# In Bank Earnings, Clues on Housing Market's Health

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Bank earnings this coming week should shed some light on whether recent mixed housing data are cause for concern. Here, a home for sale in Miami this summer. Photo: Lynne Sladky/Associated Press

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Major banks reporting earnings this week could shed light on whether signs of headwinds in the housing market are fleeting or of growing concern.

This week, J.P. Morgan Chase & Co., Bank of America Corp. and Wells Fargo & Co. are set to announce their third-quarter results, providing a window into the health of the mortgage and housing markets.

In August, sales of previously owned homes were at a seasonally adjusted annual pace of 5.31 million, 6% greater than August 2014, according to the National Association of Realtors.

But sales were 4.8% off their July pace, and the NAR's pending home-sales index, which is based on signings for home purchases, declined 1.4%. Lenders' figures and comments on purchase loans should offer a glimpse into how the overall market is doing.

The banks also are expected to update investors on how new federal mortgage rules and expectations of rising interest rates are affecting lending, issues that could weigh on the housing market over the longer term.

The federal rules, which went into effect at the beginning of October, are designed to make it easier for borrowers to understand mortgage terms. But the requirements also have led to new processes and technical challenges that could lead to disruptions in home closings.

So far, those fears haven't played out, said NAR chief economist Lawrence Yun. The trade group has reached out to real-estate agents for signs of any disruptions, but so far hasn't heard of anything significant, he said.

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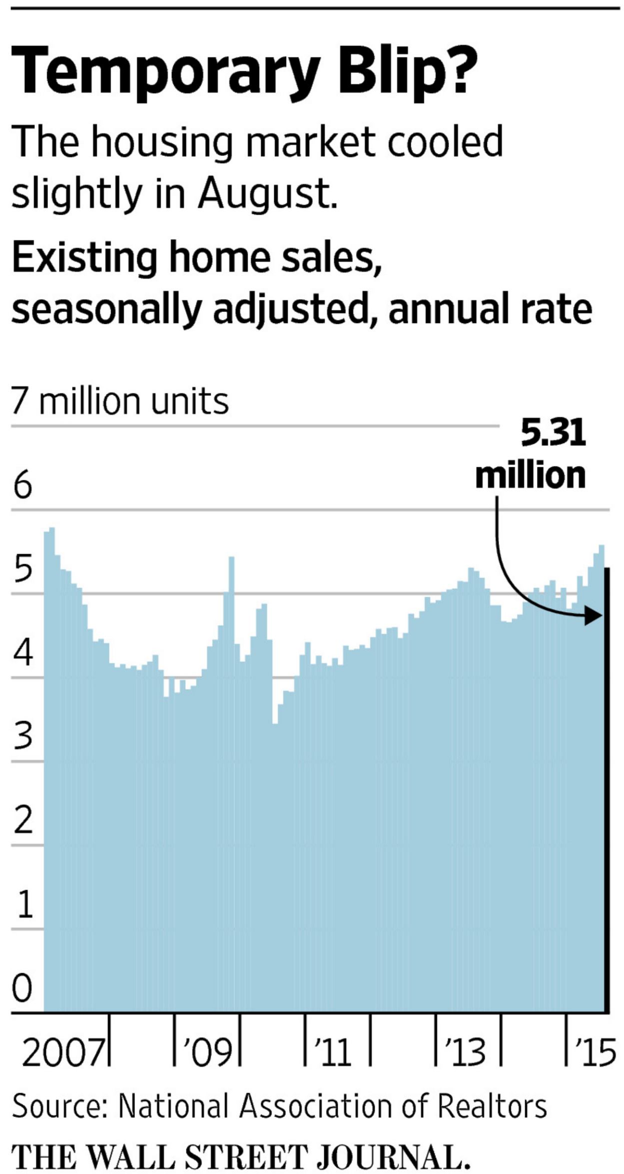


But Mr. Yun added that the real test won't occur until the first big slug of home closings under the new regime begins in November.

"Hopefully, this is like a Y2K event. The clock turns but nothing happens," he said.

The banks also could shed light on whether mortgage affordability and availability concerns are starting to rear their heads again.

The average rate on a 30-year, fixed-rate mortgage dropped to 3.76% in the week ended Oct. 8 from 3.85% a week earlier, a slide that helps affordability by reducing the borrowing cost.

On the other hand, some banks have begun to pull back from some types of mortgage lending in response to proposed federal rules they say would open them up to too much liability for minor errors in making mortgages. That reduces mortgage availability for certain borrowers.

Housing analysts will look to bank executives' comments for clues on whether these trends are accelerating.

J.P. Morgan, for example, already has largely pulled out of lending through the Federal Housing Administration, a primary avenue for loans to first-time home buyers and others with relatively poor credit or little money for a down payment.

Wells Fargo in September said it would raise the minimum credit score it will accept on FHA loans to 640 from 600, a reversal of its loosening in February 2014.

On net, the new restrictions "could add downward pressure on credit availability," said Compass Point Research & Trading analyst Fred Small in a note to clients.

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