

The Year in Review

Some Good, Some Bad, Some Ugly.

A simple game plan for 2014 - housing was to step up to its customary role as catalyst-in-chief for the economic recovery. After all, in 6 of the past 8 recessions, housing led the recovery. The combination of pent-up demand, low interest rates, increased inventory and attractive prices would lead to more home buying, then more new construction, meaning more new jobs, leading to increased consumer confidence, then more home buying, then... Young families would finally get their piece of the American Dream, existing homeowners would finally start moving up, industry would flourish, employment would really take off and everybody would sit down and sing Kum-ba-ya and Auld Lang Syne. After all, housing got us into this mess, it was now up to housing to help get us out.

That was the plan. The reality, in hindsight, was considerably different. 18 months of explosive price increases priced many would-be first timers out of the market. Investors saw their profitability evaporate so they withdrew. Millennials, who were supposed to start forming households in droves, kept living in their parents basements. Interest rates spiked, then retreated. Unemployment abated but the new jobs didn't pay what the old jobs had. Concerns about Obamacare, oil prices, Ebola, financial problems in Europe and Government dysfunction left many unaware that we are entering our 6th year of economic recovery since the recession officially ended in June of '09.

As a result, demand dropped and **housing sales stagnated**. In Southwest California housing sales were at their lowest ebb since 2007, selling fewer than 7,000 single family units this year, **off 5% from last year and down nearly 30% from their 2008 peak**. In real numbers we sold 6,974 homes this year compared to 7,361 last year, selling 43 fewer in Temecula, 101 in Murrieta, 106 in Menifee – not that significant really when you realize that new home construction offset some of those declines. Still, the drop of nearly 3,000 units from 9,665 sales in 2008 represents a significant decline, one not offset by anywhere near that number of new homes. We only wish new home construction had brought 3,000 new homes to market in the past few years.

After posting gains of anywhere from 18% to 26% between 2012 and 2013, median price appreciation also stalled out in 2014. The region appreciated nearly 10% with Temecula and Murrieta adding 6%, Menifee, Lake Elsinore, Hemet and San Jacinto increasing 11 – 13%. **Appreciation was higher in the first half, then tapered with prices actually posting a slight decline in the 4th quarter**. Again, not a bad thing as it removed earlier fears of another bubble forming from too-rapid appreciation and gave the market a chance to moderate. Had appreciation continued at the 20%+ pace in 2014, sales would likely have been even slower this year increasing the likelihood of a deeper correction next year.

As it is, this year may have been our correction phase with the market returning to a more normal pace next year. Most prognosticators remain optimistic about 2015 and maybe they're right. Of course, as referenced in the opening paragraph, most were optimistic about this year too and we see where that went. But the facts remain that there is a fairly significant pent-up demand out there. Lack of equity has so far prevented many move-up buyers from making their move. When they do that will free up more lower cost homes for first time buyers. At some point millennials will start forming households and whether they choose to rent or buy, that will spark more construction. California has built fewer residential units (single and multi-family) in the past 4 years combined than the state needs to build every year so the need to ramp up construction lurks right behind any increase in demand.

We're also seeing some loosening of regulatory barriers, reductions in down-payment and credit requirements and easing of lending standards that were ratcheted up too tight following the melt-down. All of these elements might indeed be a cause for optimism in 2015.

As always, you'll find the local results right here.

Gene

Southwest California Housing History

Temecula, Murrieta, Lake Elsinore, Menifee, Wildomar, Canyon Lake, Hemet, San Jacinto

Single Family Residential - Full Value Sales *

Prepared by GeneWunderlich@srcar.org

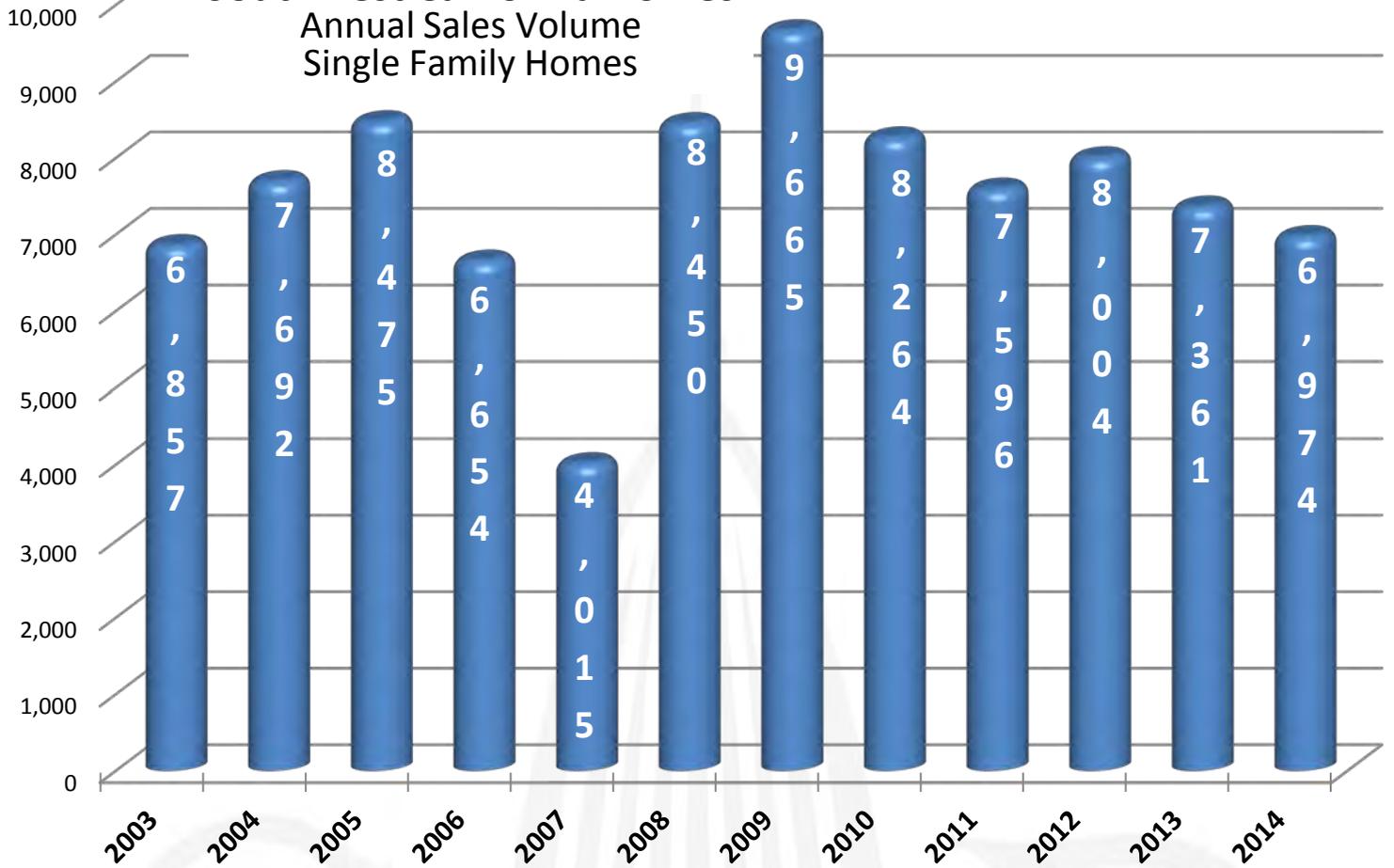
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Temecula												
# Sales	2,181	2,282	2,305	1,988	1,162	1,982	2,090	2,013	1,933	2,112	1,880	1,837
Median \$	\$355,044	\$457,853	\$517,997	\$543,545	\$524,488	\$348,560	\$302,326	\$316,322	\$308,969	\$322,359	\$403,283	\$426,969
Gross Sales Revenue	\$774,350,964	\$1,044,820,546	\$1,193,983,085	\$1,080,567,460	\$609,455,056	\$690,845,920	\$631,861,340	\$636,756,186	\$597,237,077	\$680,822,208	\$758,172,040	\$784,342,053
Murrieta												
# Sales	1,799	1,983	2,272	1,730	1,047	2,668	2,554	2,202	2,014	2,135	1,908	1,807
Median \$	\$342,637	\$447,197	\$504,615	\$532,902	\$495,641	\$311,028	\$263,726	\$279,604	\$273,752	\$282,698	\$352,149	\$375,694
Gross Sales Revenue	\$616,403,963	\$886,791,651	\$1,146,485,280	\$921,920,460	\$518,936,127	\$829,822,704	\$673,556,204	\$615,688,008	\$551,336,528	\$603,560,230	\$671,900,292	\$678,879,058
Wildomar												
# Sales	367	408	404	296	224	442	570	390	395	418	376	350
Median \$	\$282,148	\$367,429	\$424,153	\$460,368	\$416,309	\$279,755	\$221,945	\$222,293	\$221,386	\$228,803	\$282,241	\$314,198
Gross Sales Revenue	\$103,548,316	\$149,911,032	\$171,357,812	\$136,268,928	\$93,253,216	\$123,651,710	\$126,508,650	\$86,694,270	\$87,447,470	\$95,639,654	\$106,122,616	\$109,969,300
Lake Elsinore												
# Sales	962	1,038	1,287	999	494	1,405	1,805	1,405	1,270	1,165	1,072	1,022
Median \$	\$230,115	\$323,681	\$391,725	\$433,996	\$377,597	\$230,459	\$174,666	\$187,347	\$180,856	\$187,696	\$247,758	\$281,742
Gross Sales Revenue	\$221,370,630	\$335,980,878	\$504,150,075	\$433,562,004	\$186,532,918	\$323,794,895	\$315,272,130	\$263,222,535	\$229,687,120	\$218,665,840	\$265,596,576	\$287,940,324
Menifee												
# Sales	1,158	1,587	1,885	1,409	951	1,721	2,310	1,979	1,696	1,860	1,801	1,692
Median \$	\$231,514	\$291,231	\$343,484	\$363,137	\$336,828	\$227,080	\$175,103	\$183,261	\$181,818	\$183,419	\$231,840	\$267,120
Gross Sales Revenue	\$268,093,212	\$462,183,597	\$647,467,340	\$511,660,033	\$320,323,428	\$390,804,680	\$404,487,930	\$362,673,519	\$308,363,328	\$341,159,340	\$417,543,840	\$451,967,040
Canyon Lake												
# Sales	390	394	322	232	137	232	336	275	288	314	324	266
Median \$	\$401,812	\$516,796	\$586,647	\$660,933	\$566,466	\$336,049	\$272,077	\$297,058	\$281,845	\$334,257	\$350,574	\$415,807
Gross Sales Revenue	\$156,706,680	\$203,617,624	\$188,900,334	\$153,336,456	\$77,605,842	\$77,963,368	\$91,417,872	\$81,690,950	\$81,171,360	\$104,956,698	\$113,585,976	\$110,604,662
Southwest California Region												
# Sales	6,857	7,692	8,475	6,654	4,015	8,450	9,665	8,264	7,596	8,004	7,361	6,974
Median \$	\$ 307,212	\$400,698	\$461,437	\$499,147	\$452,888	\$288,822	\$234,974	\$247,648	\$241,438	256,539	311,308	346,922
* All figures from CMRMLS. Assumed to be correct but not verified. Chart updated to reflect current city boundaries.												
Hemet												
# Sales	1,714	2,338	2,427	1,274	761	1,724	2,263	1,740	1,527	1,614	1,669	1,464
Median \$	\$190,308	\$241,186	\$302,326	\$327,060	\$284,720	\$179,819	\$122,685	\$127,187	\$122,958	\$129,970	\$167,739	\$188,717
Gross Sales Revenue	\$326,187,912	\$563,892,868	\$733,745,202	\$416,674,440	\$216,671,920	\$310,007,956	\$277,636,155	\$221,305,380	\$187,756,866	\$209,771,580	\$279,956,391	\$276,281,688
San Jacinto												
# Sales	482	739	828	486	288	939	1,414	1,004	813	718	703	569
Median \$	\$178,260	\$245,545	\$302,114	\$342,280	\$310,221	\$181,695	\$135,028	\$140,263	\$129,730	\$136,171	\$170,609	\$195,372
Gross Sales Revenue	\$85,921,320	\$181,457,755	\$250,150,392	\$166,348,080	\$89,343,648	\$170,611,605	\$190,929,592	\$140,824,052	\$105,470,490	\$97,770,778	\$119,938,127	\$111,166,668

