August 16th 2012 housing market updates brought to you by the CA Association of Realtors

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THE SACRAMENTO BEE sacbee.com

Sacramento high on affordability index

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Higher home prices offset record-low interest rates to reduce housing affordability throughout California in the second quarter, the California Association of Realtors said Friday.

Sacramento, however, remained one of the state's more affordable places to buy a house.

CAR said homebuyers who could afford to purchase an existing median-priced single-family home in California fell to 51 percent, down from 56 percent in this year's first quarter and matching the percentage in the second quarter of 2011.

San Bernardino County was the most affordable county in the state with an index rating of 78 percent. San Mateo County edged out San Francisco County (24 percent) to be the least affordable, with only 23 percent of households able to purchase the county's median-priced home ($790,000).

Sacramento County's affordability index in the second quarter was 74 percent, based on a median price of $170,210. Placer County, with a median base of $279,820, came in at 65 percent.

There were no break-out listings for El Dorado and Yolo counties.

Call The Bee's Mark Glover, (916) 321-1184.

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The New York Times

August 9, 2012

Closing Fees Ease Up

By VICKIE ELMER

FOR some people, a major hurdle to homeownership is the closing costs that come on top of the required down payment. There are fees for everything from title searches to deed recordings, and if you happen to be buying in New York or New Jersey, you'll find some of the highest costs in the country.

But these fees have been easing, according to a report released last week by Bankrate.com, which found that average closing costs, including mortgage origination fees, fell 7 percent nationwide from 2011 to 2012. In New York they fell 12 percent.

Mortgage origination fees alone fell 1 percent from 2011, the report said; third-party fees like title insurance fell 12 percent.

The Bankrate report was based on a survey in June of up to 10 lenders in each state, including the District of Columbia; each of the lenders was asked to provide a good-faith estimate for a hypothetical $200,000 mortgage.

Bankrate considers add-on fees like underwriting charges part of the origination fees, which are often included in closing costs. (It excludes property taxes, homeowners' insurance, interest and other prepaid items.) "Some lenders aggregate it all in one fee; others break it out in five or six fees," said Greg McBride, Bankrate's senior financial analyst, who suggests borrowers add them up and count them as one cost for obtaining a mortgage.

Mr. McBride says that with the reduction over the last year, closing costs are now where they were back in 2010. He attributed the drop to competition among mortgage lenders and more accurate estimates of third-party fees.

New York, though, still has the highest average closing costs of any state, at $5,435, compared with $3,754 nationwide and $4,075 in New Jersey, which had the seventh-highest average. Other high-cost states include Texas, Pennsylvania and Florida, while Missouri, at $3,006, was the least costly, according to Bankrate.

Consumers could reduce borrowing costs even further with some smart shopping.

“You really have to understand the full picture,” said Rick Allen, the chief operating officer of MortgageMarvel.com, a mortgage shopping site. If you don’t know what a fee covers, ask about it, he said, then challenge the lender to lower or eliminate it. “With the interest rate and lenders’ fees, there’s room to negotiate,” he added, especially if there’s a second lender lined up.

Of course, some fees can’t change. There are three categories: fees that must remain as disclosed in a good-faith estimate; fees that can increase by up to 10 percent; and fees with no change limit. There are no federal rules, however, on how far down fees can be negotiated by the borrower.

In January 2010, the Department of Housing and Urban Development ruled that the 10 percent limit applies to title insurance, and other required services like appraisals or surveys, provided borrowers use one of the companies recommended by their lenders. (If you shop beyond their small circle of companies, the fees could go up more, according to HUD.)

Lender origination fees are required to remain as disclosed in the good-faith estimate. And if costs for a lender-recommended service go up more than 10 percent, the lender is supposed to issue a new good-faith estimate and disclose the increase, Mr. McBride said.

Title insurance is the biggest cost, averaging around 1 percent of the loan balance. Mr. McBride suggested that borrowers shop around, eliciting good-faith estimates from a number of lenders.

In New York, title insurance fees are set by the state, so the rates should be nearly the same no matter who the lender is, said Rafael Castellanos, the managing partner of the Expert Title Insurance Agency in Manhattan.

