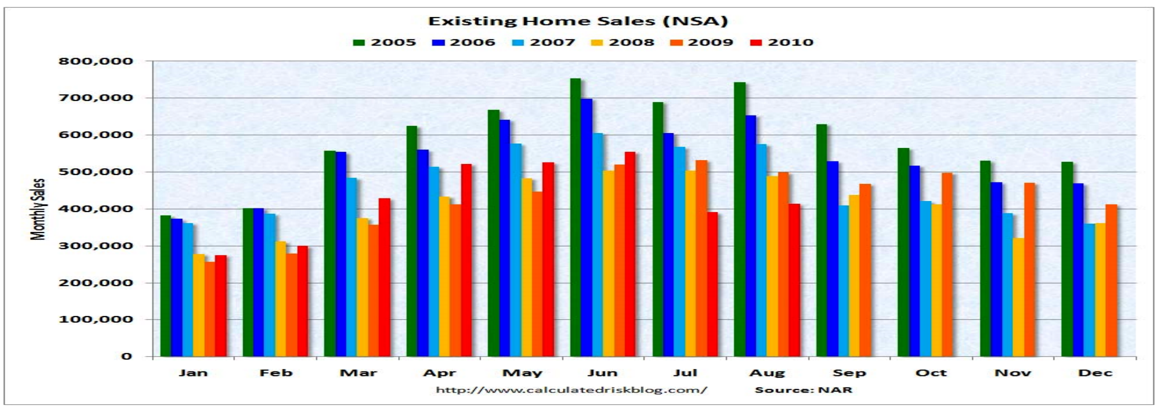
The Mortgage Corner
Home Sales Are Rising

In spite of all the bad news—higher foreclosures (one Florida home foreclosed on that didn't even have a mortgage!), falling prices, and record lower mortgage rates—buyers still want their dream home, say several reports.

Existing Home sales, which are completed transactions that include single-family, townhomes, condominiums and co-ops, increased 7.6 percent to a seasonally adjusted annual rate of 4.13 million in August from an upwardly revised 3.84 million in July, but remain 19.0 percent below the 5.10 million-unit pace of one year ago.



NAR chief economist Lawrence Yun said, "The housing market is trying to recover on its own power without the home buyer tax credit. Despite very attractive affordability conditions, a housing market recovery will likely be slow and gradual because of lingering economic uncertainty".

There is no uncertainty about housing affordability, however, which is still hovering near its record high in spite of a 12 percent price rise in the median existing-home price, according to the Realtors. This is because 30-year fixed mortgage rates have dropped to 4.125 percent for conforming, 4.375 percent for so-called super conforming loans to $727,750, so that just a $37,392 annual income is need to qualify for a median-priced home with 20 percent down. This is 30 percent less than the income required to qualify in 2007.

Yun added, "Affordability could reach a generational high in the second half of this year because of rock-bottom mortgage interest rates, helped partly by the Fed's very accommodative monetary policy. The loan underwriting standards are tighter, but home buyers can improve their chances of getting a loan by staying well within their budget."

Total housing inventory at the end of August slipped 0.6 percent to 3.98 million existing homes available for sale, which represents an 11.6-month supply at the current sales pace, down from a 12.5-month supply in July.

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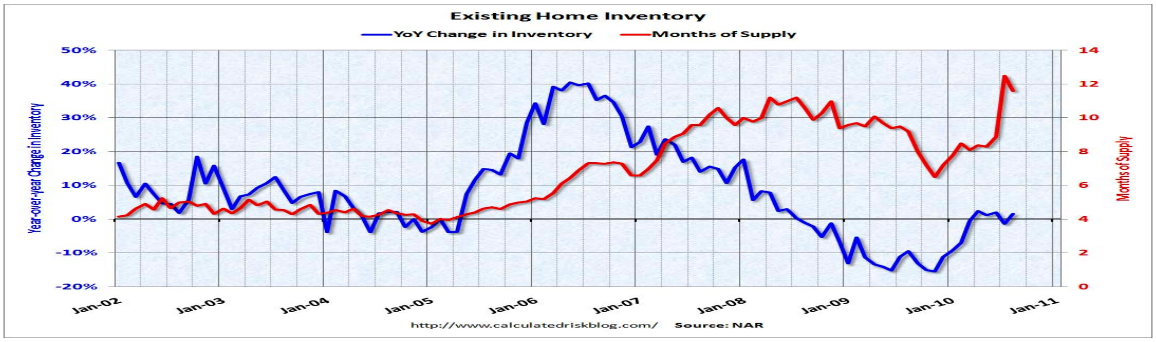

"Home values have shown stabilizing trends over the past year," said Dr. Yun, "even as the economy shed millions of jobs, because of the home buyer tax credit stimulus. Now that the economy is adding some jobs, the housing market needs to steadily improve and eventually stand on its own."

Pending home sales in July also rose 5.2 percent to 79.4 based on contracts signed in July from a downwardly revised 75.5 in June, but remains 19.1 percent below July 2009. The data reflects contracts and not closings, which normally occur with a lag time of one or two months, indicating better numbers for future existing-home sales.

And first-time home buyers, a growing segment of the housing market, are contributing to an increase in demand for smaller and less expensive new homes, according to research from economists at the National Association of Home Builders (NAHB). A recent biennial American Housing Survey, which was conducted by the Department of Housing and Urban Development and the Census Bureau in 2009 finds that 41 percent of the 8.4 million households who bought a home between 2007 and 2009 were first-time buyers.

The market share of first-timers was up from 35 percent in both 2005 and 2007. Although some of the demand was fueled by the initial version of the home buyer tax credit in mid-2008, which was specifically targeted to those buying a home for the first time, the upward trend is expected to continue as children of baby boomers -- members of a generation that is larger than their parents' -- move into their household formation years in the period ahead.

"Builders are increasingly gearing their homes to the needs of first-time buyers, and we expect the trend to continue in the period ahead as the economy begins generating more jobs and more people in their 20s form households," said Chairman Bob Jones of NAHB.

Housing won't truly stabilize until the foreclosure rate has dropped significantly, and there are still too many in the 90-day late category of mortgage delinquencies. So there may be another spike in foreclosures, as banks clear their books of bad loans. The new Basel III capital requirements were less than feared, which frees up more bank capital, and so banks may be gearing up to do business as usual again.

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