Real Estate Digest

Serving Leading Lenders and Real Estate Professionals

Contact us to schedule your next closing
closing@title-smart.com
Office: 651-779-3075 • Fax: 651-779-3066

TitleSmart, Inc.

September • 2018 Volume 44 • Number 9

VeroFORECAST Predicts U.S. Real Estate Appreciation at 4.4% Rate Through May 2019

Residential market values of U.S. real estate will appreciate at the average rate of 4.4 percent through May 2019, predicts the 2018 second quarter VeroFORECAST.

Each quarter, Veros Real Estate Solutions releases its VeroFORECAST predicting upcoming real estate values.

Four future time horizons — 6, 12, 18, and 24, are used to create the predictive report. The second quarter release covers the time from June 1, 2018, through June 1, 2019.

Integrated data comes from 1,005 counties, representing more than 350 metro statistical areas. The 13,877 zip codes covered account for 82 percent of the U.S. population.

continued on next page

September • 2018 Volume 44 • Number 8

According to Eric Fox, Veros' VP of Statistical and Economic Modeling, "Washington State and Nevada occupy six of the ten highest-appreciating MSAs in the U.S. and the remaining four are in California, Oregon and Idaho."

"This is the 24th quarter in a row where this index has forecast overall appreciation," said Fox. "Interestingly, the metro markets that are projected to appreciate the most over the next 12 months in this VeroFORECAST release are also among the most populated, while the markets that are expected to depreciate most are all among the least populated. For example, the average population of the top 25 metros is 1.7 million and the average population of the bottom 25 metros is 318,000."

The current report reiterates the experience of the past few years. There is a high demand for housing. There is a low supply of housing.

The real estate appreciation prediction data varies by region. The top ten real estate markets in the new VeroFORECAST are in the West. Ten that are expected to depreciate or stay the same are in the South and East.

Areas of appreciation include:

- Seattle-Tacoma-Bellevue, Wash.
- Olympia, Wash.
- Bremerton-Silverdale, Wash.
- San Jose-Sunnyvale-Santa Clara, Calif.
- Carson City, Nev.
- Reno-Sparks, Nev.
- Mount Vernon-Anacortes, Wash.
- Pocatello, Idaho
- San Francisco-Oakland-Fremont, Calif.
- Eugene-Springfield, Ore.

"The San Jose market remains exceedingly strong with a supply of homes at an extremely low 1.0 months, while its population is continuing to grow steadily. Its unemployment is an extremely low 2.6%" said Fox. "Silicon Valley continues to attract workers for high tech jobs, and there isn't enough housing to fill demand, making this one of the strongest markets in the country."

Among the markets where values are predicted to depreciate the most, half the bottom 25 are in northeastern states. The highest rate of depreciation is -1.6 percent in Cumberland, Md.-W.Va. Other metro areas expected to depreciate include Farmington, N.M., Gettysburg, Penn., Atlantic City-Hammonton, N.J., Peoria, Ill., Fort Smith, Ark.-Okla., Jackson, Miss., Hartford-West Hartford-East Hartford, Conn., Joplin, Mo., and Bridgeport-Stamford-Norwalk, Conn.

Americans Continue to Shun ARMs a Decade After the Financial Crisis

At the height of the financial crisis, Americans shunned adjustable-rate mortgages. In late 2008, the share of mortgage applications with floating rates plummeted under 1 percent. Ten years later, the Mortgage Bankers Association reveals the share continues to remain low at 6 percent in June. In the decade before 2008, the average was around 20 percent.

Fixed-rate mortgage interest rates are still at all-time lows. Few borrowers need to take a risk on interest rates by applying for an adjustable-rate loan. As rates start to rise, experts question if Americans will go back to ARMs.

Chief Freddie Mac economist Sam Khater does not think so. He says that for ARMs to become more attractive, there must be a more substantial spread between long-term interest rates and short-term ones. Currently, ARMs are pegged to a benchmark called LIBOR, which keeps track of the rates banks charge on loans to each other.

continued on next page

Now, this spread is collapsing.