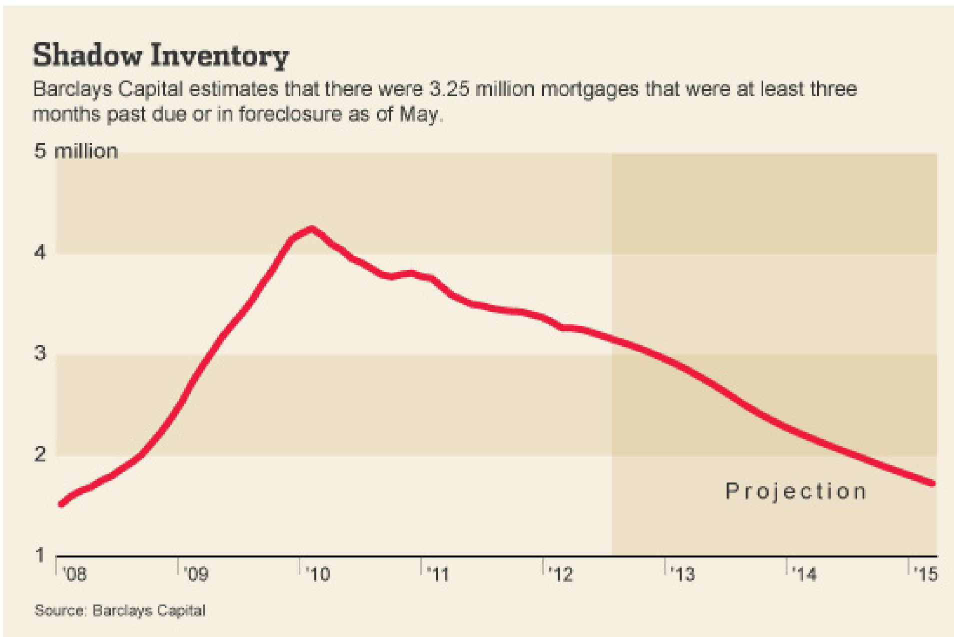
Borrowers should ask about the cost of “departmental searches,” which check for things like certificate of occupancy, and whether there is a local fire department or sidewalks. In New York City, a departmental search should cost around $325, he said.

THE WALL STREET JOURNAL.
WSJ.com

August 14, 2012, 9:55 AM ET

Shadow Inventory: It's Not as Scary as It Looks

ByNick Timiraos



The housing market is improving because there are more buyers chasing fewer homes. Skeptics of a housing bottom, however, often point to a scary set of numbers: the "shadow inventory" of potential foreclosures—the millions of mortgages that are either in foreclosure or in default.

It's true that home prices are unlikely to see brisk gains once they do hit bottom because it will take years to absorb this glut. But will this phantom inventory derail the incipient housing bottom? Maybe not, say a number of housing analysts.

There are several reasons why the shadow inventory isn't as scary as it sounds: It's concentrated in a handful of markets—it isn't inherently a national phenomenon. It is being offset by improved demand, particularly from investors. And the housing vacancy rate is low, a product of very little new home construction over the past few years that could counterbalance continued high inventories of foreclosed homes.

We'll address each of those in subsequent posts. But first, let's examine the actual size of the shadow inventory. While the shadow is very large, one often-overlooked fact is that the shadow isn't nearly as large as it was two years ago.

There are a wide range of estimates of shadow inventory. A common measure are loans that are either in the foreclosure process or that are three months or more delinquent. These are mortgages that are among the most likely to ultimately become bank-owned properties.

Barclays Capital estimates that at the end of May there were around 1.8 million mortgages in the foreclosure process and another 1.45 million where borrowers have missed at least three payments. That puts the total number of properties that could be repossessed and resold by banks at around 3.25 million mortgages.

Associated Press

'The concept of a huge shadow inventory is preposterous,' says one economist.

If those homes hit the market all at once, housing would be in deep trouble. Last year, for example, there were 4.4 million sales of previously owned homes. The figure is still higher than any time before June 2009.

But it is down from a peak of 4.25 million in February 2010. And unless mortgage delinquencies begin to accelerate sharply, the shadow inventory won't be growing. Barclays estimates that at the current rate, this figure could fall to around 2.4 million loans.

"The concept of a huge shadow inventory is preposterous," says Christopher Thornberg, a housing economist with Beacon Economics in Los Angeles. "The number of mortgages in distress is way down from one year ago. It's clear there are fewer distressed properties out there."

