# Cash buyers, investment uptick boost Southern California median home price 20 percent

*By Gregory J. Wilcox, Staff Writer LA Daily News*
*Posted:*

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Southern California's median home price jumped 20 percent in December from a year ago, driven by strong investment activity, a record number of cash buyers and a continued shift to mid- and high-end sales, a market tracker said Tuesday.

Sales also showed strength, increasing 5 percent from December 2011 and hitting their highest level for the month in three years, said La Jolla-based DataQuick.

Last month the median home price across the region increased to $323,000 from $270,000 a year earlier. The median made double digit percentage gains in all six counties.

"The question when the year started was would the market find a (price) bottom. I think there are far fewer people worried now about prices falling and significantly more concerned about prices going up," said DataQuick analyst Andrew LePage.

"We've answered the question: Yeah, we found a bottom."

For all of Southern California, sales of new and previously owned houses and condominiums increased to 20,274 last month from 19,247 in December 2011.

Riverside and San Bernardino counties were the only ones with declining sales, DataQuick said.

For the full year, sales increased 10 percent to 235,119 properties from 214,362 in 2011.

"The housing market had more to offer in 2012 than many anticipated. A lot of markets ... started to see their first meaningful gains in nearly two years," DataQuick President John Walsh said in a statement.

Buyers were drawn back into the market by record or near record low mortgage rates and a brighter job outlook, he noted.

"Last year should also be remembered as the year the move-up market awoke. If these upward trends hold, which requires a sustained economic recovery, we should eventually see more inventory hit the market," Walsh said.

Rising prices would also bring more sellers into the market.

The company's report showed that:

• In Los Angeles County the median price of a previously owned house increased 15 percent to $352,000 from $305,0000 in December of 2011. Sales increased 9 percent to 7,198 properties from 6,591 a year ago.

For the full year sales increased 12 percent to 80,954 properties from 72,305 in 2011.

• In San Bernardino County the median price increased 20 percent to $180,000 from $150,000 a year ago. But sales fell 12 percent to 2,135 properties from 2,418 in December 2011.

Full-year sales were flat - 28,548 versus 28,318 in 2011.

• Riverside County's median price rose 19 percent to $231,000 from $194,000 a year ago and sales declined 9 percent to 3,248 properties from 3,584.

Full-year sales were also flat - 40,369 versus 40,312 in 2011.

• Ventura County's median price increased 14 percent to $370,000 from $325,000 and sales increased 12 percent to 866 from 771. For the full year sales were up 19 percent to 9,989 from 8,383.

Cash buyers accounted for 34 percent of sales in December, tying the November and February record level, DataQuick said. A year ago cash buyers accounted for 30 percent of sale.

Distressed properties continue to have a diminished role in the market.

In December foreclosure resales accounted for 15 percent of the Southland sales, flat from November and down from 32 percent a year ago.

Last month's level was the lowest since foreclosure resales had 14 percent of the resale market in September 2007. In the current cycle, foreclosure resales hit a high of 57 percent in February 2009.

Short sales - transactions where the sale price fell short of what was owed on the property - made up an estimated 26 percent of resales last month. That was also flat from November and a year ago.

A separate report from the California Association of Realtors showed a similar trend. (The association calculates sales on an annualized rate and does not include transaction numbers.)

During December sales of previously owned houses increased 1 percent to an annualized rate of 522,510 units, the Los Angeles-based group said.

In Los Angeles County sales increased 5 percent from a year earlier (the association does not provide numbers). But sales fell 15 percent in San Bernardino County and 9 percent in Riverside County.

The association also had prices increasing by double digit percentages across Southern California from a year earlier.

And the year ended in encouraging fashion.

"The positive fundamentals in the housing sector continued to attract potential homeowners and investors, which resulted in strong housing sales in the fourth quarter," said Leslie Appleton-Young, the association vice president and chief economist.

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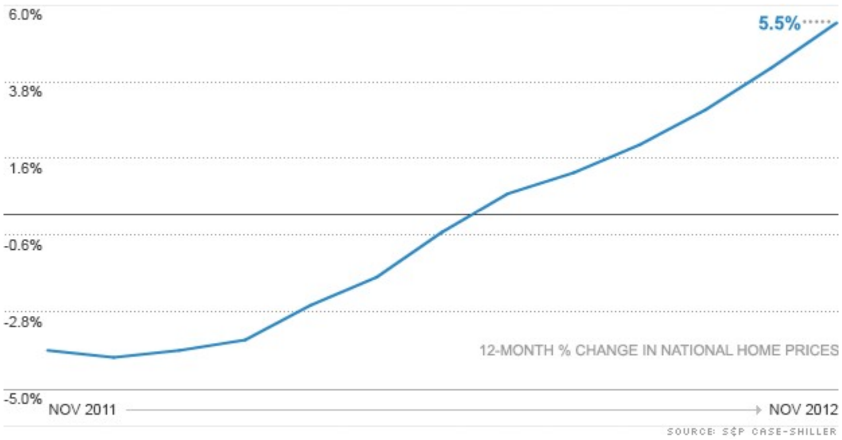
# Home prices post biggest jump in 6 years

By Chris Isidore @CNNMoney January 29, 2013: 10:08 AM ET




NEW YORK (CNNMoney)

Home prices in 20 major U.S. cities were up 5.5% in November compared to a year earlier, their biggest jump in more than six years.

