Real Estate Digest

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The Year Ahead In Loans: Tightening Standards for Prime Loans as Subprimes Ready for a Comeback

Although "subprime" has become a dirty word in the country's collective lexicon, mortgage bankers say you can count on this: subprime shall return.

But the next generation of subprime mortgages – loans offered to homebuyers with less than sterling credit – will look much different than the loans issued during the height of the housing boom in the first half of the decade, mortgage professionals say.

"So long as we have a policy position in this country of maintaining or further increasing homeownership rates there is going to be subprime lending," said Mark Fleming, chief economist with First American CoreLogic, a provider of mortgage-risk management and fraud-protection technology.

Back to basics

As such, subprime mortgage products are slowly being redefined, he said. "There has been a shift back to basics across the entire mortgage lending spectrum, using more reasonable assessments of what buyers can afford," Fleming said.

People now need better credit scores and a larger down payment to get a mortgage, in addition to documenting their incomes and proving where they work, he pointed out.

The more stringent guidelines are important for another reason; for subprime products to come back to the market with any significance, it's necessary to first build up the confidence of those who invest in them, Fleming said.

How will the confidence be fully regained? For one: "We have to do a better job of making sure a high percentage of the loans aren't headed for default to begin with," Fleming said.

In the mortgage industry, expect to see a return in focus to the writing of quality loans – not just doing a large quantity of them, Fleming said. And perhaps part of the lender's mission should also be helping subprime borrowers graduate into prime loans, he added.

The big picture

Lawrence Yun, National Association of Realtors senior economist, said it's important to place the current housing market in perspective, and that 2007 will be the fifth-highest year on record for existing-home sales.

"Although sales are off from an unsustainable peak in 2005, there is a historically high level of home sales taking place. One out of 16 American households is buying a home this year. The speculative excesses have been removed from the market and home sales are returning to fundamentally healthy levels," said Yun.

Yun expects that the prime jumbo loan market could be the first to make a return to some kind of normalcy, but there is a long way to go before the nonconforming market follows suit.

Meanwhile, the good news is that some of that discipline is returning to the subprime market, as well as to the prime market, which serves homebuyers with generally good credit.

MARKETS

Top 10 Growing U.S. Markets

Why are certain metropolitan areas able to double and even triple the national population growth rate? After examining the Top 10 Growing Markets in the U.S., NuWire, a market research firm, discovered that each market owed its growth to a different and unique combination of economic factors, but there were similarities common to all.

Job growth was a key factor underlying the population growth of the Top 10 Growing Markets. Retiree and pre-retiree populations made up a significant portion of the growth in most of the markets, while young adults and children were also a substantial part of the growth in some of the markets.

Real estate in the Southwest is booming, with growth in almost every age group. A temperate climate, recreational and entertainment opportunities and an affordable cost of living and housing were advantages common to many of the Top 10 Growing Markets.

Some areas—particularly those in Texas and Georgia—experienced more growth in suburbs than in urban centers.

The Top 10 Growing Markets were selected based on the U.S. Census Bureau's population growth statistics for Metropolitan Statistical Areas (MSAs) with populations of at least one million people. The markets are ranked in order of percentage growth during the period from 2000 to 2006.

The Top 10 Growing Markets were:

1. Las Vegas, Nevada
2. Phoenix, Arizona
3. Riverside, California
4. Atlanta, Georgia
5. Orlando, Florida
6. Austin, Texas
7. Charlotte, North Carolina
8. Houston, Texas
9. Dallas, Texas
10. Sacramento, California

Web Site Dedicated To University Properties

A new national Web site network has been launched that focuses on properties around major college campuses. The site is recruiting brokers and agents with expertise in university properties to join the network.

The Web site is EduRealty.com. Its owner, agent Michael Reeder, says its purpose is to help parents and students find housing in this era of schools accepting ever higher numbers of students – often without adequate dorm space to house them.

EduRealty.com offers a network of more than 1,000 sites – each targeting a specific real estate market near a local college or university.

