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Real Estate Research provided analysis of topical research and current issues in the fields of housing and real estate economics. Authors for the blog included the Atlanta Fed's Jessica Dill, Kristopher Gerardi, Carl Hudson, and analysts, as well as the Boston Fed's Christopher Foote and Paul Willen.

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February 25, 2015

Has the Pendulum Swung Back to Neutral? Looking at Credit Availability

Statements since March 2014 from the Federal Open Market Committee, including the last one, indicate that the recovery in the housing sector remains slow. Last year, when the Atlanta Fed looked at measures of housing affordability (see, for example, these posts from the Atlanta Fed blogs *macroblog*, *SouthPoint*, and *Real Estate Research*), we concluded that in light of the still relatively high readings of affordability measures, it was likely that some other factor was the main culprit in dampening the housing recovery. Access to credit is not included in affordability measures, so in this post, we turn our attention to the question of whether financing might be a headwind to a more robust housing recovery.

The availability of credit is an important driver of housing market activity. During the downturn, our contacts often mentioned that the pendulum had swung too far in the direction of looseness when economic times were good. And during the recovery, they said the pendulum had swung too far in the direction of tightness. In this post, we'll discuss several indicators of credit availability and answer the question, where does the credit availability pendulum hang now?

First, let's look at the Atlanta Fed's monthly poll* of residential brokers and home builders. Beginning with the late 2012 poll, we occasionally included a special question for our panel of real estate business contacts about how available they perceived credit to be. When the Consumer Financial Protection Bureau's (CFPB) Qualified Mortgage (QM) rule went into effect in January 2014, we began asking the credit availability question every month to pick up on subtle changes in perceptions. (The dots on the blue line in chart 1 show the frequency of the question.)

Results from the latest poll suggest that mortgage credit availability is improving. A growing share of business contacts (three-fourths of residential brokers and two-thirds of home builders) reported that the amount of available mortgage finance was sufficient to meet demand. To track the direction of the trend over time, we charted the results in the form of a diffusion index (see the blue line in chart1). A diffusion index value greater than zero signifies that the majority of builders and agents reported that there is enough available credit to meet demand, while a value less than zero signifies that the majority do not believe available credit is sufficient to meet demand. The chart clearly shows that many builders and agents believe there is enough available credit.

Second, let's consider the Mortgage Credit Availability Index (MCAI) that the Mortgage Bankers Association produces on a monthly basis (the green line in chart 1). The MCAI is an index constructed using underwriting criteria from more than 95 lenders and investors. Even though the diffusion index is a qualitative measure and the MCAI is a quantitative measure, the series are highly correlated (ρ=0.73), and both suggest that credit availability has been slowly but steadily improving since early 2013.

