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CAPITOL ASSETS

America's Real Estate & Mortgage Update

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SPRING MARKET 2017 REPORT

The spring homebuying season is shaping up to be one of the most robust in recent years, if we can overcome the pesky problem of not enough homes to sell. Fueling the spring market is an improving economy, reasonable mortgage interest rates and powerful pent up demand, especially from first-time homebuyers who feel they have been putting off their ownership desires for too long and will wait no longer.

But too few homes for sale ***is*** the biggest problem right now. Unfortunately, this issue of depressed inventory levels, which has been plaguing us for several years, is continuing in the spring 2017 housing market. In fact, right now it probably is as challenging as it has been at any time in this housing cycle.

A balanced market is six months' worth of inventory and we had just 3.8 months' supply in February. That was an uptick from the puny 3.5 months in January, perhaps a hopeful sign, but last year the February inventory level was 4.4 months.

Not surprisingly, home sales were off a bit in February from January's fastest-in-a-decade pace. Still, despite inventory levels that were lower this year, sales exceeded February 2016's level. Buyers are quickly pouncing on the few homes that are for sale.

So what we would say is that home sellers have rarely had it so good as they do this spring. Buyer foot traffic has been strong and often results in an offer within weeks, if not days, of coming on the market. Properties stayed on the market for 45 days in February on average, but over 40% of those that sold had been on the market for less than a month.

Home sellers have rarely had it so good as they do this spring.

Obviously, what is such a favorable environment for home sellers is less so for buyers. Home buyers will find the conditions more difficult, but the challenges are not insurmountable.

The National Association of Realtors recommends that spring buyers fine tune their preparation regimen. Get a lender preapproval, firm up your budget and get an early start defining your wants and needs with your Realtor.

Realize that what appeals to you will likely also appeal to other buyers, so be prepared to act swiftly when that home

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is finally located.

As we view the sales numbers over the next couple of months, realize that there was a period of warmer winter weather that may have brought out some spring buyers earlier than expected.

Conversely, a late winter storm surely sent some scurrying back to their warm nests when they would otherwise have been out house-shopping.

So month-to-month numbers may be slightly skewed early on here, but they will normalize eventually. Don't panic or exhult over any one-month dip or surge that you hear about.

Home prices are expected to keep going up this spring. The continued low inventory levels won't do anything to curtail the march higher that prices have been taking.

Real estate analytics firm CoreLogic reported that, year-over-year, home prices rose 6.9% nationwide, from January 2016 to January 2017.

The National Association of Realtors median existing home price measure showed even stronger gains for the year ending in February, showing a rise of 7.7%.

For the year ahead, to January 2018, CoreLogic, which updates its predictions every month, projects that prices will increase 4.8%. However, CoreLogic's price forecasts have significantly underestimated increases in recent years, as have those of most other forecasters.

Unfortunately, in many markets, first-time homebuyers will be especially challenged by the sparse number of listings in their price range. That will put pressure on prices for a segment of the market that has already had difficulty with affordability and financing issues.

First-time homebuyers, though, should be seeing more houses in their price range in new-home communities. Home builders are starting to respond more actively to the entry-level home shortage.

Buyers toward the upper end of the market should fare better, in general, than the first-timers, with a bit larger supply available relative to the number of active home shoppers, except in some of the most prized areas.

Too, builders have been catering to upscale moveup purchasers in the last few years and are still offering up much of their new construction for them.

The tight inventory conditions this spring are already spawning tales of bidding wars for existing homes, multiple backup contracts and, in general, frazzeled buyers.

Sellers, despite the favorable conditions and paucity of competition in their neighborhoods due to the depressed inventory situation, should be prepared to exercise some restraint.

The sky is never the limit when it comes to house prices (as we have seen) and we fear that appraisers may start putting the brakes on home price increases, if they are not doing so already.

Should you, as either a buyer or seller, worry about facing appraisal issues, see page 4 for some counsel on how to deal with them.

While incomes are rising, home prices are rising faster, a condition that is unsustainable long term. If mortgage rates resume their climb, affordability will be further eroded, the buyer pool will shrink and price gains will slow.

For now, though, sensibly priced homes this spring will continue to attract buyers, sometimes multiple buyers that can take a selling price higher, while over-priced homes may go without a visit.

BE CAUTIOUS WHEN BUYING A "FLIP"

One of the hottest genres in TV is the flip/home makeover. How can you not be amazed by how a dowdy older house is transformed into a ultra-desirable home worth thousands more than the cost of the improvements that were made?

Most of us wonder whether we couldn't do the same and usually conclude that we just don't have the time and/or expertise to do so.

