Market Matters

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SAN DIEGO HOME BROKERS

California home prices rise in September; sales fall

Posted: MercuryNews.com

SAN DIEGO -- California home prices rose in September to a four-year high as the supply of properties for sale remained tight, according to surveys released Monday.

The median price for new and existing houses and condominiums in California reached $287,000, up 15.3 percent from $249,000 in September 2011, DataQuick said. The median rose $6,000 from August to reach its highest level since $301,000 in August 2008.

There were 34,453 homes sold in September, down 2.7 percent from 35,404 last year, DataQuick said. There were fewer business days this September compared with last year, explaining at least part of the first annual decline in 14 months.

The California Association of Realtors reported that buyers faced slimmer pickings.

The broker association's index of unsold inventory stood at a 3.7 months in September, down from 5.3 months a year earlier. The figure represents how long it would take to sell all existing single-family homes in California at the current sales clip. Supply in a normal market is considered to be six to seven months.

The supply of foreclosed properties continued to dwindle, helping lift the overall sales price because they tend to sell at steep discounts. DataQuick said 17.7 percent of existing homes sold in September were in foreclosure during the previous year, down from 33.8 percent during the same period last year and 58.5 percent in February 2009.

The September surveys show sales were strongest in more expensive coastal areas, while inland regions like the Central Valley and Southern California's Inland Empire lagged.

The median price for new and existing houses and condominiums in the San Francisco Bay area reached $429,000, up 17.5 percent from $365,000 last year, DataQuick reported. The median price rose $19,000 from August to its highest level since $447,000 in August 2008.

There were 6,850 homes sold in the nine-county Bay area last month, up 1.5 percent from 6,749 last year.

Only 13.9 percent of Bay area homes sold last month had been foreclosed upon in the previous year, down from 25.4 percent a year earlier and 52 percent in February 2009.

DataQuick reported Friday that the median price for new and existing houses and condominiums in Southern California reached $315,000, up 12.5 percent from $280,000 in September 2011. The median rose $6,000 during the month to its highest level since $330,000 in August 2008.

There were 17,859 homes sold last month in the six-county region, a 1.6 percent drop than the same month last year.

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Housing industry recovering faster than many economists expected

Home builders have boosted production of new homes nationally, and new foreclosures in California have fallen to their lowest level since early 2007.

By Alejandro Lazo and Jim Puzzanghera, Los Angeles Times

4:08 PM PDT, October 17, 2012

Housing is snapping back faster than many economists had expected, with home builders stepping up production of new homes nationally and fresh foreclosures in California falling to their lowest level since the early days of the bust.

Demand for housing has surged as interest rates have plummeted and home prices in many markets appear to have bottomed, particularly in states such as California where inventories of foreclosures and other lower-priced homes have sunk. The turnaround in prices and record-low supply of newly built homes also are luring builders back after six years of pain.

"The numbers are strong in September, and that is definitely a positive sign," said Celia Chen, a housing economist with Moody's Analytics. "It is confirmation that housing is lifting off the bottom."

Residential construction starts rose 15% nationally last month from August to their highest annual rate in more than four years. A separate report showed that the number of troubled California borrowers entering foreclosure hit its lowest level in the third quarter since the dawning of the mortgage meltdown.

If the gains in housing hold, they could give consumer confidence a boost and help the broader economy recover. Housing has played an important part in lifting the nation out of past downturns but was hampered this time by the severity of the Great Recession and the huge number of vacant and foreclosed homes dragging down the market for years.

Now rising prices are helping homeowners in properties that for several years have been underwater, in which the house wouldn't bring enough in a sale to pay off the mortgage. Rising values could play a role in lifting household finances if families feel more secure about the direction of the economy.

Any positive economic news presumably would be a boost for President Obama's reelection campaign, though both he and Republican challenger Mitt Romney have largely avoided a detailed debate on housing policy. Many on the left have said that Obama's tepid and patchwork response to the housing downturn resulted in a slower recovery while the right has decried his policies as interventionist failures.

Michael D. Larson, a housing and interest rate analyst for Weiss Research, said the Federal Reserve's policies to keep mortgage interest rates low and Obama's foreclosure prevention efforts have played some role in the recovery — but the improvements can mostly be attributed to natural market dynamics.

