CrossRoad Associates
The Right Direction For Real Estate
703.564.4088
www.TeamCRA.com

Direct: 703-564-4088
Toll Free: 1-800-209-4336
Email: Kwteamcra@gmail.com

KW Keller Williams Realty Crossroad Associates

Each office independently owned and operated.

8133 Leesburg Pike, Suite 800
Vienna, VA 22182

CAPITOL ASSETS

America's Real Estate & Mortgage Update

Equal Housing Opportunity · Realtor

Volume XXIX Issue V

THE 2017 HOUSING MARKET PREVIEW

The housing market's multi-year recovery was extended in 2016 and home prices are starting to set new all-time highs, nationally. Will the rebound have more legs this year? Well, consumer confidence is at a 15-year high and the economy is showing surprising strength. So the answer is "yes,"so long as mortgage rates stay reasonably under control.

If we are lucky, the bump of about 3/4 of a percentage point after the election to about 4.3% will represent the largest surge in 30 year mortgage rates that we'll see for the next twelve months. Most economists think so. Here's hoping they're correct.

Let's take a moment to review just where home sales stand as we start the new year. According to the National Association of Realtors, existing home sales in November were at an annual rate of 5.61 million, which was the fastest pace since 2007 and more than 15% above 2015's rate.

Because homes are getting sold at an increasingly brisk pace, nationwide, individual home sellers are getting their properties sold faster than a year ago. Homes were on the market for just 43 days on average in November, down substantially from the 54-day average for that month in 2015.

The reason for the shorter time-on-market is due to what has been a persistent issue for homebuyers: low inventory. In November there was only a four-month supply of homes. Six months is considered balanced.

Along with sales, home prices continued their upswing last year. The NAR reports that the median existing home price had been higher year-over-year for 57 months straight through November, a month in which it was 6.8% higher than in November 2015.

Nationwide, individual home sellers are getting their properties sold faster than a year ago.

Median prices reflect the mix of homes sold, so they are not always the best reflection of individual home values. However, real estate analytics firm CoreLogic, which tracks repeat sales of single-family attached and detached homes, a different price measure, reported similar gains, 6.7% year-over-year in October. That seems to confirm what the median home price numbers have been telling us.

PREVIEW *continued on page 2*

IN THIS ISSUE:

"*CAPITOL ASSETS* is published monthly by Real Estate Insight, LLC, Edisto Island, South Carolina, which is solely responsible for its content. The information contained therein has been carefully written and edited, but its accuracy is not guaranteed. If anything is not clearly understood, please consult your real estate professional."

PREVIEW *continued from page 1*

Looking ahead, CoreLogic's prediction for the year ending in October 2017 is for appreciation to slow to 4.6%.

Understand, though, that CoreLogic has been too pessimistic in recent years. It predicted price gains of just over 5%, for 2016.

One rationale for the slowdown in price appreciation is that as rates climb higher some potential buyers will get priced out of the homes they have been eyeing, reducing the buyer pool.

One recent survey of potential homebuyers found that, for two-thirds, mortgages rates are an important factor. That shouldn't be too surprising.

Fortunately, even if rates rise more, only about 7.5% said they would put off buying entirely. The biggest group, 46%, said they would just look for a less expensive home.

For now, though, if you are a seller in a community where listings are sparse, you will be in a strong position. Be aware, though, that buyers' resistance may start to stiffen if higher mortgage rates do start to stretch their budgets.

Outlook for mortgage rates

So if mortgage rates are going to play a vital role in the outlook for 2017 home sales, what is the future for rates? Well, forecasting interest rates is a dicey business, but here is what we can report.

First, a little recent history. Rates for the 30-year fixed-rate mortgage were below 4% for 2016 until after the election. Then, after the election through the end of December they shot up roughly 3/4 of a percentage point.

There is almost universal agreement among economic forecasters that they will be higher in 2017 and that we are not likely to see rates in the threes next year. But how much higher?

The Federal Reserve will have something to say about that. After holding short-term rates steady for almost all of 2016, the Federal Reserve felt confident enough about the state of the economy to raise rates in December, the first hike since December 2015.

The increase was a modest one, a mere 0.25% increase in its target rate for short-term borrowings. The Fed has hinted that three more such increases may be in prospect for 2017.

Not everyone is buying that scenario. For its part, Fannie Mae said it expects two hikes in 2017. Most predictions are for, at most, three or four minimal (0.25%) Fed rate increases this year.

With that in mind, the National Association of Realtors, along with most other forecasters, see 30-year mortgage rates averaging about 4.5% this year, figuring that the market has largely already priced in the Fed moves.

Most housing market experts don't see rates at that level having a major impact on home sales. Remember, the interest rate is only one portion of the cost of a home mortgage payment.

Insurance and property tax escrows won't change, no matter the interest rate. And other costs of homeownership, such as utilities and maintenance, will also be unaffected

That said, the psychology of higher rates could prove to be a hurdle for some buyers. A few are reportedly already having trouble digesting rates in the low four percent range, having seen them in the threes just a couple of months earlier. These home shoppers may need an adjustment period.

