

## Open House: Affordable home loans lead to year with high home sales

by Jim\_Woodard

Things are looking up for consumers who are searching for a mortgage loan to either finance the purchase of a home or refinance an existing loan.

Recent developments in the mortgage industry will make home loans more affordable and accessible for many consumers in coming months, according to a report from the National Association of Realtors. This should help release some of the current pent-up demand by early next year, the report predicted.

"Conforming loans (those under \$417,000) are abundantly available today at historically favorable mortgage rates," said Lawrence Yun, NAR's senior economist. "Pricing has steadily improved on jumbo mortgages (over \$417,000) since the August credit crunch, and FHA loans are replacing subprime mortgages."

He noted that it's important to place the current housing market in proper perspective. This year will probably be the fifth highest year on record for existing-home sales.

"Although sales are off from the unsustainable peak of 2005, there is a historically high level of home sales taking place this year. A lot of people are, in fact, buying homes. One out of 16 American households will probably be buying a home this year. The speculative excesses have been removed from the market and home sales are returning to fundamentally healthy levels, while prices remain near record highs, reflecting favorable mortgage rates," Yun said.

All real estate is local with naturally large variations within a given area. Home prices vary dramatically from area to area. But generally, conditions look promising for prospective mortgage applicants and home buyers, especially with new mortgage plans being introduced and the modernization of FHA loan offerings taking place.

Mortgage rates are still holding at historically low levels. Homeowners are more inclined to be willing to adjust their asking prices and terms, and there are many homes on the market to select from. It's a good time to actively seek that new home.

Existing-home sales are expected to total 5.78 million this year, then rise to 6.12 million next year. New-home sales are forecast at 804,000 this year and 752,000 next year, NAR projects.

"A cutback in housing construction is a positive sign for the market because it will help lower inventory and

firm up home prices," Yun said.

Q: Since our dollar is losing value internationally, are there more foreign buyers of properties in the U.S.?

A: Yes. More foreign buyers are actively interested in acquiring properties in the U.S. - commercial and residential properties. With the dollar at historic lows against the euro and other currencies, real estate agents, appraisers and developers say overseas buyers are stepping up their purchases in the U.S.

Some are buying vacation homes in Florida, California and Colorado that would previously have been considered out of reach. Others are gambling that properties purchased now will translate into profitable investments down the road, when both the dollar and the U.S. housing market eventually rebound.

Some brokers are aggressively marketing to such potential customers, translating brochures into Russian, buying ads in Irish newspapers and hitting the road - pitching new condos to prospects in foreign countries. Corcoran Group in New York has started a specialty international division, and Engel & Volkers, based in Germany, started opening franchises in the U.S. earlier this year. There are now 12 in Florida and one each in Greenwich, Conn., and Southampton, N.Y. About 40 percent of the company's U.S. business comes from overseas, according to managing partner Timo Khammash.

Foreign businesses bought \$11.3 billion of U.S. real estate last year, up 45 percent from a year earlier, according to the U.S. Bureau of Economic Analysis. While those numbers refer mostly to commercial and industrial properties, experts say they suggest increased interest in the residential market, too.

Q: Is there a growing number of "hobby farms?"

A: Yes, there is an increasing number of "hobby farms," sometimes called "lifestyle farms" or "retirement farms." It's beginning to reverse the trend of declining numbers of farms in the U.S. It's also pushing up prices of farmland.

These are small farms, typically from 20 to 40 acres, often purchased and operated by seniors who have retired from successful professional or corporate positions. In many cases they grew up on a farm, or have very fond memories of time spent on a farm during their youth. Now in their senior years, they want to dig into the soil themselves and produce a crop or raise animals.

The acquisition of these farms is growing at a rate of about 2 percent per year, and now account for nearly

half of all farms. The trend is partially fueled by the increasing demand for organically grown foods, the type of crop usually grown on these farms.

Q: Is anything being done to correct the problem of homeowners being taxed for the amount of their mortgage forgiven by the lender in a "short sale?"

A: A currently proposed bill (H.R. 1876) would correct what many consumers and real estate professionals consider to be a serious flaw in our tax system. It would change the current law that forces individuals to pay an income tax when they have had part of a mortgage loan forgiven, or have been forced to foreclose because of their inability to pay their mortgage payments.

In cases where homeowners with only a small amount of equity have no choice but to sell their home, their stagnant or declining property values can cause them to fall short of the amount needed to pay off a mortgage. This is called a "short sale," and is often accepted by the lender.

Then the IRS steps in and demands that the forgiven amount be taxed. The current tax code requires lenders who forgive debt to provide a Form 1099 to the IRS stating the amount the borrower has been forgiven.

"How can we add insult to injury?" asked Pat Combs, president of the National Association of Realtors. "As if losing your home isn't painful enough, to turn around and tax a family on what the government calls income is distressing. Clearly, it's unfair to tax people on a phantom income, particularly right at the time they have experienced a serious economic loss and probably have no cash to pay the tax."

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