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## REAL ESTATE DIGEST

PRACTICAL REPORTS ON TAXES, FINANCING, MARKETS, LAW AND TECHNOLOGY

### Bundled Real Estate Services: Does It Help or Hurt Homebuyers and Sellers?

Surveys show that consumers dislike uncertainty and surprises, and many fear that they'll be taken advantage of during the mortgage-closing process. To combat this perception, an increasing number of lenders and financial companies are bundling together mortgage packages for buyers.

Supporters of bundling say it's akin to buying a car. Do you purchase an automobile for one price or do you buy a car with unknown extras like tax, title and undercoating fee?

Opponents of bundling say the process has pitfalls. One major concern is that large lenders will gain inequitable control of the mortgage market. The argument is that ultra-large lenders with high volumes of bundled sales could

initially offer such heavily reduced price structures that smaller shops wouldn't be able to compete – and then the large lenders would be free to jack up costs at will.

#### Capital debate

The debate has wound its way to Washington, D.C., where real estate professionals and lenders are at odds over the Department of Housing and Urban Development's proposal to alter the Real Estate Settlement Procedures Act, known as RESPA. The package HUD most recently proposed suggested one lender-led, federally regulated, fixed-fee package of interest rates and settlement charges for each home-buying transaction. HUD said the approach would streamline the home-buying finance system.

Some opponents of HUD's proposal have said a two-package approach would be more beneficial because it would allow buyers to comparison shop for settlement packages among both lenders and non-lenders, while HUD's single-package proposal would reduce competition and limit borrowers' choices.

"Less competition means a contraction of the real estate industry and higher costs for consumers," Walt McDonald, president of the National Association of Realtors, told the U.S. House of Representatives Committee on Small Business.

Real estate is an inefficient transaction, McDonald adds, but many of those inefficiencies come from the legal requirements necessary to consummate a sale.

#### Playing to risk


Providers of bundled mortgage services argue the benefit to the mortgage borrower outweighs any perceived risks.

"There's a degree of uncer-

tainty in purchasing a home and an even bigger concern about closing costs," said Rick Gillespie, EVP of GMAC Mortgage. "Anything that can be done to help the customer understand the costs of financing a home is going to be a win/win situation for the whole industry."

## TRENDS

### One in Six Chance Home Prices Will Fall

 PMI Mortgage Insurance Co. has released a "risk index" that essentially suggests the chance of a home price decline in the nation's 50 largest markets is about 1 in 6 over the next two years. Specifically, the PMI Risk Index was 174, which is actually up 12 points over the third quarter of 2003 because of the slow economy.

PMI analysts said their primary concerns on the horizon were a lack of significant job growth and the possibility of the Federal Reserve prematurely tightening monetary policy.

The analysts also said their biggest concerns were for the cities of San Jose, Calif. (index of 468), Portland, Ore. (353), and Charlotte, N.C. (346), all of which have seen rapid home price appreciation, but each of which also has had unusually high unemployment and low job creation.

The lowest risks of price declines were in the cities of Riverside, Calif. (60), Baltimore (73) and Las Vegas (75). For more information, see: [www.pmigroup.com/enders/eret.html](http://www.pmigroup.com/enders/eret.html)

### Desperately Seeking Walk-in Pantry



The National Association of Home Builders has released its 2004 version of "Housing

Facts, Figures and Trends," a free statistical report on issues as fundamental as home prices (going up), or as esoteric as how many windows there are in the average new home (19).

Among other things, the report finds:

★ A walk-in pantry is the most favored special feature in new-home kitchens, with 78 percent of respondents rating it as either desirable or essential.

★ In the first 12 months after purchasing a newly built home, owners spend an average of \$8,905 to furnish and decorate it. Buyers of existing homes spend \$3,766 more than non-moving homeowners during the 12 months after purchasing their home.

The 50-page PDF file may be downloaded free at: [www.nahb.org./publication\\_details.aspx?publicationID=20&sectionID=154](http://www.nahb.org./publication_details.aspx?publicationID=20&sectionID=154)

## ECONOMY

### Economic Growth Should Persist



The Conference Board announced that the U.S. leading index increased 0.5 percent in January.

The continued growth in the leading index of about a 5.5 percent annual rate, excluding the recent weakness in the money supply, is signaling that strong economic growth should persist in the near term, the business organization said.

The 0.5 percent gain in the leading index was the largest increase since October. The leading index has now increased at a five percent annual rate from its most recent low last March.

Five of the 19 indicators that make up the leading index increased in January. The positive contributors, beginning with the largest positive contributor, were

the index of consumer expectations, stock prices, average weekly manufacturing hours, vendor performance and average weekly initial claims for unemployment insurance (inverted).

The negative contributors, beginning with the largest, were building permits, interest rate spread, real money supply and manufacturers' new orders for non-defense capital goods. Manufacturers' new orders for consumer goods and materials remained unchanged.

## MORTGAGES

### Changes in Store For Fannie, Freddie Conforming Loans



The Office of Federal Housing Enterprise Oversight has raised concerns about

the 2004 loan limit calculations and suggests that changes are due. In its review, OFHEO determined that the 2004 limit adopted by Fannie Mae and Freddie Mac failed to incorporate a necessary adjustment factor brought on by methodological changes in the Federal Housing Finance Board's Monthly Interest Rate Survey (MIRS). The improper calculation resulted in a conforming loan limit of \$333,700 dollars, which is \$2,300 higher than it would have been if this adjustment had been made.