"It is certainly encouraging; housing has been this lead anchor around the economy's neck," he said. But "most of this is just the passage of time. I think if the Fed or the government had done absolutely nothing … we still would have seen some demand return."

Several recent trends have underscored improvement in housing. Nationally, home builder stocks are up, prices have begun a modest recovery, and sales of newly built and previously owned homes have risen.

The Commerce Department reported Wednesday that construction of houses and apartment buildings rose in September to a seasonally adjusted annual rate of 872,000, marking the third straight month of improvement. The figures surpassed economists' expectations of about a 770,000 annual rate.

September had the best monthly performance since July 2008, when housing starts were on an annual pace of 923,000. Compared with September 2011, new housing starts jumped 34.8%, the Commerce Department said.

Last month's growth was "surprisingly strong," said David Crowe, chief economist at the National Assn. of Home Builders. "As consumer confidence rises and jobs return, more local markets and more consumers will join the buyer market, and I expect housing construction to continue a modest but fairly steady rise throughout 2013 and into 2014."

The annual rate of new home groundbreaking still is far below the peak of more than 2.2 million units reached in early 2006 during the housing bubble. But the pace has picked up dramatically from the low of 478,000 in April 2009, and is up sharply from the 706,000 annual rate in May. Building permits for private housing construction, a sign of future activity, also jumped in September, up 11.6% from August and 45.1% from a year earlier. The annual rate in September was 894,000 building permits.

Patrick Newport, an economist with IHS Global Insight, said the increases were likely due to gains in household growth after years of people doubling or tripling up to wait out the worst of the downturn.

"What's kicking in right now is simply the demographics," Newport said. "We have been building at too low a rate for four years, and so demand has been suppressed because of the recession, and now it is starting to kick in."

On the other side of the housing pipeline, the shortage of cheaply priced homes in California appears poised to continue. The number of Californians entering foreclosure dropped in the third quarter to its lowest level since early 2007, according to a report from real estate firm DataQuick. Foreclosure filings have fallen as banks work toward completing more loan modifications and short sales. An improving economy and rising prices have also helped.

"Prices in most areas today are up significantly from their low point in early 2009," said John Walsh, president of DataQuick. "Additionally, during the past year, we've seen short sales overtake the foreclosure process as the procedure of choice to deal with homeowner distress."

Notices of default fell 10.2% from the prior quarter and 31.2% from the same period last year, DataQuick reported. A total of 49,026 notices of default — the first stage of foreclosure in California — were filed on homes in the Golden State last quarter.

That was the lowest number since the first quarter of 2007, and a 63% decline from the first quarter of 2009, when notice of default filings peaked in the state.

The number of homes lost to foreclosure rose 5% from the prior quarter and dropped 41% from a year earlier. A total of 22,949 homes were lost to foreclosure last quarter.

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Lazo reported from Los Angeles and Puzzanghera from Washington.

The Washington Post

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Flipping houses is once again a booming business

By Brady Dennis, Published: October 14

Not long ago, John Irvin was selling women's shoes in the Nordstrom at the Pentagon City mall, pulling down about $20 an hour.

Now he flips houses in Northern Virginia — scooping up short sales, rehabbing them and aiming for a quick sell. He has sold three homes and says he netted more than $30,000 in profit each time.

"If I do one house every quarter, I'm making $125,000 a year — at 25 years old," Irvin said. "All my other friends, they have a 9-to-5 job. They make probably half of what I'm making right now. It's kind of like hitting the lottery."

Flipping earned a bad reputation during the housing boom thanks to speculators who bought and sold millions of homes in search of easy profits. But the practice is gaining popularity again as the nation's real estate market shows signs of life. The number of flips rose 25 percent during the first half of 2012 from the same period a year earlier, according to research firm RealtyTrac, and the gross profit on each property averaged $29,342.

RealtyTrac Vice President Daren Blomquist said the resurgence in flipping offers another indication that, in many parts of the country, housing prices have finally stopped falling.

"There are flippers in any market, but a market where home prices are appreciating is much more forgiving for flippers than a market where prices are depreciating," Blomquist said. "We have turned that corner in a lot of places in the last six months, so that's going to attract flippers."