Housing analyst Ivy Zelman has a slightly larger estimate of shadow inventory—around 6.3 million homes at the end of last year—that includes more newly delinquent mortgages and potential re-defaults. She says that in a normal market, there's a comparable shadow inventory of 2.9 million homes. So the key figure—the excess level above the historical trend—is around 3.4 million homes.

Ms. Zelman published an in-depth research note earlier with the title: "Shining a bright light on the shadow: Why what's lurking doesn't concern us." In it, she explains how it's more important to focus on the pace at which foreclosures are being liquidated, and not the absolute number.

"Just like the Wizard of Oz, shadow inventory is not very intimidating once you pull back the curtain," the report said. That isn't to dismiss the magnitude of the problem and headwind it will continue to pose for any housing recovery, she wrote. "The bathtub is almost full, but the water has stopped rising, and we are most concerned with how fast it drains."

Certainly, there are many other risks to housing. There are at least 11 million homeowners that are underwater, owing more than their homes are worth. There are even more than that who don't have enough equity to make a 10% down payment on their next home, plus pay a real-estate broker's sales commission, in order to trade up to a bigger home or downsize to a smaller one. And it's still very difficult to get a mortgage.

But the shadow inventory is often the big trump card used to quiet any housing-happy talk. Tomorrow, we'll offer a deeper look at how demand factors into this equation, and how the shadow is being disposed.

This is the first of three posts examining the shadow inventory.

***Part II**: Monitor Banks' Speed, Not Just Volume*

***Part III**: How Low New Construction Helps the Outlook*

For more on this subject, see Joshua Brown's The Reformed Broker.

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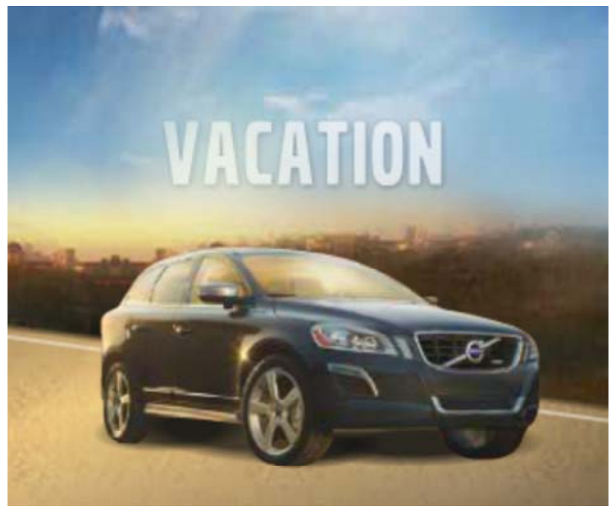
Consumer protection bureau to propose new federal mortgage rules

New federal mortgage rules to be proposed by the Consumer Financial Protection Bureau are designed to prevent a repeat of the foreclosure crisis.

By Jim Puzzanghera, Los Angeles Times

9:00 PM PDT, August 9, 2012

WASHINGTON — New federal rules would require banks to provide homeowners with better information about their mortgages to avoid costly surprises, such as sharp interest rate increases, and provide better service to help them avoid foreclosure.



The rules, to be proposed Friday by the Consumer Financial Protection Bureau, are designed to prevent a repeat of the foreclosure crisis. They track an outline released in April by the agency, which was created in 2010 in part to help protect borrowers.

The public will have two months to comment on rules, and the consumer bureau aims to make them final in January.

"From processing payments to evaluating struggling homeowners and helping them avoid foreclosures, the bottom line is to treat consumers fairly by preventing surprises and runarounds," said Richard Cordray, the bureau's director.

Some of the rules mirror requirements agreed to by large mortgage servicers, including Bank of America Corp., JPMorgan Chase & Co. and Wells Fargo & Co., as part of a $25-billion settlement with federal and state officials over foreclosure abuses.

The bureau's proposed rules would apply to all mortgage servicers, with some exceptions for small companies, and focus on two areas: providing clear and timely information for homeowners about their loans and helping them avoid bureaucratic hassles.

Servicers would have to send homeowners a clear monthly statement with a breakdown of payment information and due dates; provide a warning 210 to 240 days before the first interest rate change on an adjustable-rate mortgage, along with an estimate of the new rate; give advance notice of plans to charge homeowners for property insurance if their policies lapse; and make a good-faith effort to contact borrowers who fall behind on their payments to tell them of ways to avoid foreclosure.

