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THE WALL STREET JOURNAL.
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WRITING ON THE WALL | August 1, 2012, 11:11 p.m. ET

Finally, It Is Time to Buy a House

By DAVID WEIDNER

MarketWatch's David Weidner checks in on Mean Street to point out that changes in the economy's housing sector indicate it's time for prospective homeowners to sign on the dotted line. Photo: Agence France-Presse/Getty Images.

Warren Buffett famously once said: "Be fearful when others are greedy, be greedy when others are fearful."

And if you're not instinctively scared of the housing market, then global warming, saturated fat, running with scissors and the bogeyman probably aren't keeping you awake at night, either.

The fact that everyone is scared to dabble in—much less commit to—housing makes it a close-to-perfect investment based on Mr. Buffett's principle. But buying real estate is a good long-term investment for many more reasons, some of which have only become apparent in recent weeks.

The most striking: Housing prices rose sharply from April to May. The S&P/Case-Shiller Index rose 2.2% in 20 of the nation's big cities. Prices shot up more than 3% in Chicago, Atlanta, San Francisco and Minneapolis. Even Detroit's housing market scored a gain, inching up by 0.4%.

Nationally, the increase was the first in seven months. More importantly, the increase matched other data and empirical evidence this spring that foreclosures slowed and inventories were shrinking. Simple economics suggests that as the supply of distressed property slows, buyers will be forced into higher-price properties.

In addition, interest rates on 30-year fixed mortgages have tumbled below 3.5%. For those who can get credit, these aren't just historically low rates; they are one-sided deals tilted toward borrowers.

Other good signs: Housing starts rose 6.9% in June. Home-building stocks are on the rise, with the Philadelphia Housing Sector Index up 27% so far this year. And for those who can invest in property, rents continue their ascent. Prices are at a 10-year high, with the median unit renting for $710 a month. Real-estate website Trulia found that it is cheaper to buy than rent in each of the nation's 100 biggest metropolitan areas.

In other words, if you can buy a home today, you can save the difference it would cost you to rent even if you stay in the home just five years. If you can buy a property and rent it, it is almost certain that the rent will cover the cost of the financing—and the property will appreciate.

Here's where the fear comes in. From 30% to 50% of existing mortgages in the U.S. market are underwater, depending on the estimate. That means many borrowers are trapped in their homes and loans. They either can keep paying and hope prices will improve or walk away, putting downward pressure on home prices.

Foreclosure rates have leveled off, but market analysts believe an increase is likely.

Here's why. Since the financial crisis, 3.7 million homes have been foreclosed on, but an additional 1.4 million remain in the national foreclosure inventory, according to CoreLogic, a real-estate research firm.

Finally, a housing recovery won't happen, or could be snuffed out, by a rotten economy. There's never been significant growth in housing with high unemployment. And as Dow Jones's Kathleen Madigan noted, "Potential buyers must feel secure with their job prospects before they commit to long-term mortgages. Higher loan standards mean banks want to see an applicant's solid income history before lending."

There is plenty to be afraid of when it comes to home buying. But in the current investing climate, housing presents an attractive long-term investment that should hold steady or even have upside surprise in the short term.

Fixed-income yields have fallen to historic lows, and the stock market has traded in a range, rising and falling skittishly on jobs, growth data and the news from Europe.

Recently, I was forced to choose between renting and buying. I decided to buy because it offered immediate monthly savings compared to renting, not to mention a mortgage-interest deduction.

So this is at least one case where I'm putting my money where my keyboard is.

Mr. Buffett would remind us that investments of any kind are not without risk. Each should be considered with the investor's time horizon and appetites. But he also has acknowledged that real estate is especially attractive when financing is cheap, there is pent-up demand and prices have been driven down by a spooked market. Put another way, it's time to be greedy.

Write to David Weidner at david.weidner@dowjones.com

SmartMoney Glossary: time horizon, underwater, lows,

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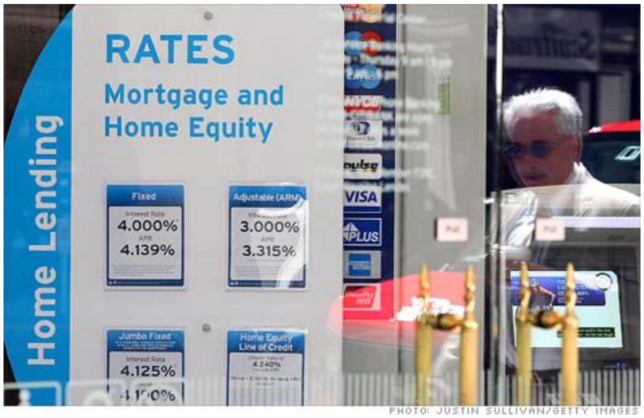
Mortgage closing costs fell 7% for homebuyers

By Les Christie @CNNMoney August 7, 2012: 11:53 AM ET



The closing costs of getting a mortgage have dropped.