Foreclosure Crisis Going Global

A Scottish reporting agency says as many as 170,000 families are now struggling to meet their mortgage commitments and is forecasting that some 45,000 will be forced from their homes next year.

The estimates come as the global housing crisis spreads from the United States to the United Kingdom and even China, where hot markets have suddenly turned cold and overextended homeowners are unable to make payments.

Scotland's Council of Mortgage Lenders is forecasting that home prices will increase one percent next year and property sales will fall by 15 percent. The country's mortgage approval rate already has dropped to its lowest point in decades.

TRENDS

Company Offers "One Day Sale"

Department stores have them, why not real estate brokers? Taking a page from the retail industry, the Gloria Nilson GMAC Real Estate company is experimenting with a "One Day Sale" of listings that are guaranteed to have been reduced in price by five percent during the time of the sale. Homes in the sale will be opened from 1 to 4 p.m. and offers accepted until 6 p.m.

Americans Still On the Move

The Census Bureau is reporting that about 14 percent of the population – about 39.8 million people – moved between 2005 and 2006, about the same percent as moved the year before.

The Bureau report said:

- Nearly half of the reasons given for moving (18.4 million) were housing-related, such as wanting a bigger or smaller house.
- The West had the highest moving rate (16 percent), followed by the South (15 percent), the Midwest (13 percent) and the Northeast (10 percent).
- Hispanics had the highest moving rate (18 percent), followed by blacks (17 percent), Asians (14 percent) and non-Hispanic whites (12 percent).
- In 2006, nearly one-third (30 percent) of all people living in renter-occupied housing units lived elsewhere a year earlier. The moving rate for people living in owner-occupied housing units was seven percent.
- Most movers stayed within the same county (62 percent), while 20 percent moved from a different county within the same state; 14 percent moved from a different state and three percent moved from abroad.

Bad News for Sales Is Good News for Rentals

Bad news for the home-selling market is translating into good news in the rental sector, where a research firm is reporting the amount of rent being paid is up in 78 of the 79 markets it surveyed.

Not coincidently, according to commercial researcher Reis Inc., the largest increases in total amounts of rent paid were in the areas where sales prices had run up substantially. Rent payments were up 3.6 percent in New York City compared to the previous month, and in San Francisco by 3.4 percent.

Meanwhile, the National Multi Housing Council reports that rental occupancies continue to be high, as fewer renters appear to be leaving rentals in favor of buying homes.

Housing Jobs Being Eliminated

The downturn in the housing industry is taking its toll among builders and lenders. Mortgage insiders say the lending industry cut some 70,000 jobs last year and there may be as many as 40,000 more to go.

The National Association of Realtors, however, says its membership totals are holding up. At the end of September, NAR said it had 1.336 million members, a slight decline over the previous month but still about 9,000 higher than at the beginning of 2007.

ENVIRONMENT

Ratings Proliferate For Green Buyers

What makes a "green" home green? It depends on who is using the word. In the next several months, three nationwide certifications for environmentally friendly homes will be available to builders. But buyers may be confused by the array of standards.

In November 2007, the U.S. Green Building Council – a nonprofit that rates commercial buildings on things like energy use and indoor-air quality – introduced similar rating systems for people's homes. Builders can score points for things like solar panels and energy-efficient appliances, and earn ratings such as silver, gold or platinum for environmental friendliness.

The National Association of Homebuilders, a trade group whose members build about 80 percent of the country's new homes each year, say the Green Building Council's criteria for a "green" label are too impractical and costly. They are developing their own standards, which they say are flexible depending on the region and include easier-to-achieve certification in order to appeal to first-time buyers. A new draft will be available for public comment next month, and the standards should be finalized by February.

Yet another eco-friendly certification is available through the federal government's Energy Star program. Started in 1995, the program focuses on certifying homes that meet a standard on energy use. The current yardstick is at least 15 percent more efficient than homes built to the 2004 residential code. Homes that meet the standard usually have features such as extra insulation and energy-efficient appliances, and must be verified through independent home energy raters. States and local building associations, too, may have their own green building programs or guidelines.