The latest reading of the closely watched S&P Case-Shiller index is another sign of the growing recovery in the long-battered housing market.

The last time prices jumped this much was in August 2006, when the housing bubble was still inflating. Soon after that, prices went into a steep decline that led to a flood of foreclosures. That sparked the most serious economic downturn since the Great Depression.

"Housing is clearly recovering," said David M. Blitzer, chairman of the index committee at S&P Dow Jones Indices. "Prices are rising as are both new and existing home sales. These figures confirm that housing is **contributing to economic growth**."

Housing prices have been helped by a number of factors in recent months, including increased sales of both **new homes** and **previously-owned houses**, a **drop in foreclosures**, and near **record low mortgage rates**. A drop in the nation's **unemployment rate** also is helping.

The rise in home prices is good news for more than just people hoping to sell their home. The higher prices rise, the fewer homeowners that will be **underwater on their mortgage**, meaning they owe more on their homes than they are worth. That can help many homeowners refinance and save money, which would pump more cash into the economy.

"The ongoing price appreciation is significant, because we expect housing wealth effects to be an important factor driving economic growth in 2013, possibly matching the direct impact on economic output from the rebound in homebuilding," said Joseph LaVorgna, chief U.S. economist for Deutsche Bank.

**Related: Housing to drive economic growth (finally!)**

Michael Gapen, senior U.S. economist for Barclays, said the fundamentals for the housing market are now strong enough that his firm is forecasting another 6% to 7% rise in prices in 2013, and a 5% to 6% rise again next year. He said the tight supply of homes for sale on the market should support continued price increases, and that the decline in foreclosed homes for sale is reducing the drag that those distressed properties had on overall prices.

"I'm not worried about these increases being overdone," he said. "Home prices overcorrected a bit on the downside, and what we're seeing now is a recovery from that."

**Related: Home building surges 12%**

The S&P Case-Shiller index tracks home prices in 20 major markets. The latest reading showed 19 of them posting a gain in prices, with only New York posting a modest decline from a year earlier. Phoenix, one of the markets hit hardest by the housing crisis, posted the biggest increase, with home prices there climbing 22.8%.

San Francisco and Las Vegas, markets that were also hit by the housing boom and bust, also posted double-digit increases, while Miami, another bubble market, posted a 9.9% rise. Detroit, a city where economic problems led to a high rate of foreclosures, enjoyed an 11.9% price increase.

But even with November's strong gains, the overall index stands 29% below the home price peak reached in the summer of 2006. ■

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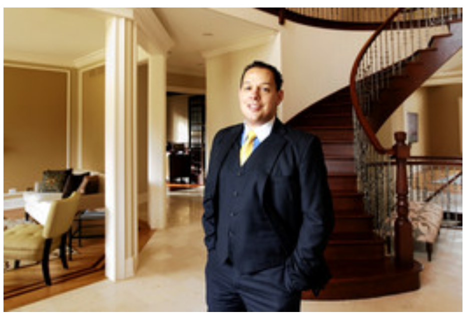
# The Appraisal Betrayal

*The growing gap between a high-end home's sale price and its appraised value can prompt potential buyers to walk away; those who decide to buy anyway may end up with an unwelcome mortgage surprise*

By ANNAMARIA ANDRIOTIS

What's that $1 million house really worth? Depends who you ask.



Sally Ryan for The Wall Street Journal

SURPRISED: When Robert Lattas decided to refinance his home in Oak Brook, Ill., he found that its appraised value was unchanged, despite $200,000 in improvements, including hardwood floors and a new electronics system.

To determine the value of a property, appraisers are supposed to review purchase prices of similar, nearby homes that sold in the past six months. But when a property is much pricier than others in the neighborhood, it can be hard to find similar examples close by. As a result, their asking prices are often out of whack with values that are later determined by appraisals.

"The higher you go up the ladder in value generally the less data you have," says Danny Wiley, chief appraiser for LSI, an appraisal-management company based in Irvine, Calif.

To find relevant numbers, appraisers in many cases have been digging up older sales as far back as five years ago, consulting current listing prices that might not reflect what buyers are actually paying for a property and even looking at sales prices in other markets.

Further complicating matters, some luxury real-estate values are partly determined by the services and amenities in that neighborhood. City cutbacks in police patrols, fire services, park maintenance and school-district funding can also contribute to lower property values.