Areas of the country that were hit particularly hard by the housing crash have seen the most pronounced boom in flipping, as investors gobble up foreclosures and short sales — properties sold for less than the owners owe on the mortgage — and resell them to buyers eager to take advantage of record-low interest rates.

The Phoenix area leads the country with nearly 10,000 flipped properties during the first half of this year. Las Vegas, Los Angeles, Miami and Atlanta also are high on the list.

Maryland and Virginia also have seen an increase in the number of flips during the past year, according to RealtyTrac. The District saw a sharp increase starting two years ago though the percentage in the last year is down slightly.

"Loan applications have tripled in the past few months," said Justin Konz, an executive at Chantilly-based Restoration Capital, a "hard money" lender that provides fast, short-term financing to flippers. Konz said the firm funds everyone from weekend warriors flipping a house or two a year to professionals turning around dozens of houses a month.

"We thought it would slow down in the colder months," Konz said. Instead, he said, business has picked up heading into the fall, with few signs of slowing.

With numerous investors and home buyers vying for a small list of available properties in the District and close-in suburbs of Maryland and Virginia, bidding wars and outsized offers have become a routine part of the landscape. The average gross profit for flipping a home in Maryland and Virginia is about $55,000, and it's even higher in the District, according to RealtyTrac.

"It's very competitive for people doing what I do, and the margins are very thin," said Jud Allen, co-owner of D.C.-based Express Homebuyers, a company that flips dozens of local properties a year. "The upside is, if you can find a deal, you know you can sell it and make some money. The difficulty is in finding the deals, not selling the property."

The flippers flocking to the market today are often a different breed than the opportunistic investors that helped fuel the housing boom.

"The flippers we saw going crazy at the height of the real estate bubble were very speculative in nature and were solely relying on home price appreciation to continue at a torrid pace," said Blomquist of RealtyTrac. "The flippers we're seeing these days have to be much more cautious. . . . They're not just relying on time to increase the value of the property; they are improving it."

The new generation of flippers can still frustrate some would-be home buyers by snapping up properties with cash offers and exacerbating low inventories in certain markets. But Blomquist said they also are playing a useful role.

"I'm sure there are still some bad players out there," he said. But "the type of property flippers we're seeing do provide an important function toward getting us to a recovery. They are taking distressed inventory others are not willing to take on."

Doug Clark, a veteran real estate investor in Utah and co-host of the Spike TV show "Flip Men,"doesn't miss the boom days when home flipping reached stratospheric levels.

"Everything was speculation. Anything you bought was worth more the next morning. . . . You can't do that these days and stay in business," Clark said. Instead, he said, being successful requires a keen eye for undervalued properties and a willingness to put in the work required to make the houses attractive to buyers.

Irvin, the 25-year-old flipper in Virginia, carefully researched each of his three properties — one in Dale City and a pair in Manassas — before buying. He said he spent tens of thousands of dollars improving the houses, refinishing hardwood floors, updating bathrooms, installing new kitchen cabinets and appliances, and landscaping yards but stuck to a tight budget to maximize his profit.

Irvin, who has a business management degree from George Mason University, plans to close on his fourth short sale this month, a home in Fairfax County that is larger and pricier than any he has flipped so far. With low interest rates, scarce inventory, rising home prices and willing buyers around Washington, he doesn't plan on selling shoes again anytime soon.

"There's always somebody who's going to want to buy your house," he said. "As long as there are short sales or foreclosures, I'm definitely going to want to be doing this."

LIBOR SCANDAL

Banks accused of defrauding homeowners by rigging Libor

By James O'Toole @CNNMoneyOctober 16, 2012: 6:08 AM ET

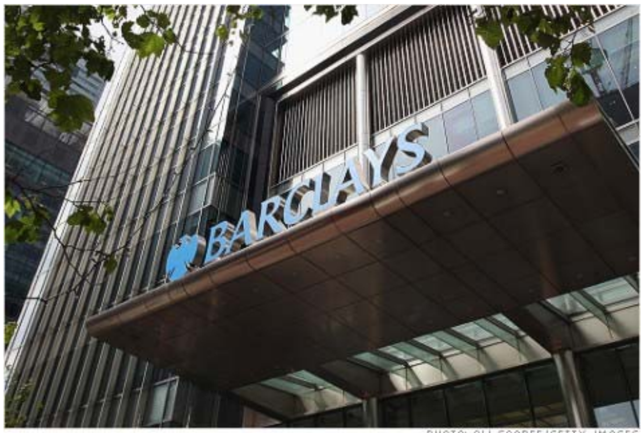

PHOTO: OLI SCARFF/GETTY IMAGES

The London headquarters of Barclays Bank, which has been fined for manipulating the Libor inter-bank lending rate.