Best year

Worst Year

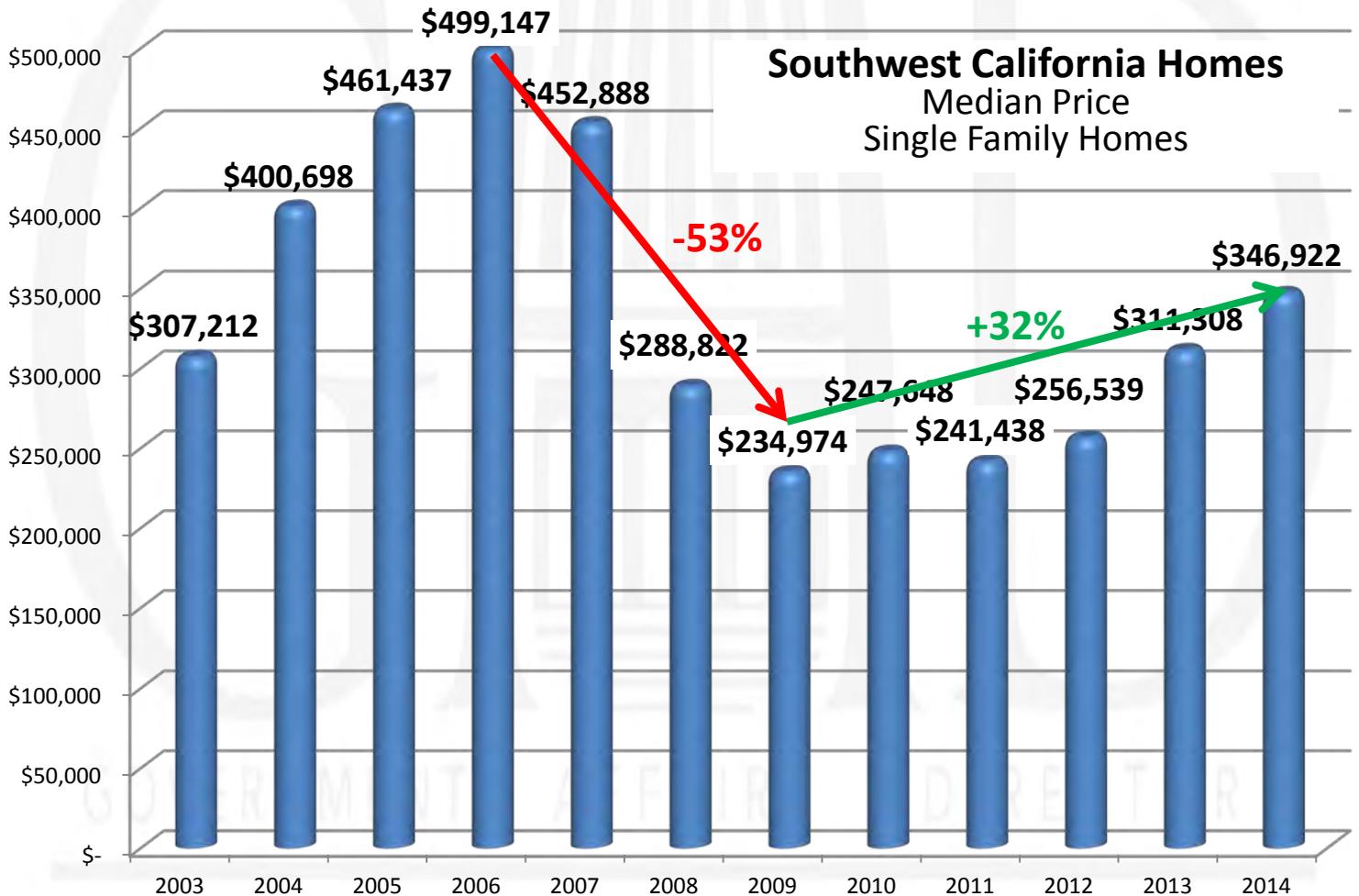
Southwest California Homes

Annual Sales Volume
Single Family Homes



Southwest California Homes

Median Price
Single Family Homes



SW Market @ A Glance

Southwest California

	Reporting Period	Current Period	Last Period	Year Ago	Change from Last Period	Change from Year Ago
Existing Home Sales (SFR Detached)	December 2014	597	477	530	20% ↑	11% ↑
Median Home Price		\$352,796	\$351,837	\$329,432	-%	7% ↑
Unsold Inventory Index (SFR Units)		1,577	1,809	1,345	13% ↓	15% ↑
Unsold Inventory Index (Months)		2.9	3.9	3.4	26% ↓	15% ↓
Median Time on Market (Days)		86	79	55	8% ↑	36% ↑

