

Hot Housing Markets; Government Intervention - Does it Always Help Housing?

By: Rob Chrisman | Thu, Sep 10 2015, 10:22 AM

For those who follow legal news, and those interested in not only "blowing the whistle" on other companies but also in "ratting out" co-workers and executives of your own company, "[the Justice Department issued new policies](#) that **prioritize the prosecution of individual employees** - not just their companies - and put pressure on corporations to turn over evidence against their executives." Lenders, of course, take on plenty of risk already - but now their actions and overlays will be influenced with public statements like this.

Well, with the passing of Labor Day, summer has officially come and gone...except in Arizona, where temps are expected to dip sometime before the next ice age. Over the next month, data will start to filter down as to how well home sales were in the summer months; that whole "seasonally adjusted" number some people find interesting. [Well Fargo](#) is slightly ahead of the curve, "**Housing was a notable bright spot** during much of this past month's financial market turmoil. Home sales and new home construction both improved, while price appreciation generally moderated across much of the country. Homebuilders reported improving conditions throughout much of the country and many noted that buyer traffic is rising and order backlogs are increasing. Forward-looking indicators, such as pending home sales and mortgage applications, also remain solidly positive, suggesting that housing will gain further momentum during the second half of the year."

[Some housing markets](#) are hot, but according to Bloomberg [high-priced markets are losing value](#). "Almost half of single-family houses in the New York and Washington metropolitan areas are losing value, a sign that buyers' tolerance for high prices in many large U.S. cities may be reaching a limit."

In 2002 President George W. Bush proclaimed, "We want **everybody in America to own their home**." That is still Washington's creed, evidenced in our industry by Freddie and Fannie going to 3% LTV back in January. But that is not the only indication, and going back to the Democratic administration of the 1930s reveals a whole list of things our government does to support the housing industry. The FHA offers low-interest mortgages. Fannie& Freddie, by repurchasing and guaranteeing mortgages, help hold down interest rates. Homeowners receive a variety of tax breaks, including a mortgage-interest deduction and a property tax write-off, which add up to more than two hundred billion dollars a year.

But does all that work? Other western countries don't have anything like our range of pro-housing enticements, and their **rates of homeownership aren't much different** than ours. Critics argue that the main impact of the mortgage interest deduction and other subsidies is not that they nudge people to buy houses. It's that they get people to buy bigger, costlier houses than they otherwise would. The bigger your mortgage, the larger the tax deduction you get. Real estate agents know this only too well. And thus we find that nearly all the economic benefits of the mortgage deduction go to people earning more than a hundred thousand dollars a year - is that the intent?

The big lenders are reluctant to do FHA deals in the 580 FICO score range. While this is opportunity for the smaller lenders, it **needs to be addressed with FHA**. This prompted one broker to write to me saying, "Why is FHA doing this? The only reason to accept a 580 FICO score is when the consumer has basically no credit. They pay cash, therefore have no score. This is not a bad thing since alternative credit can be used: prove the utility bills, phone, insurance, daily life expenses are paid and ongoing. There are people that have excellent payment histories, but chose not to use credit. It is called living within your means. They are typically a good credit risk. The 580 score due to collections, late payments etc. is NOT a good credit risk." Of course borrowers with a 580 FICO see large loan level price adjustments - something near 3 points vs. 1.5 for borrowers with a 620 FICO score. Home ownership is at its lowest level since 1967 and most agree that there is a huge sector of the population that has been displaced from homeownership. And many think that lending to 580 credit score borrowers won't help.

All these **tax breaks** do inflate housing prices, but are expensive homes really better for society? A major reason for the low down payment program is that homes, even after the crash, are priced beyond the means of many Americans. And though certain programs may turn more low-income people into homeowners, it also means that more lower-income homeowners will default. I don't have exact figures but my guess is that the default rate for mortgages with down payments of less than 10% are significantly higher than the default rate for mortgages with down payments above 10%.

As critics point out, many of the tax breaks and incentives lead Americans to **overinvest** in housing and arguably **underinvest** in other kinds of assets. Most Americans have nearly all their wealth tied up in their homes. That is risky for them and for the economy as a whole. When the economy is doing well, people pour more and more money into housing; when the economy is doing poorly, they stop. And thus, as author James Surowiecki points out, the housing industry tends to amplify the economy's ups and downs. "The government has been subsidizing a notoriously manic-depressive sector of the economy...A big house may be great for the people who live in it. But should taxpayers really help foot the bill for their mortgage?"

