November 15th 2012 housing market updates brought to you by the CA Association of Realtors

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New short-sale program offers relief for underwater homeowners

The Fannie-Freddie program allows short sales for owners who are current on loan payments but are encountering a hardship that could force them into default.

By Kenneth R. Harney

November 11, 2012

WASHINGTON — Though there are still some snares and drawbacks for participants, one of the federal government's most important financial relief efforts for underwater homeowners started operating Nov. 1.

It's a new short-sale program that targets the walking wounded among borrowers emerging from the housing downturn — owners who owe far more on their mortgages than their current home value but have stuck it out for years, resisted the temptation to strategically default and never fell seriously behind on their monthly payments.

Industry estimates put the number of underwater owners across the country at just under 11 million, or 22% of all homes with a mortgage. Of these, about 4.6 million have loans that are owned or securitized by Fannie Mae or Freddie Mac. Eighty percent of these Fannie-Freddie borrowers, in turn, are current on their mortgage payments and meet the baseline eligibility test for the new short-sale effort.

Here's how the program works and where the potential snares are. Traditionally short sales, where the lender agrees to accept less than the full amount owed and the house is sold to a new purchaser at a discounted price, are associated with extended periods of delinquency by the original owner. The new Fannie-Freddie program — designed by the companies' overseer, the Federal Housing Finance Agency — breaks with tradition by allowing short sales for owners who are current on their payments but are encountering a hardship that could force them into default.

Say you are deeply underwater on your mortgage and recently lost your job or had your work hours reduced. Under the new program, you can contact your mortgage servicer and ask to participate in a Fannie-Freddie short sale for non-delinquent borrowers. You'll need to find a qualified buyer for the house, typically with the help of a real estate broker or agent knowledgeable about short sales who will list the property and obtain an offer and communicate the details and documentation to the servicer. If the proposed short-sale package is acceptable, the deal would then proceed to closing weeks — or months — later.

Eligible hardships under the new program run the gamut: job loss or reduction in income; divorce or separation; death of a borrower or another wage earner who helps pay the mortgage; serious illness or disability; employment transfer of 50 miles or greater; natural or man-made disaster; a sudden increase in housing expenses beyond the borrower's control; a business failure; and a you-name-it category called "other," meaning a serious financial issue that isn't one of the above.

Borrowers who take part in the new program can expect to rid themselves of the money-devouring albatross their mortgage has become — without going through the nightmares of foreclosure or bankruptcy — and to get a chance to start anew, better equipped to deal with the financial hardship that caused them to sell their house in the first place.

What about the snares in the program? There are several that participants need to consider.

•Credit score impact. Though officials at the Federal Housing Finance Agency are working on possible solutions with the credit industry, at the moment it appears that borrowers who use the new program may be hit with significant penalties on their FICO credit scores — 150 points or more. This is because under current credit industry practices, short sales are lumped in with foreclosures. According to Laura Arce, a senior policy analyst at the agency, the government is in discussions with the credit industry to institute "a special comment code" for servicers who report the new Fannie-Freddie short sales to the national credit bureaus that would treat participants more fairly on FICO scores.

•Promissory notes and other "contributions." In the majority of states where lenders can pursue deficiencies, Fannie and Freddie expect borrowers who have assets to either make upfront cash contributions covering some of the loan balance owed or sign a promissory note. This would be in exchange for an official waiver of the debt for credit reporting purposes, potentially producing a more favorable credit score for the sellers.

•Second lien hurdles. The program sets a $6,000 limit on what second lien holders — banks that have extended equity lines of credit or second mortgages on underwater properties — can collect out of the new short sales. Some banks, however, don't consider this a sufficient amount and may threaten to torpedo sales if they can't somehow extract more.

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Bay Area sees big increase in cancellation of foreclosure auctions

By Pete Carey pcarey@mercurynews.com San Jose Mercury News
Posted:

MercuryNews.com

With a tough Homeowner Bill of Rights set to take effect in California New Year's Day, cancellations of foreclosure auctions have spiked in the Bay Area and throughout the state, according to a report Tuesday.

