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CAPITOL ASSETS

America's Real Estate & Mortgage Update

EQUAL HOUSING OPPORTUNITY · REALTOR®

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FINANCING AMERICA'S HOMES, 2017

If you had asked a swarm of economists in January what direction they anticipated interest rates moving in 2017, we would have seen a consensus, perhaps even unanimity, that the trend would be up. However, nervousness about unexpectedly weaker economic conditions, international turmoil and a host of other unforeseen circumstances can wreak havoc on the pat scenarios spun by predictors. That is exactly what we have seen going into May.

In April, mortgage rates hit a low for the year, confounding many market predictions and showering spring buyers with a bounty of unexpectedly low rates. The 30-year fixed-rate conforming mortgage fell for five consecutive weeks to the third week of April, when it actually dropped below 4% for the first time in 2017 (it has bounced a bit since), according to Freddie Mac's weekly survey. Not since November had it been that low.

Understand, the historical seasonal pattern has been for mortgage rates to rise in the spring as home sales and demand for mortgages pick up steam. The deviation from the seasonal norm was a very happy surprise for spring homebuyers and one of which every mortgage payment for the next five, ten, even thirty years will remind them of their good fortune!

The low rates have worked wonders on the spring market. Existing home sales in March were at the fastest pace since February 2007, despite the challenge posed by the low levels of homes for sale. Many Realtors agree that this spring has been the best seller's market ever!

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For homebuyers, though, it has been a challenge. The National Association of Realtors described the job of finding a home under the low inventory conditions as a "strenuous task." Fortunately, it is clearly an assignment that many determined spring buyers have been up to.

First-time homebuyers will need to be especially patient, though, as that's the particular segment of the market where competition is stiffest and inventories leanest. Don't get frustrated, NAR counsels aspiring first-timers, the right home will come along eventually.

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There was a very slight increase in the number of homes coming onto the market as spring began, but the quickening sales pace rapidly soaked up the inflow.

As a result, the month's-supply calculation remained flat at a meagre 3.8 months from February to March. That is *waaay* below the 6-months supply of a balanced market.

The NAR reported that, as a result, the average time a home spent on the market was a phenomenal 34 days in March, down from 45 days in February and 47 days in March 2016.

As you might expect with the combination of strong demand and low supply, home prices have continued to climb this spring. The median existing home price in March was up 6.8% over that of Mach 2016, the 61st consecutive month of year-over-year price gains.

The steady march of home price gains will eventually turn off, if not financially shut out, homebuyers if the increases continue at the current pace. However, for now, buyers are charging ahead.

Prepare for an appraisal shortfall

As we had feared, appraisers have done their best to hold down the price gains, sticking an axe handle in the spokes of many a transaction. They are looking at history, while buyers and sellers are looking at the urgent present, so the two sides are often not eye-to-eye.

With many of the best homes getting multiple contracts, buyers need to know how they are going to handle an appraisal shortfall should one occur.

Being prepared to add extra cash and dropping contingencies can help save a purchase, especially if there are buyers with competing offers salivating at the chance to step up and take your place.

We hope potential home sellers are paying attention to how good the selling environment is right now. While we could see more of the same all year, we shouldn't take that for granted.

TRENDING NOW: TRENDED DATA

Lenders are always looking for ways to lower their risk while not excluding creditworthy borrowers. One of the newer tweaks in evaluating creditworthiness is by using "trended credit data."

Trended credit data is using data on a consumer's credit lines over a period of time, looking at such items as the amount owed, minimum payment due and the amount of the payment made.

Since last September, Fannie Mae has been using trended credit data. Fannie has been looking at data points on consumers' reports generated over a 24-month period.

Fannie Mae believes looking at a consumer's payment and balance history enables it to better see how consumers have managed their credit accounts over time, and, thus, to better predict future behavior and assess risk.

Trended data helps understand what kind of a spender you are and identify changes in your credit behavior over time, such as revealing trends in your credit utilization rate.

Here is an example of how trended data can distinguish between two consumers who might otherwise seem to have identical credit histories. Do you see yourself as one of these?

One consumer shows a large credit card balance, but pays in full every month (a "transactor"). That person is likely a much better credit risk than one who maintains a large card balance, but only makes the minimum payment required (a "revolver"). Even more risky would be if the latter is adding monthly to their debt balances.

The principle of trended credit data recently got a boost when the three major credit agencies announced that their VantageScore credit scoring model will have a new version this fall that uses trended data. VantageScore has not been widely adopted by mortgage lenders, however.