NEW YORK (CNNMoney) -- Add one more to the list of alleged victims of Libor manipulation: homeowners.

A class action complaint filed earlier this month in New York federal court claims borrowers with adjustable-rate mortgages based on the London Interbank Offered Rate, or Libor, paid more than they rightfully should have due to the rate's manipulation by the global banks involved in setting it.

The complaint follows **other class action suits** filed by groups ranging from **local governments** to **community banks** to individual investors, all of whom say they lost out due to Libor-rigging.

Libor burst into the public consciousness this summer when British banking giant Barclays (**BCS**) admitted to manipulating it, reaching **a $453 million settlement** with U.S. and U.K. regulators. Other banks involved in setting Libor, including JPMorgan (**JPM**, **Fortune 500**), UBS (**UBS**), Citigroup (**C**, **Fortune 500**) and HSBC (**HBC**), have revealed that they too are cooperating with investigations on the issue, and additional settlements are expected.

The London Interbank Offered Rate is actually a collection of rates generated for 10 currencies across 15 different time periods, ranging from one day to one year. It's designed to measure the cost of borrowing between the world's largest banks, generating rates that are used as benchmarks for roughly $10 trillion in loans and some $350 trillion in derivatives. For example, an adjustable-rate mortgage might require you to pay interest based on a given Libor rate plus 2%.

Libor rates are set each business day through a process overseen by the British Bankers' Association. **Groups of banks are asked** what interest rate they would have to pay to borrow money for a certain period of time and in a certain currency. The responses are collected by Thomson Reuters, which removes a certain percentage of the highest and lowest figures before calculating the averages and creating the Libor quotes.

The homeowners' lawsuit alleges that the banks that set the six-month, U.S.-dollar version of Libor consistently pushed it upward on the first business day of each month between 2000 and 2009. Those are the days on which adjustable-rate mortgages "reset," generating a new value for the variable rate borrowers pay based on the current Libor value.

With Libor rates pushed higher on these dates, the suit says, homeowners ended up paying more than they should have.

Related: Explaining the Libor interest rate mess

A review of 6-month U.S. dollar Libor rates from 2000 and 2001 "exposes an otherwise inexplicable increase in the rate on, or about, the first business day of each month," the suit says, adding that similar variations occurred up to February of 2009.

The banks in question either declined to comment or did not respond to requests for comment on the complaint, which was reported earlier by ***The Financial Times***.

Thousands of Americans could potentially be part of the class action, the suit says. Between 2005 and 2009 alone, national banks originated some 900,000 adjustable-rate mortgages indexed to Libor, according to the Office of the Comptroller of the Currency.

The suit does not specify the damages it seeks, but says the defendant banks "earned hundreds of millions, if not billions, of dollars in wrongful profits" by defrauding homeowners. John Sharbrough, a lawyer for the plaintiffs, said the average borrower with a Libor-based mortgage paid about $300 extra per year as a result of the alleged conspiracy.

Related: Banks face billions more in Libor losses

Tracking the consequences: Barclays' settlement earlier this year exposed two kinds of Libor manipulation.

The firm admitted that beginning in 2005, its traders colluded with colleagues and counterparts at other banks to move Libor rates both up and down, depending upon the day, to benefit their trading positions. The bank also admitted to lowballing its Libor submissions between 2007 and 2009, as the financial crisis gathered force, in order to appear stronger and more creditworthy to investors.

Most of the lawsuits filed thus far have come from individuals and organizations with investments that rose and fell with Libor values -- effectively, creditors -- who say they lost money when the rates were suppressed during the financial crisis. In the homeowner case, however, it's borrowers who say they lost money, alleging that certain Libor rates were regularly inflated dating back to 2000.

