

# Schniepps' Real Estate and Mortgage News

Vol: 2

Issue: 11

November 2007

## Real Estate News Update

by Mark Schniepp

September 2007 activity in the residential real estate market was horrific, as expected, due to the credit crunch. At the national level, existing home sales plunged 19 percent compared to September 2006.

The new home market is also suffering. Sales are down 23 percent in 2007 year-to-date, after falling 18 percent in 2006. As of September, there were 8.3 months of inventory, nearly double the amount two years ago.

In California, the decline was even more dramatic. Existing home sales in September fell 39 percent year-over-year, and adjusted for seasonal variation were at the lowest level in over 20 years. This caused the unsold housing index to spike to 16.6 months. That is the highest rate since the California recession years of the early 1990s.

The decline in sales was exacerbated by a jump in jumbo mortgage rates. In California (and indeed, the South Coast), a large percentage of home sales require a loan larger than \$417,000, the conforming rate loan limit. As jumbo loan rates soared to nearly 7.5 percent, buyers delayed or cancelled purchases and/or previous loan agreements by lenders were withdrawn.

According to Dataquick, the number of new jumbo loans in Southern California dropped 50 percent from August to September. The number of new conforming loans fell only 19 percent.

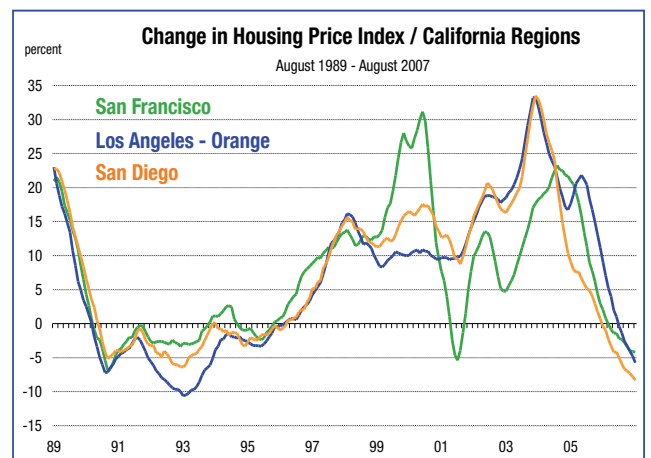
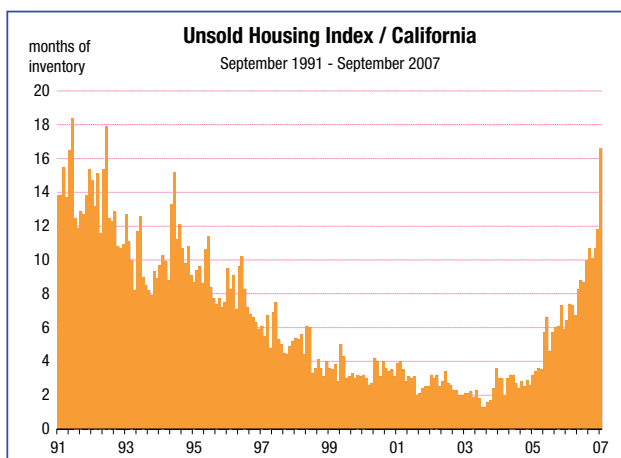
Despite the rise in jumbo loan rates, 10 year U.S. treasury bond yields, which usually drive the jumbo rate, declined, as they have since the beginning of the summer. A return to the spread that prevailed from 2003 to 2006 would imply a 100+ basis point decline in jumbo rates. This would provide some basis for more home sales, especially those postponed in August, September and October due to higher rates and strict lending criteria that is bound to ease up some.

## Prices Softening

The Case-Shiller Index, which tracks home prices in metro areas across the nation, showed a year-over-year price decline of 5.0 percent in the composite index in August 2007. Prices are still rising noticeably in a handful of areas (Portland, Seattle, Charlotte). Price declines were significant in all three California areas tracked by the index: San Francisco (-4.2 percent), Los Angeles-Orange (-5.8 percent) and San Diego (-8.3 percent).

## Local South Coast Market

Through the first seven months of 2007, the South Coast was having a decent year, despite the general downturn in the real estate. Unlike most areas in California, existing single family home sales were up a convincing 17 percent compared to the first seven months of 2006. Then the credit crunch hit in August and the market for non-conforming loans dried up. In August, September and October of 2007, there were 197 existing single



family home sales in the South Coast, a 26 percent drop compared to the same period in 2006.

Had the credit crunch not occurred, and August, September and October of 2007 had recorded 17 percent more sales than a year previous, there would have been 312 sales, an increase of 115. No one knows the true number of prospective buyers who did not purchase because of the rate jump. Whether it was 50, 100 or 150 people, they still represent "pent-up demand." As rates come back down we would expect a decent sales boost in the coming 6 months.



## Special Rates for Documented Loans

Many lenders are now offering special discounts for applicants who fully document their assets and income. What will you need? The following is a checklist.

- Be sure to save statements covering a 2 month period for liquid assets including
  - o Savings account
  - o Retirement accounts
  - o Investments

This is not a good time to move accounts. Lenders like to see a 2 month account history whenever possible.

- Salaried
  - o Save pay stubs covering 4 weeks and locate your w2s for the past two years.
- Self-Employed
  - o Gather together two years tax returns
- Credit
  - o Don't open any new credit cards or go car shopping and allow your credit to be pulled.
  - o Get a copy of your credit report from annual creditreport.com and check for errors.



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o If your score is under 680, ask for a credit consultation to see what you can do to raise your score in the months preceding your purchase.

- Get together with your tax professional to see how mortgage interest will reduce your tax burden and to determine how much your take home pay will increase if you are salaried.
- Determine what size payment you are comfortable making per month. If your rent payment is less than that, set aside the additional dollars each month in an account. This will help you confirm that you will feel comfortable with the payment size. Whatever you save can be used for closing costs, down payment, or cash reserves.
- Down Payment
  - o If you plan on using gift funds or funds from an upcoming legal settlement, contact me to discuss optimal documentation methods.



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