Open House: Home buyers respond to lowered mortgage rates

by Jim_Woodard

The window of opportunity for home buyers has opened wider with mortgage interest rates dropping to the lowest level in four years.

At this writing, the average rate for a 30-year fixed-rate mortgage is only about 5.6 percent and is edging up a bit. Last year at this time the rate for the same loan was 6.25 percent. The 15-year fixed-rate loan, particularly popular with homeowners wanting to refinance their existing mortgage, is now 5.04 percent, according to Mortgage Bankers Association.

"Recent economic news has confirmed the weak condition of the housing market," said Frank Nothaft, chief economist for Freddie Mac, a government-sponsored enterprise that purchases mortgages.

"Housing construction starts has fallen to its slowest pace since May 1991. Last year, as a whole, housing starts dropped nearly 25 percent from the previous year's level. This is the largest annual decline since 1980. New building permits also fell to the lowest level since March 1993," he said.

When the Federal Reserve cut the federal funds rate dramatically at two sessions during January, this was extraordinary in both the magnitude and timing of the rate cuts, Nothaft noted. The two most recent cuts were the largest since October 1984. As a result, mortgage rates trended down, affecting all loan products.

Another notable trend in the mortgage market is the current boom in applications for refinance mortgages.

"Refinance applications are up 92 percent since the beginning of November, while purchase applications are up 7 percent," said Jay Brinkmann, vice president of the Mortgage Bankers Association. "With tighter credit conditions we don't know how many of these applications will become loans, but it is clear that borrowers are responding to the recent lowering of interest rates."

The refinance share of mortgage activity has increased to 73 percent of total applications.

Q: Is it common for appraisers to boost home values to accommodate a lender?

A: The problem of appraisers artificially inflating values of properties on their reports under pressure from some lenders and brokers seems to be worsening. There is an increasing number of complaints regarding this unethical practice, and at least two lawsuits have been filed - in California and New York.

Inflating the value of homes above a realistic market value can be disastrous for the home buyer when the time comes to selling or refinancing the property. Also, when a home is purchased and financed based on an inflated value, it can adversely affect other homes in the neighborhood. Those unrealistic prices are used as "comparables" in determining the values of other homes.

"Pressures to inflate values has been endemic industry-wide and is a significant contributing factor in many mortgage fraud cases and foreclosures," said Gary Crabtree, principal appraiser for Affiliated Appraisers.

There is now pending legislation in Congress that would increase penalties for anyone who interferes with the proper appraisal process. That includes those who offer inducements for favorable valuations or punishes appraisers who refuse to deliver inflated numbers. Passing tough rules and laws of this type, on the federal or state level, will definitely benefit consumers and the majority of appraisers who are true professionals.

Q: Do many foreigners buy homes in the U.S.?

A: A growing number of Realtors are serving international clients - foreigners who are actively seeking residential properties in the U.S. This was revealed in the recently released "Profile of International Home Buying Activity," prepared by the National Association of Realtors.

The top three state destinations for foreign home buyers are California, Florida and Texas, but a significant number of overseas buyers are seeking properties in all areas of the country, the report noted.

The currency environment probably played a major role in the proportion of foreign buyers who paid cash for their homes. About 28 percent are paying cash - much greater than that of the general U.S. home buyer population (8 percent). International buyers who can afford a home abroad often are from wealthier households with higher monthly incomes and cash reserves.

It should be noted that the tax benefits of mortgage interest deductions may not apply to foreign buyers, depending on the buyer's home country's tax code. This, of course, lowers the incentive to take out a mortgage.

Buyers are coming from around the world to buy different types of properties at various prices. They plan on using their U.S. homes for different reasons. The typical international buyer purchased a single-family home or townhome. The primary purpose in purchasing the home was for use as a vacation venue for family and friends.

The typical foreign buyer in the U.S. spends 4.2 months in his or her U.S. property. U.S. visa rules allow nonresidents (unless under a student or work visa) to remain in the country for only six months, the NAR report noted.

Q: Are auctions to sell foreclosed homes on the increase?

A: An interesting perspective on our current problem regarding home foreclosures was revealed in a recent report from RealtyTrac Inc.

More than 2.2 million foreclosure filings were recorded last year. That's a 75 percent increase over 2006. However, a closer look at fourth quarter numbers included in the report shows slightly divergent trends to close out the year.

While bank repossessions spiked to more than twice the level they were at in the fourth quarter of 2006, and were up 35 percent from last year's third quarter, auction and default notices were actually down 6 percent from the third quarter to the fourth quarter. But they were still up by 75 percent from the fourth quarter of 2006.

This may reflect the banks' willingness to give borrowers more leeway, helping them work out a plan that would be a better alternative to a foreclosure.

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.