CrossRoad Associates

The Right Direction for Real Estate

Direct: 703-209-4336
Email: expteamcra@gmail.com
TeamCRA.com

exp REALTY
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13800 Coppermine Rd., Suite 241
Herndon, VA 20171
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THE SPRING HOUSING MARKET OUTLOOK

Spring homebuyers and sellers may need to make an unexpected adjustment to their plans as mortgage rates have experienced a sharp spike in advance of the spring market launch. Fears of higher inflation due to a strong economy (basically a positive) and higher than anticipated government borrowing needs are the main drivers.

There was already an extra dollop of uncertainty as the spring housing market gets underway due to the possible impact of tax reform. Will consumers, with extra dollars in their pockets choose to use them to purchase a new home or will the new, mostly modest, tax changes affecting homes put a bit of a damper on sales?

Now we look to the effect of higher mortgage rates. Will buyers move more quickly to lock in rates before they climb higher? They usually do, at least in the earliest stages of a rate rise. Will sellers pull back, electing to keep their current home and cheap mortgage, worsening already tight inventory conditions?

Thus begins the most active period of the year for home sales. The uncertain conditions notwithstanding, we expect that millions of homes will be sold and bought this spring.

The early feedback from Realtors is that the move of mortgage rates, to right around 4 1/2% for 30-year fixed-rate mortgages (both conforming and jumbo) is not deterring buyers as we gear up for the spring market. In fact, they seem determined to move forward with their plans to get ahead of further rate increases.

Spring home sellers will be in an exceptionally strong position early on due to the meagre inventory of homes....

So, once again, spring home sellers will be in an exceptionally strong position early on due to the meagre inventory of homes for sale in many markets. The inventory of homes in January was only 3.4 months of supply at the current sales pace, a small tick up from December. A six months supply is a balanced market.

Homebuyers this spring will need to demonstrate an uncommon degree of patience. In recent months, they have been looking for just that, mostly out of necessity. According to a survey, some 61% of prospective homebuyers had been looking for three months or more.

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Finding a home at a price they can afford is the most commonly mentioned stumbling block, followed by finding a home with the features they want or in the neighborhood they want to be in.

The sparse inventory conditions are making these difficulties, not uncommon even in more balanced markets, more typical than usual, no question. Still, spring homeseekers should not despair if they find their search is taking longer than they would have liked.

Nearly half a million buyers are finding homes every month, so the process is clearly working for the stalwart. There can be success at the end for buyers who persist in the pursuit of their goal.

As a result of the scanty supply of homes, many spring sellers will be emboldened to up their asking prices over last year's sales, especially in those communities where competition is particularly scarce.

However, sellers should remember that an increased price means that there are fewer buyers who can qualify to purchase their home. And, with mortgage rates starting to climb from current levels, some purchasers are already being pared from their home's buyer pool.

For every $100,000 in mortgage amount, the increase in 30-year fixed rate mortgages from January's 4% to 4 1/2% will have changed the mortgage payment from $477 to $507, an increase of some 6%.

Most buyers probably can digest that increase, but any further hikes may be harder to swallow. Sellers need to be prepared to temper their price demands if the market starts to show resistance, especially if rates do climb further.

One thing likely to keep home sales perking along is the strength of the economy, with rising incomes and employment bolstering Americans' feelings of well-being. Consumer confidence in February registered the second-highest level since 2004.

However, an economy that is hitting the highest unemployment levels in years is a concern for the Federal Reserve, which wants to keep inflation in check.

Financial markets sent interest rates in general higher in February due to, among other things, expectations that the Fed would be more aggressive in raising interest rates than it has been for many years.

The Fed had telegraphed three or four 0.25% increases in short-term interest rates for this year and markets are now building in the higher number and quicker action on those increases.

Those increases will not necessarily feed directly into mortgage rates, fortunately. In fact, the Fed's demonstration that it will act to rein in inflation might actually help keep longer term rates, like those for mortgages, from climbing higher.

February's rapid runup in rates lifted 30-year fixed-rate mortgages well above the 2018 glide path most industry economists had forecast.

The typical forecast had rates averaging around 4.5% for the year, about where we were in late February. Several forecasts had rates climbing toward 5% by year-end.

If rates get to 5% sooner than that, will sales plummet? Probably not. A recent survey found only a handful of home-seekers would abandon their plans, even if mortgage rates passed 5%.

Due to the sparse inventory conditions, existing home price gains are expected to continue this year, though at a pace that may finally be slowing down to a more sustainable one due to the anticipated rise in mortgage rates.

