

The Business Journal of Phoenix - August 6, 2007
<http://phoenix.bizjournals.com/phoenix/stories/2007/08/06/story8.html>



BUSINESS PULSE SURVEY: [What perception do people outside the Phoenix area have of our region?](#)

Mortgage loan crisis spills into Phoenix market

The Business Journal of Phoenix - August 3, 2007 by [Chris Casacchia](#) The Business Journal

Arizona financial institutions -- particularly lenders -- are facing severe economic risk and insolvency, with rising interest rates and increasing mortgage loan defaults and repurchases.

The situation is being compounded as aggressive loans -- including adjustable-rate and interest-only mortgages, as well as 40-year maturity loans -- continue to adjust, said Brian Burke, a business and finance attorney with the Phoenix law office of Snell & Wilmer LLP.

Federal agencies report that about \$567 billion in subprime adjustable-rate mortgages are scheduled for rate reset this year. That means monthly payments sometimes will increase as much as 100 percent, spurring more defaults, repurchases and foreclosures.

Many originators have been unprepared for the domino effect and lack the infrastructure to manage the claims.

"Eventually, these mortgages will be pushed down the pipeline and will put smaller mortgage lenders in jeopardy or out of business," Burke said.

The situation has doomed some local mortgage firms, but provided an opportunity for banks with strong loan practices and regulations to increase market share and presence.

"Most of the local mortgage bankers that have served in a 'pass-through' capacity to national banks and the secondary market are going to get out of that business due to tremendous financial pressures," said Mike Thorell, president and chief executive of Choice Bank in North Scottsdale.

Phil Immel, a noted industry expert who runs San Diego-based [Realestateguru.com](#), estimates more than 50 percent of the subprime lenders that were in the business two years ago "will not exist due to insolvency or bankruptcy."

Scott Keegan, director of membership for the National Association of Mortgage Professionals, disagreed. He said insolvency isn't a major issue.

"The majority of residential mortgages are still backed by mortgage securities, and those that are not are mainly serviced by very strong and liquid institutions," Keegan said.

Either way, mortgage brokers and bankers are going to have to deal directly with banks, Thorell said.

In response, some banks are instituting underwriting guidelines restricting the number of qualified borrowers, eliminating some programs, and offering consumer education and counseling.

John Vatistas, chairman and chief executive of Phoenix-based The Equitable Cos., said lenders across the board are "tightening their belts" and unable to serve clients like they did six months ago.

On Aug. 1, Wells Fargo Bank implemented a new policy on traditional nonprime and expanded financing alternative loans, requiring escrow accounts for all Arizona transactions with loan-to-value ratios greater than 80 percent.

In the first quarter, Wells Fargo's subprime originations totaled \$5.65 billion -- up 1 percent from the same period last year, said Tim Disbrow, regional manager of Wells Fargo Home Mortgage. Subprime loans represent about 8 percent of the San Francisco bank's total loan volume.

Some banks, such as Charlotte, N.C.-based Bank of America, avoid the subprime market altogether.

From January through the end of July, Arizona recorded 20,669 preforeclosures, up 119 percent from the same period a year ago, according to [Foreclosures.com](#). In Maricopa County, preforeclosures jumped to 13,202, a 140 percent increase from last year.

Preforeclosure is the initial notice that a property is going into foreclosure for an unpaid secured lien or loan. Preforeclosures do not include auctions or properties transferred to a winning bidder or reverted to the lender.

Experts say the national mortgage crisis will continue to disrupt the Phoenix market as lenders cut staff, take bottom-line hits and go out of business. A few examples:

All contents of this site © American City Business Journals Inc. All rights reserved.

- Texas-based Aegis Home Equity is closing its Mesa equity lending operation and cutting more than 90 jobs.
- Countrywide Financial Corp.'s second-quarter net income fell 33 percent, to \$485 million, or 81 cents a share -- down from \$722 million, or \$1.15 a share, for the same time last year.
- Bank of America, Countrywide Financial and Washington Mutual are cutting jobs.
- IndyMac Bancorp Inc.'s second-quarter net income dipped 57 percent from a year ago, to \$44.6 million.
- Two mortgage insurance giants that plan to merge -- MGIC Investment Corp. and The Radian Group Inc. -- reported they could lose a \$1 billion investment in subsidiary C-Bass LLC, which invested heavily in subprime mortgages.
- In early April, New Century Financial Corp., the country's largest subprime lender, filed for Chapter 11 reorganization and announced plans to eliminate 3,200 jobs, or 54 percent of its work force. The Irvine, Calif.-based firm joined at least 30 other home lenders that have halted operations or sought buyers in the past 15 months.

"The meltdown for this market will continue," said Keegan. "This is not a short-term issue that will soon be behind us."

[Contact the Editor](#)[Need Assistance?](#)[More Latest News →](#)

[Subscribe or renew online](#)

Entrepreneur Case Studies

[From Beginners to Bigshots](#)

- [How to write a business plan](#)
- [SBA loan program details](#)
- [Profile: Tech startup uses SBA loan](#)
- [Profile: Restaurateurs tap most-popular loan](#)