NEW YORK (CNNMoney) -- Federal regulations are helping to significantly reduce the amount new homebuyers are paying come closing time.

The average cost of closing on a mortgage has fallen by 7.4% over the past year, according to a recent survey by Bankrate.com. At the end of June, a homebuyer looking to close on a $200,000 mortgage with 20% down paid an average of $3,754, $300 less than 12 months earlier.

Included in those costs are origination expenses, such as application fees and the cost of doing credit checks, and third-party fees, such as those paid for title searches and insurance.

The decline can be attributed to new regulations that require lenders to be more accurate when estimating closing costs for borrowers, said Greg McBride, Bankrate's senior financial analyst.

The regulation, which was put in place two years ago as part of the Real Estate Settlement Practices Act requires lenders to provide a "good faith estimate" of third-party fees that is within 10% of the actual amount the buyer will pay.

"The big drop in third-party fees indicates the lenders are doing a better job at estimating what the costs will be," said McBride.

The most expensive state for closing on a home was New York, where total origination fees and closing costs averaged more than $5,400 for a $200,000 mortgage, according to Bankrate. Texas, Pennsylvania and Florida also cost far more than the national average.

Missouri was the cheapest, with total borrowing costs averaging just over $3,000. Other states where closing costs remain low include Kansas, Colorado and Iowa, Bankrate said.

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Even on a neighborhood level closing costs can vary significantly, said McBride. Borrowers can save money by getting at least three estimates and paying close attention to the total costs of obtaining a loan rather than getting seduced by **low advertised interest rates**.

"Borrowers don't want to get tunnel vision shopping for the best mortgage deal by only looking at the interest rate," he said. "Closing costs are a big line item and savings there can be quite significant."

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The New York Times

August 2, 2012

Simplifying Loan Documents

By VICKIE ELMER

THE Consumer Financial Protection Bureau, the federal agency created by Congress after the financial crisis, says mortgage documents should be written in simple, straightforward language, and so after months of researching and testing, it is proposing that lenders provide borrowers with two new forms. One will come at the start of the lending process, the other just before closing.

The proposed three-page Closing Disclosure was unveiled last month, along with a new loan estimate document, which would be provided to borrowers three days after they applied for a mortgage or refinancing. One goal is to protect them from some of the onerous and nebulous lending practices that led to the mortgage and financial crisis of 2008 and 2009.

About a quarter of mortgage shoppers considered a full, accurate disclosure of all fees most important when shopping for a mortgage online, according to a June Harris Interactive poll for MortgageMarvel.com, an online shopping site. The nationwide survey of 2,214 adults found the second-most-important item on the wish list was access to rates without providing personal information.

The financial protection bureau said it had spent almost 18 months in research and review, including rounds of testing of the two documents with groups of consumers and industry professionals. (The new forms would combine and replace documents currently required under the Truth in Lending Act and a second consumer protection law, the Real Estate Settlement Procedures Act of 1974.)

“The kind of problems we’re trying to address deal with clarity of the market — know before you owe — right from the very application stage,” Richard Cordray, the bureau director, said in a recent interview.

The new disclosures, according to the bureau, would make it easier for borrowers to see and avoid risks, like prepayment penalties or loan balances that grow, known as negative amortization; they would also show which terms could change over the life of the mortgage. They are expected to avoid the legalese and complicated language that often creep into financial forms.

The public and the real estate industry have until Nov. 6 to comment on the forms and rules. The new documents are expected to be put in place next year, though it is not known exactly when.

Early response from the mortgage industry has been tepid at best. Some mortgage professionals said privately that they wondered whether the changes were necessary, especially given the fact that the HUD-1 closing document, which details costs and loan terms, was revised only two and a half years ago.

