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TitleSmart, Inc.

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Homebuyers Rush to Riskier Mortgages As Home Prices Rise

Home prices are on the rise again. As a result, many potential buyers are looking for ways to afford a monthly mortgage payment.

Use of ARMS on the Rise

The number of adjustable-rate mortgage originals increased over 40 percent from the first quarter of the year to the second, according to an analysis performed by Inside Mortgage Finance. ARMs offer lower interest rates than fixed-rate loans and today's ARMs generally have a fixed period of about five years. That means rates can increase after five years. Still, the relatively shorter fixed rate period of ARMs compared to traditional 30-year fixed mortgages makes them riskier in the long run.

ARM demand typically increases from the first to the second quarter of the year because spring is the busiest season for home buying and it is typically when families dominate the market, looking for larger, pricier homes. Still, the increase in ARMs in the spring of 2016 was just 15 percent compared to a 40 percent jump in 2017. That suggests potential homebuyers are struggling with affordability this year and opting for a lower-rate mortgage product despite the long term consequences.

While mortgage rates remain at historic lows, they have been increasing slowly. Since the housing crisis, the overwhelming majority of homebuyers have favored the safety of the 30-year-fixed rate mortgage. However, weakening affordability is changing that.

Home prices have continued to increase for the past three years and have recently begun to increase more rapidly. Prices na-

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tionally increased 6.9 percent in August compared with August of 2016, the biggest gain in three years. The annual gain in July was 6.7 percent, according to CoreLogic.

"One thing that's helped to fuel demand, and certainly home price growth, as much as the lean inventory of for-sale homes is that mortgage rates have really cooperated," said Frank Nothaft, chief economist at CoreLogic.

Home Prices May Peak Soon

Home prices are also rising faster than inflation. However, Nothaft predicts that if, as he expects, mortgage rates continue to increase, gains in home prices will ease in 2018. That will be the tipping point, he said, although some argue the tight supply on home inventory, especially at the low end of the market, will keep prices lofty despite higher mortgage rates.

Already, roughly 50 percent of the nation's top 50 housing markets are overvalued in relation to income and employment growth.

"Prices are being driven up by very tight market conditions," noted Matthew Pointon, property economist at Capital Economics. "On a per capita basis, the number of existing homes for sale is at a record low, and buyers are therefore having to up their offers to secure a home."

Pointon said we should actually expect home prices to rise by more than 10 percent, given the tight supply, but tight mortgage lending standards are putting a damper on that growth.

ARMS Loans Safer These Days

While ARM loans are generally blamed for the housing crash that occurred in the 2000s, the current ARMs are nothing like those of the past. The ARM products popular at that time, such as negative amortization loans, which offered very low rates on the front-end but then tacked the initial savings on to the loan itself, no longer exists.

Today, loans must also be fully documented and underwritten to the full length of the loan to ensure borrowers have the ability to pay even if the rate of the loan increases. Lenders are also required to make it clear to borrowers that the rate is fixed only for a certain term and that it will increase after that term, given the current trajectory of rates overall.

Amazon Ventures Into Real Estate With Hire a Realtor Service

A new placeholder web page on Amazon that says "Hire a Realtor" with an option to enter your zip code and the words "Coming Soon" is prompting speculation that the company could be expanding into the real estate referral business.

The Hire a Realtor page can be found under Amazon's Home and Business Service marketplace. This marketplace connects consumers with home improvement professionals, electronics installation handymen, and other services for a referral fee.

Amazon's move to add real estate professionals to its site is part of a broader push into the service provider space. Recode also discovered Amazon is hiring gadget geeks to help install smart home devices for its customers.

If Amazon decides to move into real estate, it will become a direct competitor against two other Seattle-based companies: Zillow and Redfin. Connecting house hunters with real estate agents is a crucial revenue source for both of these real estate companies.

Zillow, the current leader in real estate referrals, declined to comment on Amazon's rumored competing service. When reports of the new Amazon service surfaced in July, Zillow's stock price declined from \$46.15 a share to \$44.54, demonstrating that investors are closely watching the retailer.

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Digital Real Estate Platform Home61 Raises $4 Million

Home61, digital real estate platform, has raised $4 million including an investment from FF Angel, the early stage investment vehicle of Founders Fund, Peter Thiel's Silicon Valley venture capital firm. The company uses automation to "streamline the buying and renting process, making it profitable for agents to provide excellent service to clients with all budgets while simplifying the experience for buyers and renters," according to its press release.

Its system manages the entire real estate transaction, from a client searching website listings to signing closing documents. According to Home61, its agents make $70,000 in their second year, compared to the industry average of $8,930.

"This is because the system provides agents with a steady stream of leads, intensive training for up to 120 days and tools that automate manual tasks," the company states. "This allows agents to focus solely on the client rather than the commission, ultimately making them more productive."