For sellers and buyers, the process often results in an appraisal amount that's below the agreed-upon purchase price of a home. Lenders, in turn, will typically lower the mortgage amount that they'll give a buyer, leaving the buyer to make up the difference, often with a larger down payment. Another scenario: The buyer refuses to pay more than the appraised amount and


Sally Ryan for The Wall Street Journal

Part of Mr. Lattas's new electronic system is shown.

renegotiates the purchase price with the seller. And if that fails, buyers can decide to walk away from the deal.

On average, one-third of real-estate agents said the appraisal process resulted in buyers and sellers delaying or canceling contracts or renegotiating to a lower sales price last year, according to a National Association of Realtors' monthly survey of roughly 3,000 agents. That's up from less than 10% in 2008.

Experts say this figure could grow going forward as the luxury real-estate market continues to surge. Appraisals can undervalue properties when markets are rising because they look backward at lower valuations, says Mark Fleming, chief economist at CoreLogic, a real-estate analytics company. Some appraisers may not adjust for the discrepancy, he says.

It's not just home purchases that are at risk. Homeowners trying to refinance can also be burned. With private jumbo mortgages, if the appraisal indicates that the borrower's loan amount is more than 80% of the value of the home, the borrower will likely have to put more money down if he wants to proceed. In other cases, a lower appraisal could keep borrowers from getting the lowest rate possible.

After buying a $2.3 million home in Oak Brook, Ill., last year, Robert Lattas decided to refinance his mortgage to lock in a lower rate. Mr. Lattas, a real-estate attorney, expected the home's value to increase since he had pumped $200,000 into improving the property. To his shock, two appraisers told him the upgrades—which include hardwood floors and a new electronics system—had left the home's value unchanged. Because the appraisal didn't lower his loan-to-value ratio, and despite his high credit score, Mr. Lattas says he's going to end up with a mortgage rate that's a quarter of a point more expensive than the lowest rates available. "It's a lot of money when you're talking about a [big] mortgage," he says.

To protect themselves from a surprise appraisal, buyers and sellers can take some steps early on.

• **Buyers, add a contingency clause in the contract:** Include a statement in the contract that guarantees the buyer will receive the initial down payment back if the appraisal value is below the offer. That also leaves open the option of renegotiating or walking away from the deal without losing those funds.

• **Sellers, research county records:** Counties assess home values to help determine the property taxes a homeowner will pay. Appraisers take that assessment into account while determining a valuation for the home. It's possible that the county's figures could be wrong—and could be keeping buyers from purchasing the home. Daniel Fries, an Atlanta appraiser who specializes in luxury properties, says a client asked him to determine the value of his 50,000-square-foot property that was on the market for years. Mr. Fries says he found that the county had overvalued the property and assigned property taxes that were $50,000 more per year than the property's current value would warrant.

• **Sellers, consider cost vs. value:** The money owners pump into their homes in upgrades won't always be reflected in the appraised value. Upgrades that are highly customized—like a mermaid fountain or a recording studio—could lower a property's value. Northern Utah appraiser

Rick Lifferth says buyers typically offer 20% below the asking price of highly customized homes. Lower purchase prices work their way into comparable sales data, resulting in lower appraisal values.

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latimes.com/business/la-fi-new-subprime-20130129,0,741543.story

# latimes.com

## Housing advocates push for new type of subprime loan

### The Dignity Mortgage would have a higher rate for higher-risk borrowers but include rate cuts after five years of on-time payments.

By E. Scott Reckard, Los Angeles Times

5:53 PM PST, January 28, 2013

With home prices rising, interest rates falling and builders building, some prominent housing advocates are calling for a new kind of loan for buyers with lower incomes or bad credit.



They'd like to call it the Dignity Mortgage, but it has another name — one that's become more of an epithet since the housing crash: subprime.

Applicants might include people caught in the early stages of the mortgage meltdown who have since rebuilt their finances, said Faith Bautista, who heads the National Asian American Coalition.

"They lost their work, their homes and their credit scores four or five years ago," Bautista said.

Since then, she said, many have found new jobs and saved up enough for a 10% down payment. But they can't get a loan because lending standards remain tight — even for the Federal Housing Administration mortgages designed to help lower-income borrowers, Bautista said.

**Quiz: How much do you know about mortgages?**

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**FOR THE RECORD:**
"Dignity mortgage": In the Jan. 29 Business section, an article about a proposal for a new type of subprime loan whose supporters call it the Dignity Mortgage misspelled San Diego renter Obie Sibug's first name as Ollie.

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The proposal starts with the classic subprime trade-off: a higher rate for a higher-risk clientele. Borrowers would pay 1.25 percentage points above the going interest rate, maybe 4.75% if more creditworthy borrowers were paying 3.5%.