Mr. Cordray says borrowers don't have to wait for the documents to become officially available. He says they can download sample forms now from the Consumer Financial Protection Bureau's Web site, then ask their lender questions to fill in the key information.

"If they're having trouble in their particular transaction," he said, "they should for themselves demand to know, 'What are these pieces of information?' "

The bureau is proposing that consumers have three days for document review before closing. For now, borrowers may want to see if their lender will provide a closing packet including all the documents at least two days before the closing is scheduled. Lenders currently are required to provide the HUD-1 closing form at least 24 hours before closing, but if you make a request early enough you may be able to obtain it earlier, said Rick Allen, MortgageMarvel.com's chief operating officer.

Getting good information on a mortgage or refinancing means collecting completed good-faith estimates at the start, and not just accepting an e-mail with partial terms from a lender, said Michael Moskowitz, the president of Equity Now, a direct lender based in New York. If you receive three good-faith lender estimates and compare, he said, "you can see right away whose costs are high and whose costs are low."

The Washington Post

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Mortgage lenders may be easing their standards, but not for everyone

By Kenneth R. Harney, Published: August 2 | Updated: Friday, August 3, 2:55 AM

With home prices rising in many markets around the country, might mortgage lenders start loosening up on their hyper-strict underwriting rules and extend loans to buyers who now find themselves on the sidelines?

Could current preferences for FICO credit scores in the mid-700s, down payments of 20 percent or more and tight debt-to-income ratios begin to ease a little, given the widely acknowledged fact that loans underwritten during the past several years have performed exceptionally well — that is, defaulted at low rates?

Maybe. A lower unemployment rate would help, mortgage industry leaders say, as would signs of more-robust growth in the overall economy. But the industry is unlikely to go back to what Frank Nothaft, chief economist of Freddie Mac, the giant federally backed investor, calls “the loosey-goosey standards we had in 2005 through 2007”: minimal documentation of income and assets, zero down payments and a widespread disregard for applicants’ ability to afford payments on the mortgages they sought.

Nothaft added in an interview, however, that “we have gotten better news on the home-pricing front,” which might allay some bankers’ fears about making loans secured by assets that are declining in value.

So the answer is yes, there are possibilities for easing in the months ahead. But there are also signs that for certain borrowers, things could get worse. Fannie Mae, the other dominant investor along with

Freddie Mac in the conventional mortgage market, is planning an overhaul of its automated underwriting system in October. Fannie's system plays a huge role far beyond its own business, since lenders often submit borrowers' application data through it to get a quick read on whether a loan meets the baseline tests for eligibility, even if the mortgage is destined ultimately for FHA, VA or a bank's portfolio.

While Fannie Mae officials insist that the coming changes to credit-risk evaluation and other factors won't significantly alter the rate of approvals that the system generates, they concede that some applicants now getting green lights for loans won't get them and others who are now on the margins will sail through.

Some changes in the Fannie underwriting black box almost certainly will make approvals tougher, such as bids for certain condo loans. Under its current guidelines, Fannie Mae's system allows lenders to perform a "limited project review" on the financial and other conditions of the underlying condominium community when purchasers put down as little as 10 percent. But under the coming changes, applicants making down payments of up to 20 percent will be subjected to a "full project review."

This is "potentially a big deal" for condo buyers and sellers, says Philip J. Sutcliffe, a condo financing consultant based in Lansdale, Pa. "Most lenders aren't equipped" to perform a full project review, which involves "legal review of the condo documents" and other tasks that can be costly and time-consuming, he said. The result: Some lenders may not want to bother with the hassles and expenses that come with such applications, potentially cutting off a source of mortgage money for unit sellers and purchasers.

Other signs that the lending industry may not be quite ready to loosen up: In the latest quarterly survey of banks conducted by the Office of the Comptroller of the Currency, 25 percent said they had tightened rules for mortgages in recent months, whereas just 10 percent said they had eased their standards. About two-thirds said their rules remained the same.

Also, a study by mortgage data firm Ellie Mae of new loans closed in June found that credit scores for approved mortgages remain extraordinarily high. Fannie and Freddie's refinancings had an average FICO score of 767 and an average equity percentage of 29 percent. Home purchase loans had average down payments of 21 percent and FICO scores of 763. Even the conventional home purchase loan applications that lenders rejected had quality characteristics that were high by historical standards: 738 average FICOs and 19 percent down payments.