One thing that could happen if mortgage rates climb is that the number of existing homes available for sale may shrink, as would-be home sellers decide that keeping their cushy low-rate mortgage is more important than making the move they had been contemplating.

Will there be a first-time buyer surge?

Will there be a surge of first-time homebuyers in 2017 that will put sellers of entry-level homes in a particularly strong position? First-time homebuyers have not been as big a factor in the market for homes that demographics might have suggested.

Many Millennial and Gen-X generation renters have finally been getting the ownership craving. If they finally get motivated, watch out! There is hope that 2017 will be "the year of the first-time homebuyer" many have been waiting for.

Winter is a fine time to buy/sell

By the way, if you're looking forward to listing your home for sale this spring, why wait? Many think of the winter months as a suboptimal time to sell a home, but statistics suggest that it can actually be a very good season for sellers.

Seasonal statistics show that listing in December through March gives you a better chance of getting an offer above the listing price than if you list from June through November. April and May do remain the most favorable months.

Why do winter listings do so well? Because buyers at this time of the year are usually highly motivated and may need to make a quick decision.

This year, the desire to get in a sale or purchase ahead of any further 2017 mortgage rate increases will be another substantial motivating factor.

Work to minimize mortgage delays

Whether you are a serial homebuyer or a first-timer, you will likely not have experience with the "Know Before Your Owe" mortgage disclosure rules.

Be aware that the rules have several tripwires that can delay a closing. Make sure you work closely with your mortgage specialist to see that any potential missteps are avoided.

What are some things you can do to minimize risk of a delay? Choose a loan product and stick with it. Let your lender know in plenty of time what title/settlement company you want to use.

Keep an eye on your email. And review your closing disclosure carefully when you get it three days prior to settlement.

LANDSCAPE *continued from page 4*

All but 87 U.S. counties or their equivalent will be seeing higher limits in 2017. No counties are facing lower limits.

Check with your Realtor or mortgage specialist for information about your area's limits.

FHA, which has been the choice of first-time homebuyers, will also have an increased maximum loan amount. With an FHA mortgage, a downpayment of as little as 3.5% of the purchase price is required, and the funds can come as a gift from a family member, employer, non profit institution or government grant.

For 2017, FHA is able to insure to a maximum loan amount of $275,665 anywhere in the U.S. and to $636,150 in high-cost areas. Some 2,948 counties will see their FHA loan limit rise for 2017, while 286 counties will see the maximum loan amount remain unchanged.

VA loans, for veterans and qualifying reservists, National Guard members and military spouses, are available thoroughout the U.S. for those who have full eligibility in amounts up to the $424,100 conforming limit without a downpayment.

Like FHA, Fannie & Freddie, though, the VA has special limits for high-cost metro areas. The 2017 limits cap VA loans in high-cost metro areas at the same $636,150 as Fannie and Freddie.

The way that VA mortgages work is that the VA provides a guarantee equal to 25% of the loan amount. Many lenders will do larger VA loans if the veteran is able to put down 25% of the excess above the limit.

Jumbo mortgages that exceed the conforming or high-cost limits are widely available for those with the best credit and/or higher downpayments.

To find the best jumbo rates or terms, shopping is required. Most jumbos are proprietary portfolio loans that are held on lenders' books, so their loan rates and standards will vary.

WATCH *continued from page 4*

keep mortgage payments low for a fixed period of time, so one can be quite useful if a sale of the home is possible sooner, rather than later, or if a purchaser expects his or her income to climb significantly.

A 15-year mortgage can be a great option for those who want to get out from under a mortgage as quickly as possible. Those for whom the least expensive mortgage option is not a priority or necessity will get a lower interest rate and may find a quick paydown the best use of their money.

Technology revolutionizes mortgages

The first comprehensive eClosing, with all lender and settlement documentation in digital form was completed in late 2016. Expect more to come in 2017 as the mortgage industry adopts more efficient technology to transact business.

Don't worry, paper closings will still be the rule, rather than the exception for now, so the technology averse will not be forced into the paperless universe, yet. But vendors of technologies supporting the mortgage industry are excited about their new offerings and lenders increasingly are as well.

Appraisers, too, have new technologies, such as mobile inspection applications. The new apps can help them better and more quickly assess the value of properties, expediting a function that is often a bottleneck in the mortgage approval process.

The new e-processes should make applying and securing a mortgage easier and more transparent for homebuyers and refinancers in the days and years ahead. Lenders are excited about how these innovations can improve the borrow experience.

Will post-HARP options be created?

The Home Affordable Refinance Program, which has helped over three million Americans refinance their homes, is currently scheduled to expire September 30, 2017. The program has allowed homeowners who owe more than the value of their homes to refi.

To qualify for HARP, the mortgage must:

Have been sold to Fannie or Freddie on or before May 31, 2009; have a current loan-to-value ratio greater than 80% (otherwise it would qualify for a regular refi); and be refinanced to a more stable loan, such as from an ARM to a fixed-rate loan or from one fixed-rate loan to another fixed that lowers the payment.