Of course, were you determined to take on the challenge of a home that needs some renovation, the excellent and often overlooked FHA 203k program can provide the financing.

However, you might just want to purchase a home that has already had some remodeling work done. If it is being resold in a relatively short period of time, a classic flip is within twelve months, you should take several steps to be on the safe side.

The professionalism and thoroughness of the TV show renovators (even some of them have suffered reputational dings) is not always duplicated in real life.

Sadly, though, sometimes expediency overcomes scrupulousness, with cosmetic changes taking precedence over more vital structural ones.

To be safe, you and your Realtor partner should endeavor to get as much information as possible about the improvements the flippers made.

Ask for a list of the work done. An owner proud of the effort and expense that went into the final result should be happy to provide it.

Especially, make sure that the proper permits were obtained and that required inspections and approvals were completed.

Ironically, a flip that has had work done and appears pristine and perfect may warrant a home inspection every bit as much as a home whose faults are more visible.

Think twice before allowing yourself to be seduced and stampeded into purchasing a seemingly faultless flip even if the market is tight. We're not saying don't do it, but be aware of the risks and minimize them where you can.

APPRAISALS *continued from page 4*

Low appraisals are not just a theoretical drag on the housing market, they are a threat to transactions with which both buyer and seller are satisfied.

A low appraisal that sticks will either require the borrower to put up more downpayment cash or a seller to lower the contract price, either of which changes the dynamics of the transaction.

So, what if you find the home or receive an offer that you are happy with, negotiate what you feel is a fair price and then learn that the appraisal has come in low? What are the options, other than renegotiating the price?

If you are a buyer in a area that has low inventory and a competitive market, you might start before the appraisal by seeking out a lender who has done a large volume of business there.

Those lenders are typically in a better position to get the most accurate valuations because they will have appraisers in their rotation who have more experience there.

For sellers and their Realtors, prep work is important. If evidence is available that would support a higher valuation, such as receipts for major home improvement work, provide copies and explain how these raise the value.

Extra square footage in the form of an addition, finished space in the base-ment, recent updating of appliances, fireplaces, decks etc. are examples of things that might be missed.

Your Realtor should be present for the appraiser's visit, if possible, to answer questions (jawboning the appraiser is not allowed, though).

What other steps might be taken in the event of a low appraisal?

(1) Once the appraisal has been filed, a seller will want to review it for obvious omissions or mistakes.

This is especially true if there were recent, closed sales that were missed. Appraisers won't give weight to homes that are under contract, since their appraisals might have issues, too, and never close.

(2) The buyer could ask for a review of the appraisal by a supervisor.

Especially if you feel that you have documentation to support your value claim, a fresh set of eyes may view things in a more positive light. Be professional with the request to keep the disagreement from getting personal.

(3) Pay for a second appraisal.

You can't just hire another appraiser. You will have to work with the lender to make sure that the new appraiser is acceptable to them.

(4) Buyers and sellers should keep their communication lines open.

Buyers should keep the seller informed of appraisal issues. Both parties in the transaction need to be willing to explore possibilities for a compromise. Absent obvious flaws in the appraisal, a seller may have to be resigned to the fact that having a different buyer may not yield any better result.

(5) The buyer could consider seeking another lender if the appraiser/lender will not change the valuation.

Your Realtor can help you assess what your chances might be with an appraisal from another company. Sometimes appraisers can be unyielding, even in the face of compelling evidence.

(6) Finally, a buyer can ask for a release from the contract and for a return of their good faith deposit.

If the appraised value can't be raised, if a compromise can't be reached (you don't have any extra funds and the seller can't lower the price) and all other options have been explored, that may be the only alternative.

However, let us emphasize again the importance of you and your Realtor keeping communication open and all parties informed and involved to provide every chance to find a work-able solution to any appraisal roadblock.

SPRING *continued from page 4*

Those with a few credit dings or other qualification issues, such as debt-to-income ratios on the high side, will have to pay up a tad.

With mortgage rates higher than at almost any time during 2016, refinances have taken a dive this year.

However, there is one justification for a refinance, even at slightly higher rates: replacing an FHA mortgage with a conventional one. If the homeowner has accumulated enough equity, they can move to a conventional loan and dump their FHA mortgage insurance.

Gift Funds for FHA Borrowers

Down payments are often the biggest hurdle for first-time homebuyers. That is why FHA is the choice for so many of them.

FHA requires that the home purchaser pay at least 3.5% of the purchase price (or appraised value, whichever is less) toward the downpayment along with the buyer-paid closing costs. Many first-time buyers who have done a little studying may know that.