For the spread to surge higher, Khater stated, would likely require a "substantial increase in inflation." He does not see the kind of rise in inflation that would be needed.

"I do believe we'll see more ARMs. But I don't believe we'll see them issued like in the last housing boom," said Rick Sharga, executive vice president at Carrington Mortgage Holdings in California.

FHA Commissioner: Big Banks Should Return to FHA Lending

In the past few years, many of the largest banks in the country have moved away from Federal Housing Administration lending. The government's increased use of the False Claims Act scared them off, fearing the possibility of having to pay massive settlements.

Brian Montgomery, FHA Commissioner, says this is about to change. The Obama administration went too far in some cases, he said. Now the Trump administration is cutting back on the use of the False Claims Act to attract more lenders to FHA lending.

"Bank of America, [JPMorgan] Chase, and others barely offer the FHA product anymore" Montgomery told reporters. "A lot of folks rely on a branch location. At last count, the largest depositories have more than 15,000 locations."

He added that many of the locations have a loan officer and it seems odd that people looking to discuss an FHA loan would be told the bank could not help them.

Recently, but predating Montgomery's arrival at the FHA last month, there have been discussions between the Department of Housing and Urban Development and the Department of Justice regarding changes to how the False Claims Act is used.

Montgomery says they will still examine fraud and misrepresentation and make a determination about the appropriate punishment. But a more measured approach is likely in view of the fact that some lenders and services have paid over $5 or $6 billion in settlements, driving them away.

"I want to try to bring back some greater certainty on the bright line to get some of the depositories back into FHA fold," he added.

Home Building Sentiment Declines Due to Rising Lumber Prices

U.S. homebuilders recognize the opportunity brought on by an increased demand for housing. But they are being held back by rising lumber prices.

In June, homebuilder sentiment went down 2 points to 68, as revealed by the National Association of Home Builders/Wells Fargo Housing Market Index. Last June, the index was at 66. Any reading above 50 is considered positive.

Since December, builder sentiment has been in the 70s with one drop in April, when mortgage rates went up. Now the spike is based on the cost of materials.

But there is now increasingly downward pressure on builder sentiment in part due to higher lumber prices. Lumber prices have added almost $9,000 to the price of a new single-family home since the beginning of last year. Part of the increase is due to tariffs on Canadian lumber that went into effect in 2017.

"Builders are optimistic about housing market conditions as consumer demand continues to grow. However, builders are increasingly concerned that tariffs placed on Canadian lumber and other imported products are hurting housing affordability." Said Randy Noel, Chairman of NAHB.

continued on next page

With a shortage of houses to meet ongoing demand, home prices are pushing higher. With higher costs for materials, land, and labor, the cost of new homes is also increasing. Both conditions weaken affordability.

Housing Market Still Strong Despite Mortgage Rate Concerns

The Federal Reserve has started to raise mortgage interest rates. The spike has many people wondering if this could be the end of the housing boom. Industry professionals do not believe so.

"Concerns about rising interest rates and construction costs have been offset by unemployment and increasing wages," said Stuart Miller, executive chairman at Lennar.

There is still a shortage of available houses on the market in addition to years of "underproduction of new homes," he said. Demand remains strong and affordability is consistent as rates are still relatively low. Lennar reports profits and revenues that topped Wall Street predictions.

While builder stocks were hit hard this year, Lennar's upswing is an encouraging sign for the group of leading builders who feared increased interest rates would reduce the demand for new houses.

According to the federal government, new homes sales in May were better than anticipated. Strength was noted in the southern area of the US. The S&P Case-Shiller index shows home prices across the country are continuing to rise.

Pooja Sriram, Barclays economist, noted in a recent report, "Given the combination of strong demand and lean inventories, especially for existing homes, we expect home prices to continue appreciating at a modest pace for the remainder of the year."

