The Mortgage Corner

**NAR SEES HOME PRICES FALLING**

The National Association of Realtors revised its monthly housing forecast to show housing prices falling for the first time since it began to keep housing stats in 1968. This is in part due to tighter lending criteria that will shut out many entry-level home buyers, who were a big part of the 40 percent of borrowers who took out either subprime or negatively-amortized Option ARMs in 2006.

But the tighter lending criteria and fallout from the subprime loan debacle should lead to a healthier housing market with greater assurance that owners can handle mortgage adjustments. The higher loan standards will slow the housing recovery, according to NAR chief economist David Lereah.

"We want to people to be able to stay in their homes with mortgage terms they understand and can handle," he said. "Simply stated, a loan with the lowest monthly payment probably isn't in your best interests – borrowers need to understand worst-case scenarios. If you're in a mortgage you aren't comfortable with, now is an excellent time to refinance, if you can, with historically low rates on safer conventional loans."

The national median existing-home price will probably slip 0.7 percent to $220,300 in 2007, forecasts Lereah, following a 1.0 percent rise last year. The median new-home price is projected to increase 0.4 percent to $246,200 this year, after gaining 1.8 percent in 2006. Modest growth is expected next year, with existing-home prices increasing 1.6 percent and new-home prices rising 2.0 percent.

Fannie Mae's chief economist Dave Berson had also forecast a 1 percent drop in existing-home prices this year, based on OFHEO (its government regulator) projections of price changes in 'same-home' prices.

"Tighter lending standards will dampen home sales a bit, but by less than a couple of percentage points from initial projections. We still forecast 2007 to be the fourth highest year on record for existing-home sales, and housing remains a great long-term investment," Lereah said.

Existing-home sales are likely to total 6.34 million in 2007 and 6.52 million next year, in contrast with 6.48 million in 2006. New-home sales are seen at 904,000 this year and 935,000 in 2008, below the 1.05 million last year. Housing starts are estimated at 1.47 million in 2007 and 1.55 million next year, down from 1.80 million units in 2006.

"As home sales moderate, overall home prices will be essentially flat this year," Lereah said. "The good news is that inventories remain well below the levels experienced during the last housing downturn in the early 1990s, and supplies are close to balance in many areas."

Much will depend on Federal Reserve policy this year, of course. Minutes from the last FOMC meeting revealed that Fed Governors are torn between the twin worries of slowing growth and higher inflation, which means they want to do nothing at the moment. This writer feels that slower growth is the greater danger. Inflation should not be a problem with a world awash not only in money, but cheap goods from foreign producers.

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