Foreclosure prevention is the focus of another set of proposed rules. They include acknowledging a request to fix errors or other complaints within five days, then conducting an investigation and providing those results in 30 to 45 days.

The rules also would require a prompt review of applications for loan modifications and direct access to mortgage servicers' employees to better help borrowers.

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YAHOO! HOMES

How to get your asking price as the housing market improves

ConsumerReports.org

By Mary H. J. Farrell | ConsumerReports.org – Wed, Aug 8, 2012 1:06 PM EDT

Posting the first annual increase in five years, home values rose slightly over this time last year, reports Zillow, the online real estate site. In fact, nearly one-third of the 157 metropolitan areas tracked by Zillow showed annual price increases. This is good news for homeowners who have been waiting to put their houses on the market. Before you do, a few simple spruce-ups can help get your asking price.

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"The housing market's recovery continues to show tremendous variation market by market. Sixty-nine of the 157 markets covered by the Zillow Home Value Forecast are expected to see increases in home values over the next year, with the largest increases expected in the Phoenix metro (9.9 percent) and the Miami metro (6.1 percent)," said Zillow on its website. "We believe that 96 out of the 157 markets have already hit a bottom in home values, including Boston, Miami and Phoenix."

Improve the view. No matter where you live, it pays to keep your home well-maintained. Curb appeal is the first thing to consider. As the saying goes, you don't get a second chance to make a first impression. Look at your entryway. Is the paint peeling or faded? Are your shrubberies overtaking the sidewalk? Take the time to scrape away any old paint and apply a new coat. Sherwin-Williams Duration Gloss, our top-rated semi-gloss is the only one in our exterior paint tests that has a primer built-in. After the equivalent of nine years' worth of exposure, the Sherwin-Williams was still looking very good and would be a good choice for painting a front door.

Whack the weeds. As for that overgrown walkway, a capable string trimmer can help you vanquish the vines and weeds in no time. In Consumer Reports' string trimmer tests, the top-rated gas models were best at slicing through tall grass and weeds. But if you don't like the hassle of a gas-powered unit, several light duty electric models, including the Homelite UT41110, at $30 a CR Best Buy, were very good or better at this job.

Neutralize garish rooms. Sprucing up the paint inside the house also makes your home more attractive, especially if you've painted some rooms bright colors that might not appeal to the average buyer. The best course of action is to choose white, off-white or another neutral color. "Safe colors like this will appeal to most people, increasing the odds that your home will sell," advises the Paint Quality Institute. And it'll cost you well under $100. Check our top-rated interior paints for the best choices.

Brighten the bathroom. Outdated kitchens and bathrooms are typically the chief complaint of prospective home buyers. But you don't have to invest in an entire remodel to improve their appearance. Here again paint can do wonders but so can replacing the countertops, sink or floor. Bathrooms have replaced kitchens as the most remodeled room in the home because they tend to be smaller and you don't have to buy all those appliances. As we reported in our Bathroom remodeling guide, small details can make a big difference. Stain-resistant grout, framed mirrors and a heated towel bar are just some ideas.

Kick the kitchen up a notch. For the kitchen, you don't need a bottomless budget to get a top-notch kitchen. In the Luxury look for less, we suggest top-rated affordable alternatives to pricey appliances, countertops, flooring and more. But be forewarned, poor planning and shoddy workmanship are two of the costliest mistakes homeowners make when undertaking a remodeling project. If you're about to embark on one, best to invest a few months going to showrooms and talking to professionals.