Housing data analytics firm CoreLogic reports that from December 2016 to December 2017 home prices were up 6.6% nationwide. For the twelve months ahead for the period ending December 2018, CoreLogic predicts home prices will rise another 4.3% as higher interest rates and prices start to put the brakes on appreciation.

New Homes to Play Bigger 2018 Role

Homeseekers frustrated by the lack of existing homes or just seeking the most up-to-date home design and features should look seriously at new construction. Builders started the most new homes in over a year in January and filed for the most building permits since 2007.

Not surprisingly, considering the January activity, homebuilders are pretty pumped about their business. Builder sentiment was 72 in February, just two points short of December's post-recession high. Fifty is a neutral reading.

Their confidence about market conditions six months ahead was the most positive component of the monthly survey, so they do not appear to be fearful of the impact of rising rates. Builders also rate current conditions and buyer traffic as part of the survey.

Builders, especially the big national companies, are constantly monitoring activity at their sales trailers and model homes, so they know the tone of the market better than most.

An early trip to builder communities before the spring crowds arrive should be especially well received at their sales offices. Take your Realtor to help in your negotiations. If you have a home to sell, builders are usually going to want to know that you have a profes-sional marketing it for you.

Since builders don't maintain a lot of inventory, that may mean you will have to contract for future delivery (the typical new home takes about six months to build), but the anxiety of the home search will be minimized. For some tips on navigating a new construction purchase, see page 4.

Whatever the intended source for their purchase, whether existing home or new construction, all 2018 homebuyers would do well to get an early start on their home search. That way they can get in front of any unexpected price rises if inventories get even sparser and minimize their risk from future rate increases.

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However, if there might be an exception to the refi doldrums we expect to see in 2018, it could be cash-out refinances.

The more than 40 million homeowners who are sitting on a collective $5.4 trillion in equity from their personal residences may be enticed to access some of that equity for worthy (maybe even some not-so-worthy) purposes, say to pay college costs for the kids or to extinguish other, more costly, debt.

But borrowers should understand that, unless the funds are used for substantial improvements to the home, interest on the excess about the prior mortgage balance will likely not be deductible.

This is to prevent homeowners from using a cash out refi to escape the general disallowance of deductibility for home equity loans (except those for the purpose of home improvement).

Conforming Limits Rise Again

One big change for spring 2018 is in the maximum loan amount available with the various major mortgage programs.

Fannie Mae's and Freddie Mac's conforming loan limit (maximum loan amount) rose for the first time since 2006 last year. This year the conforming limit rose a whopping 6.8%, from $424,100 to $453,100.

Both Fannie & Freddie's maximums for their special programs for high-cost areas have also risen, from $636,150 to $679,650 in the 48 contiguous states. All but 71 U.S. counties or their equivalent have higher limits this year.

FHA, which has been the choice of first-time homebuyers due its low (3.5%) minimum downpayment, will also have an increased maximum loan amount.

For 2018, FHA is able to insure to a maximum loan amount of $294,515 anywhere in the U.S. and to $679,650 in high-cost areas.

Some 3,011 counties have seen their FHA loan limit rise for 2018, while 223 counties saw their maximum loan amount remain unchanged.

VA Limits Also Rise

VA loans, for veterans and qualifying reservists, National Guard members and military spouses, are available everywhere in 2018 for those who have full eligibility in amounts up to the $453,100 conforming limit without a downpayment.

Like FHA, Fannie & Freddie, the VA has special limits for high-cost metro areas. The 2018 limits cap VA loans in high-cost metro areas at the same $679,650 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.

Understand, the maximums in a given high-cost area may not be the same for all of these programs, due to differences in the formulas for local median prices.

Check with your Realtor or mortgage specialist to find out the limits of each program in your area.

Oh, by the way, did you freeze your credit at any or all of the three major credit agencies due to the Equifax data breach last year? If you plan to buy a home this spring, make sure you unfreeze those accounts first.

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As a consequence, those considering a reverse mortgage need to take a fresh look at their alternatives and/or timing.

At the very least, seek out a reverse mortgage calculator for a current readout of your borrowing power, such as that at **reversemortgage.org**.

One reason why we want to raise this issue now is that it is such a great time to sell a home. If you are close to retirement and were counting on using a reverse mortgage, other options might work even better, including an outright sale.

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addendum. Take time to carefully review such items as the budget, schedules (especially deadline dates for any decisions you will need to make) and what the builder will cover under warranty.

Realize changes have a cost.

Don't expect a builder to make free alterations or substitutions. Be prepared to pay for changes if you must have them. Make sure that you are clear about what features and finish are standard items and what (especially in the builder's model) are upgrades.