But the deal would get better if borrowers made timely payments for five years. At that point, the extra money they had paid in interest would be used to reduce the mortgage balance, and their rate would be cut to whatever borrowers with sterling credit and 20% down payments were charged at the time the loan was made.

Pattie Sibug of San Diego is among those who got caught short by the housing crash. By early 2010, the property improvement company she and her husband had owned for a dozen years had already seen its business fall off. Then a stream of work repairing foreclosed homes for a big bank dried up.

BID Construction wound up owing suppliers about $60,000 it could never fully repay, which ultimately ruined the couple's personal and business credit scores. "It was 585 the last time I checked," Sibug said of her score.

Sibug and her husband, Ollie, would like to buy the Scripps Ranch town house they are renting for $1,750 a month, and could come up with a 10% down payment. But they had to decline the owner's recent offer to sell because they knew they couldn't get financing.

"There's got to be some kind of program to help you reestablish yourself," Sibug said. "I'd be the first person in line if there was."

Situations like hers are why Bautista and other activists have been talking to bankers and regulators, proposing the new type of loan. Those activists include Bob Gnaizda, a longtime minority rights attorney who co-founded Berkeley's Greenlining Institute, and financial literacy activist John Bryant, whose Operation Hope — founded in South Los Angeles after the 1992 riots — now operates nationally and in South Africa and Haiti.

The proposal comes as home lenders remain besieged by demands that they pay billions of dollars in damages for defaulted housing-boom loans. Regulators have required banks to increase reserves against losses.

And the lenders also are evaluating new mortgage rules from the Consumer Financial Protection Bureau, which they say will determine how freely they can lend.

In reaction, many banks have imposed higher standards for writing new home loans than those required by the FHA or by Freddie Mac and Fannie Mae, the finance outfits that have kept the mortgage market afloat since the financial crisis — thanks to $137 billion in taxpayer assistance.

Edward J. Pinto, a former Fannie Mae chief credit officer who argues that lax FHA lending helped feed the foreclosure crisis in low-income neighborhoods, said the Dignity Mortgage proposal "is a stupid and crazy idea — a poison pill."

"Haven't we learned anything from the cratering of our housing finance market?" said Pinto, a resident fellow at the American Enterprise Institute, a free-market think tank.

Bank officials continue their soul-searching over the mortgage misdeeds of the past and the prospects of the business.

"By being overly aggressive, the entire housing system caused a great deal of damage to the very people we were trying to help attain homeownership," said Brian T. Moynihan, chief executive of Bank of America Corp.

That lesson has been especially painful for BofA, which has recorded more than $40 billion in mortgage-related losses since acquiring risky mortgage specialist Countrywide Financial Corp. of Calabasas, once the nation's largest home lender, in 2008.

"There are very real concerns that a too-high standard can lock some people out of homeownership — something we don't want," Moynihan said in a speech to a Brookings Institution housing forum last month.

"How do we make credit available but protect people from taking on too much risk and ending up in a home they can't afford? And how do we strike the right balance between prudent underwriting, responsible down payments and access to homeownership?" Moynihan asked.

Gnaizda and Bryant say the need for a new mortgage deal is apparent in Federal Reserve home lending statistics. In 2010, the latest year for which data are available, only 1 in 11 mortgages were made to low- to moderate-income families. Just 4% of home loans were made to African Americans, who make up 13% of the population, and 6% to Latinos, who represent 16%.

Their proposed new loan would be structured to avoid features that contributed to the subprime implosion six years ago, setting off a chain reaction that nearly caused the financial universe to melt down and dragged the economy into the worst downturn since the Great Depression.

No one would be allowed to merely state their income instead of providing pay stubs and tax returns. There would be none of the 100% financing that became prevalent during the boom — borrowers would need to put down at least 10% to get a loan, Bautista said.

The borrowers, who could have incomes no higher than 120% of the regional poverty level, also would be required to undergo extensive financial counseling to ensure that they could afford the home, even in the case of a temporary illness or job loss. They would be allowed to purchase only homes selling for 95% or less of the median price for the region.

"We want to encourage you to buy the home you need, not the home you may want," Gnaizda said. "I'm talking about 1,700-square-foot houses instead of 2,600 square feet."

The rub is that requiring Fannie and Freddie to purchase the loans may make the proposal truly more of a starting point for debate than a reality any time soon, observers say.

"From a political perspective, this seems like a non-starter," said Edward Mills, a policy expert at FBR Capital Markets. "No one in D.C. is voting to allow Fannie, Freddie or the FHA to take on more risk."

Representatives for the FHA and for the Federal Housing Finance Agency, which oversees Fannie and

Freddie, declined to comment. Officials at Bank of America, Wells Fargo & Co. and JPMorgan Chase & Co. either declined to comment or didn't respond to a request for comment.

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