Sharbrough said there could be "a potential conflict" between the homeowners' complaint, which alleges that certain Libor rates were too high, and other suits alleging rates were too low, at least for the years 2007 to 2009. He added that he needed to study the issue further.

Mark Zandi, chief economist at Moody's Analytics, said both creditors and borrowers could conceivably have been harmed by Libor manipulation.

"It just depends on the rate environment and the timing," he said. Given the variety of financial products tied to different Libor rates, he added, "It's not surprising that you've got a blizzard of legal actions out of all this."

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Lenders granting more second mortgages as home values rise

An increase in second mortgages reflects major lenders' growing confidence that the real estate market has finally made the turn to recovery.

By Kenneth R. Harney

October 14, 2012

WASHINGTON — If you have a pressing need to raise some cash, here's some good news: Rising home values are encouraging lenders to revive a product that imploded during the housing bust years — second mortgages.

Researchers at Equifax, one of the three national credit bureaus, say total outstanding balances of second home mortgages at banks rose in the latest month for the first time in nearly five years. Though the blip was relatively small — about three-tenths of a percent — analysts say any increase in the amount of second mortgages is a bellwether event, indicating that major lenders are showing growing confidence that the real estate market has finally made the turn to recovery. The Federal Reserve recently reported that American homeowners' equity stakes rose $406 billion in the second quarter, a 5.9% increase over the previous quarter and the highest it has been since 2008.

Second loans, which include fixed-payment mortgages as well as floating-rate home equity lines of credit, put the bank in second position in the event of a foreclosure. Say you have a house worth $250,000 with a $200,000 first mortgage and a $20,000 second mortgage. The proceeds of any foreclosure would initially be used to pay off the lender in the first position. Any remainder would pay off the holder of the second lien. Because lenders assume a "junior" position when they make a second loan, these mortgages are generally considered to be higher risk and carry higher interest rates and fees than a first.

Second loans can be used for a variety of purposes — paying for kids' college tuition, injecting capital into a small business, financing a home improvement and paying off credit card debts are among the most popular.

Equifax, which receives information from virtually every major bank and mortgage lender, compiles data on a variety of loan products. In its latest National Consumer Credit Trends study, it found that home equity lending appears to be rebounding fastest in New Mexico and California, where outstanding balances jumped 2.3%, along with Nevada (2.1%), Colorado (2%) and Florida (1.6%).

Increases in equity lending, said Amy Crews Cutts, Equifax's chief economist, "are really a healthy sign" for the economy overall because in the years after the housing bust, many banks had little confidence that home prices were stable enough to lend against in second position.

Now when Cutts speaks with bankers, she finds them "pretty willing to do [second] loans when their customers need them — they're much more open" than they've been in years. Though underwriting standards are tougher than they once were, banks are lending again, and they are experiencing smaller losses. In the most recent study, Cutts said, second mortgage write-off rates fell to just 2.7%, the lowest they've been since February 2008.

Second loans are "an important element" in Bank of America's "customer relationship strategy," said Matt Potere, home equity executive for BofA. "We expect growth to occur as market conditions continue to improve."

James Chessen, chief economist for the American Bankers Assn., agrees. "It's good news that finally there's some upward movement" in home equity lending, he said.

But Chessen isn't yet convinced that this is a long-term trend, in large part because of slow job growth and uncertainty about the economy. Also, notwithstanding Equifax's finding that bank equity loan write-offs are down, Chessen's own surveys indicate that delinquencies on home equity loans rose from 4% to 4.09% in the latest quarter.

Rate quotes and terms on home equity loans appear to reflect some of that uncertainty. A look at quotes on Oct. 5 at Bankrate.com showed that depending on how banks perceive local markets, rates can vary significantly.

For example, in suburban Maryland just outside Washington, D.C., Bank of America offers a $75,000 second mortgage at 6.34%, assuming that the borrowers have FICO credit scores in the 700 to 850 range — good to excellent — and a total loan-to-value ratio no higher than 80%. In Hawthorne, by contrast, the same loan size and criteria come with a 7.24% rate.