THE WALL STREET JOURNAL.
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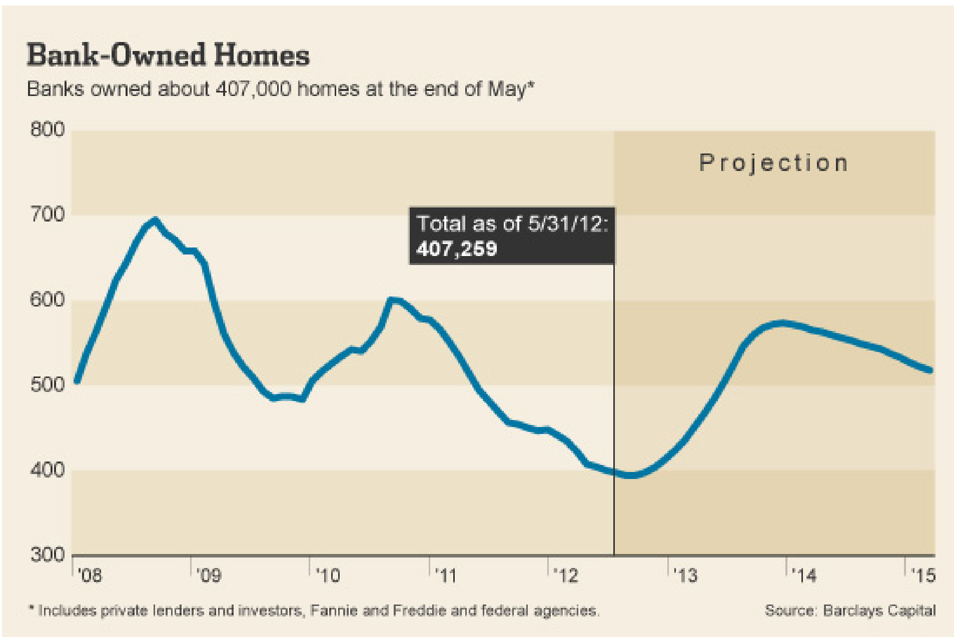
Shadow Inventory: Monitor Banks' Speed, Not Just Volume

ByNick Timiraos



What's more worrisome than the actual "shadow inventory" is how banks dispose of it—and whether there are enough buyers willing to purchase the homes when they do.

It's increasingly clear that banks—whether by design or not—aren't going to foreclose quickly and relist all of these homes for sale. While there were 3.25 million loans that were in the foreclosure process or in default at the end of May, banks owned around 407,000 homes at the end of May, according to estimates from Barclays Capital.

The number of bank-owned homes is down from a peak of nearly 700,000 in September 2008. After that, changes to accounting rules and the introduction of government loan-modification programs prompted banks to slow down the process and led to a drop in the volume of bank-owned properties throughout 2009.

Bank-owned foreclosures began rising again in 2010, peaking at around 600,000 that September, when banks again slowed down foreclosures, this time amid the "robo-signing" scandal. Since then, banks have been very slow to process foreclosures, particularly in judicial states, where courts are overwhelmed by the volume cases and banks have struggled to properly document their ownership of mortgages.

But the problems haven't been limited to so-called judicial states such as Florida, New York, and New Jersey. Non-judicial states such as Massachusetts and California have recently passed laws imposing new requirements on banks before they foreclose, which is likely to further slow down the process. In Nevada, a new law that took effect last fall has brought new foreclosures to a virtual standstill.

Listings of foreclosed properties have fallen in 17 of the last 19 months through July, according to research firm Zelman & Associates. Listings are down 47% from their October 2009 peak and by 23% from one year ago. Banks are selling more homes to investors at courthouse trustee sales, rather than taking them back themselves. They're also approving more short sales, where the property is sold for less than the amount owed.

"If you don't understand the shadow inventory, it's very ominous and concerning," says Ivy Zelman, chief executive of Zelman & Associates. "But if you understand the flows and how it is brought to market" it looks less intimidating, she says.

Nationally, Barclays estimates that the number of bank-owned properties will decline a bit more this year, before accelerating next year to a peak of around 575,000 in early 2014.

Zelman & Associates

'What most of the bears aren't focused on is understanding demand,' says Ivy Zelman, of Zelman & Associates.

Meanwhile, as the shadow inventory has dropped over the past year and as banks and states have slowed down the process, demand has picked up. That's especially the case for foreclosed properties at low price points that can be held as rental properties by investors, or rehabbed and flipped for a profit. Investors are raising billions of dollars to buy homes in hard-hit markets such as Phoenix, Atlanta, Las Vegas, and across Florida and California.

"What most of the bears aren't focused on is understanding demand," says Ms. Zelman. This is one reason she's turned bullish. Her most recent forecast calls for a 5% increase in home prices this year, a change from her initial forecast of a 1% decline when the year began. Getting a handle on demand "allows us to have a complete picture of the housing market."