A homeowner must be current, with no late payments in the preceding six months and no more than one over the prior twelve months, so some may only now meet this requirement. Find out more at **makinghomeaffordable.gov**.

A more targeted program for high loan-to-value borrowers is supposed to be put in place after HARP expires, but we'll have to see what the new administration wants to do.

Understand a reverse mortgage

America's seniors 62 and over are in possession of a record amount of home equity, making reverse mortgages an interesting retirement option.

Seniors need to better understand reverse mortgages, as well as their other options for accessing their home equity. For one thing, reverse mortgages can be costly, so selling the home is often a better alternative for older homeowners.

The Consumer Financial Protection Bureau recently settled with several reverse mortgage lenders over advertising that suggested homeowners could not lose their homes with a reverse mortgage or have monthly payments.

The CFPB emphasizes that consumers must still make payments for property taxes and insurance and must pay for maintenance of their property. If they fail to do these, they could be in default of the loan terms and lose the home.

An insufficiently appreciated wrinkle in the reverse mortgage program is that it can be used by seniors to purchase a home and avoid having a new mortgage.

THE 2017 MORTGAGE LANDSCAPE

Mortgage lenders, in general, continued to slowly ease their lending standards in 2016 and that trend is expected to continue in 2017. Are we back to pre-crash laxity? Not even close. Nor would we want to be.

But mortgages continue to be easier to obtain than many would-be homebuyers seem to think. Excessively negative news stories has kept many potential homebuyers on the sidelines, reinforcing their pessimism about qualifying for a mortgage. Aspiring homeowners should find a mortgage specialist to consult rather than assuming the worst.

One area of improvement we can point to is that the more strict standards that individual lenders had overlain atop the nominal rules of Fannie Mae, Freddie Mac, FHA, VA, etc. has continued to erode. Most lenders have dropped them altogether or maintain slender ones.

That is typically what happens when the economy is improving and lenders are competing hard for business.

However, rising rates are likely to shut the refi spigot as the year progresses (procrastinating refinancers should take heed and get an application going right away!), so lenders will need to be working even harder for their remaining source of business: home purchasers.

One big change for 2017 is in the maximum loan amounts available with the various major mortgage programs.

For the first time since 2006, Fannie Mae's and Freddie Mac's conforming loan limit (maximum loan amount) is rising, from $417,000 to $424,100.

Both Fannie & Freddie's maximums for their special programs for high-cost areas will be rising, to $636,150 for the 48 contiguous states.

LANDSCAPE *continued on page 3*

THE HOUSING WATCH LIST FOR 2017

Here are some issues that we will be keeping an eye on in 2017.

Building remains below peak levels

Homebuilders in 2016 constructed the most new homes since the recession. However, the volume of new homes being built, especially single family homes and townhomes, still remains way below pre-2008 levels and is inadequate to meet the long-term need for houses.

Homebuilder confidence has risen, but hasn't even translated to production levels equal to those during the 1981 and 1991 recessions. The lack of new-home building remains a plus for sellers of existing homes as the home construction pace will likely remain depressed in 2017.

FICO is losing dominance

Credit scores provided by FICO, Inc. have ruled the mortgage lending business as a way of judging credit risk. However, lenders are starting to look at other measures, including the competing VantageScore and companies that are attempting to use online behavior to weight credit risk.

The days of a FICO score being the dominant metric for judging creditworthiness may be coming to an end.

Mortgage options are worth a look

With 30-year fixed-rate mortgages headed higher in 2017, it may be worth your while to consider an adjustable rate mortgage if you have a short time horizon. A 15-year mortgage might be another viable alternative for some.

Homebuyers (and refinancers) who expect to stay in the home for a considerable period of time are probably still best served by a fixed-rate mortgage, with rates expected to climb and stay higher in the years ahead.

However, an ARM is a good way to

WATCH *continued on page 3*

TWO KEY TAX RULES ARE IN DOUBT FOR 2017

Real estate related tax rules at large are sure to get a close look in the new Congress. With comprehensive tax reform high on the agenda of congressional leaders, all of the provisions affecting real estate will be closely scrutinized.

However, two key provisions that expired at the end of 2016 are of particular concern and their renewal would require affirmative action.

Most important is a provision that allows homeowners to treat mortgage insurance premiums the same as interest.

The deduction applies to mortgage insurance premiums paid or accrued, including for prepaid MI, on acquisition debt. The deduction phases out for single and marrieds filing joint returns who have adjustable gross incomes over $100,000.

Should Congress modify the deductibility of mortgage interest, this provision could be altered, as well, or simply not extended.

The other provision is one that limits the federal tax liability from certain foreclosures, short sales or mortgage restructurings.

When a lender discharges a debt, for whatever reason, the amount is usually treated as taxable income.

The temporary exception has applied to up to $2 million of debt incurred to purchase a principal residence or from a cash-out refi or home equity line if it was incurred for the purpose of improving the home.

Sales that close in 2017 will also be accorded the special treatment if a binding contract was signed in 2016.

We would be surprised to see this provision extended again, as it was originally designed as a temporary response to the housing recession.