

August 2009 Archive

Mortgage rates up slightly, still near record lows

WASHINGTON – Aug. 28, 2009 – Rates for 30-year home loans edged up this week, but remain close to record lows reached over the spring.

The average rate for a 30-year fixed mortgage was 5.14 percent, up from 5.12 percent a week earlier, mortgage company Freddie Mac said Thursday. Rates, while above the record low of 4.78 percent hit in the spring, are still at attractive levels for people looking to buy a home or refinance.

“Long-term mortgage rates were barely changed this week, remaining historically low, which is helping to sustain a high level of affordability in the home-purchase market,” Frank Nothaft, Freddie Mac’s chief economist, said in a statement.

To revive the economy, the Federal Reserve has spent more than \$600 billion out of a promised \$1.25 trillion in mortgage-backed securities, which has driven down rates on home loans. It has also left a key interest rate near zero.

Now that the economy is on the mend, Fed policymakers must decide how and when to withdraw that support. Some analysts think it could take four or five years for the Fed to pull back entirely and shrink a balance sheet that is now about \$2 trillion, more than double what it was when the financial crisis struck.

Despite government efforts to prop up the mortgage market, qualifying for a loan is still tough. Lenders have tightened their standards dramatically over the past year, so the best rates are available to those with solid credit.

Freddie Mac collects mortgage rates on Monday through Wednesday of each week from lenders around the country. Rates often fluctuate significantly, even within a given day.

The average rate on a 15-year fixed-rate mortgage rose to 4.58 percent from 4.56 percent last week, according to Freddie Mac.

Rates on five-year, adjustable-rate mortgages averaged 4.67 percent, down from 4.57 percent a week earlier. Rates on one-year, adjustable-rate mortgages were unchanged at 4.69 percent.

The rates do not include add-on fees known as points. The nationwide fee for all loans in Freddie Mac’s survey averaged 0.7 point for 30-year and 15-year loans, and 0.6 point for five-year and one-year loans.

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Survey: People moving for happier reasons

ORLANDO, Fla. – Aug. 28, 2009 – People have gone back to moving in hopes it will improve their lives rather than moving to escape foreclosure or other aspects of the economic crisis, according to a survey of recent movers released this month by Relocation.com.

In the June survey, nearly 42 percent said they were in the process of buying a home or planning to buy one. Poll participants said their reason for moving was:

- To live in a bigger or better home (26 percent).
- To live in a better neighborhood or area (24 percent).
- To be closer to family or friends (12 percent).
- To live in an area with a lower cost of living (9 percent).
- To accommodate a change in marital status (6 percent).

Moving because of school, job loss, retirement or foreclosure each generated 3 percent or less.

Responses to this survey are substantially different from the responses to a similar survey in March, when 41 percent said the recession was, at least partially, driving their move.

Source: Relocation.com (08/06/2009)

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Vacation home market heats up □

BREVARD COUNTY, Fla. – Aug 28, 2009 – Real estate agents in Florida are seeing increased interest in vacation homes, with the Space Coast Association of Realtors reporting a 9 percent jump in condominium sales during the first eight months of the year compared to the same period in 2008.

According to Coldwell Banker Ed Schlitt Realtors agent Richard Webb, inventory in Brevard County has fallen to a 15-month supply, down substantially from a 51-month supply about two years ago. With foreclosures and short sales accounting for a large number of listings, buyers in search of retirement properties are grabbing the bargains.

According to Cathy Nichols of Tropical Realty & Investments in Brevard, an Alaskan buyer recently bought a condo for \$65,000 in cash without ever visiting it in person. Nichols says vacation homes make up 90 percent of the transactions she and her business partner have closed recently, adding that many buyers say they are taking money out of

stocks and retirement plans and sinking it into real estate.

Source: Florida Today (FL) (08/23/09) P. 1F; Straub, Anne

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Home insurance: Shop around for the best price, coverage

TALLAHASSEE, Fla. – Aug. 19, 2009 – State Farm, Florida’s largest private property insurer, plans to leave the state. Major insurers, including Nationwide, Allstate and State Farm, have dropped more than 350,000 policies in recent years. And state regulators have licensed more than two dozen new insurers in just the past three years.

Now, perhaps more than ever, it’s important to know how to shop for insurance. Even though the current hurricane season has been quiet, Florida’s stormy property insurance industry is undergoing rapid changes.

And even if you’ve had the same insurer for years, consumer advocates say it’s a good idea to do some comparison shopping.

Here’s why: State Farm plans to shed its 1.2 million property insurance policies, including about 900,000 residential policies, by the end of 2011. The company hopes to resolve a dispute with the state about its exit plan at hearings in October.

“I haven’t had to shop for insurance in 30 years,” said former State Farm policyholder Chuck Clymer, a retired homeowner in Lake Worth, after the insurer’s announcement. Soon after, Clymer said he found a new home insurer even though he was reluctant to drop his State Farm policy.