Make decisions early.

The earlier that decisions are made, the less risk of incurring extra costs and causing construction delays. Unavoidable delays are likely to happen anyway, but don't be the cause of them.

Stick with your decisions.

Try to make your decisions final. Changing your mind about features or finish items, whether for a custom home or for a builder's model, can add time and expense to the project.

Check progress with a purpose.

Who can resist peeking to see how your new home is coming along (though builders often discourage it)? Appreciate, though, that construction sites can be dangerous, so leave the kids and pets at home when you do.

When you do visit the site, check that the home is being completed according to the plans and that any modifications or choice of finishing items are being done as specified. Catching errors early can minimize delays and ensure that the home is completed as you contracted.

Consider getting a home inspection.

Even though you have a warranty and local inspections are being done, a home inspector can catch unnoticed mistakes. New-home inspections are typically conducted at several stages of the construction process when possible.

MORTGAGE RATES CLIMB TO START SPRING

As the spring 2018 housing market gets underway, 2017's sub-4% mortgage rates have been left in the rearview mirror. However, even with rates having risen to right around 4 1/2% in late February, it is important to realize that they are still well below the historical averages.

Spring homebuyers will need to adjust to the reality of volatile mortgage rates and strongly consider early rate locks when they have found their home of choice. There is an expectation that rates will be going higher as the year progresses, perhaps toward or through the 5% level later this year.

As 2018 started, the Federal Reserve, now under a new chairman, Jerome Powell, indicated that it would be hiking short-term rates three or four times during the year, probably by 0.25% each time.

However, markets are starting to factor in a Federal Reserve poised to hike assertively in 2018, starting, perhaps, as early as mid-March.

That won't necessarily translate directly into higher mortgage rates, though, so long as financial markets feel that inflation remains under control.

Unfortunately, a recent government announcement that it would need to borrow about $1 trillion in 2018 and for several years into the future has done some damage to financial markets' confidence that rates can be constrained.

Rising rates have taken a lot of wind out of the sails of the refinance market. So many homeowners have refinanced in recent years that even a small bump up in rates leaves many owners with little motivation to refi.

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RETIREES MAY WANT TO RECONSIDER REVERSE MORTGAGE PLANS

Many older Americans are anticipating using a reverse mortgage to help fund their retirement. Maybe half according to one survey.

However, the most popular program has been losing money for the government in recent years, so its future as presently constituted is in serious doubt.

By far the most widely used reverse mortgage is the FHA's Home Equity Conversion Mortgage. Homeowners over the age of 62 can qualify for a HECM, which supporters tout as a way for seniors to stay in their home and draw on their equity.

Major changes in the program in 2014 and 2017, aimed at reducing the losses that the HECM program has been experiencing, have made it significantly less generous than it was in its infancy, though.

The 2017 changes reduced the maximum mortgage amount from 70% of the home's value to 60%. The modification also reconfigured the borrowing formula and imposed a flat 2% upfront insurance fee. There is also a 0.5% monthly fee.

If you had looked at what you could receive under the HECM program previously and figured that with another year or two of age you would be able to borrow even more, you may be disappointed.

However, the program is still projected to be an economic drain on the FHA (some do argue those figures are faulty) and damage its ability to help home buyers, especially first-time buyers, the mission for which it was created.

So, we should not be surprised to see more unfriendly changes to improve the viability of the program ahead.

REVERSE *continued on page 3*

SOME HELPFUL TIPS FOR NEW-HOME BUYERS

Inventories of existing homes have gotten even more skimpy since this time last year. In contrast, homebuilders are continuing to ramp up new construction.

While newly constructed homes are often relatively more expensive than existing homes, the lure of their modern features, contemporary design and guaranteed availability (eventually, anyway) are keys to their considerable appeal.

Here are some tips for purchasing a home from a builder. **Be sure to bring your Realtor to help you negotiate and to overcome all the issues and challenges that may arise.**

Understand your wants and needs.

If you are not entirely certain about what you are looking for in a new home—both your requirements and desires—then you risk finding that they are not met when the house is completed and you've moved in.

New-home buyers should try going room by room in their current home to figure out what features they feel are most in need of change or improvement.

Research your builder.

A great floor plan isn't worth much if the builder doesn't deliver what they have promised. Reference checks can include past customers, suppliers and subcontractors. Small builders, especially, may warrant a Dun & Bradstreet check to determine their financial soundness.

Get it in writing.

Make sure understandings between you and the builder about any aspect of the home, site or transaction are in the contract or an

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