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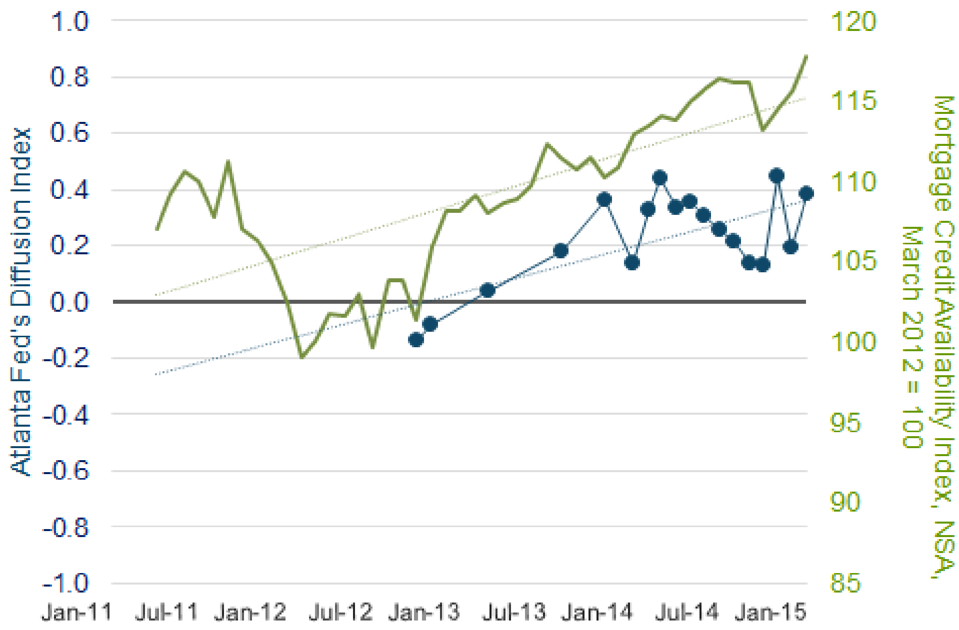
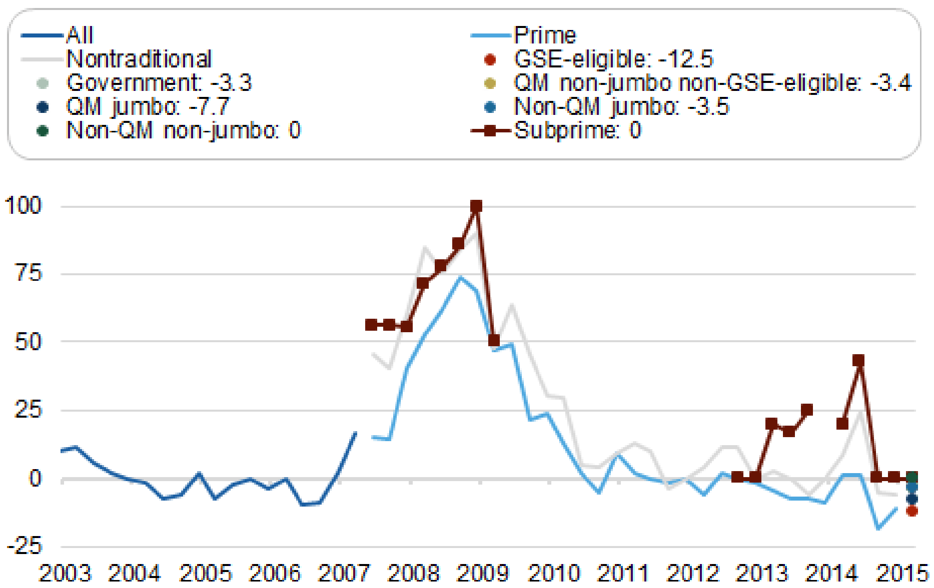
Chart 1
Availability of Credit



Sources: Mortgage Bankers Association;
Atlanta Fed business contact poll

Third is the Federal Reserve Board's Senior Loan Officer Opinion Survey on Bank Lending Practices (SLOOS), which polls large domestic and foreign banks every quarter about demand for and the availability of credit. In the SLOOS, banks are asked to indicate whether credit standards for approving mortgage loan applications have tightened, remained unchanged, or eased over the past three months. The latest results, shown in chart 2, reflect recently introduced categories that align with the Consumer Financial Protection Bureau's qualified mortgage rule. Like the previous two series, seen in chart 1, the SLOOS also appears to suggest that lending standards have eased. Note that the net tightening response for prime lending is loosening by a similar or greater magnitude as it did some years during the boom—2006, for example.

Chart 2
Residential Mortgage Lending Standards
Net Percentage Reporting Tightening



Source: Federal Reserve Board Senior Loan Officer Opinion Survey
through 1q2015

So has the credit availability pendulum returned to its neutral resting position? It's hard to say for certain, but there is clearly evidence to suggest that it is at least slowly moving in that direction.

**The monthly poll of brokers and builders was conducted January 12–21, 2015, and reflects conditions in December 2014. Fifty-seven business contacts around the Southeast participated: 23 homebuilders and 34 residential brokers. To explore the latest results in more detail, visit the* [*Construction and Real Estate Survey*] *web page.*

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January 14, 2015 in Financial crisis, Housing crisis, Mortgage crisis, Mortgage default | Permalink