ForeclosureRadar said cancellations jumped 60 percent in California from September to October, the biggest jump since it began tracking cancellations in 2006. Similar leaps in the number of cancellations were seen in the Bay Area.

Cancellations are attributed by the company to a successful loan modification or short sale, or are due to filing errors by the banks or are caused by rules requiring lenders to refile a notice of sale after extended postponements.

Joe Reichert of Keller Williams Realty in Danville said he's done 50 short sales this year but expects the number to decline as banks modify loans and more people hang on to their homes waiting until they are back above water and can sell for more than the amount of their mortgage.

"Fewer homes are in trouble," Reichert said. "There's a mentality of, 'I'm almost over the hump, and if I hold on a bit longer values will come up,'" he said.

There are still plenty of people in trouble with their mortgages, although the numbers are declining, said Martin Eichner of Project Sentinel in Sunnyvale, an authorized nonprofit that helps struggling homeowners.

"We had a foreclosure fair in San Mateo in October," he said, "and there was a line around the block before we opened the door."

There were 517 foreclosure actions canceled in Santa Clara County in October, a 63 percent increase from September, ForeclosureRadar reported. That compared to only 138 auctions of foreclosed properties. San Mateo County had 209 foreclosures canceled, a 50 percent increase, while there were only 62 foreclosure sales.

Alameda County had 576 foreclosure cancellations, a 52 percent increase, compared to 238 foreclosure sales. Contra Costa County had 548 cancellations, a nearly 60 percent jump, compared to 308 foreclosure sales.

The Discovery Bay foreclosure tracking service said it was likely that the Homeowner Bill of Rights legislation due to go into effect Jan. 1 was behind the increase, as banks slow their push to sell properties at courthouse auctions and focus on working out short sales and loan modifications. A short sale is the sale of a property for less money than is owed on it.

The Homeowner Bill of Rights bans the notorious practice of "dual tracking" -- holding out the hope of a loan modification to struggling homeowners and then foreclosing without warning.

Notices of defaults were also down in the Peninsula and South Bay from the prior month, while they rose in the East Bay. These notices are the first step in the foreclosure process, which begins when a homeowner falls 90 days or more behind on mortgage payments.

The number of homeowners receiving these notices in October dropped 17 percent in Santa Clara County from the previous month and 19 percent in San Mateo County. The filings were up 18 percent in Alameda County and 4 percent in Contra Costa County.

All four counties saw drops in default notices from the previous year ranging between 45 percent and 62 percent.

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WSJ.com

November 13, 2012, 8:00 AM ET

Report: Single-Family Rental Demand Is Outstripping Supply

ByNick Timiraos

Demand for single-family rental housing is outstripping the available supply of homes, and some housing markets that have been hit hardest by the foreclosure crisis have seen rental demand jump by more than 25% in the past year, according to a report to be released Tuesday by real-estate firm CoreLogic .

It shouldn't be surprising that single family rental demand has picked up in recent years: There are many families who have lost their homes to foreclosure or that can't qualify for mortgages given tighter underwriting standards.

But the magnitude of rental-demand gains is still eye-opening. Markets that include Port St. Lucie, Fla.; Riverside, Calif.; and Tucson, Ariz., have all seen rental demand jump by 25% over the past year, and 22 of 30 markets tracked by CoreLogic have seen year-over-year leasing gains.

The single-family rental market has attracted a glut of institutional investor capital over the past two years, as firms to seek to build scattered-site property management infrastructure for an asset class that has long been the domain of mom-and-pop owners and smaller investors.

Slightly more than half of all rental units in the U.S., or around 21 million units, are single-family homes. Around four in five of those unit owners are individual investors.

Investor demand for rentals shows little signs of weakening, according to the CoreLogic report. Leasing activity was up 7% from one year ago in August and up 12% from the beginning of this year, even though the inventory of homes for rent is down by 11% from one year ago.