“I don’t care how many Florida companies there are. At some point, these companies are going to reach their limit and say, ‘We’re not going to take any more (customers)’”, Clymer said.

Florida Insurance Consumer Advocate Sean Shaw said last week that State Farm policyholders should “start looking as soon as possible.” The company plans to eliminate certain discounts starting in November.

That “is essentially a rate increase,” Shaw said. “Consumers should shop around to make sure they are getting the most coverage for their premium.”

To help you get started, here are some answers to common questions from Sun Sentinel readers on shopping for home insurance.

Some Florida insurers stopped selling new policies or dropped customers after the 2004

and 2005 hurricanes. What insurance options do South Florida homeowners actually have?

In short, there are many options. Since 2006, the Florida Office of Insurance has licensed more than 28 new home insurers with more than \$1.1 billion in capital. That doesn't include eight existing insurers that have added home coverage to their offerings since 2006.

But insurers limit how many homes they'll cover in any one area so you may need to do a broad search contacting many insurers or multiple insurance agents about coverage and costs.

When should State Farm policyholders switch to new insurers?

Insurance companies can issue new policies during hurricane season, unless there's an active storm or storm watch, but consumer advocates say it's best to wait until the season ends on Nov. 1. That's also when State Farm can start eliminating some of its discounts and its statewide rates are expected to increase by an average of 28 percent.

State Farm plans to shed its policies over the course of two years and only when policies are up for renewal. They must warn customers their policies will be dropped 180 days before it happens.

What's the best way to start shopping for property insurance?

Check out which insurers have the most policies in your county, their contact information and a comparison of their rates for two particular types of homes at the state's Shop and Compare Rates website, <http://shopandcomparerates.com>.

Consider trying the state's free referral service, the Florida Market Assistance Program. It matches customers who can't find property insurance with licensed agents and insurers selling new policies.

Enlist the help of one or more independent insurance agents, an agent that sells policies for multiple companies. You can find one by searching the Florida Association of Insurance Agents website, <http://faia.com/Custom/agentlocator.aspx>.

Are national insurers better than Florida insurers?

National insurers theoretically can spread risks over a broader range of policyholders but most in Florida don't have that advantage. That's because they created Florida-only subsidiaries to protect policyholders in other states from Florida's hurricane risks.

Established companies – whether they're local or not – have the advantage of experience and a track record. That said, you should aim for an insurer that offers you the most coverage for the best premium.

How do you assess the quality of an insurer?

Ask relatives, neighbors and friends about their experiences with particular insurers. Ask your agent to check ratings done by A.M. Best, Demotech and other rating agencies for insurers you're considering. Rating agencies typically evaluate the financial health of an insurer by examining, among other things, how much cash it has compared to its potential risk. Some rating agencies provide summaries of their evaluations on their websites.

You also can check an insurer's license and financial health because all fully regulated insurers are carefully vetted by the Florida Office of Insurance Regulation, and there is a state backup fund that handles claims in case an insurer folds.

Licensing and financial information for insurers can be found on the websites of the insurance regulation office, <http://fldfs.com>, and the National Association of Insurance Commissioners, <http://naic.org>.

The Florida Department of Financial Services tracks insurance policyholders' complaints. Look up the complaints at SunSentinel.com/insurance.

Consumers with questions also can call the state's insurance consumer help line at 850-413-3089 or 877-693-5236.

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Fla. population drops for 1st time since 1946

JACKSONVILLE, Fla. (AP) Aug. 18, 2009 – Florida's population has declined for the first time in 63 years, state researchers said Monday as they blamed the recession for plunging tax revenues and a steep drop in new residents.

The decline — 58,000 people over the past year — is the first since large numbers of military personnel left the state in 1946 after World War II.

“There have been booms and busts over the time, but this is the first time it has declined,” said Stan Smith, director of the University of Florida's Bureau of Economic and Business Research.

Florida's economy relies on population growth, so when the flow of new residents slows, jobs in construction, real estate and mortgage lending disappear, creating a less attractive environment. Florida's unemployment rate crept up to 10.6 percent in June, the highest rate since 1975, and the state's foreclosure rate is among tops in the nation.

The population estimates were produced using data from residential electric hookups,

building permits and homestead exemptions, Smith said. The university is expected to release details of city and county populations Wednesday.

Florida's population is about 18.3 million, according to the U.S. Census Bureau.

Part of the reason fewer people are moving to the state is their inability to sell their homes in other states, Smith said. The leading source for domestic migrants to Florida continues to be New York, but the pace of migration is slowing, Smith said.

The study did not measure the number of people leaving Florida.

"Historically, they have gone to other Sunbelt states," he said.