So be aware that while lenders are more willing to extend home equity credit, rates can vary depending on the location of the house, the loan size and your credit score.

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The New York Times

October 14, 2012

A Risky Lifeline for the Elderly Is Costing Some Their Homes

By JESSICA SILVER-GREENBERG

The very loans that are supposed to help seniors stay in their homes are in many cases pushing them out.

Reverse mortgages, which allow homeowners 62 and older to borrow money against the value of their homes and not pay it back until they move out or die, have long been fraught with problems. But federal and state regulators are documenting new instances of abuse as smaller mortgage brokers, including former subprime lenders, flood the market after the recent exit of big banks and as defaults on the loans hit record rates.

Some lenders are aggressively pitching loans to seniors who cannot afford the fees associated with them, not to mention the property taxes and maintenance. Others are wooing seniors with promises that the loans are free money that can be used to finance long-coveted cruises, without clearly explaining the risks. Some widows are facing eviction after they say they were pressured to keep their name off the deed without being told that they could be left facing foreclosure after their husbands died.

Now, as the vast baby boomer generation heads for retirement and more seniors grapple with dwindling savings, the newly minted Consumer Financial Protection Bureau is working on new rules that could mean better disclosure for consumers and stricter supervision of lenders. More than 775,000 of such loans are outstanding, according to the federal government.

Concerns about the multibillion-dollar reverse mortgage market echo those raised in the lead-up to the financial crisis when consumers were marketed loans — often carrying hidden risks — that they could not afford.

“There are many of the same red flags, including explosive growth and the fact that these loans are often peddled aggressively without regard to suitability,” said Lori Swanson, the Minnesota attorney general, who is working on reforming the reverse mortgage market.

Joan Serioux-Forde, 72, thought that she couldn't feel more devastated after her husband, Christopher, died last year. Then, roughly a month after the funeral, she received a letter from Generation Mortgage, a reverse mortgage lender, informing her that unless she paid $293,000, she would lose her home in San Bernardino, Calif. Ms. Forde said she was never informed that if she wasn't on the reverse mortgage deed, she would have virtually no right to stay in her home unless she bought it outright. "It's a nightmare," she said. Generation Mortgage declined to comment.

Although the numbers of reverse mortgages have declined in recent years, the rate of default is at a record high — roughly 9.4 percent of loans, according to the consumer protection bureau, up from around 2 percent a decade earlier. And borrowers are putting their nest eggs at risk by increasingly taking out the loans at younger ages and in lump sums, federal data and a recent bureau report show.

Peter H. Bell, president and chief executive of the National Reverse Mortgage Lenders Association, a trade group, said that he met with officials from the Department of Housing and Urban Development to begin hashing out a way for lenders to adopt a uniform standard to determine whether seniors can afford to take on the loans.

Used correctly, reverse mortgages can be a valuable tool for seniors to stay in their homes and gain access to money needed for retirement. Seniors who have built up equity in their homes can borrow against a percentage of that and take out a lump sum or a line of credit. The loan doesn't have to be repaid until the homeowner moves out or dies, but borrowers still have to pay property taxes, maintenance and insurance.

Reverse mortgage lenders and brokers note that the loans are highly regulated and require potential borrowers to speak to a certified housing counselor about the potential pitfalls before taking out the loans. Mr. Bell adds that his trade group strictly monitors the advertising of its roughly 400 members to ensure that it is accurate.

Since the financial crisis, the reverse mortgage market has been in flux, dampened by a drop in property values, complaints about the loans and the recent departure of big lenders. Originations backed by the federal government peaked at about 115,000 in 2007 and totaled about 51,000 loans last year.

MetLife was the latest major player to exit the market, in April. That followed the departure last year of the two biggest reverse mortgage lenders, Bank of America and Wells Fargo, which cited falling housing prices and difficulty assessing borrowers' ability to repay the loans.

Into the void left by the big banks have moved smaller mortgage brokers and lenders. Some of them steer seniors into expensive, risky loans with deceptive sales pitches and high-pressure tactics, according to regulators, housing counselors and elder-care advocates.

