Brian Wickert , a mortgage banker in Butler, Wisconsin, prides himself on screening applicants carefully. That's why he was stunned when a customer who sailed through four home loans tried to do a refinancing in January, only to be rejected by three national lenders.

The borrower's credit standing and income were solid, said Wickert, 47, president of Accunet Mortgage. The problem was that, with home sales plummeting along with prices, the appraiser couldn't find the required three comparable sales in six months within a one-mile radius.

"The business has gotten tougher than I've seen it," Wickert said. "The person who has decided he wants to give himself his own personal economic stimulus package by refinancing at low rates is being stymied by the rules and the fees. Too many people are being excluded."

Bankers around the country say one reason the housing market hasn't stabilized is that while mortgage rates have come down, hurdles have gone up. Rising default rates and bank losses have made lenders more risk-averse, leading to higher fees, increased insurance rates and difficulties refinancing loans.

The average rate on a 30-year fixed mortgage dropped to 5.07 percent for the week ending Feb. 26 from 6.63 percent for the one ending July 24, according to data compiled by McLean, Virginia-based Freddie Mac . Meanwhile, the percent of mortgage applications that led to closings fell nationwide to 59 percent in the first half of 2008 from 66.3 percent in 2006, the most recent period for which data is available, the Mortgage Bankers Association reported.

'Too Tight'

"Underwriting standards have changed from lax to too tight," said Lawrence Yun , chief economist at the Chicago-based National Association of Realtors. "The pendulum is swinging too far the other way. We can't stabilize the housing market if buyers can't get reasonable mortgages."

Help may be on the way. Under the terms of President Barack Obama 's housing plan announced Feb. 18, as many as 4 million homeowners on the verge of foreclosure will be eligible to have their loans modified to reduce monthly payments. Another 5 million, whose homes are worth less than the principal of their mortgages, also may be able to refinance.

The program, which takes effect March 4, only covers borrowers whose mortgages are owned or insured by Washington- based Fannie Mae or Freddie Mac -- about 40 percent of the total, according to Inside Mortgage Finance, a Bethesda, Maryland-based newsletter. They must still prove they have a solid payment history and sufficient income to meet monthly payments, and the loan can't be more than 105 percent of the appraised value of the home to qualify.

FICO Scores

Those not covered by the Obama plan will have to contend with lenders requiring higher FICO scores than in the past or charging upfront fees to borrowers with scores once considered excellent. San Francisco-based Wells Fargo & Co. , the second- largest U.S. home lender, boosted the minimum score for Federal Housing Administration and Veteran Affairs loans it makes through brokers to 620 on Jan. 27 from 600.

"A score of 700 was once near perfect," said Gwen Muse Evans, vice president of credit policy at Fannie Mae, the government-controlled company that helps set lending standards. "Today, a 700 performs more like a 660 did. We have updated our policy to take into account the drift in credit scores."

Consumer credit scores, called FICOs after creator Fair Isaac Corp. , range from 300 to 850. The average FICO score on mortgages bought by Freddie Mac and Fannie Mae rose to 747.5 in the fourth quarter of last year from 722.3 in 2005, according to Inside Mortgage Finance.

Higher Fees

Accunet's Wickert said that a 660 FICO score would have qualified most borrowers for loans with no upfront fees in the past. Now, someone trying to borrow $200,000 with a 660 score would have to pay a 2.8 percent fee, or $5,600, he said. Even someone with a 719 score would have to pay $1,750 in cash.

Wickert said that if customers don't want to pay the fees in cash, he can increase the interest rate, since the wholesale banks he sells his mortgages to would pay more for the higher rate over the life of the loan. Before the crisis, a quarter-of- a-percentage-point increase in the rate was sufficient to cover a 1 percent fee. Now, Wickert said, he needs to double that.

Robert Satnick, a mortgage broker in California's San Fernando Valley, said he has a customer whose efforts to refinance a loan at a lower rate might cost her about $600 a month more because the value of her condominium has declined.

The owner has good income and a FICO score in the high 700s, he said. The dilemma is that the value of her home has dropped to about $400,000, the amount of her mortgage. As a result, banks will charge her an upfront fee of 1.75 percent on a 6 percent refinancing. She also has to buy private mortgage insurance, adding another $63 a month to her cost.

'Out of Reach'

"This is now a great opportunity to buy or refinance," said Satnick, 44. "But getting the mortgage has gotten so hard it's putting those properties out of reach of a lot of people."

Another strain on consumers is a planned increase by Fannie Mae of add-on fees called loan-level price adjustments, which lenders often pass on to borrowers. Someone with a 699 FICO score borrowing 80 percent of the value of a home used to pay 1 percent in price adjustments. As of April 1, Fannie Mae will raise that to 1.5 percent. For a borrower with a 659 score, the adjustment will climb to 3 percent from 2.25 percent.

“These are targeted pricing adjustments aimed at aligning price with risk for the highest risk products in the market today, including interest-only loans, cash-out refinancings, low credit scores, high loan-to-value loans and condos,” said Fannie Mae spokeswoman Amy Bonitatibus.

Staff Reductions

Another issue is that mortgage lenders have eliminated jobs, slowing down the approval process.

“We’re very thinly staffed because we don’t know how long this will last,” said Christopher M. George, president of CMG Mortgage in San Ramon, California, referring to the global financial crisis.

George said he has gone from almost 800 employees in 2006 to 250. Nationwide, employment in the mortgage industry declined to 280,000 in December from 505,000 at the peak in February 2006, according to data compiled by the Mortgage Bankers Association in Washington.

Even with a smaller staff, George said, his underwriters do more checking than in the past. Before the crisis, he said, CMG asked borrowers to fill out an Internal Revenue Service form that allowed the lender to confirm income information, though it rarely sent the form to the IRS. Now, George said, CMG sends the form in before the closing, scrutinizes appraisals and contacts banks to check on the account balances of the borrowers.

“Everything is checked, and that makes it harder for some people,” he said.

Refinancing Program

Fannie Mae, taken over by the government in September after losses on its mortgage holdings, says it is doing what it can to help borrowers and is urging mortgage bankers to do the same.

A new program called DU Refi Plus that takes effect April 4 is intended to make it easier for consumers to refinance their mortgages, even if the value of their homes has declined. Lower FICO scores will be accepted, the requirement for an appraisal or home inspection will be waived in some cases, and borrowers will be able to submit a single pay stub to confirm their salaries rather than more extensive documentation.

Fannie Mae says it still won't be easy to make low mortgage rates more accessible.

"There needs to be some creativity to get back into the marketplace and get through this fear," said Fannie Mae's Evans. "The message we're trying to promote is we can't be afraid to lend. We want to get back to the mentality of looking at prudent ways to say 'Yes.'"

Wickert, whose mortgage-approval rate has declined to 93 percent from 98 percent a year ago, said the issue requires a flexibility that only a few lenders are showing. The customer who was rejected by three banks got her mortgage approved by a fourth, which focused on her high income and credit score, not the appraisal rule, he said, adding weeks to the process.

"A lot of people are frustrated because the rates look good, but someone has raised the bar on them," Wickert said.

To contact the reporter on this story: James Sterngold in Los Angeles at jsterngold2@bloomberg.net