The population drop has left empty seats in classrooms. The state's estimated public school enrollment for 2009-10 is down 10,000 from the previous school year, according to the Florida Office of Economic and Demographic Research.

The future is not all gloom and doom, Smith said. Demographers expect Florida to resume growth again, just not as fast as in the past.

"As the country moves out of the recession, we expect growth to increase," Smith said. "But not as high as levels we've seen over the last three or four decades."

In an ideal world, the pause in growth may allow policy makers to make better planning decisions, said Charles Pattison, president of the smart growth advocacy group, 1,000 Friends of Florida.

"The state has always had ups and downs on the population curve," Pattison said. "We think there is still going to be pressure to have more population growth."

Other elements contributing to the population slowdown include frequent hurricanes, high coastal property insurance and a rising cost of living, he said.

"The whole Florida phenomenon is based on low cost, low taxes, cheap to live," Pattison said. "I think most people think, regardless if we're in a recession or not, those factors are different than anything we've seen before."

Sen. Don Gaetz, chairman of the Florida Senate's Select Committee on Florida's Economy, said changes are needed in the way Florida manages its economy.

"Our economic policies need to be tied to economic reality," the Niceville Republican said. He said the Legislature began removing some impediments that restricted business activity.

"In the '80s and '90s, the No. 1 issue was growth management," he said. "Now we wish we had some growth to manage."

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Home prices now affordable, but fear keeps many from buying

TAMPA – Aug. 17, 2009 – Homes haven't been this affordable in decades. Real estate agents have plenty of business. Desirable properties can be had for less than half the price of two years ago.

So why aren't sales booming?

Fear.

"I had a deal fall through the week before closing because the buyer lost his job," said Joe Perez, a real estate agent with ERA The Polo Group in Tampa.

People worry about losing their jobs in this economy, worry values will continue to freefall. Primarily, first-time homebuyers and investors are buying. The first group is motivated by a government incentive. The last by the desperation of sellers of distressed properties.

Home prices in the Tampa Bay metro area are more affordable now than they have been over the past 20 years, according to Moody's Economy.com.

The median home price in the Tampa-St. Petersburg-Clearwater metro area was \$139,400 in June, down 22 percent from \$178,700 during the same month last year.

A bright spot this week came in a report from the Florida Association of Realtors. Sales of existing homes for the most recent quarter shot up 24 percent in the Tampa-St. Petersburg-Clearwater area compared with a year ago. But prices continued to slide, with the median price falling to \$137,000.

Industry watchers say brand-new homeowners are to thank.

First-time homebuyers are taking advantage of the deals, which include an \$8,000 government tax credit. Home sales were up 21 percent. There were 2,848 sales of existing homes in June, up from 2,346 a year ago.

But given how affordable homes are now, sales should be much higher, said Chris Lafakis, an economist who covers the Bay area for Moody's. There are still tens of thousands of for sale signs dotting lawns across the Bay area.

In the first quarter of 2009, Moody's affordable housing index for the Tampa area was 195.7. That means that a family making a median income of \$58,000 could afford to buy

a home for nearly double the median home price. (The median home price for the area was \$142,000 during the first quarter.)

The area's affordability index reading has never been higher since Moody's started tracking the index in 1973.

For perspective, consider the second quarter of 2006, when the index peaked at 94.6. "Affordability has nearly doubled since the peak of the housing market."

"Given the prices, more people should be buying," Lafakis said. "Consumers expect home prices to go down more, so many won't buy."

Also, Lafakis said, buyers are concerned about the overall economy. Unemployment is expected to keep rising until the second quarter of 2010, when Moody's expects it to hit 12.9 percent.

Jack Rodriguez, president of the Greater Tampa Association of Realtors, said real estate agents are hopeful that sales are rebounding. Many are swamped with business, especially distressed properties. Those sales are dragging down prices, he said, which translates to bargains for buyers.

"Prices haven't been this low in a very long time," he said.

Nancy Otten, a real estate agent with Keller Williams Tampa Properties, said she's been amazed to find apartment-to-condo conversions for as low as \$20,000 a unit.

Deals abound even for more expensive homes, Perez said. He pointed toward a 2,400 square-foot home with a pool in the North Dale neighborhood of Tampa. It's in excellent condition, and the price is just under \$200,000.

A condo on Clearwater Beach (with a water view) is for sale for just under \$300,000. Units like it sold for between \$700,000 and \$800,000 during the housing boom, Perez said.

"I've been in this business for 28 years, and some of these prices are lower than when I started," he said.

Even so, Perez said he's hearing from worried buyers who don't want to miss out on good deals but also don't want to get in over their heads.

"Confidence is a problem, but I think that will go by the wayside if prices start going back up again," he said. "You've gotta take a chance sometime in life."