According to the company, the Home61 platform has managed more than 1,000 closings since its launch in 2015. With the additional $4 million capital, the company has now raised a total of $5.3 million. Home61 plans to use the new funding to expand beyond Miami to Chicago, Houston, and Phoenix.

Homebuyers Can Now Crowdfund Their Mortgage Down Payments

For many Americans, saving enough money for a down payment has become a major hurdle to buying a home. One lender claims to have found a solution to this problem. Privately-held mortgage banking firm CMG Financial has launched HomeFundMe — a pilot crowdfunding service that's the first to receive approval from Fannie Mae and Freddie Mac.

To facilitate the crowdfunding process, HomeFundMe received approval from Fannie Mae and Freddie Mac to allow borrowers to accept money from a larger array of potential donors. There is no fee to use the service. However, homebuyers have to get pre-qualified for a loan.

HomeFundMe campaign donors are permitted to give gifts of up to $7,500. For people who earn less than their area's median income, HomeFundMe is offering to match two dollars for every dollar raised up to $2,500 or 1% of the home's purchase price. For those homebuyers who earn more than their area's median income, HomeFundMe will match the funds up to $1,000.

Already HomeFundMe has confirmed that 100 people have used the platform. CMG will continue to pilot the program until next June. Currently HomeFundMe users are required to get a mortgage from CMG Financial, the single lender available on the platform.

Millennials Going Over Budget to Buy Homes

Millennials have spent $514 billion in the U.S. housing market over the past year as the largest generation of home buyers, said Zillow Inc., Seattle. However, new survey data shows their homeownership aspirations are stymied by affordability issues, frustration with the process of buying and selling, as well as a "cutthroat" housing market.

The Zillow Group Report on Consumer Housing Trends 2017 said 53 percent of young buyers make multiple offers to buy their first home; only 39 percent of millennials (two in five) are able to make the recommended 20 percent or more down payment.

"In many cities across the U.S., the housing market is extremely

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competitive, especially for first-time buyers who are looking to purchase a starter home," said Zillow Chief Economist Svenja Gudell. "Young buyers often start their careers in fast-growing cities in which the market is particularly tough—and they're trying to save for a down payment while making record-high rent payments."

The survey asked more than 13,000 U.S. residents aged 18 to 75 about their homes, namely how they searched for them, pay for them, maintain and improve them, and what frustrations and aspirations have colored their decision-making processes.

National Flood Insurance Program Might Not Be Able to Fulfill Obligations to Homeowners

The Congressional Budget Office, a nonpartisan analysis for the U.S. Congress, crunched the numbers on the National Flood Insurance Program again, calculating the average cost to families.

According to the first CBO report, the program has an expected one year shortfall of $1.4 billion. The new report took it a step further and included the median premium for a policy on a primary single-family home.

The program is designed to help lessen the impact of flooding on private and public structures. "It does so by providing affordable insurance to property owners and by encouraging communities to adopt and enforce floodplain management regulations," FEMA's website states.

For most policies included in the analysis, the CBO found the actual premium was between 0.45 percent and 1.70 percent of the median household income for single-family households within the same census tract.

The median remained at 0.75 percent. Broken up further, approximately 8 percent of the premiums were less than 0.35 percent of the relevant median household income, 14 percent of premiums were above 2 percent of that income, and 6 percent of premiums were above 3 percent of that income.

The updated numbers on premium costs to homeowners demonstrate that the NFIP might not even be able to fulfill its financial obligations to flood victims given that the NFIP is already drained from the growing costs of Hurricane Harvey, Irma, and Maria.

San Francisco Most Over-valued Market in U.S.

According to the UBS Global Real Estate Bubble Index released last month, which includes twenty of the globe's largest cities, San Francisco is the most overvalued real estate market in the United States as home prices have outpaced the rest of the country by 260 percentage points over the last 40 years.

The report also mentioned that a slowing of home price growth in San Francisco hasn't resulted in any improvement in affordability issues in the area, as income growth has failed to meet the cost of living. Since 2011, real house prices in the metropolises that fall within the bubble-risk zone have increased by nearly fifty percent on average, according to the report.

"This gap is grossly out of proportion to the differences in local economic growth and inflation rates," read the report.

The Swiss financial services company composed the index in order to track the risk of housing bubbles in international financial centers. Although several international cities ranked ahead of the U.S. cities for being overvalued, Los Angeles was the only other U.S. city named in the report as overvalued. Boston and New York City are fair-valued according to the index. Chicago was the only U.S. city considered to be undervalued.