As a result, it would take just 2.6 months to rent the available stock of for-lease homes in August, down from 3.2 months of supply last year and over 5 months in 2007. It took just six weeks for a listing to be rented, which was unchanged from one year ago but down from more than eight weeks in 2009.

Single-family rents, which tend to show less volatility in either direction than home prices, rose by 2% last year and have increased by 1% so far this year, after declining in 2009 and 2010. "While those increases are low, rent growth typically lags home price growth by about 12 months," writes Sam Khater, senior economist at CoreLogic, in the report. He expects rent growth to increase "at a strong clip" late this year and throughout 2013, though not at the same rate as home prices.

The largest rent increases were found in North Port, Fla.; Cape Coral, Fla.; and Honolulu, where rents increased by more than 6%. But rents also rose in cities such as Houston and Raleigh, N.C., where the economy has fared better and the housing market wasn't as hard hit by the bust. Large rental increases beyond the housing-bust markets "is indicative of the rising tide of demand for single-family rentals," wrote Mr. Khater.

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latimes.com/business/money/la-fi-mo-zillow-foreclosure-deals-dwindling-20121109,0,5710678.story

latimes.com

Report: Deals on foreclosed homes dwindling

By Alejandro Lazo

8:26 AM PST, November 9, 2012

The days of deals on foreclosures appear numbered, one analysis indicates.

A new look at foreclosure discounts by the website Zillow found that the price difference between a foreclosed house and one sold outside of foreclosure was just 7.7% nationally in September.

That foreclosure discount fell from 9.1% in September of last year. It's also a big difference from the days of the worst of the economic crisis, when people buying foreclosed homes could expect a discount of 23.7% from the price of non-foreclosures in August 2009.

In the Los Angeles metro area, the discount was 4.2% in September, Zillow said.

Quiz: Why are California gas prices so high?

The reason is that home prices have fallen so much that buyers are now willing to pay market value or near market value in some of the most competitive regions.

"The smallest foreclosure discount is found in places where competition for homes is so high," Zillow chief economist Stan Humphries said. "People there are willing to pay the same amount for a foreclosure re-sale that they would for a non-distressed home simply to take advantage of historic affordability."

Take for instance the Inland Empire, where the discount on a foreclosed home compared with a non-foreclosed home is just 1.8%. In the Phoenix and Las Vegas metro areas, there is effectively no discount on foreclosed homes, according to the Zillow analysis. In the Sacramento area, the discount is just 0.7%.

The number of foreclosed homes on the market in some of these hard-hit areas has also dwindled considerably over the last year. In Southern California and the Bay Area, for instance, short sales make up a bigger part of the market than foreclosed properties do, according to DataQuick, a real estate research firm.

Certain Midwest and East Coast cities appeared to have the biggest foreclosure discounts. The Pittsburgh area had a discount of 27.4%, with Cleveland at 25.8%, Cincinnati 20.2% and Baltimore 20%.

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Sellers' return to the market could be slow, surveys indicate

THE WALL STREET JOURNAL.
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November 9, 2012, 4:45 PM ET

NAR Economist: Home Prices to Rise 15% in 3 Years

By Kris Hudson and Dawn Wotapka

ORLANDO—National Association of Realtors Chief Economist Lawrence Yun foresees U.S. home prices rising by 15% over the next three years, a boost for the beleaguered housing market.

Mr. Yun is widely known for his optimistic forecasts, given his employer, the nation's largest housing cheerleader. Still, any talk of rising home prices is welcome news. Home values have plunged a third or more from the peak, leaving millions of Americans underwater, or owing more than their mortgage, and unable to move. If their values increase, they might feel comfortable enough to buy a bigger home or retire to a smaller one, helping everyone from real-estate agents, who would earn a commission, to retailers selling everything from furniture to paint.