FHA, which used to average in the mid-600s for FICO scores on approvals, appears to be continuing to cherry-pick applicants as well, based on the Ellie Mae survey data, which the firm says represents about one-fifth of all loans originated in June. FHA's average FICO on approved refis was 716, up three points from May. For successful home purchase applications, the average was 701.

What does all this mean? If there's a loosening of underwriting standards coming down the road, there are scant hints of it at the moment.

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Harder-Luck Foreclosures Grow As Funding For Help Wanes

By Emma Fidel - 2012-08-07T10:00:00Z

Spencer Platt/Getty Images

A padlock hangs from a door of a foreclosed home in Islip, New York.

Larrone Brown has been dodging foreclosure since losing his job in December 2010. He has twice been denied a mortgage modification and says he expects aforeclosure notice any day.

Still, thanks to a counselor he calls "a godsend," Brown says "things are looking up."

Brown, a 41-year-old mental health professional inWashington, D.C., is receiving free mortgage advice from a nonprofit housing counseling agency where complicated, on-going cases like his have become more and more common.

"At first it was new situations where people were just getting into the foreclosure situation," said Darren Snell, Brown's counselor at Housing Counseling Services, Inc. "Now, most of the clients that we see have already been through the wringer."

With millions of homes still in the foreclosure pipeline, mortgage counselors across the country say they are handling increasingly complex cases for homeowners who are unemployed, underwater, or redefaulting -- and sometimes, all three. Even as borrowers' problems become more intractable, federal support is waning.

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Counseling programs are funded largely through the U.S. Congress, which has allocated about $620 million to advise approximately 1.36 million homeowners through NeighborWorks America since December 2007, according to a June 11 report.

Last November, Congress also appropriated $45 million for housing counseling in fiscal year 2012 through the Department of Housing and Urban Development after slashing all counseling funding during April budget negotiations. HUD had requested $88 million.

Veto Threat

The House passed a 2013 HUD appropriations bill in June allocating $45 million to housing counseling, $10 million less than HUD requested. The bill is now stalled in the Senate, and the White House has said President Barack Obama plans to veto the bill if passed in its current form. Administration officials are urging states to compensate for declining funds with money from a recent court settlement with mortgage servicers.

Counselors, who act as neutral third parties between homeowners and lenders, say their services will be needed as long as unemployment remains high, scammers target struggling homeowners and states frequently change their foreclosure policies.

"The housing counseling community needs to work to restore federal funding," said David Berenbaum, chief program officer for the National Community Reinvestment Coalition. "Housing counseling organizations have had to downsize across the country at a time when the demands on service are at an all-time high."

Repeat Defaults

Counselors say they have noticed three trends in homeowners seeking counseling in the past year: First, clients like Brown have been stuck in the process longer through multiple defaults and modifications. Second, first-time counselees are usually facing foreclosure as a result of unemployment or, third, are still current on their mortgages but are concerned about defaulting.

Cy Richardson, vice president of housing and community development for the National Urban League, said "chronic" unemployment is now driving foreclosures, and agencies are helping homeowners "who have much harder-to-rectify cases."

Seventy percent of the Homeownership Preservation Foundation's clients have been affected by unemployment or underemployment, according to Josh Fuhrman, senior vice president of government and community relations for HPF, a Minneapolis-based agency that operates a national foreclosure counseling hotline.

Unemployment or Crisis

"It's not just a low-income problem," Richardson said."We're seeing folks who are middle- and upper-income as well, where loss of employment has been the catalyst, or a family crisis or some other emergency has triggered the problem."

Due to community outreach and word of mouth, homeowners are increasingly aware of counseling services and are beginning to seek help earlier, according to Rita Godfrey, a counselor forNeighborWorks of Pueblo in Colorado.

"The fact that they're current does not mean they're not struggling," Fuhrman said. He estimated that 50 percent of the foundation's clients are current on their mortgages, compared with 30 percent last year.

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Counselors say desperate homeowners remain vulnerable to scams and frauds. Credit and debit complaints, including complaints about mortgage-related fraud, were the second most-reported consumer complaint in 2011, according to a July 31study by the Consumer Federation of America and the North American Consumer Protection Investigators.

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Counselors repeatedly stress to clients that they shouldn't pay for counseling, since HUD-approved services are free.

"We have seen a lot of people come in and they've paid other people $3,000, $4,000, $7,000," said Raquel Avila, a foreclosure counselor at Home Preservation & Prevention CARES inLong Beach, California.

