

## Home sales will most likely rise next year

by *Jim\_Woodard*

Home sales will finally start climbing again in 2008. That's the most recent forecast from economists at the National Association of Realtors.

The projection applies to existing (previously owned) homes. Recovery for newly constructed home sales is unlikely before 2009, it was noted in the association's report.

"The unusual mortgage disruptions that peaked in August were clearly seen in lower home sales that were finalized in September and October, so the market was underperforming," said Lawrence Yun, the association's chief economist. "Now that mortgage conditions have improved, some postponed activity should turn up in home sales over the next couple of months, and I expect sales at fairly stable to slightly higher levels.

"The broad trend over the coming year will be a gradual rise in home sales, but because sales have been exceptionally low in the final month of 2007, total sales for 2008 will be only modestly higher than in 2007," he said.

Existing home sales are projected at 5.67 million units in 2007, the fifth highest on record. That number is expected to rise to 5.7 million in 2008, still significantly lower than the 6.48 million homes sold in 2006. Existing home prices are expected to be down by about 1.9 percent in 2007, compared with the previous year.

"Home price growth in the affordable midsection of the country will help raise the national median existing-home price in 2008," Yun said. "I then expect price appreciation to return to more normal patterns in 2009, perhaps rising one or two percentage points above the rate of inflation.

"Even with a modest decline in the national aggregate price in 2007, it's important to keep in mind that nearly two-thirds of the metro areas are showing price increases. The apparent disparity results from fewer sales in high-cost markets. A change in the mix of sales is dragging down the national median home price."

New home sales are now forecasted at 788,000 in 2007, and 693,000 in 2008. Because builders have adjusted production, housing starts will probably total 1.36 million units in 2007 and 1.16 million in 2008, according to the National Association of Realtors report.

On the home financing front, rates for the 30-year fixed-rate mortgage are predicted to rise slowly to 6.4 percent by the end of 2008, with additional cuts in the Fed funds rate lowering short-term interest rates.

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Q: Are home foreclosures still on the increase?

A: The number of home foreclosures is still ominously rising, but help is on the way. Mortgages nationwide that are in some phase of the foreclosure process are now at record high levels. About 1.69 percent of all residential borrowers are facing the loss of their home, according to the Mortgage Bankers Association.

The percentage of homes that entered foreclosure in the third quarter of 2007 reached a 21-year high, at 5.59 percent of mortgages. All types of loans showed an increase in foreclosure starts in the third quarter. Subprime adjustable-rate mortgages remained the biggest problem, accounting for about 43 percent of all new foreclosures, even though they comprise only 6.8 percent of all loans outstanding.

A plan is in the works to help many homeowners avoid losing the homes. It includes a temporary freeze on low, introductory mortgage interest rates that would otherwise jump higher in the next few months and years. The freeze could be for as long as five years for qualified borrowers, according to a report from the Treasury Department. It's designed to combat the rising tide of foreclosures.

The one positive side of the current situation is a wider selection of available homes for buyers in today's market. Coupled with bargain prices and currently predicted rising prices in the near future, along with still historically low mortgage interest rates, this could be a strategic time to purchase a home.

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This column recently focused on changes taking place in the reverse mortgage industry. I subsequently received an e-mail from reader Lorraine Jones, a certified reverse mortgage consultant. Here is part of her message:

"I think your readers might be interested to know that a pending Bill called the FHA Home Modernization Act was passed by Congress and the Senate Banking Committee last September. It would increase the FHA lending limits to those of conforming loans and possibly reduce some of the costs.

"FHA's HECM (Home Equity Conversion Mortgage) is by far the most popular reverse mortgage program used by seniors, as it provides the most flexibility. However, I would suggest that if a senior wants to be given the most accurate information on these programs, they should take advantage of the free counseling that is provided by the Department of Housing and Urban Development (HUD) approved agencies. Financial planners, attorneys and CPAs should be the last choice for this information. Typically they don't know anymore than their client and could possibly provide them with advice that could be damaging to them.

"In October, HUD announced that they would allow the counseling agencies to collect \$125 from clients for their services. This has not gone into effect yet, pending a HUD Alert announcement, but it's possible that some of the agencies are now having clients pay for the service."

For more information, contact your regional HUD office.

Q: What's the significance of the latest Fed fund rate cut?

A: The Federal Reserve Board's cut of short-term interest rates by a quarter of 1 percent on Dec. 11, lowering the rate to 4.25 percent, is a positive step to ensure the economy is not derailed by problems in the subprime mortgage market.

"The Fed's third rate reduction since September shows that it is determined to cut interest rates as needed to keep the economy moving forward, boost consumer confidence and increase liquidity," said Brian Catalde, president of the National Association of Home Builders. "The Fed should be prepared to act again in the event further reductions in rates are needed to stabilize financial markets and reassure investors."

Send inquiries to Jim Woodard, P.O. Box 120190, San Diego, CA 92112-0190. Questions may be used in future columns; personal responses should not be expected.

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