Source: CRMLS

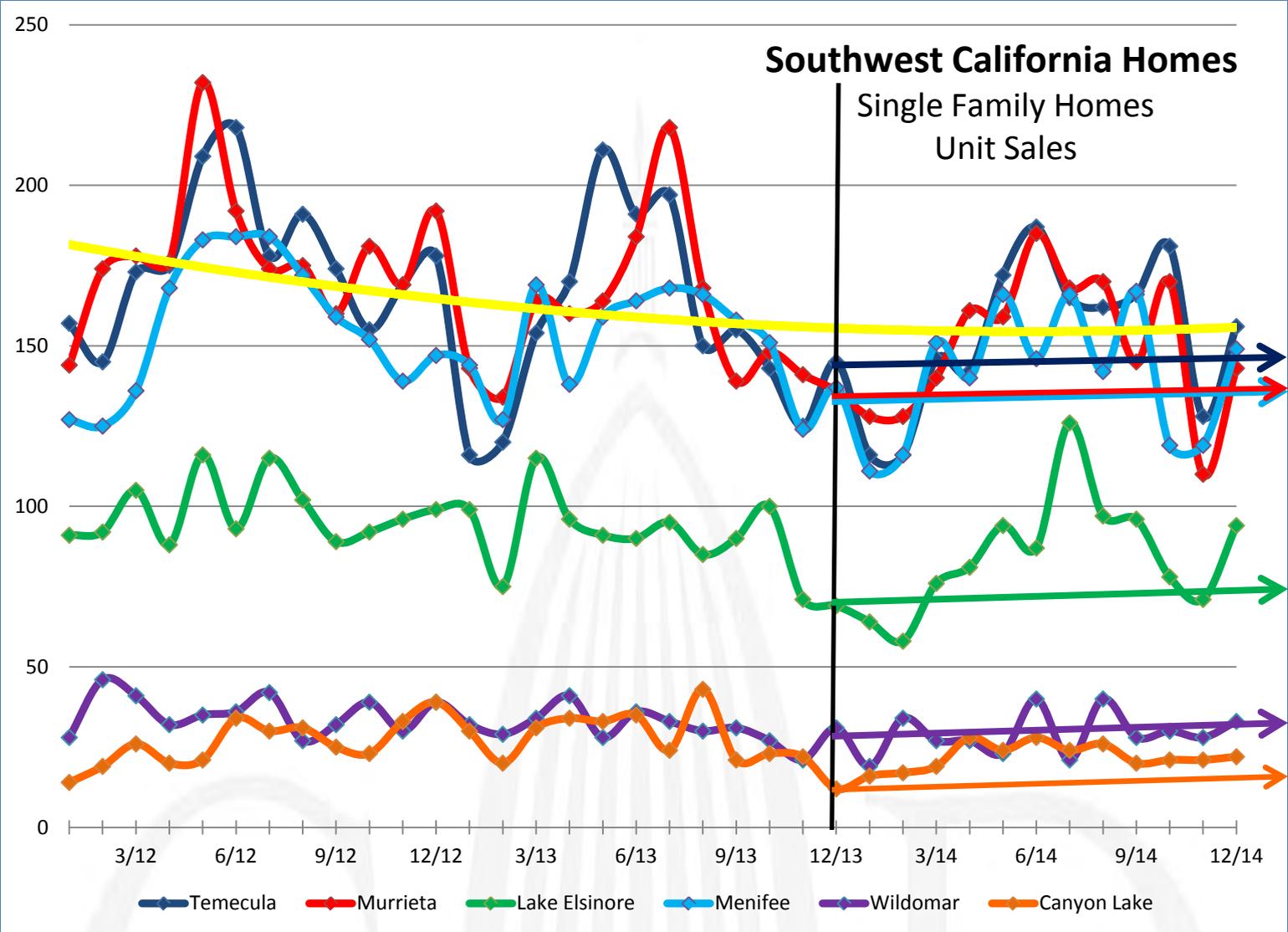
Market @ A Glance

California	Reporting Period	Current Period	Last Period	Year Ago	Change from Last Period	Change from Year Ago
Existing Home Sales (SAAR) *	November-14	376,480	397,400	389,580	-5.3%	-3.4%
Median Home Price *	November-14	\$445,280	\$450,270	\$423,090	-1.1%	5.2%
Unsold Inventory Index (months) *	November-14	4.4	3.8	3.6	15.8%	22.2%
Median Time on Market (days) *	November-14	43.9	42.2	36.9	4.0%	19.0%
Traditional Housing Affordability Index (HAI) *	2014 Q3	30%	30%	32%	0.0%	-2.0%
30-year fixed-rate mortgage (FRM) **	November-14	4.00%	4.04%	4.26%	-0.04%	-0.26%

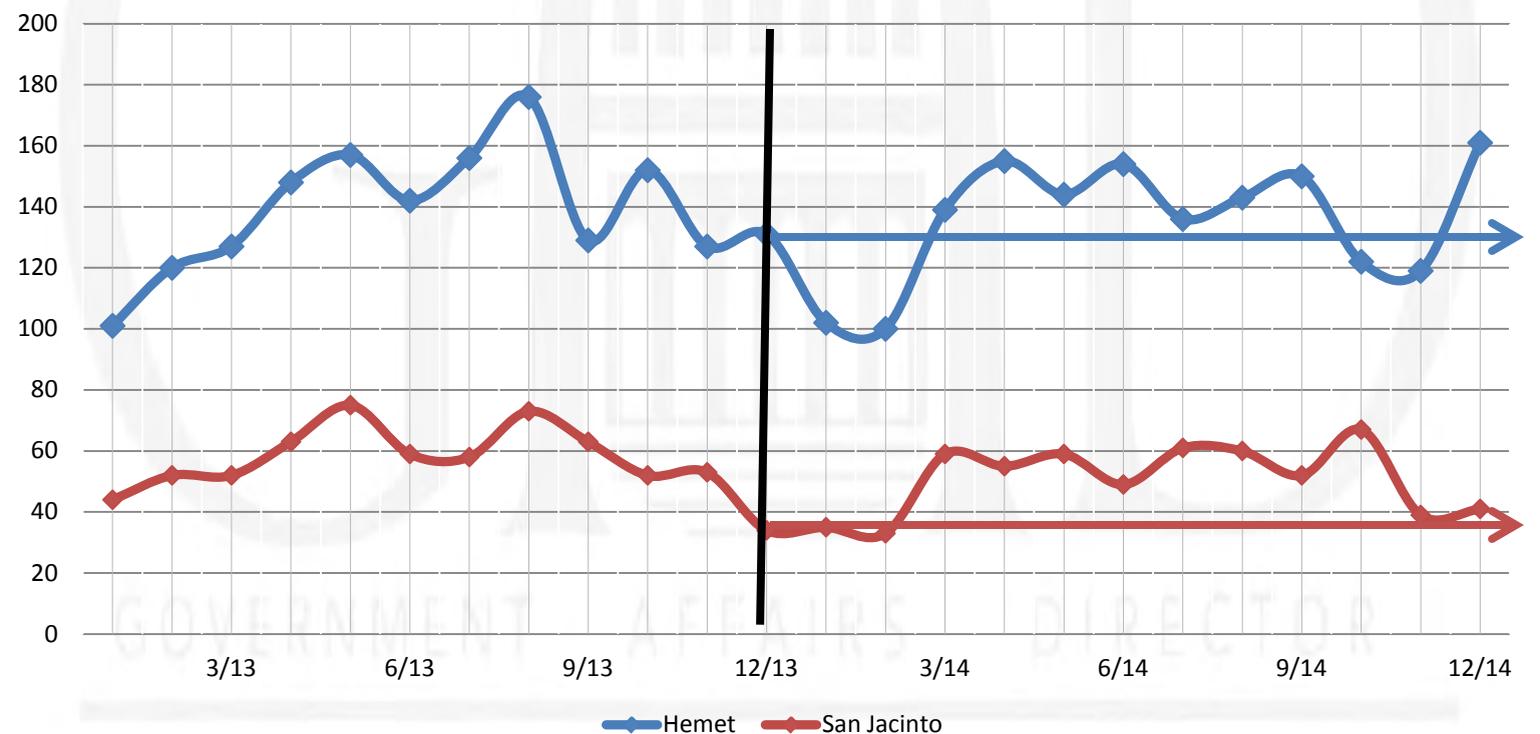
SOURCES * CALIFORNIA ASSOCIATION OF REALTORS®, ** Federal Home Loan Mortgage Corp.