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Buyer survey: Women decide quicker than men

PARSIPPANY, N.J. – Aug. 17, 2009 – Every day, millions of couples navigate through day-to-day and even life-altering decisions. Because a home is the biggest purchase most people make in their lifetime, International Communications Research (ICR) surveyed 1,000 individuals to discover how much men and women differ in the homebuying process. Coldwell Banker Real Estate LLC funded the independent survey.

ICR delved into the inner psyche of men and women, asking questions such as: “How long did it take for you to know that the last home you purchased was right for you?” and, “If you found the home of your dreams but had concerns about its security, would you still be interested?”

“The results were surprising,” says Diann Patton, Coldwell Banker consumer real estate expert. “Not only did we uncover some of the inherent differences between men and women, but we also pinpointed a number of ways that the two genders are actually the same. For example, both men and women are increasingly concerned with having a space to work in their homes – something we would not have seen 40 years ago. We also found that feeling insecure about a home’s safety is a deal-breaker for most people, regardless of gender.”

Key highlights from the study:

Women may be inclined to make up their mind more quickly than men

When asked how long it took before they knew a home was “right” for them, almost 70 percent of women had made up their mind the day they walked into the house, vs. 62 percent of men. Conversely, significantly more men needed two or more visits: (32 percent of men vs. 23 percent of women).

Women would rather live close to their extended family than their job

Fifty-five percent of women find it more important to be close to their extended family (those who do not live in their household) than their job, compared to only 37 percent of men.

A home’s security is a deal-breaker for both men and women

Sixty-four percent of women said that if their dream home came with security concerns, they would no longer be interested; 51 percent of men agreed.

Couples say no one “wears the pants in the relationship” for major financial decisions

Almost 70 percent of respondents living with their significant other said decisions are mutual. However, 23 percent think that they, themselves, wear the pants in the relationship, not their partner. More men than women said this (26 percent vs. 20 percent, respectively).

Men and women agree on how they would use a spare room, for the most part

When asked how they would use an extra 12 x 12 room if it could be anything they

wanted, men and women agreed on the top three responses:

- Bedroom: 25 percent
- Office/study: 15 percent
- Family room/den: 11 percent

However, men want a “man cave”

Out of the 8 percent of respondents who would turn that spare room into an entertainment center, a preponderance of men led the charge. Four times as many men as women said they would use the extra space for recreation/entertainment.

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Fed sees signs of recovery; slows Treasury purchases

August 13, 2009 - Federal Reserve policy makers ended their two-day meeting on interest rates leaving rates unchanged, indicating that they will stay low for awhile longer, and say they will slow the pace of the program to buy \$300 billion in U.S. Treasuries.

“To promote a smooth transition in markets as these purchases of Treasury securities are completed, the committee has decided to gradually slow the pace of these transactions and anticipates the full amount will be purchased by October,” policy makers said in a statement.

That would be one month later than the Treasury purchase program was originally scheduled to end.

The Fed’s benchmark interest rate remains at 0 to 0.25 percent, saying rates will stay exceptionally low for an extended period.

“Information received since the Federal Open Market Committee met in June suggests that economic activity is leveling out,” the Fed’s statement said. “Conditions in financial markets have improved further in recent weeks.”

The Fed also noted significant challenges remain, citing constrained household spending, sluggish income growth, lower housing wealth and tight credit. And it notes businesses continue to cut back on fixed investment and staffing, while making progress in bringing inventory into better alignment with sales.

The Federal Reserve did not alter its plan to buy up to \$1.25 trillion of agency mortgage-backed securities and up to \$200 billion of agency debt by the end of the year, a key part of its efforts to improve conditions in private credit markets.

By Jeff Clabaugh Washington Business Journal

Fed says economy leveling, new indicators released

WASHINGTON (AP) – Aug. 13, 2009 – The Federal Reserve said the U.S. economy may be “leveling out” as it held interest rates at record lows, while the weekly jobless claims to be released Thursday may give another sign of whether the recession is nearing an end.

Meanwhile, retail sales are likely to show an improvement in consumer spending, helped by the Cash for Clunkers auto sales program. Economists, however, do not believe consumer spending will look as strong excluding auto sales.

The Fed delivered a vote of confidence in the economy Wednesday, saying it would slow the pace of an emergency rescue program to buy \$300 billion worth of Treasury securities and shut it down at the end of October, a month later than previously scheduled.

It also held interest rates steady, with a closely watched bank lending rate near zero, and again pledged to keep them there for “an extended period” to nurture an anticipated recovery.

Fed Chairman Ben Bernanke and his colleagues said the economy appeared to be “leveling out” – a considerable upgrade from their last meeting in June, when the Fed observed only that the economy’s contraction was slowing.

“We’re no longer at DEFCON 1,” said Richard Yamarone, economist at Argus Research, referring to the defense term used to indicate being under siege. “The Fed is pulling in some of its life preservers now that the economy is no longer sinking.”

