

Fed says banks tightening mortgage standards

Both traditional and non-traditional loans are harder to qualify for

WASHINGTON—A larger share of banks has made it more difficult for people to obtain home mortgages over the last three months even as demand has grown, the Federal Reserve reported Monday, May 4.

The Fed's new quarterly survey found that about 50 percent of US banks tightened their lending

standards on prime mortgages, up from about 45 percent in the survey issued in early February.

Meanwhile, 65 percent of banks said they tightened standards on nontraditional mortgages, such as adjustable-rate loans with multiple payment options. That was up from 50 percent in the last survey.

"Even if you had a stellar credit

history, banks were reluctant to lend in this environment," said Richard Yamarone, economist at Argus Research. With unemployment rising, it raises the odds of more people defaulting on their mortgages, he said.

Demand for nearly all types of consumer and business loans continued to weaken over the last three months, with one excep-

tion. Demand for prime mortgages registered its first increase since the Fed began to track those loans separately in April 2007.

That uptick in demand comes as mortgage rates dropped, helped by a concerted effort by the Fed to drive down rates to help revive the crippled housing industry.

Rates on 30-year mortgages

slid to 4.78 percent last week, trying a record low, according to figures compiled by mortgage giant Freddie Mac.

In other lending, nearly 60 percent of banks said they tightened standards on credit card loans over the last three months, the same proportion as in the previous Fed survey.

There were some spots of improvement in the latest Fed survey. About 40 percent of banks said they tightened standards on commercial and industrial loans over the last three months. That was down from around 65 percent in the last survey.

Looking ahead, however, "the vast majority" of banks said they expected deterioration in credit quality for all types of household and business loans.

More than 70 percent said the quality of their banks loan portfolio was likely to deteriorate this year with nontraditional mortgages and credit cards figuring prominently in that scenario. That response was to a special question contained in Monday's survey not asked in the previous one.

Regulators are scheduled to release the results of "stress tests"

on the nation's 19 largest banks on Thursday, April 30, shedding light on which ones may need government support to withstand a more severe recession.

The Fed survey was based on the responses of 53 domestic banks and 23 US offices of foreign banks.

Getting banks to boost lending is critical to lifting the country out of recession.

The Fed has slashed a key bank lending rate to a record low near zero and is expected to hold it there well into next year to entice businesses and consumers to spend more.

The Obama administration is counting on tax cuts and increased government spending to revive the economy. And it has put forward plans to rescue banks and curb home foreclosures, also key ingredients to turning the economy around.

Lax lending standards during the housing boom allowed some people to buy homes that they couldn't afford. When the boom ended, dragging home values down, foreclosures skyrocketed and banks wracked up huge losses on soured mortgage investments. (AP)

California may need to borrow over \$20 billion next year

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assistance because it might strip state executives of financial and operational authority.

"The difficult decisions to balance the state's budget now are preferable to Californians losing some control over the state's finances and priorities to federal officials for years to come," the report said.

Like other US states, California is battling unemployment amid a deep recession, as well as a financial crisis that has hit credit markets worldwide.

Governor Arnold Schwarzenegger's office is expected to unveil a revised budget plan in May, and it will detail how he would maintain a balanced budget.

"We have been concerned about the issue of cash management for the last year and a half," said H.D. Palmer, a spokesman for Governor Arnold Schwarzenegger's office.

"What is at stake is the state having sufficient cash on hand to pay its bills in a timely manner—the specter of the state once again having to delay certain payments in order to make sure we have adequate cash on hand to make our priority payments."

The credit market "is considerably more difficult to access than it has been in prior years—and that's one of the biggest challenges that we face on a cash basis," Palmer added. (Reuters)



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