HUD-approved counseling agencies offer one-on-one sessions in person or over the phone, as well as foreclosure clinics and workshops. While the number of counseling sessions a client receives depends on his or her financial situation and lender, counselors estimate that at least three hour-long sessions are needed to resolve an average homeowner's case.

"I can meet with them dozens of times, or there can be others where I meet with them only once or twice and we're able to resolve the situation," said Godfrey, who estimated that her two-counselor agency assisted 380 homeowners last year.

Outcomes Improved

Counselors point to a number of studies that indicate counseling's effectiveness. A December 2011 Urban Institutereport conducted for NeighborWorks America found that while 9 percent of homeowners cure their serious delinquencies or foreclosures after 12 months without counseling, that number nearly doubles to 17 percent with counseling. Counseling lowers redefault rates within the first nine months of a modification by 70 percent, according to the report.

A May study commissioned by HUD and conducted by Abt Associates, a consulting firm in Cambridge, Massachusetts, found that 84 percent of 539 homeowners who received counseling remained in their homes 18 months after beginning counseling. About 56 percent were current on their mortgage payments and 28 percent were behind.

"It could be anything from self-curing to finding a loan modification to treading water, but the reality is they're still in their home," Fuhrman said.

Counseling sessions typically begin with counselors taking a full inventory of a client's mortgage documents, bank statements and other relevant materials. After diagnosing the cause of default, counselors create action plans and budgets with clients, especially those who defaulted because they didn't maintain their personal finances.

Budgeting Help

Counselors might suggest that clients stop paying for cable television or keep better track of how much they spend on groceries, Godfrey said. They usually guide a client through paperwork and may contact the servicer about a modification on the client's behalf.

The Urban Institute report, which sampled almost 335,000 loans, found that counseling lowered a monthly payment for a modified loan by an average of $176, 7.8 percent lower than loan modifications obtained without counseling.

When a client cannot stay in his or her house, a counselor's guidance and support can help borrowers make a smooth transition to a smaller house or out of homeownership, counselors said.

"Just by simply engaging us in the process, they will see a lot more successes," said Katherine Peoples-McGill, founder and executive director of HPP CARES. "Sometimes it's just having a person in front of you to say, 'Hey, this is not going to work'."

Return Client

Brown, who will soon start working in a group home for disadvantaged teens, said his mortgage counselor's support"made me feel like I could breathe." Brown is a returning client at HCS, where he initially sought counseling in 2011 to receive federal assistance through a District of Columbiamortgage program. After his mortgage funding and unemployment both ran out, he talked to a real estate agent about a short sale of his house.

It was a follow-up e-mail from Snell that encouraged him to go back to HCS and apply for another modification.

"It's not a guarantee," Brown said about counseling,"but I feel like I have a better chance."

Because HUD-approved agencies don't charge for their services, they rely on HUD and private donors for funding. The $55 million HUD requested from Congress for FY 2013 would directly fund housing counseling for 185,000 families and training for 4,800 counselors, according to HUD's proposal.

When Congress zeroed out housing counseling funds in 2011, banking groups including the Mortgage Bankers Association pushed for restored funding. William Killmer, the association's senior vice president of legislative and political affairs, wrote to the Senate Committee on Appropriations supporting "the great work facilitated by this program."

Value Unquestioned

"I do feel we're at a point now where it is no longer a question, the value of the nonprofit space in providing these services," Richardson said.

Even so, counselors predict a bleak outlook for homeowners in the coming years and say client numbers will remain relatively static until at least 2014.

As many as 3.6 million mortgages are expected to enter foreclosure, short sale or distress through 2013, according to a Bloomberg Government study published July 13.

HPF, whose HOPE Hotline has received an average of 1.3 million calls a year since 2007, estimates it will continue receiving at least 1 million calls per year, according to Fuhrman.

"The role of housing counselors is only going to grow,"Berenbaum said.

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Citigroup tries converting troubled homeowners to renters

By E. Scott Reckard

7:04 PM PDT, August 8, 2012

Citigroup Inc. is testing a program that would allow distressed homeowners to sign over title to their property and stay on as renters paying less than they did on their mortgages.

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The effort is similar to a larger ongoing Bank of America pilot offering up to 2,500 customers the option of avoiding foreclosure by trading their mortgages for leases.