The more optimistic tone lifted Wall Street on Wednesday. The Dow Jones industrials gained about 120 points, or 1.3 percent, to close above 9,360 – near their highest level since the market bottomed out in early March. Ahead of the opening bell Thursday morning, Dow Jones industrial average futures rose 96, or 1 percent, to 9,415.

The Treasury-buying program has bought \$253 billion of the securities so far. The program is designed to force interest rates down for mortgages and other consumer debt and spur Americans to spend more money.

The program’s effectiveness has been questioned on both Wall Street and Capitol Hill, with critics saying it looks like the Fed is printing money to pay for the U.S. government’s spending binge.

As the Fed winds down the program, rates on government debt might edge higher, economists said. But the Fed appeared to feel sufficiently secure that higher rates would not jeopardize a recovery, they said.

Chris Rupkey, an economist at Bank of Tokyo-Mitsubishi, viewed it as a “vote of confidence that credit markets and the economic outlook have improved and will show

even further improvement down the road.”

The Fed left the target range for its bank lending rate at zero to 0.25 percent. And economists think it will stay there through the rest of this year. The rationale: Super-cheap lending will lead Americans to spend more, which will support the economy.

Reports last week from the major U.S. chain stores indicated that shoppers remained tightfisted in July as households struggle with continued job layoffs and the nation’s longest recession since World War II.

Retail sales are considered a strong indicator of economic recovery because consumer spending accounts for more than two-thirds of all economic activity. It is widely believed spending needs to improve to help end the ongoing recession.

A big concern now is whether worried consumers will cut back on their back-to-school purchases in coming weeks and their holiday shopping later this year.

Economists surveyed by Thomson Reuters predict that retail sales rose 0.7 percent last month after a 0.6 percent increase in June. However, the consensus view is that retail sales, excluding autos, will show a modest 0.1 percent increase, weaker than the 0.3 percent gain in June.

The Cash for Clunkers program, which gives people trading in certain types of vehicles up to \$4,500 if they increase their mileage by at least 5-10 mpg, has proven popular, helping to boost unit sales of light vehicles in July to the highest level since last September.

Further job losses, sluggish income growth, hits to wealth from falling home values and still-hard-to-get credit could make Americans cautious in the months ahead, the Fed said.

While unemployment dipped to 9.4 percent in July, the Fed says it’s likely to top 10 percent this year because companies are in no rush to hire.

Wall Street economists expect the number of newly laid-off workers filing applications for unemployment benefits fell slightly last week as companies cut fewer jobs.

A Labor Department report is projected to show new unemployment insurance claims fell to a seasonally adjusted 545,000 from 550,000, according to economists surveyed by Thomson Reuters.

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Economists pronounce the recession over

NEW YORK – Aug. 13, 2009 – The majority of economists surveyed by the Wall Street

Journal say the recession is over and Federal Reserve Chair Ben Bernanke deserves another term.

Of the 47 economists the newspaper surveyed, 27 said the recession has ended and 11 predict another trough this month or next. The rest refused to commit. But they were nearly unanimous in saying that Bernanke should be rehired.

“He deserves a lot of credit for stabilizing the financial markets,” says Joseph Carson of AllianceBernstein. “Confidence in recovery would be damaged if he was not reappointed.”

Poll respondents believe Bernanke has more than a 70 percent chance of being asked by President Barack Obama to remain at the helm of the central bank.

Gross domestic product is expected to grow 2.4 percent in the third quarter at a seasonally adjusted annual rate. Economists were also heartened by a better-than-expected jobless report in July.

Source: The Wall Street Journal, Phil Izzo (08/12/2009)

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Fed likely to keep key interest rate at record low

WASHINGTON – Aug. 10, 2009 – With the economy strengthening but still fragile, Federal Reserve policymakers are expected to hold a key lending rate at a record low this week and will weigh whether to extend some programs that were created to ease the financial crisis.

Fed Chairman Ben Bernanke and his colleagues also are likely to signal that while the recession is winding down, the pain isn't over.

Though the unemployment rate dipped to 9.4 percent in July – its first drop in 15 months – economists predict it will start climbing again. Many, including people in the Obama administration and at the Fed, say it could still top 10 percent this year.

For months, consumers have pulled back on spending and borrowing. To try to stimulate economic activity, Fed policymakers are all but certain to keep the target range for its bank lending rate between zero and 0.25 percent at the end of their two-day meeting Wednesday.

That means commercial banks' prime lending rate, used to peg rates on home equity loans, certain credit cards and other consumer loans, will stay around 3.25 percent, the lowest rate in decades.

Fed policymakers also will probably pledge anew to keep rates there for “an extended period,” which economists interpret to mean through the rest of the year and into part of 2010.

