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Show me the money: Please show me the money!

By Curtis Seltzer

If you ask around the country, the folks who understand money say something like this. Mortgage lenders have plenty right now, but most are keeping it in things like Treasury Inflation-Protected Securities (TIPS) and Treasury bills. Big lenders are not much interested in offering borrowers long-term, fixed-rate mortgages at current interest rates.

Lenders are uniformly willing to offer adjustable-rate mortgages (ARMs), even though long-term, fixed-rate mortgages are so obviously more sensible from the borrower's perspective. Sorry, the lender says, we can't do a 30-year fixed, but we'll be happy to work out an ARM.

ARMs, of course, should be more profitable to a lender over 15 to 30 years when long-term fixed-rate mortgages are hypothetically available today at 4.75 to 5 percent with a couple of points. From that starting rate, there's little chance that a new ARM will adjust down; it only has room to move up. ARMs are, generally speaking, less risky and more profitable from the lender's point of view.

I recently approached five lenders for a rural refinance. I specifically requested information on their 30-year, fixed-rate products. Each responded with information on their ARMs.

The other side of this credit lock down is that lenders have tightened lending standards during the last 18 months, and some are still tightening. That's certainly understandable given where mortgage standards were in 2007, but the reversal has swung too far. Today, lenders seem to be looking for ways to not make fixed-rate mortgage loans. I'm not arguing that subprime lending should rear its ugly head again. I am arguing that lenders have overcorrected. Too many stories have emerged across the country of qualified borrowers getting shot down.

Most lenders seem to be willing to provide mortgages right now for rural property only in very specific circumstances.

They want a cookie-cutter profile for both the property and the borrower. They want most of the value in the house and as little as possible in the land. Twenty percent down, or more. Low appraisal values. Loan-to-value of 80 percent or less. Guaranteed borrower wage income for life and beyond. Self-employed borrowers are not welcomed. Credit score of 700+. The mortgage must be saleable; few want to carry a loan they originate. And so on.

Land loans are often similarly handicapped, as are commercial and industrial (C&I) loans. Most lenders want as much cash in on land loans as they can get out of the borrowers. It often doesn't matter what the property presents as annual cash income or merchantable timber value.

I was surprised at how uncompetitive my Farm Credit Coop was on my refinance. They quoted a 30-year fixed at 7.65 percent about six weeks ago. The member-owned, non-profit community credit union I belong to sells exclusively to an investor who has no taste for anything outside the lines of utmost conventionality. They quoted nothing fixed, only adjustable.

I anticipated reluctance, but not near total unresponsiveness. For that reason, I gave the five candidates every scrap of information and documentation they needed before applying, before asking for a Good Faith Estimate. I dug out comparables. I sent tax returns, gross income for 1-11/2009, photocopies of every account (savings, IRAs, credit cards, etc.), credit scores/reports, debt statements for vehicles, farmowner's insurance coverages and on and on. My wife, incidentally, is a real-estate lawyer who has worked for years with every one of these lenders. We've not been late on a mortgage payment in 26 years.

To every generalization, I'm sure exceptions exist. But it requires a lot of work and persistence on the borrower's part to find the exception these days.

Some lenders understand rural land; some don't, and don't care to learn the market. Rural residences tend to be idiosyncratic in that they often involve more land than the "maximum" of nine acres that banks want.

They also come with farm-related improvements around the house that are valued for property taxes at a huge discount to their fair market values. I have $200,000 in barns and farm buildings valued at replacement cost, which our county values for taxes at $7,500. It's a great tax break, but it works against a borrower trying to show his property's fair market value.

Most farms and rural residences appear to have held their values better than metro housing and, particularly, condos. The arbitrary penalties that many lenders are now imposing on the rural real-estate market don't make financial or economic sense, at least to me.

And perhaps I've missed it. But I don't hear rural representatives making any noise in Washington. Maybe my hearing isn't what it used to be, but I think it's still good enough to hear someone calling for balance and common sense.