Mark S. Diamond, a former subprime mortgage broker in Chicago, who has been sued for fraud by the Federal Trade Commission and the Illinois attorney general, faces a federal lawsuit filed in June by seniors who claim that he sold them reverse mortgages and either pocketed their loan amounts or promised to put the proceeds toward home repairs that never materialized. A lawyer for Mr. Diamond did not return calls for comment. Some solicitations reviewed by the Consumer Financial Protection Bureau present reverse mortgages as “free money” or mistakenly tell seniors that they could never lose their home. One Maryland reverse mortgage lender tells seniors that they can put the proceeds toward a vacation: “Just because you’re retired doesn’t mean you don’t need a vacation every now and then.” Last year, the Massachusetts Commissioner of Banks issued cease-and-desist orders to a handful of reverse mortgage firms for operating without a license. In its advertising, one of those mortgage brokers falsely promised seniors “you won’t lose your home.”

Officials at the bureau, which issued a report on the industry in June, said they heard from a number of seniors who claimed that lenders encouraged them to make their older spouses the sole borrower on the loan. The brokers earn more money when they make larger loans with the older spouse as the only borrower.

Some surviving spouses complained that brokers told them they could be added later, but they were not. The bureau says those seniors are at greater risk of losing their homes. The complaints, according to elder-care advocates and federal officials, have been rising during the past year, although there are no exact numbers.

Linda McMahon, a 65-year-old widow, watched helplessly as the locks were changed on her home in St. Croix Falls, Wis., last month. She said that in 2005, when her husband was 82 and she was 58, a mortgage broker from Wells Fargo promised her that she could add her name to the mortgage once she turned 62. That never happened because that year, in 2009, she didn’t have time to deal with it as her husband’s health quickly deteriorated and he died from a heart condition, she said. Soon, she was unable to pay any of the property taxes and insurance. “I am devastated,” said Ms. McMahon, who is retired, living on Social Security income and now renting an apartment.

A spokeswoman for the bank declined to comment. Reverse mortgages also have troublesome incentive structures that might encourage brokers to steer seniors toward lump-sum loans, which carry a fixed interest rate, rather than a line of credit with a variable interest rate, the bureau found. In a lump sum arrangement, the interest charges are added each month, and over time the total debt owed can far surpass the original loan.

Brokers earn higher fees on these loans and even more money when they sell the loans into the secondary market, where they can get rates nearly double those for variable loans, according to rate sheets obtained by the consumer bureau.

Some 70 percent of reverse mortgages are taken in lump sums, up from 3 percent in 2008, according to the bureau. When seniors use the money to pay off other debts, especially right before retirement or early into it, that can leave them with scarce resources to pay their property taxes and insurance.

Ms. Forde, who lives in fear of losing her San Bernardino home, said she could not afford to save her house by paying the full $293,000 debt. Now, she said, she spends much of her day standing guard by the window. Her home is already in foreclosure proceedings. With a wavering voice, she said: “I have nowhere to go.”

latimes.com/business/realestate/la-fi-inventory-squeeze-20121012,0,1354590.story

latimes.com

Number of low-price homes plummets in state

Properties priced below $313,200 are increasingly scarce as investor groups crowd out first-time buyers. As foreclosures drop, some parts of the Inland Empire have only one month's home supply.

By Alejandro Lazo, Los Angeles Times

5:05 AM PDT, October 12, 2012

Competition for lower-priced homes in California is so hot that the number of cheaper homes available for sale has sunk more than 40% in the last year, pushing out many would-be buyers.

Homes that sold for $313,200 or less were the most competitive type of home nationally, but nowhere did inventory in that price range drop more than in the Golden State, according to a report released Thursday by real estate website Zillow.

In some parts of the Inland Empire, the supply of homes on the market is down to about a month's worth, real estate agents say. Economists typically consider a six-month supply to be a healthy market.

The decline in homes for sale is frustrating many people interested in jumping into the housing market — home shoppers tantalized by the drop in prices and record-low mortgage interest rates.

Larry Rogers of Riverside, for instance, began the year with what he felt was a solid path toward retirement: buy two homes in the Inland Empire, pay them off before his golden years and live, in part, off the rental income. With a contractor's license, a well-established business, plenty of cash and a high credit score, financing a home is not a problem, he said. The problem is finding one.

