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Price Wars in Nonprime Said To Flare Anew

Accredited: Pricing Discipline Has Eroded in Last Two Weeks

■ BY ERICK BERGQUIST

For the past several months much of the talk about competition in the nonprime mortgage sector was about how pricing had become more rational.

In the eyes of one lender, that discipline eroded in the face of last month's slowdown.

Accredited Home Lenders Inc. executives said Tuesday that some rivals have in the last two weeks lowered their rates, even with funding costs on the rise.

"We saw last year at the same time big players panicked when they saw their January volumes slow, and the same thing is happening this year, we believe," Joseph Lydon, the San Diego nonprime lender's president and chief operating officer, said on its fourth-quarter earnings conference call Tuesday.

Jim Konrath, Accredited's chief executive, said on the call that it still expects to make $7.70 to $8 a share this year, but he could not narrow that range further, in part because of the changes in pricing.

"Prices are up and then down," Mr. Konrath said. "It's hard to read at the moment. … We're not sure where this trend is taking us. … We're a little bit surprised to see some people lowering their rates recently."

However, "if our competitors continue this trend, those numbers will come under additional pressure."

Konrath: "Prices are up and then down. It's hard to read."

One of those competitors, New Century Financial Corp. of Irvine, Calif., acknowledged recent price cuts during its fourth-quarter conference call this month, but it said they reflected only a dip in funding costs.

On Tuesday, Accredited said it has not followed its competitors by lowering prices, and it has even boosted its weighted average coupon.

"We've held our rates in lockstep with the cost of funds," Mr. Lydon said.

"We can only sit and watch our competitors."

Scott Coren, an analyst with Bear, Stearns & Co., wrote in a note to clients that even though he considers Accredited "the highest-quality company in the subprime space," the stock is unlikely to gain much in the near term, because of its price (two times book value) and "the risk of not hitting its guidance if competitors remain irrational."

Accredited's fourth-quarter earnings rose 13.6% from a year earlier, to $43.3 million, or $1.96 a share. The company plans to increase its originations this year, with help from its new alternative-A and Canadian business lines.

Mr. Lydon said that Accredited is making alt-A loans through two of its 12 wholesale divisions and is underwriting them from a center in Austin.

The company is making between $30 million and $40 million of alt-A loans a month, and it says the loan line has already reached profitability.

Accredited sells all of its alt-A loans in the secondary market, Mr. Lydon said.

It expanded into Canada about a year ago by opening an office in Vancouver, British Columbia, and it is "opening up a second region in Toronto as we speak," he said.

The Vancouver office is doing "the equivalent of $25 million to $30 million" of loans a month.

The Canadian operation has been profitable for about six months, Mr. Lydon said.

Bose George, an analyst with Keefe, Bruyette & Woods Inc. in New York, characterized Accredited's fourth-quarter performance as "strong … compared to the trend in the industry."

But he also said Accredited benefited from a tax rate of around 35%; he and other analysts had expected something in the 39% to 40% range.

The low rate inflated the earnings somewhat and led Wall Street to bid down Accredited's shares, Mr. George said.

They fell 3.61% Tuesday, to $49.14.

A spokesman for Accredited, Rick Howe, said: "we have done 12 earnings calls in our short life as a public company, and in 9 or 10" cases, the stock has fallen afterward.

Matthew Howlett, an analyst with Swiss Reinsurance Co.'s Fox-Pitt, Kelton Inc. in New York, also called the quarter "a good quarter in light of what happened in the industry."

But he also said, "The bar is set high for this company," and "even Accredited can't avoid the competitive pressures."

When the effects of the tax rate and loss provisions were removed, it made $1.84 a share of operating earnings, he said.

Its gross gain-on-sale margin fell 52 basis points from a year earlier, to 2.29%, while its mortgage banking margin fell 43 basis points, to 1.17%.

Nonetheless, Mr. Howlett said, Accredited's origination costs fell to a record 135 basis points a loan. ■

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