Mortgage Applications Decline as Refinancing Reaches 20-Year Low

Despite the drop in mortgage interest rates, homeowners are not tempted to refinance their loans. The seasonally adjusted mortgage application rates were down 0.5 percent as compared to the previous week. The Mortgage Bankers Association reports total application rates decreased 13.5 percent from this time last year.

Over half of homeowners with a mortgage have rates under 4 percent. Home values have risen, but homeowners are not enticed to refinance based on the new found equity in their homes, according to CoreLogic. Homeowners are opting to take out a second loan to avoid refinancing at a higher interest rate. Home equity lines of credit are increasing.

Refinance applications were down 2 percent for the week and plummeted 28 percent from the same week one year ago. Last year mortgage interest rates were lower. The chief economist at the MBA, Mike Fratantoni, stated refinance loans had one of the weakest readings in the last two decades.

In late July the average contract interest rate for a 30-year fixed mortgage with conforming loan balance went down to 4.79 percent from 4.84 percent earlier in the month. Points went down from 0.42 to 0.41 for 80 percent loan-to-value (LTV) loans.

Despite the low interest rates, mortgage applications to buy a home were 1.4 percent lower than this time last year. A shortage of homes continues to be a roadblock to housing recovery.

continued on next page

September • 2018 Volume 44 • Number 8

Guess Which Generation is Struggling the Most to Purchase Homes?

Saving for a down payment on a home is a challenge. It becomes harder when potential buyers have high rents and student loan debt with rising property prices. Though millennials are the most likely to face these obstacles, they are not the generation having the most difficulty saving for a new home. It is Generation X.

This is the conclusion of a study based on around 4,000 responses from non-homeowners in monthly surveys conducted last year by the National Association of Realtors (NAR).

NAR's managing director of survey research, Jessica Lautz, said Generation X people are "at an age where they may have children, car loans, credit card debt. They're also less likely to be able to move back home [with their parents] to pay down debt."

While 23 percent of millennials said they were struggling to save for a down payment, 47 percent of Generation X respondents are having a difficult time coming up with the money.

The financial crisis hit Generation Xers hard. Lautz said, "They were likely to have purchased a home in the housing boom and then were hit by the housing bust. Generation Xers were most likely to have a home that was underwater."

However, millennials make up the largest overall share of people who do not own homes. While 82 percent of non-homeowners want to own a home in the future, the main reason they can't is they are unable to afford it.

U.S. Mortgage Rates Move Higher

For the first time since early June, long-term U.S. mortgage rates increased. According to mortgage buyer Freddie Mac, the average rate on a fixed rate, 30-year mortgage went up to 4.53 percent. A week earlier the rate was 4.52 percent.

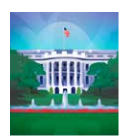
During recent weeks there was a decline despite that fact the rates on long-term loans have been their highest in seven years. In May, the 30-year rate reached a high of 4.66 percent. At the same time last year, the rate was 4.03 percent. On a 15-year loan, the fixed rate went up to 4.02 percent from 3.99 percent last week.

Investors have purchased ten-year U.S. Treasury notes. As a result, their yield declined, and mortgage rates went down. In May, the yield peaked at 3.11 percent. It is now down to 2.85 percent as investors look for a haven as tensions between the U.S., the European Union, and China continue.

On a 10-year note, the yield continues to stay in a narrow range to keep mortgage loan costs in place. The chief economist for Freddie Mac, Sam Khater, stated it was "certainly welcoming news for those looking to buy a home before the summer ends."

Freddie Mac calculates average mortgage rates by surveying lenders across the country each week.

The White House Wants to Privatize Fannie Mae and Freddie Mac



The Trump administration is looking to Congress to remove the federal charters for Freddie Mac and Fannie Mae. The plan will release them from U.S. control during a sweep to reorganize the government.