Finally, shadow inventory isn't a national phenomenon. Instead, it is heavily concentrated in particular markets—and within those, in particular submarkets. To the extent banks to ramp up the foreclosure process, the shadow is more likely to resemble a "tornado" than a "flood," as it will strike particular communities while bypassing others, says Jeffrey Otteau, president of Otteau Valuation Group, an East Brunswick, N.J., appraisal firm.

So when people use the "shadow inventory" trump card to argue that housing is poised for another decline, it's important to be precise about which market they're talking about. "It's not like you have all these properties distributed all across the country," says Michael Sklarz, president of Collateral Analytics, a Honolulu-based research firm.

Buyers in Santa Monica, Calif., shouldn't "expect a flood of foreclosures to come onto the market," says Mr. Sklarz, even if neighborhoods just a few miles away in South Los Angeles do face a larger backlog of foreclosures. "You really have to look at it market by market," he says.

This is the second of three posts examining the shadow inventory.

Part I: It's Not as Scary as It Looks

Part III: How Low New Construction Helps the Outlook.

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Mortgage delinquencies rose in second quarter, trade group says

The Mortgage Bankers Assn. says home loans with at least one missed payment but not yet in foreclosure rose to 7.58% in the second quarter from 7.4% in the first quarter.

By E. Scott Reckard and Alejandro Lazo, Los Angeles Times

August 10, 2012

The nation's slowly improving housing market hit another bump last quarter, with more borrowers missing payments amid continued high unemployment, a report from a trade group shows.

The Mortgage Bankers Assn., in a quarterly delinquency survey issued Thursday, said home loans with at least one missed payment but not yet in foreclosure increased in the second quarter to 7.58% of all mortgages. That's up slightly from 7.4% in the first quarter.

A separate survey from foreclosure listing firm RealtyTrac Inc. said the number of homes going into foreclosure rose 6% in July compared with a year earlier, the third straight month of year-over-year increases.

That trend reflected the fact that last year many foreclosures were on hold as banks focused on cleaning up flawed processes for seizing homes after the "robo-signing" scandals.

The Mortgage Bankers Assn. survey said the quarter-to-quarter increase in delinquencies appeared to result instead from a fundamental change: The slowing of the economy's recovery during the first half of the year.

Although in no way reversing the longer-term trend of declining delinquencies — the missed-payment rate was 8.44% a year earlier — the increase raised eyebrows at the lender group.

"It's not the direction you would want to see," Mortgage Bankers Assn. economist Michael Fratantoni said in an interview. The key determinant, he said, will be the job market, which has shown signs of improvement lately.

In a brighter sign, the percentage of loans in all stages of the foreclosure process, or at least 90 days past due, dropped to 7.31% in the second quarter from 7.44% in the first quarter and 7.85% a year earlier.

The slow decline in this "seriously delinquent" category shows that lenders are gradually working through the huge backlog of soured loans made during the housing boom, Fratantoni said.

Federal Housing Administration loans entering foreclosure were a notable exception. The percentage of loans in foreclosure soared to 4.23% in the second quarter to a record high. Foreclosure starts for FHA loans also increased to 1.53%, also a record high.

The increase was due to major lenders, particularly Bank of America Corp., starting up foreclosures on loans that had been delinquent but held up because of to the federal government's investigations into faulty foreclosure practices, said Shaun Donovan, secretary of Housing and Urban Development, which oversees the FHA.

"We had a significant period of time where Bank of America was not starting foreclosures or completing foreclosures for FHA loans," Donovan said in an interview with The Times. "What you are seeing is basically many, many months-long backlog of particularly Bank of America claims that are being submitted, and have caused artificially that rate to rise."

"It doesn't reflect an underlying trend overall for the broader portfolio," he added.

The report confirmed signs that California, once the poster child for collapsing housing markets, is generally in recovery mode.

Across the nation, 4.27% of all home loans were in the foreclosure process at the end of the second quarter, the home lenders group said. In California, 3.1% of residential mortgages were in foreclosure.

That compared with 13.7% in Florida, 7.7% in New Jersey and 6.5% in New York, all states in which foreclosures are processed through the courts, resulting in huge legal entanglements. Most foreclosures in California are processed more quickly without judicial reviews.

Fratantoni said that with home prices rising again in many California markets, more struggling homeowners are finding it possible to sell their homes rather than see them taken away in foreclosures.

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