Right now, Fannie is pretty much alone in its use of trended credit data for mortgage underwriting. Freddie Mac, FHA, VA and most private lenders still rely predominately on credit scores, which are a snapshot of your creditworthiness at a point in time.

Fed moving forward with higher rates

Right now market forces have been more influential in determing mortgage rates than the Federal Reserve. The Fed will likely be a bigger factor as the year progress, though.

The Fed raised short-term interest rates by .0025% in December and again in March. Expectations are for a couple more hikes later this year of the same size.

The Fed's increases likely won't feed directly into mortgage rates, though. Mortgages move more in synch with 10-year Treasury notes, which risk-averse investors have been snapping up in quantity recently.

Fannie Mae predicts that the 30-year fixed-rate mortgage will be 4.3% by the end of the year. Freddie Mac's forecast is for 30-year rates at 4.5%.

Float with care, if at all

With interest rates once again near historic lows, there is just not much reason for mortgage applicants to float their rate more than necessary to carry themselves to their closing date.

There is simply way more room for rates to jump higher should some unforeseen event occur than for additional price improvement.

However, when you apply for your mortgage, whether on a purchase or a refinance, be sure to ask your mortgage advisor about the lender's lock policy.

Some lenders will allow a "float down" from the original rate in certain circumstances. If you originally locked during an upward spike, you may be able to save a few dollars by relocking lower. No sense not trying to save if you can.

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FHA can insure to a maximum loan amount of $275,665 anywhere in the U.S. and to $636,100 in high-cost areas, the same as for Fannie and Freddie.

Each year, FHA recalculates its loan limits based on 115 % of the median house price in the area. Some 2,948 counties saw the maximum FHA loan rise for 2017!

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.

FHA borrowers pay 1.75% of the loan amount as an upfront mortgage insurance premium. The seller is permitted to pay this or it can be rolled over into the loan.

There is also a monthly premium. The premium 0.80% for downpayments on 30-year loans with 5% or more down. With less than 5% down, the premium is 0.85%.

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

VA loans in the highest-cost metro areas are capped at $636,150, just like with Fannie, Freddie and FHA. Lenders will do larger VA loans if you put down 25% of the excess above the limit.

All of these guarantors of mortgages have standards that must be applied to borrowers by any lender originating a loan with one of their programs. However, an individual lender is free to impose additional requirements on top of these.

These additional hurdles are known as "overlays" and a few years ago were plentiful and stiff, but most have been eased, removed or otherwise tweaked.

To navigate an environment where lender standards differ significantly, you should rely on your trusted mortgage advisor to help you find the program best suited for your needs.

SCORES *continued from page 4*

Scores above 740 typically qualify for the best mortgage rates. Lower scores are going to cost you, either by inflating your up-front discount points or raising your interest rate.

Scores in the 580 to 620 range will put you on shaky ground for a mortgage approval and could greatly benefit from work to raise them a bit..

To see how different credit scores affect mortgage rates, go to: **myfico.com/credit-education/calculators/loan-savings-calculator/**

While we have some quibbles about FICO's rate bracket ranges, the calculator illustrates how poor credit scores up the ante substantially.

Fannie Mae and Freddie Mac use a matrix that hits borrowers who have lower credit scores with add-on fees called "loan-level price adjustments" at 20-point increments.

How is your score arrived at?

According to FICO, your credit payment history is responsible for 35% of your score; amounts you owe, 30%; length of credit history, 15%; applications for new credit, 10%; and types of credit used, 10%.

You are entitled to a free credit report every twelve months from each of the three credit agencies (you can request one at **annualcreditreport.com**), but that doesn't entitle you to a free FICO credit score; for that you will have to pay an additional fee.

When you get a free credit report, the agency that provides the report will be happy to sell you your score, but it may not be a FICO score, which is what mortgage lenders will see.

What web sites that promise a free credit score provide is usually not a FICO score, either.

Where you may get the most relevant FICO score is from your lender, who can share the scores they are using to evaluate you as a borrower.

Here are some tips for boosting and maintaining your credit score:

- Closing unused credit accounts won't increase your score, in fact it may decrease it by having fewer open accounts. Don't open new accounts just to increase your available credit; that could actually lower your score.

- If you are starting to establish credit, don't open a lot of accounts all at once.

- Credit inquiries can lower your score. However, FICO scores distinguish between searching for a single loan among several lenders and applying for multiple credit lines. Try to fit your comparison shopping into a two-week period.

Want more insight into FICO scoring? Check out **myfico.com**, click on "learn about SCORES."