Since 2008, the two companies have been under U.S. conservatorship. New competitors under the plan could challenge their market dominance. A government entity would oversee any rivals.

A report about the changes, which are subject to government approval, stated, "Taxpayers would be protected by virtue of the capital requirements imposed on the guarantors, maintenance of

continued on next page

September • 2018 Volume 44 • Number 8

responsible loan standards, and other protections deemed appropriate by their primary regulator."

Right after the announcement Fredie's preferred shares went up 4 percent and Fannie's increased 5 percent. Fannie and Freddie do not make loans. Rather, they buy loans from lenders, wrap them into securities, and provide guarantees to investors should the loans wind up in default.

Both Fannie and Freddie were taken over during the financial crisis in 2008. They were injected with $187.5 billion in bailout money, and are once again profitable, paying the government more in dividends than they received in assistance. Congress and policymakers still maintin the companies should be replaced by a system that would not leave taxpayers footing the bill for losses.

6 Home Buying Myths Buyers Must Stop Believing

Successful real estate agents understand what buyers think. Unfortunately, they've discovered that many clients hold fast to home buying myths. These false beliefs are getting in the way of closing on their dream home. Here are the six home buying myths buyers must stop believing:

1 **Buying A House Requires a 20 Percent Down Payment**

According to a NerdWallet study, 44 percent of respondents believe 20 percent or more is required to purchase a home. While this was the standard, it is not always the situation today. A Federal Housing Administration (FHA) loan requires 3.5 percent down.

A Veterans Affairs (VA) loan, for those who served in the military and their spouses, can be approved with 0 percent down. Qualified buyers can get approved for a conventional loan with a lower down payment by paying mortgage insurance (PMI).

2 **It Is Wiser to Pay Mortgage Insurance Than Pay a Large Down Payment**

While mortgage insurance seems like a small price to save a bank account from a zero balance, the cost can add up in the long run. Calculate the cost of PMI for the long haul and consider other options to pay less over the life of the loan.

3 **Cash is the Best Choice**

Sad tales of first-time buyers getting ousted by all-cash investors are not the norm. Buyers with a loan and a low down payment can still be chosen to purchase the home. Don't assume sellers will always prefer all cash offers because they want to close the loan quickly and without approval issues. A larger offer or a personal letter that appeals to the seller can help buyers get approved over an all-cash offer.

4 **It is Easy to Get Help with a Down Payment**

Finding, applying, and getting approved for down payment assistance is often complicated. Most programs are locally run by the county or city. There are no national or state programs that provide down payment assistance. Applicants must be under a certain income to qualify for the help, with just a few exceptions, such as being a single parent.

