

## Open House: Slow rate increase for housing market

by *Jim\_Woodard*

Home values are still increasing, but only at a crawl. Today's values, on a national average, are only 4.4 percent up from what they were a year ago.

If the rate of home price increases during the first quarter of this year continues through the year, we will only see prices increase this year by 2.8 percent. That would be the slowest price appreciation rate 14 years, according to a study and report by Freddie Mac, a major government-sponsored buyer of existing mortgages.

"The number of existing home sales rose in the first quarter of this year relative to the fourth quarter of last year, but was down more than 9 percent from a year ago," said Frank Nothaft, chief economist for Freddie Mac. "As a result, home price growth decelerated further.

"With home sale prices currently rising so slowly, home price appreciation is not keeping pace with the overall level of inflation. As the housing market settles near the bottom of its cycle during the second half of this year, we will likely see national home price growth slow further with price declines in many parts of the country.

"At this point, we're forecasting home price appreciation to slow further later in the year, with a total average rise in home values nationally of around 1 percent, measured by home purchase prices," Nothaft concluded.

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Q: Will there be a reform in FHA mortgages?

A: A call for major reforms in Federal Housing Administration mortgages is coming from the National Association of Home Builders during this National Homeownership Month of June.

"Comprehensive FHA reform would mean greater flexibility in responding to the needs of borrowers, enabling more working families to become homeowners and providing a viable alternative to the volatile subprime market," said Jerry Howard, National Association of Home Builders' executive vice president. "This month is the perfect time to highlight this area where change can result in thousands more Americans realizing their dream of homeownership."

Since the exotic variable-rate mortgage products have lost their luster for many borrowers, FHA loans have become an increasingly popular option. However, with restrictive loan ceilings and without much-needed changes, FHA can't reach all the borrowers who need the safety net that these loans can provide, according to the home builders association.

"FHA could potentially assist tens of thousands more borrowers who need an exit strategy from their subprime mortgage by insuring fixed-rate, adjustable-rate and hybrid adjustable-rate mortgage loans to borrowers with limited cash reserved or slightly tarnished credit," a NAHB report stated. "But even with adverse headlines, subprime lending remains an important alternative for households that can't qualify for a mortgage from a prime lender - provided, that is, that the loan is legal, fiscally responsible and ethical."

It's interesting to note that of the adjustable-rate subprime loans taken out in years 2005 and 2006, about 80 percent of the borrowers are able to pay the loans at the new, higher interest rates. In some cases, they have successfully refinanced their mortgage into a less expensive prime-rate loan, or have sold their home.

It's the 20 percent of subprime loan borrowers encountering problems who could most benefit from FHA reform, according to NAHB.

Q: Are more consumers opting for fixed-rate mortgages?

A: Despite the high numbers of subprime borrowers who are keeping their mortgage payments up-to-date, the biggest shift in today's mortgage trends comes from consumers who have been fleeing to the relative safety of fixed-rate loans.

Adjustable-rate mortgages that were popular during the housing boom aren't nearly as attractive today, according to Doug Duncan, chief economist for the Mortgage Bankers Association.

Adjustable-rate mortgages made up a 41.9 percent share of all mortgage origination in January of last year. They have now plummeted to an 18.4 percent share. With a shrinking spread between ARM interest rates and fixed rates, borrowers don't have much of an incentive to bypass a more stable fixed-rate loan.

Q: Do most consumers know the basics about real estate transactions?

A: Surprisingly, many consumers still believe there is a mandated 6 percent commission rate charged by

brokers when selling a home. In fact, those commissions are strictly negotiable between the broker and homeowner. The national average commission rate is now down to about 5 percent.

Areas in real estate transactions that are not well understood by most consumers extend far beyond commissions. Most do not even know the fundamentals of the real estate industry, according to an analysis by the Consumer Federation of America. Their study indicates that about a third of respondents to a survey knew that the local multiple listing service is the most complete source of information about homes for sale.

"Home sellers and buyers who think they understand a complicated industry are at a disadvantage in obtaining effective representation, reasonable commissions, adequate redress and (for buyers) complete information about listed properties," said Stephen Brobeck, CFA's executive director.

He also noted that most respondents did not fully understand the way the industry works because they use its services infrequently and the services are very complicated. He suggested that state commissions regulating real estate should "more energetically" inform potential buyers and sellers about needed services.

He also suggested a program be implemented requiring brokers to give a brochure to new clients, approved by the Federal Trade Commission, fully explaining the way real estate industry services work.

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