“We’re doing everything we can to support the economy,” Bernanke said recently. “We will try to get through this process. It’s going to take some patience.”

By holding rates so low, the Fed hopes to induce consumers and businesses to boost spending, even though banks are still being stingy about extending credit.

“The Fed will be guardedly optimistic,” said Brian Bethune, economist at IHS Global Insight. “We’re seeing initial signs of the economy moving toward recovery ... (but) the underlying fundamentals are still weak.”

With numerous signs that the recession is finally ending and financial stresses easing, the Fed will consider whether some rescue programs should continue. Any such decisions, though, might not come at this week’s meeting.

One such program, aimed at driving down interest rates on mortgages and other consumer debt, involves buying U.S. Treasuries. The central bank is on track to buy \$300 billion worth of Treasury bonds by the fall; it has bought \$236 billion so far.

Another program, the Term Asset-Backed Securities Loan Facility, or TALF, is intended to spark lending to consumers and small businesses. It got off to a slow start in March and is slated to shut down at the end of December. Despite this program, many people are still having trouble getting loans, analysts say.

The Fed isn’t expected to launch any new revival efforts or change another existing program that aims to push down mortgage rates. In that venture, the Fed is on track to buy \$1.25 trillion worth of securities issued by mortgage finance companies Fannie Mae and Freddie Mac by the end of the year. The central bank’s recent purchases have averaged \$542.8 billion.

In the meantime, the economy has shown clear signs of improvement. Employers cut only 247,000 jobs in July, the fewest in a year, the government said Friday. Wages and workers’ hours also nudged up – encouraging signs that companies no longer see the need for drastic cost-cutting. Those developments could deliver a psychological boost to both companies and consumers.

The economy in the second quarter contracted at a pace of just 1 percent, suggesting that the recession, which started in December 2007, is ending.

That dip came after a dizzying free-fall in the first three months of this year. The economy had plunged at an annual rate of 6.4 percent in the first quarter, the worst showing in nearly three decades.

With the economy improving but still weak, inflation should stay low, the Fed says. Given consumers' caution, companies won't have much power to raise prices.

And the weak job market will limit wage growth. Companies aren't going to feel generous about wages and benefits until they are confident a recovery will last.

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Pending home sales: Upward trend continues

WASHINGTON – Aug. 4, 2009 – Pending home sales are up for the fifth consecutive month, the first time in six years for such a streak, according to the National Association of Realtors® (NAR).

The Pending Home Sales Index, a forward-looking indicator based on contracts signed in June, rose 3.6 percent to 94.6 from an upwardly revised reading of 91.3 in May; and it's 6.7 percent above June 2008 when it was 88.7. The last time there were five consecutive monthly gains was July 2003.

“Historically low mortgage interest rates, affordable home prices and large selection are encouraging buyers who've been on the sidelines,” says Lawrence Yun, NAR chief economist. “Activity has been consistently much stronger for lower priced homes. Because it may take as long as two months to close on a home after signing a contract, first-time buyers must act fairly soon to take advantage of the \$8,000 tax credit because they must close on the sale by Nov. 30.”

The Pending Home Sales Index in the Northeast rose 0.4 percent to 81.2 in June and is 5.8 percent above a year ago. In the Midwest the index increased 0.8 percent to 89.9 and is 11.6 percent above June 2008. The index in the South jumped 7.1 percent to 100.7 in June and is 8.9 percent higher than a year ago. In the West the index rose 2.9 percent to 100.4 but is 0.2 percent below June 2008.

NAR President Charles McMillan is hopeful that a recently elevated level of contract cancellations will ease. “Last month, Freddie Mac and Fannie Mae clarified that appraisals should be done by professionals with clear local expertise,” he said. “This should mitigate the situation of many valuations done by out-of-area appraisers coming in below the price negotiated between buyers and sellers. Hopefully, in the months ahead, we'll see an even closer relationship between contract activity and closed transactions.”

McMillan said NAR is continuing to press the appraisal issue. “We have asked Congress and the Federal Housing Finance Agency to immediately implement an 18-month moratorium on the new appraisal rules to further address unintended consequences of the new guidelines,” he said.

NAR's Housing Affordability Index remains very favorable. The affordability index stood at 159.2 in July, down from record peaks in recent months but it remains 36.6 percentage points above a year ago. Under these conditions, the typical family would devote 15.7 percent of gross income to mortgage principal and interest, well below the standard allowance of 25 percent.

The HAI is a broad measure of housing affordability using consistent values and assumptions over time, which examines the relationship between home prices, mortgage interest rates and family income.

“A monthly rise in home prices and somewhat higher mortgage interest rates led to a modest decline in affordability in June, but it was still the sixth highest index on record dating back to 1970,” Yun said. “Because housing is so affordable in today's market, job security and the first-time buyer tax credit are bigger factors in influencing home sales.”