Rogers said he has gone into escrow twice and lost out both times, as other buyers have been willing to pay more. He has been shocked by competing investors paying $75,000 to $100,000 more than what he has estimated some homes to be worth.

"The big speculators have pooled all their money; they invest and they bid them up," he said. "It's crazy. Some of them, they pay pretty close to what it's actually probably worth fixed up, but then by the time they put money into it, they are going to be $50,000 to $60,000 over."

Behind the inventory squeeze is a sharp decline in the number of foreclosed homes on the market.

Foreclosure filings fell in September to the lowest level in more than five years, according to a report by

RealtyTrac released Thursday. Substantial decreases in California and some other states hard hit by the collapse of the housing bubble helped reduce filings to 180,427 last month, down 7% from August and 16% from a year earlier. The last time filings were that low was in July 2007.

Demand in the West for homes has heated up, according to the Federal Reserve's beige book of economic activity for the 12th District in San Francisco.

"Although still well below its historical average, the sales pace for new and existing homes picked up further in many areas," the Central Bank reported. "Contacts noted that pent-up demand may spur additional gains in coming months. Contacts reported a decrease in the inventory of available homes and a noticeable increase in construction activity."

According to the Zillow report, Central Valley markets have seen the biggest drops in the supply of lower-cost homes, with inventory down 59.7% in Fresno and 55.4% in Sacramento. San Francisco's supply fell 53.2%. In Los Angeles, supply was down 45.1%. Nationally, the bottom tier of homes for sale has had a decline of about 15.3%.

Cheaper homes — particularly foreclosed properties — have become highly attractive to investors, who have developed a sophisticated industry around buying properties, fixing and selling them or renting them out. Renting out foreclosed homes has increasingly emerged as an investment opportunity for Wall Street.

Financiers are busily studying ways to take the single-family home rental business, for years mostly a mom-and-pop affair, and make it a bigger industry. That has made it difficult for first-time shoppers to compete.

Wall Street groups increasingly are exploring ways of taking rental income from foreclosed homes and packaging those income streams into complicated securities, similar to the way big banks, packaged mortgages during the boom years.

The powerful New York-based American Securitization Forum on Wednesday sponsored a seminar examining whether initiatives by the federal government to turn bank-owned homes into rentals would help foster more private investment in the sector.

"First-time home buyers are being squeezed out of the market by falling inventory and the rapid influx of investors looking to buy basic homes to rent out," Zillow chief economist Stan Humphries said. "Investors are paying in cash and can close sooner, which is more favorable to banks and homeowners looking to sell."

While Wall Street has grown interested in low-end homes, real estate agents in California have bemoaned the lack of available properties for sale. Real estate professionals say the state can handle more foreclosures, and they have protested plans by the federal government to sell foreclosed California properties in bulk to investors.

"Sales would be even higher if inventory were less constrained … particularly in the Central Valley and Inland Empire, where there is an extreme shortage of available homes," LeFrancis Arnold, president of the California Assn. of Realtors, said in a recent forecast distributed by the group. "Sales will be stronger in higher-priced areas, where there are more equity properties and a somewhat greater availability of homes for sale."

James Monks, a sales manager with the Riverside regional office of Prudential California Realty, said that he recently had one shabby, bank-owned home in Moreno Valley receive 64 offers in just five days.

"It was not a spectacular property, it was offered in the low $100,000s and it was probably worth $140,000 or $145,000, and it ended up selling for more than $165,000," he said. "It's not like it's a screaming deal, but it's just folks are willing to overbid."

Monks said that representatives of investor groups with hundreds of millions in Wall Street backing have been pitching him hard.

"Don't sell to regular people — just sell to us," Monks said these investors have told him.

Doug Shepherd, president of the Shepherd Realty Group in Riverside, said that he has one potential buyer with solid credit and a good job in the medical industry. She is qualified with a loan to buy a home up to $250,000. She has not been able to find anything, he said.

"How do you stay competitive? How do you get your offer accepted unless it's 10 or 15 above the asking price, and you have an in with the owner, seller or the agent?" he said. "It is difficult."

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Times staff writer Jim Puzzanghera in Washington contributed to this report.