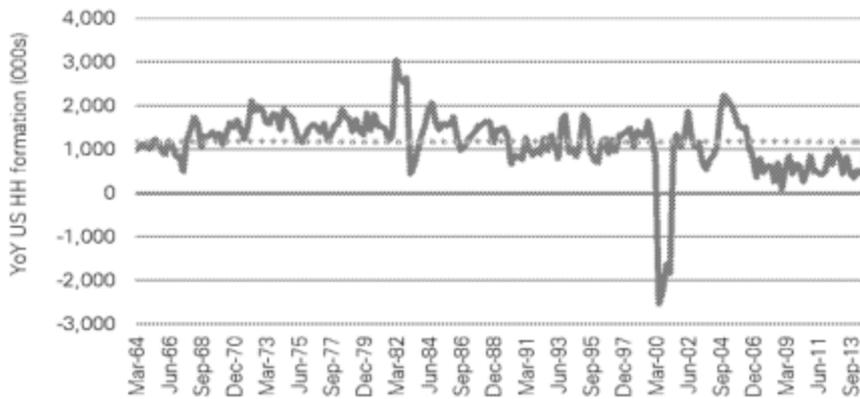


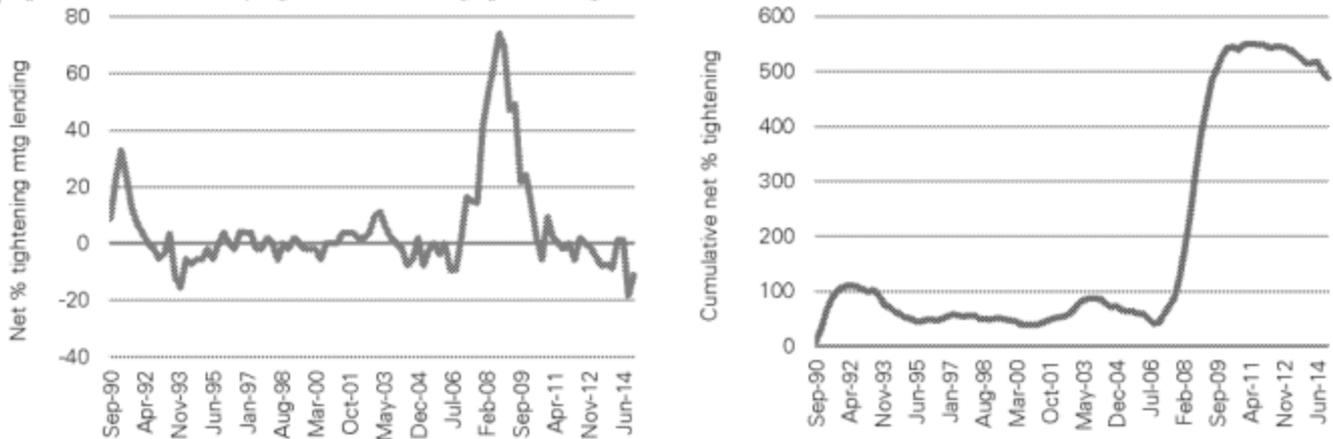


Figure 4: Weak household formation, until recently



Source: US Census Bureau, Bloomberg Finance LP

Figure 5: Cumulatively tighter bank mortgage lending standards



Note: data show standards for all loans to 1007 and prime loans after.  
Source: Federal Reserve, Deutsche Bank

of surveyed banks tightening but not the precise magnitude (Figure 5). There's also the Qualified Mortgage and Ability to Repay standards introduced last year by the Consumer Financial Protection Bureau. Special questions in the Fed's loan officer survey last July showed that the QM and ATR rules had put a drag on all types of lending at all types of banks. And a review of bank lending released by the OCC in December showed that mortgage lending was the only area last year where more banks tightened than eased. And among banks that tightened in the OCC survey, the main reason was regulatory. Concern about put-backs from Fannie Mae and Freddie Mac and litigation from the FHA under the False Claims act has led banks to limit lending even to agency borrowers.

Although the market seems to be clearing out the lingering housing supply and the economy and the labor market look likely to repair demand, the availability of credit could prove to be the lasting constraint. Today's lending standards reflect limits designed to keep the last decade's boom and bust from happening again. Borrowers today without the ability to repay will not get a loan. But it looks like some borrowers with the ability to repay—but with low FICO scores or with needs that keep them outside the agency or prime jumbo markets—will also not get a loan. The market is reducing risk today to avoid risk tomorrow. But it also is likely reducing housing growth today to avoid a downturn tomorrow. Who should make that tradeoff and how is an open question.