A median-income family earning \$60,700 could afford a home costing \$289,100 in June with a 20 percent downpayment, assuming 25 percent of gross income is devoted to mortgage principal and interest. Affordability conditions for first-time buyers with the same income and small downpayments are roughly 80 percent of what a median-income family can afford. The affordable price was much higher than the median existing single-family home price in June, which was \$181,600.

Yun expects existing-home sales to gradually rise over the balance of the year, with conditions varying around the country. “It appears home sales are on a sounder footing and inventory is gradually being absorbed.”

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Welcome to the bottom: Housing begins slow rebound

WASHINGTON – Aug. 3, 2009 – It was – note the past tense – the worst housing recession anyone but survivors of the Great Depression can remember.

From the frenzied peak of the real estate boom in 2005-2006 to the recession's trough earlier this year, home resales fell 38 percent and sales of new homes tumbled 76 percent. Construction of homes and apartments skidded 79 percent. And for the first time in more than four decades of record keeping, home prices posted consecutive annual declines.

A staggering \$4 trillion in home equity was wiped out, and millions of Americans lost their homes through foreclosure.

Now take a deep breath and exhale. The worst is over.

By every measure, except foreclosures, the housing market has stabilized and many areas

are recovering, according to a spate of data released in the past two weeks. Nationwide, home resales in June are up 9 percent from January, on a seasonally adjusted basis. Sales of new homes have climbed 17 percent during the same period. And construction, while still anemic, has risen almost 20 percent since the beginning of the year.

Even home prices, down one third from the top, edged up in May, the first monthly increase since June 2006.

“The freefall is over,” says Dean Baker of the Center for Economic and Policy Research.

The problem is that, Baker, like many economists, expects the housing market will “be bouncing around the bottom” for the second half of the year.

There are also real threats that could poison this budding recovery. The unemployment rate, which is 9.5 percent, is expected to surpass 10 percent, leaving even more homeowners unable to pay their mortgages. Mortgage rates could rise, making homeownership less affordable. And the federal tax credit for first-time homebuyers, which has lured many into the market, is set to expire on Nov. 30.

“As long as jobs are being lost, regardless of all the federal programs out there to help the borrowers, you’re still going to have problems in the housing market,” says Steve Cumbie, executive director of the Center for Real Estate Development at the University of North Carolina’s Kenan-Flagler Business School.

True, but when you’ve got bidding wars for foreclosures in places like Las Vegas, Phoenix and Los Angeles, it’s time to call the bottom.

Northeast

Nobody knows the power of a dollar like New Yorkers.

After a home on Long Island sat on the market for four months recently, the sellers’ real estate agent told them to drop the price from the mid-\$600s to \$599,000. The house sold the next weekend.

In Merrick, about 30 miles east of New York City, homes are starting to sell “as long as they’re priced right,” the agent said.

In January, with the ground and financial markets still frozen, few would have believed that the worst of the housing crisis in the Northeast would turn around within six months.

But the evidence is clear: home resales in the region in June hit a seasonally adjusted pace of 820,000, up 28 percent from the beginning of the year. Sales of new homes were also up slightly and construction in the region more than doubled.

Even the median sales price of \$249,400 in June was up 10 percent from January and was

off just 6 percent from year-ago levels, according to the National Association of Realtors.

“We certainly had our share of problems, but overall the severity of what happened here was far less” than what happened elsewhere, says Michael Lynch, an economist with IHS Global Insight.

Pittsburgh has the region’s strongest home market in terms of sales and prices because the city saw less of a housing bubble and the area has 7.7 percent unemployment rate that is below the national rate.

One of the weakest markets, by contrast, was Providence, R.I., where a jobless rate of 12 percent exacerbated the city’s foreclosure crisis. Too many residents took out risky subprime loans they couldn’t afford when the interest rates spiked within a few years. Today, more than one in 10 homeowners with a mortgage in the state is at least one month behind or in foreclosure.

The Northeast, more than any other region, felt the full force of the credit crisis that reshaped Wall Street. Manhattan’s real estate market, long immune from price declines, tanked this year as tens of thousands of people lost their jobs.

Prices of for-sale apartments plunged in the second quarter by the largest amount in decades. Prices have fallen, on average, between 13 and 19 percent, according to four reports published recently by real estate firms.

Northeast states: Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Pennsylvania, Rhode Island, Vermont

South

The real estate market in the South remains one of extremes.

On one end, are oil-rich cities in Texas, Arkansas and Oklahoma that nearly skirted the housing recession altogether. Tipping the scale on the other side are foreclosure-ridden areas in Atlanta and swaths in Florida where prices are still falling annually by double digits.

Taken as a whole, home resales in the 17-state region rose 10 percent in the first half of this year on a seasonally adjusted basis, and are off just 4 percent from June of last year, according to the National Association of Realtors.

