history, and American Home was forced into bankruptcy.

At the local office of Indymac Bank where James now works, loans for homes up to \$625,500 generally require a 5 percent down payment and a minimum credit score of 700.

According to Fair Isaac Corp., the company that developed the FICO credit score, 58 percent of U.S. credit holders have scores of at least 700.

Rusty Rasmussen, vice president of Castle & Cooke Homes Hawaii's in-house lending arm, Castle & Cooke Mortgage, said borrowers can generally expect to make a 20 percent down payment if their credit score is under 620.

ABUSE BY AGENTS

Mortgage industry officials say riskier exotic loans enabled many deserving people to become homeowners, but that otherwise good subprime products were abused by unscrupulous loan agents who steered people into bad loans and unleashed a flood of high-risk speculative housing investors.

Then home sales and prices in many Mainland markets tanked, and loans with initial low teaser interest rates adjusted higher, pushing more and more borrowers into default.

In turn, investment firms that had been buying securities backed by subprime mortgages suffered huge losses and quit buying such securities and other instruments mortgage issuers used to fund subprime loans.

With little money available to make such loans, dozens of subprime and even some prime lenders were forced to cease business, including at least a dozen active in Hawai'i.

Observers say that the implosion has been painful for many affected people — including loan agents, prospective homebuyers and real estate brokers — but that culling the pool of borrowers is good.

"This is a shakeout," James said. "In the long run, good things will be coming out of this."

James and others said cutting off the flow of exotic risky loans should head off a potential wave of future foreclosures that could destabilize home prices.

"I think this is a good thing," said Norman Banta, a real estate agent with Prudential Locations. "The pool of buyers will be much stronger with marginal buyers being knocked out of the market," he said.

Some real estate brokers attribute part of Hawai'i's frenzied spike in home prices over the last few years to people with shaky credit or income bidding on homes they couldn't buy under lending criteria that was standard just a few years before.

"It was frustrating two years ago," said Elizabeth Makanani, a Prudential agent who believes the housing market is healthier now that fewer subprime loan brokers are pumping out prequalification letters for financially weak prospective buyers.

Industry experts say it's too hard to forecast how much of an effect on home sales stricter lending standards will have.

FEWER ISLE SUBPRIMES

National estimates are that subprime loans until recently made up 20 percent of all loans. But Hawai'i mortgage industry executives guess that the share here was closer to 10 percent because local borrowers are as a whole more conservative.

The Durham, N.C.-based Center for Responsible Lending said subprime loans account for about 19 percent of the 43,000 single-family mortgages issued in Hawai'i last year.

James figures sales could decline by 5 percent to 10 percent, and that reduced demand will cause prices to slump.

"You're going to see some price reductions," he said. "There's no question right now."

Ricky Cassidy, a local housing market analyst, said that damage to the borrowing capacity and psychology of buyers could pressure sellers to respond with incentives that include price reductions.

If there is enough such response by sellers, Cassidy said, sales could actually rise, especially if interest rates move lower.

"There are a good number of buyers out there, particularly at the high and the low end, looking for a good value," he said.

SLUMP PROTECTION

In a negative indicator for sales, a National Association of Home Builders report last week said 36 percent of members had purchases canceled because buyers couldn't qualify for a mortgage, up from 28 percent in March. Average sales were down 31 percent, up from 15 percent in March.

But many Hawai'i housing industry observers believe that the state's growing economy, stable home prices and strong housing demand fueled in part by baby-boomer migration should help insulate the market from a mortgage finance-related slump.

Tom Zimmerman, president of Central Pacific HomeLoans, said he doubts there will be any perceivable drop in home sales, which have been on a general decline since mid-2005.

Russell Miyashiro, president of the Mortgage Bankers Association of Hawaii, said he expects lending restrictions will have no more impact on sales than interest rates rising a half point since early in the year, which hasn't caused sales to tumble.

"Amazingly, our market is still vibrant," he said.

Harvey Shapiro, research economist for the Honolulu Board of Realtors, said he doesn't expect much change in sales. "I really see very little effect," he said.

Actual effects, if any, wouldn't be seen in sales data until next month at the earliest because it typically takes one to three months for pending sales to close. So lending changes made in August may not start to be reflected until September sales are reported in October.

MORE CASH UP FRONT

Even if there is an extraordinary drop in sales in the next month or two, it could be because sales that were pending were derailed by buyers who had mortgages being processed by companies that abruptly ceased business. In these cases, buyers may have been able to find another lender to complete the purchase.

More likely, a greater impact of tighter lending requirements will be borrowers who can't qualify for as big a loan as they once could, which may cause more activity in the lower spectrum of home sales.

And most of all, buyers will have to come up with more cash.

That's what ultimately happened to Ford's condo buyer. After Countrywide reneged on its loan, Ford tried a friendly contact at Bank of Hawaii who was able to broker a loan through another lender that matched Countrywide's initial terms except that closing costs would be \$10,800 instead of \$5,400.

"That's money they are going to have to come up with," Ford said of his buyer, adding that the sale is scheduled to close in about two weeks if there are no more surprises.

Reach Andrew Gomes at agomes@honoluluadvertiser.com.

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DOWN PAYMENTS FOR HOMEBUYERS

MEDIAN HOME PRICE	CASH DOWN PAYMENT REQUIRED	PERCENT DOWN PAYMENT
\$665,000	\$33,250	5
\$665,000	\$133,000	20
\$328,000	\$16,400	5
\$328,000	\$65,600	20

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