Southwest California Homes

Single Family Homes Unit Sales



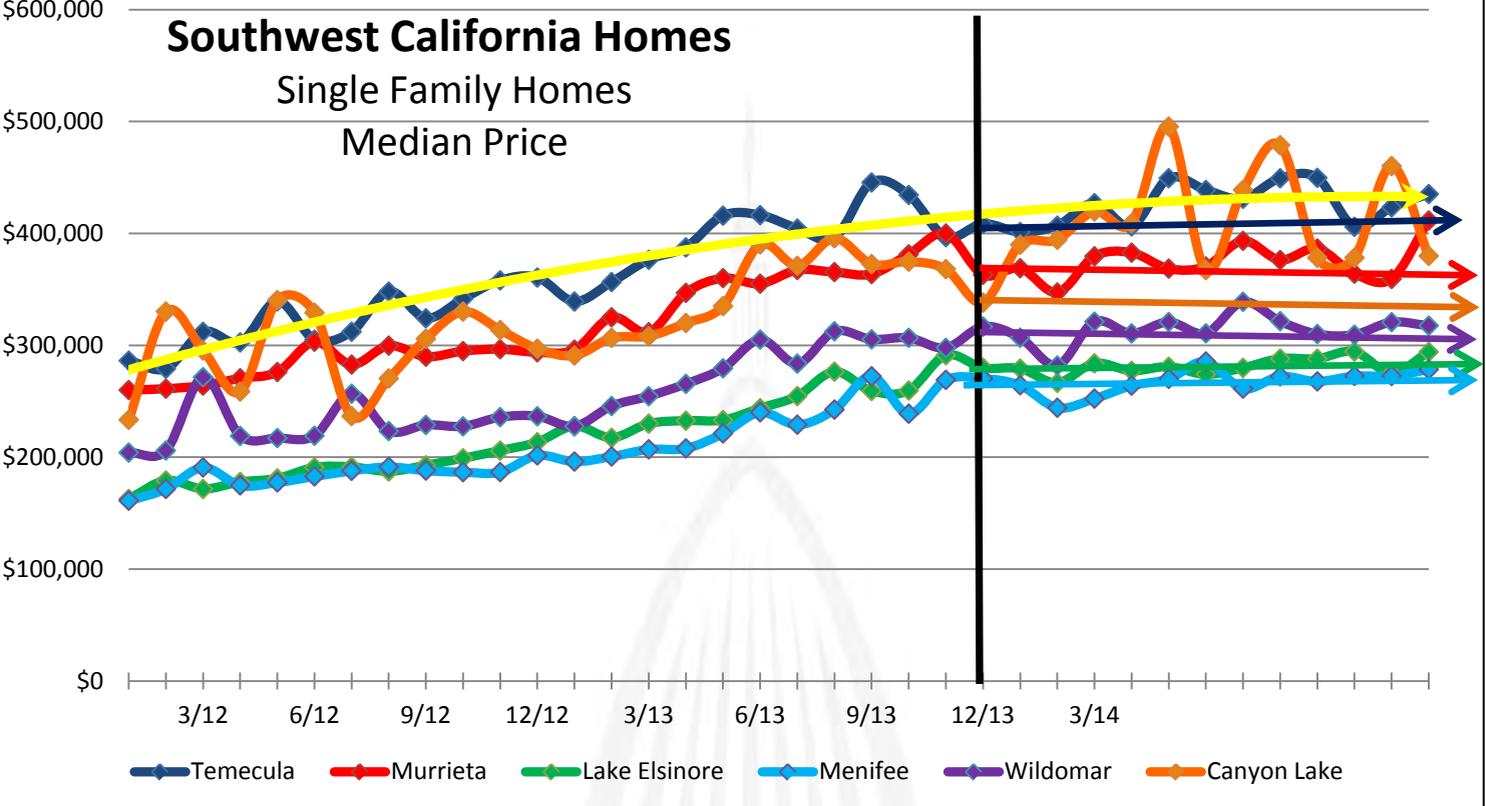
Hemet/San Jacinto 2014 Unit Sales Single Family Residential



Southwest California Homes

Single Family Homes

Median Price



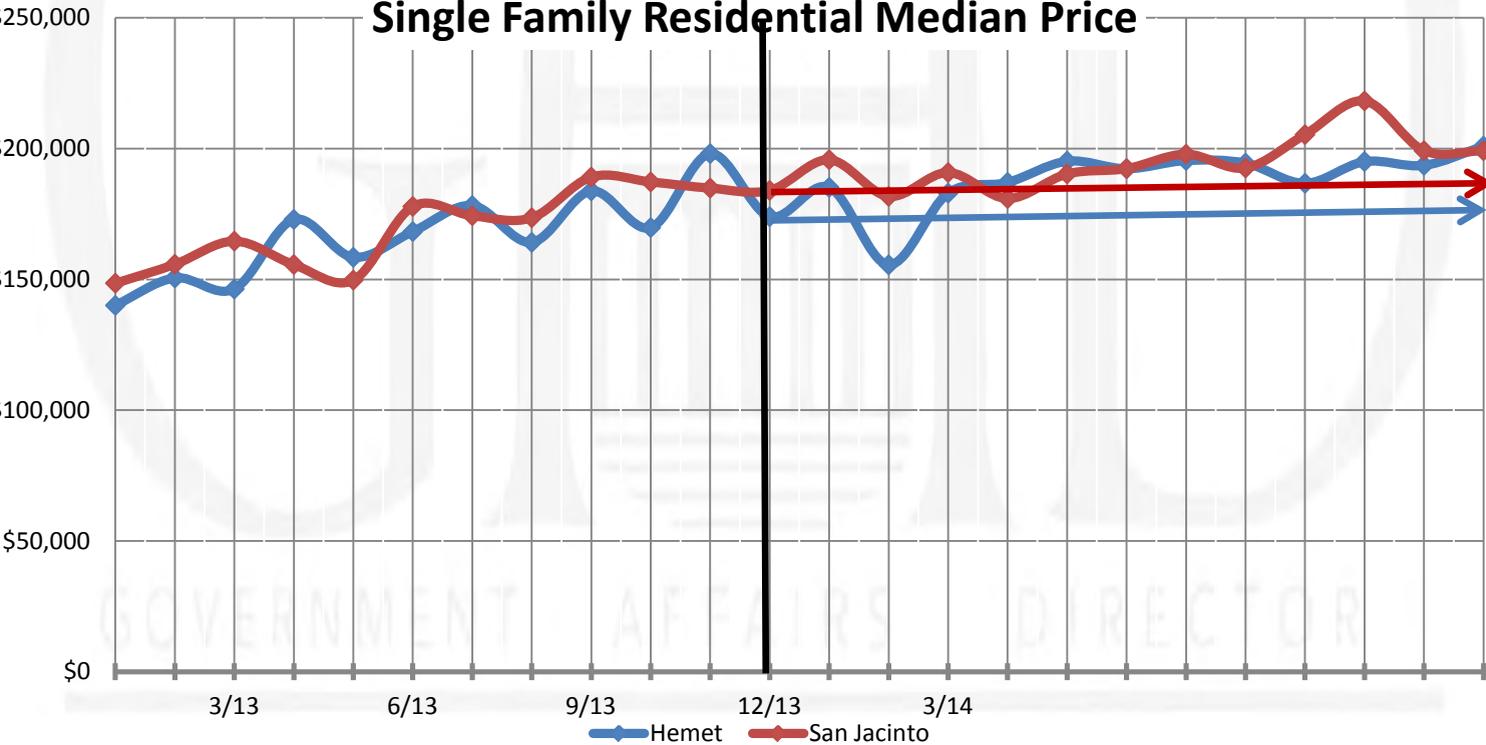
December Transaction Value* :