The OFHEO said the adjustment that should have been made in 2004 will be incorporated into the 2005 calculation. From now on, OFHEO will announce its annual calculation of the maximum conforming loan limit based on the MIRS survey. OFHEO will consider the purchase by Fannie Mae or Freddie Mac of any mortgage above that amount to be an unsafe and unsound practice.

## Report: Appraisers Pressured to Boost Home Values



A new *American Banker* magazine survey reports that in the refi boom of the past three years, many appraisers experienced pressure from loan originators to overstate property values.

According to *American Banker*, 55 percent of appraisers said they were urged to overstate property values and, according to the appraisers, they "usually went along." Most of those who said they resisted pressure said they lost business to appraisers who cooperated. *American Banker* said in most cases, consumers wanted to divert equity from their home to other purposes.

## Fannie, Freddie Attain Goals



The government-sponsored enterprises Fannie Mae and Freddie Mac have announced they met their respective goals last year for helping low-income Americans purchase homes.

Fannie Mae reports 51.8 percent of its mortgage underwriting helped 4.5 million low- and moderate-income families. Freddie Mac said 51.1 percent of its business involved financing low-income residences.

The GSEs are currently under fire for accounting failures. The efforts to assist in home ownership, however, have consistently exceeded HUD expectations.

## MARKETS

## Global Investors Flock to U.S. Real Estate Market



After a 7.3 percent shortfall in expected investment in the year 2002, foreign investment in U.S. real estate rose by 59 percent in 2003 and is expected to increase by another 11.9 percent in 2004 as foreign investors earmark 56 percent of their cross-border allocations for U.S. real estate, according to the results of a survey by the Association of Foreign Investors in Real Estate.

The top five U.S. cities on foreign investors' shopping lists are Washington, D.C.; New York; Los Angeles; San Francisco and Chicago, the survey found.

Global real estate investing followed a similar trend, rising 21.3 percent over 2003 investment levels. The 12th annual survey was conducted by Kingsley Associates among AFIRE members, who collectively have nearly \$300 billion invested globally, with about half of that invested in the United States.

According to the survey, the United States is regarded as the most stable and secure country for real estate investment; Canada and France tied for second place. The United States also far out-distanced Japan, in second place, as having the best opportunity for capital appreciation. Survey respondents indicate that on average, North American real estate comprises 50 percent of foreign investors' global real estate portfolios.

"The United States real estate market always has attracted offshore investors" said Erwin F. Stouthamer, newly elected chairman of AFIRE, "and there's no question that because of the current competition, deals are much harder to come by."

## Luxury Real Estate Stays Sizzling Hot



Million-dollar homes? They used to be exclusive province

of the super-wealthy. Not any more. Coldwell Banker Real Estate Corp. said its affiliates alone sold 13,816 luxury homes priced more than \$1 million during 2003, an increase of 24 percent from 2002. In addition, Coldwell Banker's luxury-home sales volume surged 23 percent to \$23.3 billion, compared to the \$18.9 billion mark set in 2002.

California continues to dominate the country in luxury-home sales, with six times more sales in this category than any other state. Coldwell's California total luxury-home sales topped \$12.6 billion. Florida had the second largest luxury-home volume activity with more than \$2 billion.

"The luxury-home market is enjoying one of its most active periods ever," said Alex Perriello, president and CEO, Coldwell Banker Real Estate Corp. "Homeowners have built equity in their homes, and, as a result, we are seeing a significant migration of homeowners into the luxury category. We expect activity to remain strong in the luxury category with a rebounding economy, continued low interest rates and strong demographic trends that will keep demand high."

## San Francisco Defaults Lowest



San Francisco, home to the highest home prices in the United States, also has the lowest delinquency rate in the nation, according to Na-

tional Mortgage News' Quarterly Data Report ([www.thomsonmedia.com](http://www.thomsonmedia.com)). According to QDR, San Francisco's delinquency rate is 0.01 percent, compared to a national average in excess of 4 percent.

## Same-Sex Marriages Create Property, Title Conundrums



Ever since San Francisco decided to issue marriage licenses to same-gender couples, real estate industry professionals have been scrambling to understand the legal implications of the move.

"After conferring with folks at the legal departments of title companies, I think this is a capsule of their position: Since these licenses are, on the surface, invalid under state law, they will not vest the property as community property," said Dick Lepre, a real estate analyst.

"Title insurance companies aren't trying to take a social position on this matter. They are stating that they are bound ultimately by state law and that state law declares these licenses to not be valid," Lepre added.

The insurance that title policies offer lenders is not compromised by any vagaries associated with the marital status of such vesting.

Everyone on title is responsible for the entire mortgage whether vested as joint tenants, community property or tenants in common.

Apart from San Francisco's marriage nouveau there are some other considerations. Some states (California, for example) are community property states. If a couple is married in a community property state, then moves to a non-community property state, their respective property rights may change to reflect the laws of their new state of residence.

"The best advice is to seek legal advice," said Lepre.

## TECHNOLOGY

### Foreclosed Homes Debut on the Web



RealtyTrac has launched "Bank Homes Direct," [www.bankhomesdirect.com](http://www.bankhomesdirect.com), an online marketplace for bank-owned properties. The site gives homebuyers and investors access to a database of bank-owned and foreclosure properties. It also

allows consumers to research and make offers on the properties.

Bank Homes Direct offers a free daily e-mail service that notifies registered users of any properties that become listed in their selected geography. The site also enables consumers to confirm they have the necessary credit to secure financing - and even get pre-approved for a mortgage - before contacting the property owner.



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