However, Mr. Yun expressed concern about home affordability, citing both supply and demand. Supply remains relatively scarce because builders are not producing as many homes as in past years. Mr. Yun predicts that construction will ramp up to 1.3 million units by 2014, but that still would be below the historic average of 1.5 million. One factor hampering construction: Small home builders still are having difficulty getting financing from local lenders.

"Builders need to add more," Mr. Yun said at the group's annual conference. "We need to moderate the price growth."

If only it were that easy. Builders are dealing with increased labor and material costs, which threaten the nascent recovery. They also don't want to build too many homes, just in case the economy weakens again. And, for builders, raising prices is a great thing—particularly if that trickles down to shareholders.

On the demand side, U.S. job growth has picked up, but it is, at best, keeping up with population growth. Many of the country's new jobs are low-paying positions in retail, home health care and other such fields. Thus, U.S. household earnings aren't growing robustly, and the country's total employment level is not posting great gains. "Every single month, we would have to create 250,000 jobs for the next eight years to get back to normal" employment levels, Mr. Yun said.

An affordability gap could emerge if prices rise due to restricted supply and buyers lose momentum due to sluggish wage growth.

Mark Vitner, an economist with Wells Fargo, predicted that mortgage rates will remain at historic lows through 2014, keeping home buying affordable. Mr. Vitner forecast that the rate on a traditional, 30-year mortgage, now at roughly 3.4%, will "bottom out" at 3.3% in next year's first quarter amid concerns about federal budget-balancing efforts. “We will probably be at an all-time-low in interest rates late this year or early next year.”

latimes.com/business/realestate/la-fi-appraisals-20121111,0,2731897.story

latimes.com

Appraisal can complicate selling, refinancing a home

Unexpectedly low appraisals can happen for a number of reasons, especially when foreclosures, short sales and other distressed properties abound.

By Michelle Hofmann

November 11, 2012

Joanna Zimring Towne thought refinancing her Altadena home would be simple.

When Zimring Towne and husband Andrew Towne, a 48-year-old television lighting technician, bought the two-bedroom home for $535,000 in 2006, the appraiser valued it at about $600,000.

During the November 2011 inspection, Towne walked around the property with the appraiser. The couple were being charged $500 by the management company that employed the appraiser, but they considered it a minor sacrifice, hoping to reduce their mortgage rate to 3.25% from 6.9%.

Then the valuation report arrived a few days later, and hope turned to anger.

"The appraiser spent about 10 minutes in the house, didn't take photos and gave us an appraisal of $350,000," said Zimring Towne, 37, director of the career services center at Los Angeles' Pierce College. Not taken into account, she said, was that "in this area, we have tremendous [price] variability within a mile radius."

The appraisal process has become a headache for homeowners looking to secure historically low interest rates and buyers and sellers hoping to reach property deals.

More than a third of real estate agents say they've recently seen lower-than-expected appraisals hold back home sales, even though buyers and sellers had reached agreement on price, according to a survey by the National Assn. of Realtors.

Of the agents surveyed, 11% said a contract was canceled and 9% said a contract was delayed because of a low valuation, the association said. And 15% said they had a contract renegotiated to a lower sale price because of a low appraisal valuation.

"The combined issues of stringent mortgage lending requirements and appraisal frictions are hampering otherwise qualified buyers from purchasing a home in a timely fashion and in some cases are preventing them from buying at all," Lawrence Yun, the Realtors group's chief economist, said in a statement accompanying the survey results.

The Realtors group and others say sometimes problems arise because appraisers, employed by large appraisal management companies, may not have sufficient experience in a neighborhood.

In addition, real estate agents say, a low valuation can occur when an appraiser doesn't take a home's condition into account, hasn't kept up with market values or compares the property to homes that really aren't similar in a market complicated by foreclosures, short sales and other distressed properties. Often, lenders are being cautious to avoid some of the valuation mistakes made during the housing-bubble years.

Whatever the reason, appraisal horror stories are easy to find.

Leo Nordine of Nordine Realtors has been unable to refinance his 3,500-square-foot Hermosa Beach home because he can't get the property appraised for a high enough value.