Regardless of cash or financing, Zillow found that **seven of the top ten metros** with the **highest share of home purchases made in cash** were in Florida, whereas six of the top 10 metros for the lowest share of cash purchases were in California. One of the reasons for this could be that homes on the West Coast are more expensive than homes in the Eastern market and many people buying a home in cash are looking to purchase many, less expensive homes for investment purposes. Some of the top metros with the highest share of cash purchases include Miami, FL, Tampa, FL, Cleveland, OH, Jacksonville, FL and Scranton, PA and some of the bottom metros by share of cash buyers include Denver, CO, Seattle, WA, Portland, OR, San Diego, CA and San Francisco, CA.

The solid housing trends go back a ways. For example, when Zelman & Associates published their single-family rental survey for May it indicated that demand is outpacing inventory. Single-family landlords benefitted from the high rental demand and low rental inventory, as new move-in rent growth increased to 4.7 percent. Occupancy remained at 96.6 percent, down 10 basis points sequentially from April, but up 100 basis points YoY.

Turning our attention to the bond markets... Up some, down some, so go the fixed-income markets. Yesterday it was down some and then up some after a strong reception for the \$21 billion 10-year note auction helped to improve sentiment for government debt. Prior to that China's finance ministry said that it would increase infrastructure spending and reform the tax system to stimulate the economy, and Japan's Nikkei had its biggest gain since 2008. Job openings hit a record in July according to JOLTS data.

Today for thrills and chills we've had Initial Jobless Claims for the week ending 9/5 and Continuing Jobless Claims for the week ending 8/29 (-6k to 275k, +1k to 2.26 million), and August Export Prices ex-ag. and Import Prices ex-oil (-1.4%, -1.8% respectively). And ahead of us, if you have any spare change in those pockets, is a \$13 billion 30-year auction. Wednesday wrapped up with the 10-year at 2.18% and this morning, after these early numbers, we're at 2.19% and agency MBS prices are roughly unchanged.

Jobs and Announcements

In wholesale lending job news, "**Bluepoint Mortgage** is quickly establishing itself as a leader in government loans. Owner and Non-owner streamlines down to 580, 100% VA cash out refinances down to 580, no lender fees on FHA Streamlines and IRRRL's. We are now looking for talented AE's interested in expanding their territories with virtually no account overlap! 'Our broker centric philosophy is a commitment to drive a consistent customer service experience in a highly collaborative and transparent environment.' We need both internal and field AE's that are eager to grow their business and be part of something special. If you are driven, love working in a collaborative and energetic environment we are interested in speaking with you! [Bluepoint is searching for wholesale AEs/Sales Managers](#) in California, Arizona, Utah, Oregon, Texas and Colorado. If you are interested in being part of dynamic growth opportunity please contact [Phil Garcia](#) (714.824.8085).

On the retail side, **Security One Lending**, a subsidiary of Reverse Mortgage Solutions, Inc., the oldest reverse mortgage lender in the country, is searching for forward mortgage LOs interested in learning about offering reverse mortgages to their clients. The ideal candidate is someone interested in building relationships with Realtors and financial planners, working independently, and having a unique & lucrative compensation package. [Reverse Mortgage Solutions](#) is the largest servicer of HECM-backed securities, the largest issuer of Ginnie Mae-approved Home Equity Conversion MBS, and advises HUD on its reverse program. The lender offers loan servicing & origination technology, consulting services, and asset management services, and is preparing to launch several "lunch and learn" sessions about reverse mortgages. Contact [Kyle Westrom](#) (832.616.5947) with confidential inquiries.

And a lender based on the West Coast is searching for a buyer for its high quality intermediate ARM product. This lender is currently producing \$20-30 million per month, primarily jumbo product, across the United States and wishes to retain the servicing. Ideal buyers, on a flow basis, include money managers, banks, and credit unions that desire to own a residential asset originated and serviced in a compliant manner but do not wish to service mortgages. Principals only, please, and inquiries should be sent directly to me at rchrism@robchrism.com.

In company news, according to Inside Mortgage Finance's list of Top Correspondents, [AmeriHome Mortgage](#) grew 90% from Q1 to Q2, moving it from 12th to 7th place nationally and making AmeriHome the fastest growing correspondent investor in the business. "To support our clients' growth, management is pleased to welcome [Amanda Lewis](#) as Account Executive, South Central Region (including NM, TX, OK, AR, LA, and MS). Amanda brings over 10 years of account management and sales experience to AmeriHome's team of seasoned and talented mortgage professionals."

And Dallas' **Texas Capital Bank** spread the word that it has created a correspondent aggregator channel to complement its existing warehouse lending program. The bank plans to hire 100 mortgage professionals to staff the new division.

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