Lenders have to inform you of how a low score has affected your mortgage rate or terms. FICO has responded to this by creating a web site to explain the disclosures: **scoreinfo.org.**

TIPS *continued from page 4*

If you see an error on your report, get it corrected immediately. You need to be proactive to keep your report clean.

4. Be patient.

More paperwork and picky underwriting have made loans more complicated to approve and close, but new software is helping speed up the process.

A slowdown in refi business is resulting in faster processing for all. Closing in less than 45 days is the average, but faster ones can be possible. Realize that your mortgage professional can't nudge the process along if you delay in providing necessary documentation.

5. Expect to be asked for additional documentation.

We can't overemphasize that lenders are often asking for info beyond what Fannie Mae, Freddie Mac or FHA/VA require. If you last got a mortgage over ten years ago, you may be shocked at all the documentation being requested.

A BRIEF OVERVIEW OF 2017 LENDING LIMITS, RULES

The number of proprietary mortgage products designed by individual lenders to serve particular niche situations continues to grow as the housing market recovery proceeds.

For example, there are programs with no downpayment requirement for those with impeccable credit and strong income, debt ratios and reserves. All of the unique programs require shopping to find the best fit for a special situation.

However, the government-sponsored (Fannie Mae and Freddie Mac) and guaranteed (FHA & VA) programs remain the dominant sources for the vast majority of mortgages.

For 2017, the conforming loan limit for standard Fannie and Freddie loans climbed for the first time since 2006, from $417,000, to $424,100.

The conforming limit is determined by a formula based on median home prices, which have now reached a new all-time high, nationwide.

Fannie & Freddie both have programs for certain high-cost areas, with a maximum of $636,150. High-cost limits in some counties below the maximum have risen simply due to higher local home prices. Check with your Realtor or mortgage specialist for information about your area's limits.

Most who opt for Fannie or Freddie loans should expect to make a minimum downpayment of 10% or pay higher fees, as well as purchase private mortgage insurance. However, Fannie and Freddie do permit a downpayment or loan-to-value of as little as 3% for certain first-time homebuyers and refinancers.

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A GOOD CREDIT SCORE WILL PAY OFF

One of the most convincing credentials that you can present to a lender is an excellent credit score from all three reporting agencies.

Over time, mortgage lenders have found that credit scores are a reliable way to weed out riskier borrowers, so a good credit score is vital to homebuyers and refinancers seeking a loan approval.

Beyond simply winning approval, the mortgage rates that you see advertised or posted to a lender web site are typically available only to those with the best credit. Those with lower scores who are able to get approved will have to pay higher rates and/or add-on price adjustments.

It pays to understand how to get the best score possible, so let's take a moment to review a few of the basics.

Credit scores are arrived at by inputting information about your credit history and behavior into a mathematical model.

The scores most often used by mortgage lenders are derived from models developed by FICO (formerly known as Fair Isaac Corp.) and are, thus, called FICO scores.

There are several FICO models, including versions tailored to the auto lending and credit card industries. Mortgage lenders typically use the base model.

While there have been several versions of this model over the years, most lenders use the older Score 2 version, since their borrower performance data is matched with scores from that model.

Each of the three major credit agencies —Experian, Equifax, and TransUnion— use a different FICO version for mortgage lenders. In addition, the information in your credit report at each agency may not be exactly the same. That is why scores can differ among the agencies.

Base FICO scores range from 300 to 850 and the higher the score, the better.

SCORES *continued on page 3*

A FEW TIPS FOR MAKING A MORTGAGE APPLICATION

Here are some tips that can help you successfully make a mortgage application in the 2017 lending world.

1. Be prepared when you apply.

Get as much documentation as possible for the first meeting with your mortgage professional. You will have to find the documents eventually, so why put it off?

This is especially true if you are seeking a preapproval that you can show a seller, or, even better, a full loan approval that is the gold standard, which can't go forward without full documentation.

Finally, it's good to know early on what might take a little extra work to locate. Be resigned to providing even more documentation later, if the lender requires it.

2. Be sure to disclose everything.

Lenders routinely submit an IRS form 4506 (tax return request). That allows them to know all about your income and deductions. Take child support payments, for instance. Your pay stubs will show it if it is court ordered.

Disclosing negative information up front is better than having it turned up as a discrepancy.

3. Defend your credit report.

If you miss a due date on one of your credit cards or other credit payments, contact the lender to see if you can resolve the issue before an adverse item goes on your credit report. They may do that as a courtesy to a good customer.

You should be checking your credit report regularly, but a thorough review just before making a mortgage application is smart.

TIPS *continued on page 3*