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INVESTOR'S BUSINESS DAILY®

October 9, 2008

A Wild Time To Buy A Home, But Some Are Answering The Call

By BRAD KELLY

Housing could be in for more bruising despite rescue efforts, as bank balance sheets teeter, and if world financial and economic fears are realized. The risks include further falls in home prices and the prospect of more Americans facing foreclosure.

The wait isn't helping. It will take several weeks for the government to start purchasing troubled assets.

However, optimists have started to stake a claim by buying homes — particularly in hard-hit hot spots throughout California, Nevada, Arizona and Florida, also Rhode Island and Washington, D.C. And mortgage applications have surged on rate dips, amid much fluctuation.



"What we're seeing is the momentum of people taking advantage of low home prices," said Lawrence Yun, chief economist for the National Association of Realtors.

The number of home-purchase contracts signed in August, before the tumult hit Wall Street, rose 7.4% from July. That was driven by the unloading of deeply discounted, foreclosed homes in the West. The boost brought the pending home sales index to its highest point since June 2007, NAR data show.

What About September?

"Investors buying foreclosed land was likely the key driver," said Gibran Nicholas, chief executive of the CMPS Institute, which certifies mortgage bankers and brokers. "A sale is a sale and it trims inventory off the market. The real test is to see what happens in coming months, but these numbers are welcomed."

September pending home sales figures are due out Nov. 7.

Economists will learn how many of August's pending sales went through, or fell through, when existing-home sales are reported Oct 24.

"It's unclear how much contract activity may be impacted by credit disruptions, but we're hopeful most of the increase will translate into closed existing sales," Yun said.

Banks are hesitant to lend as they and other financial firms work through myriad issues, with federal help. The White House said Thursday that the Treasury Department is considering taking equity stakes in banks that request it, to shore up their capital and ease tensions.

"Getting it right is as important as getting it done quickly," Treasury Secretary Henry Paulson said of rescue efforts in a briefing Wednesday.

"The government is going to take some time to put this process together and in the meantime banks won't be lending money — and that's not a good thing," said Bill Cobb, president of Granite Loan Management, which manages construction-lending portfolios for financial firms.

If banks don't lend money a recovery could take some time, he says, but otherwise the housing market might be close to a bottom.

Mortgage markets are not as bad as money markets now, says Carol Clawson, an agent with Keller Williams Realty in Palm Beach Gardens, Fla. Mortgages can still be had but home buyers must meet tougher criteria to get them, she says.

Mortgage applications rose 2.2% in the week ended Oct. 3, the Mortgage Bankers Association says. Lower interest rates lifted home-purchase loan applications.

Many economists see fostering a stable housing market as key to curing the financial crisis, and say the government's acquisition of mortgage entities **Fannie Mae** (FNM) and **Freddie Mac** (FRE) will help.

The average interest rate for a 30-year fixed mortgage dropped in September after the takeover news, then resurged on economic uncertainty. It fell to 5.94% for the week ended Thursday, Freddie Mac says.

Scene Changing

Rates on long-term mortgages tend to move with the 10-year Treasury note yield, which can change with risk appetite and the economic outlook. The yield fell the first few days of October and has risen since.

Jumbo mortgages go for much higher rates than usual. They are tough to get, Nicholas says, especially those above the level Fannie and Freddie can buy, about \$730,000.

It will take a reduction in inventory and more affordability for a real housing recovery to start, he says.

"Government involvement was unavoidable," Nicholas said. "It will help to unclog the financial system so that lending can resume, which in turn will help the housing market."

The recently passed rescue package encourages loan workouts.

Affordability is getting there, Nicholas says. Mounting foreclosures, a record 2.75% of all mortgages in the second quarter, and inventory, keep curbing home values.

The supply of existing homes for sale at the end of August was 10.4 months, down from 10.9 in July. Five to six months' supply reflects a stable market. Home prices in 20 metropolitan areas fell 16.4% in July from a year earlier, the S&P/Case-Shiller index shows. But the pace of monthly declines is slowing.

"I think that things will stabilize," Nicholas said. "There is a sign of at least some bottoming out there."



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