Temecula	\$67,881,785	Lake Elsinore	\$27,645,455
Murrieta	\$58,850,765	Wildomar	\$10,479,480
Menifee	\$41,499,991	Canyon Lake	\$8,357,996
Hemet	\$32,351,680	San Jacinto	\$15,137,440

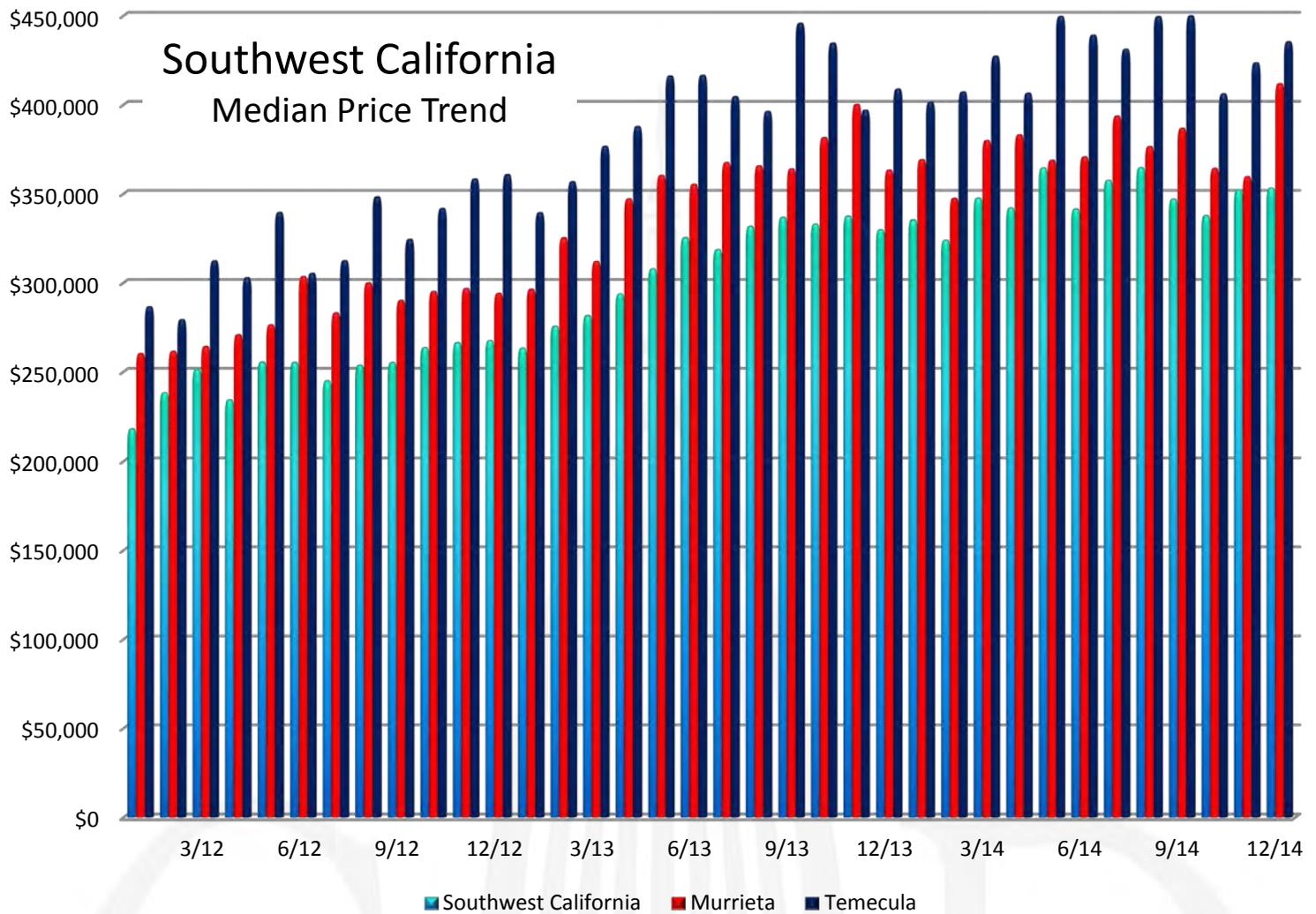
* Revenue generated by single family residential transactions for the month.

Hemet/San Jacinto 2014

Single Family Residential Median Price



Southwest California Median Price Trend



December Median Price:

	2013	2014	%
Temecula	\$414,474	\$435,140	5%
Murrieta	\$362,203	\$411,544	12%
Menifee	\$266,223	\$278,523	4%
Lake Elsinore	\$280,021	\$294,101	5%
Wildomar	\$316,696	\$317,560	0%
Canyon Lake	\$338,082	\$379,909	11%
<i>Southwest California</i>	<i>\$ 329,432</i>	<i>\$352,796</i>	<i>7%</i>
Hemet	\$186,297	\$199,366	7%
San Jacinto	\$222,278	\$229,355	3%