"I have had offers of $4.5 million. It appraised for $2.5 [million] in September. Tear-down lots on my street sell for more than that," he said.

"I have been in the business for 25 years. I know everyone. I have perfect credit. And I can't even refinance my house," the 59-year-old real estate broker said. "If I have no control, the average guy who doesn't know anything about real estate has no control either."

Rosemary Kubeck-Shumski, 47, a mortgage loan advisor and branch manager for Real Property Finance Inc. in Redondo Beach, recalled a four-unit Torrance investment property that was appraised to be worth $350,000 less than expected in June 2010.

Kubeck-Shumski, who has been in the business since 1991, said, "I could tell the guy did not go to the property. He pulled photos from the Multiple Listing Service."

After showing comparative values on local listings and providing original photos, Kubeck-Shumski got the appraisal bumped up to $975,000 from $635,000.

Miguel Soler, 38, an agent with Re/Max in Valencia, said that when a property has multiple offers, the homeowner should ask the appraiser to note the number of bids in the report. "This shows that the market is appreciating and the amount of interest in the property," he said.

The opinion of the appraiser doesn't always determine the sale price. In June, a Valencia listing that appraised at $640,000 sold for $690,000, Soler recalled. In this case, he said, the lender capped the loan and the buyer came up with the extra $50,000.

Even with good information, complex appraisals can be tricky territory for the most seasoned appraisers, said Mark Backonen, chief executive of Class Appraisals Group, a leading appraisal management company based in Troy, Mich.

"For the most part, everyone is trying to make the best decisions and do the best work they can. But when you have areas with a high number of foreclosures and banks dumping properties, it causes all kinds of problems," he said.

"If there are no similar homes next to the subject property, the entire theory of appraising goes out the window."

Backonen said that of the 10,000 appraisals his company conducts each month, about 3% are disputed. Of that 3%, a third are corrected and two-thirds are upheld.

In the 1980s, after the savings and loan crisis, the Uniform Standards of Professional Appraisal Practice were adopted. They require an appraiser to be competent, independent and objective.

Industry watchdogs called for regulation in 2009 after accusations emerged of ethics violations and inflated values resulting from a too-cozy relationship between loan originators and appraisers. The Home Valuation Code of Conduct was created to prevent collusion by making appraisal management companies, not individual banks or lenders, responsible for selecting appraisers to value homes.

Now, the Consumer Financial Protection Bureau is pushing for more transparency in the mortgage process, full appraisal reports and valuation data, information on the appraiser who recorded the report and disclosure of cost-splitting of appraisal fees, which range from $250 to $1,000. Backonen said Class Appraisals keeps approximately 10% to 15% of the fee.

For those with the appraisal blues, new guidelines and standards can't come soon enough.

In Altadena, the Townes are remodeling their kitchen and hope to try again for a better valuation.

"It is hard to justify putting a $20,000 kitchen into a house that — unless we can refinance — we will never come close to breaking even on," Zimring Towne said.

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latimes.com/business/money/la-fi-mo-housing-affordability-20121112,0,415207.story

latimes.com

Housing affordability in California drops as prices increase

By Alejandro Lazo

12:20 PM PST, November 12, 2012

California homes are getting less affordable as property values rise, a real estate group says, offsetting the benefit to home shoppers from low mortgage interest rates.

The California Assn. of Realtors estimated that 49% of homebuyers in the third quarter could afford a median-priced house in California, a decline from 51% last quarter.

Quiz: How much do you know about California's economy?

The group estimated that those buying a house needed to earn a minimum annual income of $65,810 to qualify for the purchase of a median-priced house in the state, which the group estimated at $339,860 at the end of the third quarter.

A monthly payment for this home on a fixed-rate 30-year mortgage with a 20% down payment would be $1,650 including taxes and insurance. The group assumed a 3.72% interest rate.

Most counties in Southern California experienced lower affordability. Affordability in Los Angeles fell to 42% of buyers from 49% of buyers in the previous quarter.

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