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Trump Tax Reform Sparks Fears for California Realtors

California's largest group of realty agents has warned that a Republican tax-reform proposal could significantly reduce the attractiveness of purchasing a home in the Golden State. California Realtors Association President Geoff McIntosh suggested the Republican plan to eliminate state and local tax deductions, such as property taxes, could hurt California and its housing market.

"The average California homebuyer could end up paying $3,000 more a year in taxes under the proposal," McIntosh said in an emailed statement.

The reform plan is only expected to affect homebuyers who choose to itemize their deductions because it will strip away their ability to deduct property tax payments on their federal returns. Despite the fact the tax changes could cause home prices to decline according to economists, home prices in the Bay Area have been rising as much as 15 percent per year.

That means any tax-reform fallout that might tend to reduce home prices could be tough to notice, said Christopher Thornberg, a founding partner and economist with Beacon Economics.

President Donald Trump and Republican legislative leaders, however, believe the tax reforms and cuts would benefit the nation's economy, help bolster job creation, and slash corporate taxes making it easier for businesses to invest.

Weekly Mortgage Applications Stall Along With Rates and Home Sales

Rising interest rates and rising home prices are hurting mortgage demand, as fewer consumers have the incentive to refinance or purchase a home.

Total mortgage application volume declined by 0.4 percent during the last week of September from the previous week, according to the Mortgage Bankers Association's seasonally adjusted report. Mortgage volume now stands 24 percent lower than it did a year ago.

With interest rates higher than they were a year ago, applications to refinance are likely to continue to decline. They decreased 2 percent week to week and are down just over 40 percent from one year ago. Refinance volume has declined over the past month as interest rates continue to climb higher.

The average contract interest rate for 30-year fixed-rate mortgages with conforming loan balances of $424,100 or less increased to 4.12 percent from 4.11 percent, with points increasing to 0.45 from 0.40, including the origination fee, for 80 percent loan-to-value ratio loans.

"Rates moved higher over the course of last week, at least partially due to signs of stronger economic growth. Four of the five mortgage rates that we track increased," said Joel Kan, an MBA economist.

Mortgage applications to buy a home are still well below historical averages and increased just one percent for the week.

10 Reasons to Schedule a Seller Counseling Session

Scheduling a seller counseling session at the beginning of the selling process is an effective way to educate sellers, manage expectations, and establish open lines of communication. Plus it provides a great opportunity to get to know your clients better and reinforces the idea that you are working

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together to reach a common goal.

The counseling session can be a face to face meeting, a teleconference, or just a phone call. It helps to provide print material to guide the conversation and give the seller something to reference later if they have questions. How the meeting is conducted and the resources used can be tailored to reflect your individual style, but the important thing to remember is that a seller counseling session has many benefits for you and your sellers.

Here are 10 reasons why:

1 **Demonstrate Your Value –** The session allows you to explain your background and highlight your qualifications. Your experience and expertise will put your clients at ease and confirm their decision to list with you was the right one.

2 **Set Expectations –** Managing expectations from the beginning makes for fewer surprises, delays, and confusion in the long run. It will help your client understand their role, your role, and the roles of everyone else involved, making for a more seamless transaction.

3 **Get on the Same Page –** Use the session to deal with any confusion and potential misunderstandings up front, so you and your client are working together toward a common goal.

4 **Reduce Risk –** Whenever processes are clarified at the outset, the risk of conflict is reduced. This meeting will reduce chances for confusion, missteps, and conflict in the future.

5 **Explain What You Can and Can't Do –** If you address this early, there will be few or no client expectations that you do something that makes you uncomfortable, or is unethical or illegal. Discuss required seller disclosures, the realtor code of ethics and explain your boundaries.

6 **Outline the Process –** Give your client the big picture about what the process will involve. Remember, this may be second nature to you, but your client may be feeling overwhelmed. With the big picture in mind so they know what to expect beforehand, it is less likely they will become upset with you

7 **Position the Property –** An honest conversation about the property, what can be done to improve it, like staging, as well as discussing its obstacles, will prepare everyone for the possibility of having to deal with price reductions, price negotiations, concessions, contingencies, multiple offers, deals that fall through, etc.

8 **Explain Fees –** Being up front about the different services clients are paying for will prevent objections and frustrations down the road. Explain how the fees relate to the value of what you do to help sell the property.

9 **Gather Preferences –** Does your client want a daily or weekly check-in? Do they prefer a phone call or text message? Will they allow a showing with less than 24 hour notice? Asking these types of questions allows you to provide top notch customer service.

10 **Provide Resources –** The session doubles as an opportunity to share resources the seller can take with them, read at their convenience, and ask questions about later. Takeaways and reading material are invaluable time-saving educational tools.

For many homeowners, selling a home may be something they do only once or twice in their lifetime. A seller counseling session not only educates sellers unfamiliar with the home selling process, it also helps you gain client trust and paves the way for a smoother transaction.

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