December Demand

On Market **-13%**

Pending **-20%**

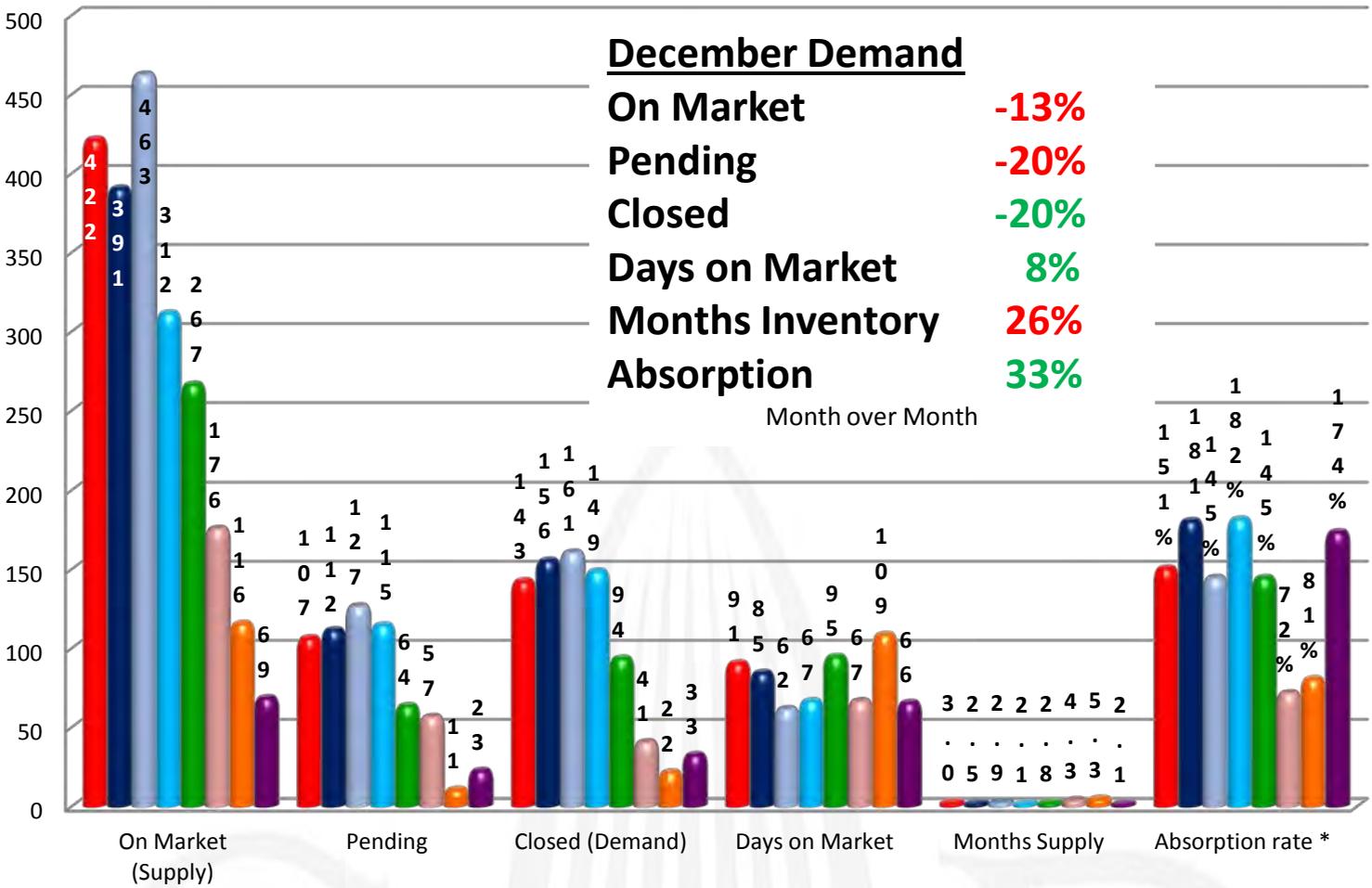
Closed **-20%**

Days on Market **8%**

Months Inventory **26%**

Absorption **33%**

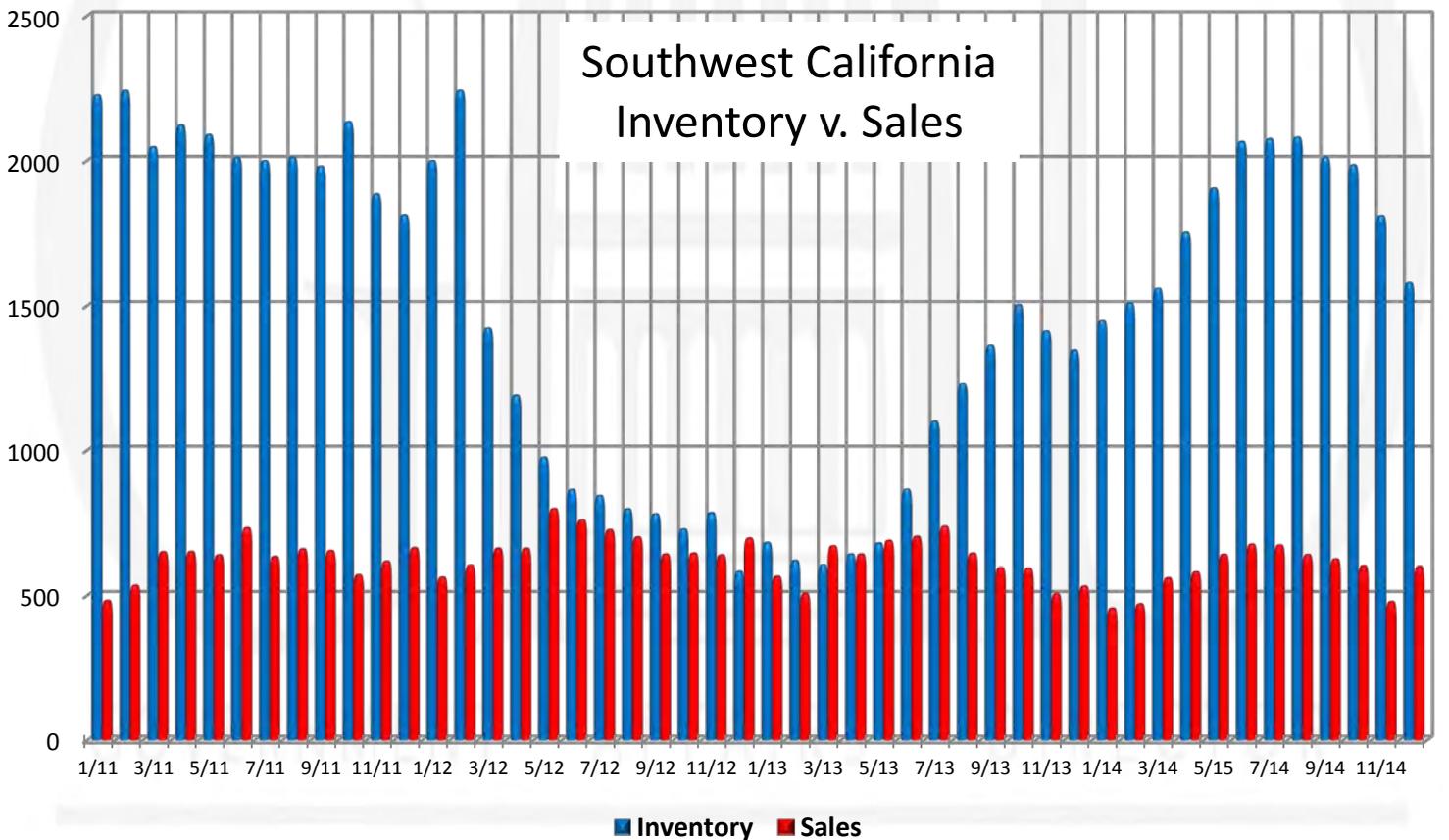
Month over Month



■ Murrieta ■ Temecula ■ Hemet ■ Menifee ■ Lake Elsinore ■ San Jacinto ■ Canyon Lake ■ Wildomar

* Absorption rate - # of new listings for the month/# of sold listings for the month

Southwest California Inventory v. Sales



■ Inventory ■ Sales

December Market Activity

By Sales Type

	Standard Sale				Bank Owned				Short Sale			
	Active	% of MKT	Sold	% of MKT	Active	% of MKT	Sold	% of MKT	Active	% of MKT	Sold	% of MKT
Temecula	346	88%	140	90%	12	3%	5	3%	26	7%	9	6%
Murrieta	375	89%	128	90%	12	3%	6	4%	34	8%	8	6%
Wildomar	59	86%	30	91%	3	4%	1	3%	6	9%	2	6%
Lake Elsinore	226	85%	86	91%	7	3%	4	4%	31	12%	4	4%
Menifee	268	86%	130	87%	4	1%	8	5%	32	10%	8	5%
Canyon Lake	109	94%	20	91%	2	2%	1	5%	5	4%	1	5%
Hemet	394	85%	141	88%	26	6%	10	6%	34	7%	7	4%
San Jacinto	142	81%	30	73%	14	8%	4	10%	15	9%	5	12%
Regional Average	1919	87%	705	88%	80	4%	39	5%	183	8%	44	6%

We started the year with distressed sales making up 16% of our closed sales volume. By March, distressed sales dropped to 12% of the market, 10% in August and just 8% in September. Last month it comprised 11% of sales. Long-time readers will recall that as recently as 2009-2010, distressed sales made up over 90% of our sales volume most months so our market has made a significant shift to where Standard Sales now account for nearly 90%. Most experts believe the market for distressed properties will return to pre-bust levels in 2015 meaning approximately 4%-5% of the market.

Inventory and demand have also returned to more normal territory this year. In 2013 inventory levels rarely exceeded 1 month with some cities having only a 2-3 week supply of homes on the market. Demand, a function of the number of new homes listed every month compared to the number of homes sold, shot up such that in January of 2013 we sold 1.9 (190%) homes for every home listed. By February that climbed to 2.18 (218%) and peaked in March selling nearly 3 homes for every new listing. Of course prices were rocketing along then too in response to such a strong Sellers market.

By September 2013, inventory started to climb and sales slowed such that by last December demand was at just 68% and inventory had increased to 3.4 months.

This year our inventory level has hovered between 3 and 4 months for much of the year with inventory increasing every month through August. In September we saw inventory start to decline somewhat although weak sales kept demand low as well. In December inventory dropped 500 units under its July peak, reducing months inventory to 2.9 months. Strong December sales also propelled demand back to 152%, or 1.5 homes sold for every new listing.

Don't get too excited – inventory always drops around year-end as people who don't have to sell prefer to keep their homes off the market during the holidays. Also a quick peek at pending sales indicates we drained the well in December and January sales will probably fall off quite a bit.

Keep in mind that while inventory has been climbing, a balanced market inventory is considered to be 6-7 months. According to the numbers we should still be in a strong sellers market. We're not.

In the Headlines

CoreLogic: 5.1M properties remain in negative equity in Q3 2014

273K residential properties regained equity



Trey Garrison

Almost 273,000 U.S. homes returned to positive equity in the third quarter of 2014, bringing the total number of mortgaged residential properties with equity to approximately 44.6 million, or 90% of all mortgaged properties, according to the latest report from **CoreLogic**.

Borrower equity increased year over year by approximately \$800 billion in Q3 2014. The CoreLogic analysis indicates that approximately 5.1 million homes, or 10.3% of all residential properties with a mortgage, were still in negative equity as of Q3 2014 compared to 5.4 million homes, or 10.9%, for Q2 2014.

This compares to a negative equity share of 13.3%, or 6.5 million homes, in Q3 2013, representing a year-over-year decrease in the number of homes underwater by almost 1.5 million (1,433,296), or 3.0%.