Citigroup's offer is to be extended to about 500 borrowers who owe more than their homes are worth and who are 120 days or more past due on their home loans. The homeowners don't qualify for loan modifications but can afford to rent at market rates, the New York bank announced Wednesday.

"In addition to helping families by keeping homes occupied, the program assists neighborhood revitalization and stabilization efforts, which are crucial to the nation's economic recovery," Sanjiv Das, chief executive of CitiMortgage, said in a statement.

The program is to be tested starting this month in California, Nevada, Arizona, Florida, Georgia and Texas. It involves $158 million in mortgages that Citigroup has sold to a joint venture formed by Carrington Capital Management, a Greenwich, Conn., hedge fund, and Oaktree Capital Management, the Los Angeles investment giant.

Carrington's Orange County-based loan servicing operation, a specialist in distressed borrowers, will propose the mortgage-to-rent swaps to the homeowners and negotiate leases with those who find the option appealing.

Bank of America's program differs in that the bank itself is handling the conversion of homeowners into renters, with the intent of then selling the leased properties to investors.

A BofA spokesman said the program, which started in March in New York, Nevada and Arizona and later expanded to California, is not yet far enough along to issue a progress report.

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Mortgage applications up, mortgages not so much

By Nin-Hai Tseng, WriterAugust 9, 2012: 11:54 AM ET

New data suggests that more buyers are getting home loans, but the reality is much different.

FORTUNE – This summer, Americans' interest in taking out a mortgage has skyrocketed, rising to its highest level in at least three years, according to a quarterly **survey** of lenders released by the Federal Reserve this week. Nearly three in five U.S. banks, or 57%, reported an increase in demand for home loans over the past three months, compared with 38% in the first quarter.

PHOTO: THINKSTOCK

There are a few ways to interpret the renewed appetite: For one, it appears to be another sign that the housing market is on its way to a recovery (for real this time). While that might be partly true, it's unlikely that stronger demand for home loans will translate to many more borrowers getting approved for mortgages. The situation is playing out like a cruel Black Friday sale -- thousands wait hours for the department store to open, only to learn that they don't qualify to enter.

And the doors will remain closed for many, at least for a while, because of the tighter lending standards put in place after the financial crisis. The percentage of applications for home loans that actually turn into mortgages has stayed at 70% for at least the past two years, according to the Mortgage Bankers Association.

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The surge in demand for mortgages comes at one of the cheapest times to buy. Although experts on Tuesday announced that **home prices rose** by their largest percentage in at least seven years during the second quarter, many homes for sale are still considered bargains. And while interest rates have edged up in recent weeks, **rates for a 30-year fixed mortgage are still below 4%** and at their lowest levels in at least 60 years. And if the Fed launches a third round of large-scale bond purchases, rates could fall even lower.

This isn't to say the spike in demand for mortgages isn't significant. If anything, it foreshadows how the housing recovery could play out over the next several years. Any pick-up in home sales will be driven largely by big investors armed with cash rather than your typical homebuyer financing his way to the American Dream, says Paul Diggle, property economist with Capital Economics.

A year ago it seem implausible that cash transactions could actually drive the housing recovery. Diggle says it has become more likely, as more institutional investors bet on a housing recovery by buying up thousands of distressed homes and renting them out. Admittedly, investors don't typically take on the role of landlords, if only indirectly, managing large and often times dispersed portfolios of rental properties. It can be read as a sign of the times, as ***The New York Times* notes**, investors think income they receive in rent would deliver higher returns than Treasury securities or stock dividends.

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Last month, Blackstone Group LP (**BX**) joined several hedge funds and private equity firms entering the home rental market. It has spent more than more than $300 million to purchase more than 2,000 foreclosed homes that will be available for rent. This follows investments from Beazer Homes USA (**BZH**), which in May announced that it would acquire, refurbish and lease recently-constructed and previously owned single-family homes in select markets under Beazer Pre-Owned Rental Homes (founded by the company that includes an investor group led by affiliates of private equity firm Kohlberg Kravis Roberts (**KKR**)).

Indeed, regular buyers might feel a little gypped that big investors are largely taking advantage of deep discounts. This might certainly prompt a few buyers who actually qualify for a mortgage but are on the fence for whatever reason to finally pull the trigger. But years from now, when lending standards ease up and borrowers rebuild their credit profiles, the rest of us will certainly be the ones carrying the housing market to full recovery.

After all, many of us are eagerly waiting.

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