

DAILY GLOBAL
COMMENTARY

Northern Trust
Global Economic Research
50 South LaSalle
Chicago, Illinois 60603
northerntrust.com

Asha Bangalore
agb3@ntrs.com

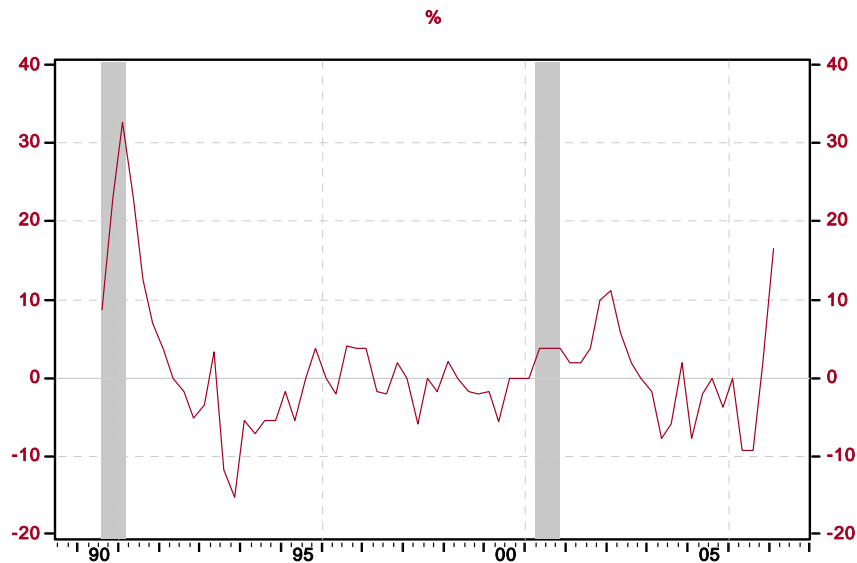
Standards Tightened For Residential Mortgage Lending

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Yesterday, the Fed published the Senior Loan Officer Survey results for January 2007. One of the interesting aspects of the survey pertained to lending standards for residential mortgages. According to the survey, “on balance, about 15 percent of domestic banks reported that they had tightened credit standards on residential mortgage loans over the past three months, the highest net fraction posted since the early 1990s. Almost 40 percent of domestic institutions—a somewhat smaller net fraction than in the October survey—indicated that demand for such loans had weakened over the previous three months.” As chart 1 indicates, in the short history of this survey, the 1990 incidence of a sharp increase in tightening of standards for residential mortgage loans was associated with a downturn in economic activity. The economy experienced a recession from July 1990 to March 1991. Tightening of standards for residential mortgages occurred in the midst of a recession. The economy grew at an annual rate of 3.5% in the fourth quarter and it is projected to grow at a moderate pace during 2007. It appears that the housing markets woes are not past us and more painful adjustments from larger inventories of unsold homes should not be surprising.

Chart 1

FRB Sr Off Survey: Banks Tightening Standards for Mtgs to Individuals



Source: Federal Reserve Board /Haver Analytics

Shaded regions denote recessions