“Nationally, the negative equity share is down over three percentage points over the past year. Declines were concentrated in a handful of states, such as Nevada, Georgia, Michigan and Florida,” said Sam Khater, deputy chief economist for CoreLogic. “Forecasted house price appreciation of about five% over the next year suggests that negative equity should be at about 8% a year from now, still above average, but approaching the pre-crisis level.”

Of the 44.6 million residential properties with positive equity, approximately 9.4 million, or 19%, have less than 20-percent equity (referred to as “under-equited”) and 1.3 million of those have less than 5-percent equity (referred to as near-negative equity). Borrowers who are “under-equited” may have a more difficult time refinancing their existing homes or obtaining new financing to sell and buy another home due to underwriting constraints. Borrowers with near-negative equity are considered at risk of moving into negative equity if home prices fall.

In contrast, if home prices rose by as little as 5%, an additional 1 million homeowners now in negative equity would regain equity.

“Negative equity continued to decrease in the third quarter as did the level of homes mired in the foreclosure process. This should hopefully translate into less friction in the housing market as we move forward,” said Anand Nallathambi, president and CEO of CoreLogic. “Better fundamentals supporting homeownership in the face of higher rents should attract more first-time homebuyers to the market this year and next.”

Nevada had the highest percentage of mortgaged properties in negative equity at 25.4%, followed by Florida (23.8%), Arizona (19%), Rhode Island (14.8%) and Illinois (14.1%). These top five states together account for 33.1% of negative equity in the United States.

Texas had the highest percentage of mortgaged residential properties in an equity position at 97.4%, followed Alaska (97.1%), Montana (97.1%), Hawaii (96.4%) and North Dakota (96.1%).

Of the 25 largest Core Based Statistical Areas (CBSAs) based on population, Tampa-St. Petersburg-Clearwater, Fla., had the **highest percentage of mortgaged properties in negative equity** at 25.5%, followed by Phoenix-Mesa-Scottsdale, Ariz. (19.3%), Chicago-Naperville-Arlington Heights, Ill. (16.3%), **Riverside-San Bernardino-Ontario, Calif. (15%)** and Atlanta-Sandy Springs-Roswell, Ga. (14%).

Of the same largest 25 CBSAs, Houston-The Woodlands-Sugar Land, Texas had the highest percentage of mortgaged properties in an equity position at 97.5%; followed by Dallas-Plano-Irving, Texas (97%); Anaheim-Santa Ana-Irvine, Calif. (96.6%); Portland-Vancouver-Hillsboro, Ore. (96.4%) and Denver-Aurora-Lakewood, Col. (95.9%).

Of the total \$338 billion in negative equity, first liens without home equity loans accounted for \$178 billion, or 53%, aggregate negative equity, while first liens with home equity loans accounted for \$160 billion, or 47%.

Why Americans Are Cautious About Housing

DAILY REAL ESTATE NEWS | THURSDAY, JANUARY 08, 2015

While Americans' confidence in the economy is growing, they remain hesitant about the housing market, according to Fannie Mae's December 2014 National Housing Survey of 1,000 respondents.

One piece of good news is that more Americans believe it's getting easier to qualify for a mortgage, with the share of those surveyed rising to 52 percent in December and tying an all-time survey high. On the other hand, their confidence in their household incomes remain shaky. The share of Americans who say their household income is significantly higher than it was 12 months ago has mostly remained flat at 25 percent, the survey shows.

"Despite consistent and robust job growth in recent months, consumer attitudes toward housing remained cautious in the final month of 2014," says Doug Duncan, Fannie Mae's chief economist. "Our survey results show that consumer housing sentiment has, on average, been moving sideways amid some improvement in the general view of the economy. It is not surprising that the housing sector continues to lag behind the rest of the economy, given the long-term financial commitment that getting a mortgage represents. Many prospective home buyers want to be certain that their personal finances can withstand potential downside risks to the economy."

Some additional findings from Fannie Mae's December survey include:

- Forty-six percent of those surveyed believe home prices will rise in the next 12 months, while only 8 percent say they believe prices will fall.
- The number of Americans who say now is a good time to buy a house fell to 64 percent, a drop in December month-over-month.
- The number of Americans who say now is a good time to sell rose by 1 percentage point to 40 percent.
- The number of adults surveyed who say they would purchase a home if they were going to move dropped to 61 percent, an all-time survey low. On the other hand, the share who say they would rent rose 3 percentage points to 34 percent.
- The percentage of those surveyed who say they expect their personal financial situation to improve over the next 12 months fell to 45 percent.

NAR: Home Sales Only Going Up From Here

Existing-home sales will likely rise about 7 percent this year, as a strengthening economy and job growth leads to a healthier market, according to the National Association of REALTORS®' 2015 housing forecast.

"Home prices have risen for the past three years cumulatively about 25 percent, which boosts confidence in the market and traditionally gives current home owners the ability to use their equity buildup as a down payment towards their next home purchase," says Lawrence Yun, NAR's chief economist. "Furthermore, first-time buyers are expected to slowly return as the economy improves and new mortgage products are made available in the marketplace with low down payments and private mortgage insurance."

Still, Yun points to several "speed bumps" that could jeopardize the pace of the housing market's recovery, particularly the anticipated rise in mortgage rates [expected to arrive this year](#). Yun points out that many home owners who have locked in some of the lowest mortgage rates in history in recent years may be more hesitant to give up their low financing rate to move. Lenders are also being slow to ease underwriting standards to more normalized levels.

Still, in a preliminary analysis, existing-home sales appeared to finish out 2014 around 4.94 million, a drop of 3 percent from 2013. But Yun anticipates that sales will rise to 5.3 million in 2015.

Yun is also forecasting growth in home prices, but at a more moderate pace than seen in recent years. The national median existing-home price for 2014 will likely near \$208,000, up 5.6 percent from 2013, but it's expected to moderate between 4 percent and 5 percent growth in 2015.

Something's Wrong With the Market

Despite a strong year, the number of home sales is trending historically low.

DECEMBER 2014 | BY [SYD LEIBOVITCH](#)

This year was great for real estate for home-price increases, the ability for sellers to sell, and practitioners to get homes sold. But the big problem that seems to have evaded a lot of chatter is the number of homes sold.

Home sales [declined 3.8 percent](#) between January and October of this year, according to the National Association of REALTORS®. Other real estate data show a startling long-term downward trend: According to DataQuick, home sales each month this year have averaged about 14 percent below monthly levels in 1988, when DataQuick began tracking such data. If you think about how many more homes are built every year — and how much larger the population is — it defies logic that there would be fewer sales than 25 years ago.

This has nothing to do with buyer demand or their ability to qualify for a mortgage. That's evident in the fact that almost three-quarters of home sales garner multiple offers. Look to the selling side: A six- to seven-month supply of homes for sale is considered a normal market; we were at a 5.1-month supply in November, according to NAR. We were trending up in August, but that trend has reversed dramatically in the last 90 days.

The real question is: Why aren't more sellers putting their homes up for sale?

One explanation could be that [people are staying put longer](#). The median tenure of a home owner has increased from six years to nine years between 2001 and 2013. But that doesn't explain everything. We do know that first-time landlords are at an all-time high. This began when prices were low and people were buying a new home while renting out their current home, waiting for prices to rebound. Now prices have rebounded, and they are still keeping them rented.

Low interest rates have also contributed. Many people are able to pull money out of their current home and rent it rather than sell. A \$1 million mortgage today can carry a \$2,600 monthly payment on a three- or five-year fixed rate. That enables people to borrow more.

Another issue is the loss of stated-income loans. Many home owners who would sell and buy another home are self-employed. They write off too much to qualify for a mortgage and need to stay in their old home that they bought and financed before 2007. Although a few lenders do have these loans, they are hard to get and much more expensive. Mortgage reform pretty much put an end to these loans, as verifying income was required on owner-occupied loans.

Lastly, many people aren't applying for mortgages because they think they won't qualify for a loan. In a recent DataQuick study, two-thirds of people who thought they would not qualify really would have. Perhaps many home owners who would move up are not doing so because they feel they can't qualify for a new home if they sold their current home.