“Generally speaking, the rate of decrease, both in sales and prices, has started to bottom,” says the University of North Carolina’s Cumbie. “But that doesn’t mean it’s going to come roaring back.”

Mass layoffs at Bank of America and Wachovia, for example, have taken their toll in their home state of North Carolina. Home price declines in Charlotte accelerated this

year, and home resales in June were off nearly 30 percent from last year.

Home and apartment construction, a key economic engine, will also vary widely across the region. Parts of the South, notably Florida and Atlanta, were vastly overbuilt during the housing boom. So construction in the region rose a meager 7 percent in the first half of the year, the lowest of the four regions, according to the Commerce Department.

There was little reason for builders to start laying new foundations. New home sales fell 2 percent from January to June, the only region in the country to post a decline.

“In the longer term, I’m confident that the real estate market is going to shift where buyers are coming out not only because of attractive interest rates and low prices, but because more people are getting jobs,” says Les Simmonds, president of L.G. Simmonds Real Estate Corp. in Longwood, Fla. an Orlando suburb. “But, as we speak, it’s not right. It’s going to take more time.”

Southeast states: Alabama, Arkansas, Delaware, D.C., Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, West Virginia

Midwest

It’s no surprise that the housing market and the auto industry are intertwined in Detroit, though, this is the first time anybody can remember that you can buy a home for less than the price of a new car.

But step out of devastated towns in Michigan, Ohio and Indiana and the housing market in the Midwest is showing some of the strongest signs of recovery in the country.

Thanks to places like the Dakotas, Iowa and Nebraska, the median sales price in the region rose almost 20 percent to an affordable \$157,000 in June from January levels.

Sales of new homes jumped almost 38 percent in the first half of the year, which encouraged builders to get out their hammers. Construction, which was at a standstill in some communities, rose 86 percent on a seasonally adjusted basis, which accounts for typical variations in weather and other factors.

“New construction has been a good indicator for us in the past of what the general market is doing,” says Chris Collins, president of the Kansas City Regional Association of Realtors. “Our new market is not what we’ve been used to but it’s substantially better than other parts of the country.”

The home resale market, however, remains weaker than the nation as a whole. That again can be blamed on the economy. The jobless rate in the Midwest is 10.2 percent compared with 9.5 percent nationally. And if you don’t have a job you are not buying a house.

William Strauss, a senior economist for the Federal Reserve Bank of Chicago, cautioned that job cuts are still high in the region, and loss of income is the No. 1 reason homeowners default.

“We never got as bad as (other) states but nonetheless we still took a hit,” he says, and the market remains “soft in the Midwest.”

Midwest states: Illinois, Indiana, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Wisconsin

West

For years Las Vegas symbolized the boom, as mile after mile of desert gave way to three-bedroom homes and swimming pools. Then came the crash and it symbolized something else: a decade of speculation and excess.

Now, Las Vegas is one of the hottest housing markets in the region again. This city has always profited from others' misfortune, and the same can be said of the current housing market.

In Clark County, Nev., home to Sin City, one in every 11 homes had received at least one foreclosure-related notice in June, according to RealtyTrac. The glut of deeply discounted foreclosures has almost doubled sales activity for most of this year.

“In January the market was busy, and since that time, it's gone a little haywire,” says Brad Snyder, an agent with ZipRealty in Las Vegas. “There's (sales) activity now that we haven't seen even since '04.”

The situation is similar in California's Riverside, San Joaquin and San Bernardino counties, where one out of every 14 homes was in foreclosure.

After falling 18 percent in the second half of 2008, monthly home prices were flat in the first half of this year, on a seasonally adjusted basis, according to the National Association of Realtors.

Markets like these have seen a surge this year in all-cash buyers, many of them investors, scooping up the sharply discounted properties. It's not uncommon to see multiple offers on a single property, and that's helped slow the rate of price declines a little. The demand also has helped whittle down the inventory of homes for sale to the lowest level since the boom.

“We have seen such a steep decline in supply right now, that when a home comes on the market it's first day there could be seven or eight or 10 people there in a matter of hours,” Snyder says.

To lure buyers away from foreclosures, homebuilders have slashed prices or are simply

tearing down vacant homes. New home sales jumped almost 59 percent in the first half of the year, while construction in these grossly overbuilt markets slid 12 percent.

In the Pacific Northwest and states such as Utah, by contrast, housing markets are on a different timer than the rest of the West. Home sales and values held up better and longer while markets in the Southwest were already in decline. These markets also haven't seen as many foreclosures wreaking havoc with home prices.

States in the region: Alaska, Arizona, California, Colorado, Hawaii, Idaho, Montana, Nevada, New Mexico, Oregon, Utah, Washington, Wyoming

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