However, what many may not know is that funds toward that 3.5% can come as a gift (there must be no expectation of repayment) from a number of sources, including family members, a borrower's employer or labor union, a close friend, or a charitable organization.

Many other mortgage programs require the borrower to show that they are the source for all of their downpayment.

Did you know that you can also borrow the money for the downpayment in some cases? Most notable are a loan against your 401(k) account or a loan on the cash value of a life insurance policy. Unacceptable borrowed funds include cash advances on credit cards or other unsecured loans.

Other places where that 3.5% cannot come are from a seller (builders included), a real estate agent or some entity associated in some way with the transaction.

MORTGAGE RATES ARE CREEPING UP FOR SPRING

Spring homebuyers are starting to face mortgage rates that have been creeping up recently. At the end of March, lenders were offering 30-year fixed-rate conforming mortgages around 4.25% about 1/2 of a percentage point higher than the same time in 2016.

A perceptible improvement in the economy is one reason that rates have moved up. That gave the Federal Reserve the confidence to raise short-term interest rates by 1/4 percentage point in March. They also strongly suggested that a couple of more increases could be coming in 2017.

On the positive side, the markets appear to feel good about the Fed's ability to keep inflation in check. Mortgage and other interest rates backed off their 2017 highs near 4 1/2% following the Fed's rate-hike statement.

Markets perceive that they are in tune with the Fed about the future of rates and feel comfortable with their read on the future.

If we are able to hold steady at the current level of mortgage rates, buyers should have a good spring, at least insofar as the cost of their mortgages are concerned.

For those who want a speedier loan payoff, 15-year mortgages were around 3 1/2 % in late March. Adjustable rate mortgages that are fixed for 5 years were anywhere between 2 3/4% and 3 1/4%, showing how much purchasers can benefit for shopping rates if that loan option is their choice.

All of the above rates are for borrowers with the best credit profiles and scores.

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COPING WITH A LOW APPRAISAL

Low inventories of existing homes have been squeezing prices higher in a number of tight metro housing markets. We hope that appraisals this spring recognize that it is very strong buyer demand which is fueling that reality.

We haven't yet seen widespread complaints about appraisals that fall short of contracted sales prices and fail to reflect true market values. But we are keeping a watchful eye.

Appraisers tend to get defensive when Realtors, mortgage specialists and consumers complain about appraisals. Appraisers say they should not be expected to simply ratify a contract price. That is a fair argument.

But sometimes appraisers deserve to be on the defensive. After all, it is willing homebuyers and sellers who ultimately establish value. Appraisers should simply reflect it. Sometimes we don't see that being done.

When a home receives multiple offers and the appraiser knocks the value down from even the lowest contract price, there is clearly something wrong with the process. Legitimate price gains are denied when appraisers don't respect the dynamics of a market.

There is no independent arbiter of value other than the market, unless you want to rely on a calculation of the cost to rebuild a home. Even then, you will have the value of the land to judge.

Builders will tell you that one of their operational difficulties in recent years has been appraisals that have come back too low.

One issue that has been less of a problem lately is the inclusion of foreclosures as comparable sales even when they are demonstrably **not** comparable. Luckily, in most communities foreclosures are rare, so we are seeing few used in appraisals these days.

APPRAISALS *continued on page 3*

CREDIT SCORES TO RISE

Perhaps as many as 12 million consumers could see their credit scores rise as much as 40 points after July 1, according to *The Wall Street Journal's* calculation. The higher scores will be the result of certain information being deleted from their credit reports.

The three major credit agencies, Equifax, Experian and TransUnion will be removing certain civil debts and tax liens from credit files in response to criticism from the Consumer Financial Protection Bureau about their quality control.

The Bureau said that the agencies failed to conduct adequate investigations when consumers disputed a item in their credit report. An accurate credit report is vital in obtaining the best credit score.

Many consumers had complained that after having disputed an item on their credit report, nothing would change. Federal law requires that credit report companies conduct a reasonable reinvestigation of the disputed item and update the consumer's file with the findings.

The chief consumer complaints about report errors are that debts already paid as well as negative information about debts that are not theirs have shown up in the reports.

The agencies agreed to implement improved standards for the public record information included in their consumer databases. They are also now dedicating more resources to handling disputes, taking corrective action more reliably and notifying consumers of the results.

The average credit score for FHA borrowers in the fourth quarter of 2016 was 678, while the average score for non-FHA borrowers was 747. Score boosts could help millions of consumers qualify for a home mortgage or obtain a mortgage for a significantly lower cost.