This trend may reverse a little in 2015, as people who rented their homes decide to sell because they think the market may be topping out. We could see some more stated-loan options as lenders push for more ways to loan out money — this trend of fewer sales has hurt them as well. A build-up in home equity, combined with lower down payment options from lenders, will also help. An increase in sales in 2015 over 2014 is expected, but unfortunately, they will likely remain below average levels. This will also place more upward pressure on prices: NAR is forecasting a 4 percent rise in prices over 2014. Anytime you have more buyers than sellers, you are going to see prices go up.

[FHA Lowers Its Harangued Mortgage Costs](#)

The Federal Housing Administration is reducing its annual mortgage insurance premiums by 0.5 percentage points in a move "to expand responsible lending to creditworthy borrowers," the White House said in a statement Wednesday afternoon.

FHA also said it would take added steps over the next few months to "cut red tape and clarify lending standards" in reducing mortgage costs for hundreds of thousands of creditworthy borrowers, according to the White House.

The FHA's move comes after [several calls](#) from industry trade groups, associations, and members of Congress urging the agency to lower its insurance premiums, which were increasingly [blamed for sidelining thousands of would-be buyers](#). FHA-backed loans allow buyers to put down as little as 3.5 percent of the purchase price, and they are a major financing resource for first-time buyers.

FHA's mortgage insurance premiums will be reduced from 1.35 percent to 0.85 percent. The reduction in premiums on mortgages could save an average borrower \$1,000 a year on a \$200,000 loan, says Mark Zandi, chief economist at Moody's Analytics.

"We are optimistic that more affordable FHA loans will have a positive impact on first-time buyers who have been entering the market at a lower-than-normal rate," National Association of REALTORS® President Chris Polychron said in a statement. "NAR is a strong supporter of the FHA and its vital role in the mortgage marketplace for home buyers. We will continue our work with the administration to help make the dream of home ownership a reality for millions more Americans."

In 2013, the FHA required a \$1.7 billion bailout from the government after suffering losses from a high number of loan defaults in the aftermath of the financial crisis. Since 2008, FHA has increased its annual premiums for FHA borrowers five times. The National Association of REALTORS® has estimated that nearly 400,000 creditworthy borrowers were [priced out of the housing market in 2013](#) because of the higher costs in FHA insurance premiums. But in recent months, FHA has turned a profit, which has renewed calls from other groups to lower their insurance premiums to help open the credit box to more qualified borrowers.

"This action will make home ownership more affordable for over two million Americans in the next three years," says Julian Castro, secretary of the Department of Housing and Urban Development, which oversees FHA. "By bringing our premiums down, we're helping folks lift themselves up so they can open new doors of opportunity."

President Barack Obama is expected to announce more about FHA's new policy on Thursday in a speech in Phoenix. The housing policy is expected to go into effect by the end of the month.

[Plan Trims Cost of Some Mortgages](#)

Regulator to Cut Typical Premiums for Mortgage Insurance From 1.35% to 0.85%

The Obama administration plans to reduce mortgage costs for hundreds of thousands of borrowers in a move likely to draw the ire of Republican lawmakers, while signaling the next step in the administration's shift from economic triage to policies promoting home ownership.

The plan to cut Federal Housing Administration insurance premiums on mortgages with low down payments would initially save a typical borrower \$1,000 a year on a \$200,000 loan.

President [Barack Obama](#) is expected to announce the new housing policy on Thursday in Phoenix, part of a three-day blitz of appearances to highlight rebounds in different sectors of the economy before his Jan. 20 State of the Union address. The new housing policy is expected to go into effect at the end of the month.

The FHA program is geared toward borrowers who have little cash for down payments, such as first-time home buyers. The FHA doesn't make loans, but insures lenders in case of default on mortgages with down payments of as little as 3.5%. Borrowers must pay for the insurance.

The FHA, which is overseen by the Department of Housing and Urban Development, required a \$1.7 billion bailout in 2013, its first in 79 years, after suffering losses from the financial crisis. Since 2008, the government has hiked the annual premium for typical FHA borrowers five times to 1.35%. Under the new policy, the premium will be reduced to 0.85%.

"This action will make home ownership more affordable for over two million Americans in the next three years," said HUD Secretary Julián Castro in a statement. "By bringing our premiums down, we're helping folks lift themselves up so they can open new doors of opportunity."

Republican lawmakers contend the FHA doesn't have enough capital to withstand future housing downturns, adding that there is the potential for taxpayers to take a hit in another housing slump.

"Apparently 2008 was not enough of a wake-up call for this administration," said Rep. Scott Garrett (R., N.J.). "The FHA is basically broke as it is."

Lower Oil Prices Could Stall Home Appreciation

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Oil prices are plummeting, which is great news for drivers at the pump, but could it negatively effect economies and housing markets that have been fueled by the energy boom?

Communities most impacted by the drop in oil prices may start to see a slow in home prices, according to a report by CoreLogic. Dropping energy prices could notably strike states such as Texas and North Dakota.

"Three of the top four states with the highest price appreciation are energy intensive and had been benefiting from the energy boom, which is currently receding as oil prices trend downward," says Sam Khater, deputy chief economist at CoreLogic. "These states — Texas, Colorado, and North Dakota — may see some downward pressure on prices in 2015."

Alaska, North Dakota, and Texas reportedly are already facing a dramatic decrease in state revenues heading into 2015 because of the lower oil prices. On Monday, oil prices hit a six-year low, dropping to below \$50 a barrel for the first time since April 2009. More recently, the price of oil was averaging \$100 a barrel.

Still, many rating agencies are optimistic that most energy states will be able to withstand the drop in oil prices, and the states' economies are diversified enough with their other employment sectors to weather it.

Home Buyers Took a Break During the Holidays

Mortgage applications dropped sharply during the holidays, plunging 9.1 percent for the week ending Jan. 2 compared to two weeks earlier, according to the Mortgage Bankers Association's mortgage activity index. The index reflects adjustments for New Year's Day and Christmas Day when banks are closed.

Applications for refinancings dropped 12 percent from two weeks ago, while mortgage applications for home purchases, viewed as a leading gauge of homebuying activity, dropped 5 percent.

"Beyond the seasonal slowdown, purchase application volume remains about 8 percent below last year's level, indicating that home buyers are still cautious," says the MBA's chief economist, Mike Fratantoni.

Home shoppers have been slow to jump into the housing market, despite low mortgage rates. The 30-year fixed-rate mortgage fell to 4.01 percent for the week ending Jan. 2, according to the MBA. Lower bond yields this week are pushing rates even lower, with the average 30-year fixed-rate mortgage now a full quarter point lower than average rates available in the second half of December, the MBA notes.

Interest-Only Loans Return: Good or Bad?

Interest-only loans, once blamed for the subprime mortgage crisis, are gradually re-emerging. But the product has changed somewhat, which may ease some of the industry's fears about their comeback.

As home values rise, borrowers and lenders' confidence in interest-only products is growing once again, Guy D. Cecala, CEO and publisher of Inside Mortgage Finance, told The Wall Street Journal.

With interest-only loans, borrowers make monthly interest payments and pay nothing toward the principal for a set period of time. The majority of interest-only loans today are geared toward wealthy borrowers and centered at the jumbo-mortgage level. Jumbo loans exceed limits of \$417,000 in most areas or \$625,000 in high-price areas, notes Cecala.

"Most lenders think interest-only mortgages are very safe because the borrowers have strong credit profiles and generally put down large down payments," Cecala told the Journal.

Banks are being more stringent on who can qualify for an interest-only loan. For example, at Jacksonville, Fla.-based EverBank, a borrower needs a credit score of 740 or higher, a down payment of at least 35 percent, and a debt-to-income ratio of 43 percent to qualify for their interest-only jumbo product.

Prior to the housing crisis, lenders mostly qualified borrowers for interest-only loans based on only what their interest payments would be. However, lenders today are qualifying borrowers based on their ability to pay both interest and principal, says John Walsh, president of Total Mortgage Services, which is based in Milford, Conn.

Walsh says that on a \$1 million, seven-year ARM with an interest rate of 3 percent, the monthly payment for the first seven years would be \$2,500. However, the lender would calculate the borrower's debt-to-income ratio using a \$5,020 monthly payment of interest and principal at the starting rate.

Mortgage rates stayed low in 2014, even inching below 4 percent for the 30-year fixed-rate mortgage, but rates are highly anticipated to rise this year. If landlords raise rents, interest-only loans likely will grow as a more desirable option to home buyers, says Cecala.