Some builders say many of today's consumers would rather pay extra for luxuries such as granite countertops than for "green" features. But they believe that demand will grow in the future for green homes as energy prices stay high.

MORTGAGES

Mortgages to Illegal Immigrants Have Lower Default Rates

Mortgages offered to illegal aliens are seeing far fewer problems than subprime loans, and are even doing better than conventional mortgages, according to *The Wall Street Journal.*

Individual Taxpayer Identification Number (ITIN) loans are made to illegals who can prove they are creditworthy and pay taxes, although they are not legal residents. The newspaper said that while subprime mortgage have a 9.3 percent default rate and prime mortgages have a one percent default rate, the default rate on ITIN loans is only 0.5 percent.

LAW

DOJ Announces Record Fair Housing Enforcement Year

The Justice Department reports it conducted a record number of Fair Housing investigations in fiscal 2007, resulting in 30 lawsuits alleging discrimination and collecting more than $5 million in judgments for victims.

As part of its Operation Home Sweet Home, the DOJ said it conducted 20 percent more paired tests than in any year since the Fair Housing law was passed. It said it focused its investigations in areas that federal data showed to have experienced a significant volume of bias-related crimes, such as cross burnings or assaults on minorities.

Operation Home Sweet Home was initiated in February 2006 and was inspired by the plight of a large numbers of persons displaced by Hurricane Katrina, many of them minorities, who were seeking new housing.

Bankrupt Broker Allowed To Sell Listing Contracts

A federal judge has told the bankrupt Foxtons real estate company it may go ahead and sell its listing contracts to other companies. The company has indicated it wants to sell 3,400 of its New Jersey listings to Maplewood Homes of Rahway, N.J., and several hundred more listings in New York to Fillmore Real Estate. The price of the New Jersey listings was put at $100,000 and the New York listings reportedly cost $110,000.

The ruling defeats the efforts of about 30 individual homeowners who sued Foxtons to be released from their listing contracts so they could sign with other companies.

Oregon, California Lead On Laws Against Pressuring Appraisers

The state of Oregon may follow California's lead in prohibiting real estate professionals from pressuring appraisers to hit a specific number when appraising properties. The bill introduced in the Oregon Legislature calls for license revocations and even civil penalties for real estate agents and mortgage brokers who attempt to influence an appraiser valuation.

In California, appraisers are now forbidden from engaging in any appraisal that is connected to the purchase, sale, transfer, financing or development of property if their compensation is impacted by the final price generated by the appraisal.

According to the American Society of Appraisers, lender pressure is a major cause of faulty and fraudulent appraisals that often lead to homeowner defaults. The ASA says appraisers who have resisted the pressure often find themselves blacklisted or even not paid for their work. The ASA says the role of the appraiser is to protect the homebuyer and financial institution by giving an accurate appraisal of a property's value.

AGENTS' CORNER

Making Your E-Mail Subject a Success

A big part of successful email marketing is having a subject line that compels the recipient to open it. Not only is the subject line important, what the "from" line says is critical as well. Spend as much care on this part of your email as you do on the body, advises Susie Hale, president of FrogPond, an expert in online business communications.

"Most busy people only see the 'from' and 'subject' lines of an individual email in their inbox and it is from what those say that they decide whether or not to open a message. No matter how great the offer is inside the email, it takes getting it opened to make it work," says Hale.

Here are seven tips for fabulous "froms" and sensational "subjects":

- Include your company name or brand in the from line.
- Make sure your subject line is the right length (5-8 words, 40 characters including spaces).
- Avoid leading articles like "a" and "the" in the subject. Make the first word important and carry information.
- Incorporate a specific benefit in the subject line.
- Create a sense of urgency with your subject line so it will get opened now.
- Send yourself the proposed email with nothing more than the from and subject lines to test it out.
- Track what works.

Judicial Title

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