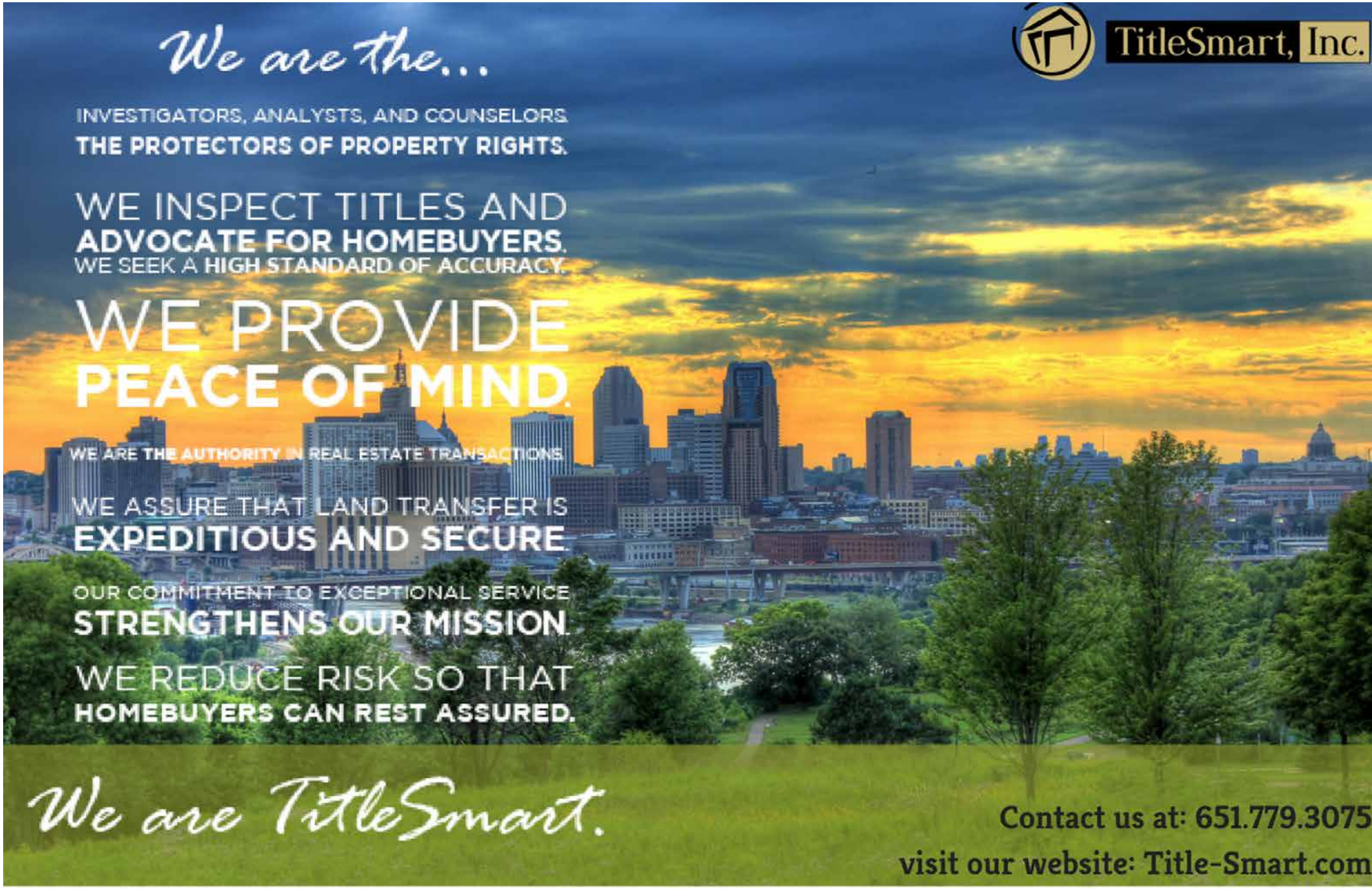
5 **Never Put Down More Than 20 Percent**

If a buyer is fortunate enough to save more than 20 percent of the purchase price for a home, it could be a wise idea to do it. A lender may offer a trustworthy borrower a lower interest rate. Plus, borrowers with a large down payment do not have to pay mortgage insurance.

6 **You Can Get a Loan for the Down Payment**

Buyers can get help with the down payment, but the money must be a gift. If the lender believes the money is a loan, repaying it will be factored into the mortgage approval amount. The buyer will qualify for less money to purchase a home. A letter from the gifters must be provided to prove the money is a gift. Buyers should note it is a felony to lie on a mortgage application.

more on next page



SMARTS PUBLISHING

The information presented and conclusions stated in this newsletter are based solely upon our best judgement and analysis of information sources. It is not guaranteed information and is not necessarily a complete statement of all available data. Web site citations are current at time of publication but subject to change. This material may not be quoted or reproduced in any form, including copy machines or any electronic storage or transmission medium, in whole or in part, without permission from the publisher. A special edition of Real Estate Digest is available for real estate agents specializing in commercial property or high-end residential, and for mortgage brokers. Please call 866-762-7879 to order your personalized copies today.