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VOL. 30, NO. 6



JUNE 2004

REAL ESTATE DIGEST

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

As Prices Soar, New Initiatives Designed to Boost Minority, Low-Income Ownership

Minority homeownership rates, hovering at about 50 percent, are significantly lower than the national average; a record 68.6 percent of today's households live in a home they own. The federal government is pushing for aggressive new programs that will make it possible for even more families to afford and purchase a home. For example, the American Dream Down Payment Act, signed into law in December, will provide about 40,000 families a year with financial assistance with home-purchase down payments and closing costs. It's set to begin this spring.

Ownership gap

While most Americans view home ownership as a safe investment, at least four issues need to be addressed to close the "home-

ownership gap" between white Americans and minorities, according to Fannie Mae's 2003 Housing Survey.

Fannie Mae says the four gaps are:

- **Information Gap:** Accurate information about home ownership is not getting to the minority communities.
- **Affordability Gap:** Some 35 percent of renters have tried to become homeowners but have stopped because of affordability issues.
- **Credit Gap:** Many minorities are worried their credit histories will keep them from becoming homeowners.
- **Confidence Gap:** Many minorities believe they do not know enough about the financial process to make home ownership a goal.

HUD signs on

The study coincides with a request from Housing Secretary Alphonso Jackson that the government-sponsored enterprises Fannie Mae and Freddie Mac put more effort into helping low-income Americans. Jackson has asked that Fannie and Freddie raise their lending to low-income people from 50 percent to 52 percent next year, increasing to 57 percent by 2008.

The government's initiatives to dismantle barriers to homeownership also include increasing the supply of affordable homes through the Single-Family Affordable Housing Tax Credit, increasing support for the Self-Help Homeownership Opportunities Program and increasing home-buying education and counseling programs.

The federal budget for FY 2005 includes an allocation of \$45 million for housing counseling to support agencies that counsel families regarding home buying. That's more than double the previous allocation. The 2005 budget also

supports rural home ownership through the Department of Agriculture with \$2.7 billion in home loan guarantees for low- to moderate-income rural residents. These mortgage loans are expected to provide 42,800 home ownership opportunities to rural families.

The administration has issued America's Homeownership Challenge to the real estate and mortgage finance industries to encourage them to join the effort to close the gap that exists between the home ownership rates of minorities and non-minorities. The goal is to increase the number of minority homeowners by at least 5.5 million families before the end of this decade.

MORTGAGES

Mortgage Industry Going High-Tech



High-tech methods are growing rapidly in the mortgage industry. Technology-related budgets for mortgage lending firms last year increased by 24 percent over the previous year, and mortgage executives expect to increase them by an additional 47 percent this year, according to a survey taken by the Mortgage Bankers Association.

"Among our top originators and servicers, we see a commitment to technology spending that has resulted from five key factors," said Doug Duncan, MBA's chief economist. "The first factor is industry consolidation. This has left companies in the position of needing to merge multiple systems into one for the sake of efficiency. Second, we see business realizing the need to eliminate manual processes that lead to errors and increased costs."

The bottom-line factor for the current flurry to enhance high-tech capabilities is probably the simple fact that more and more people are

relying on the Internet as their primary source of information about home buying, selling and financing. Nearly three-quarters of all Americans (204.3 million people) now have access to the Internet from their homes, according to Nielsen/NetRatings.

"In just a handful of years, online access has managed to gain the type of traction that took other media decades to achieve," said Kenneth Cassar with Nielsen/NetRatings.

Are Hybrid ARMs the Wave of the Future?



The Department of Housing and Urban Development (HUD) is hoping to expand the offering of hybrid adjustable-rate mortgages (ARMs) in FHA mortgage options. This will allow homebuyers to choose mortgages with fixed rates for periods of three, five, seven or ten years. They would then revert to an annually adjustable mortgage for the remainder of their terms.

Under this rule, ARMs cannot change by more than one percent per year after the fixed-payment period is over, with a maximum change of five percent for the life of the loan. Other HUD steps being taken to enhance home ownership opportunities include the new Zero Down Payment Program for FHA-insured home mortgages. And a new initiative program would provide \$200 million to help low-income families each year with down payment and closing costs.

Volume of Mortgage Originations Growing



A trillion here, a trillion there, pretty soon it starts adding up to real money. Fannie Mae

(a government-sponsored enterprise), the nation's largest buyer of existing home mortgages, recently pushed its predicted volume of loan originations this year to \$2.4 trillion. That would make it the third most active year ever. Fannie Mae also predicts long-term interest rates will move up only modestly this year, despite an improving economy.

The Mortgage Bankers Association is even more bullish in their mortgage activity projections for this year. They now predict loan originations will total \$2.5 trillion - up from \$2.0 trillion.

"Despite the strong pace of the economic recovery, interest rates have remained low for a variety of reasons," said Doug Duncan, MBA's chief economist. "Some borrowers are responding to these rates by purchasing homes and others are making up for missed opportunities to refinance last year."

MBA now expects mortgages for purchasing homes will make up 54 percent of total originations, or \$1.4 trillion. Refinancings, which have been boosted by falling interest rates, will generate \$1.1 trillion in originations. These numbers are up from \$1.1 trillion and \$0.7 trillion, respectively, in previous forecasts by MBA.

TRENDS

Will Home Prices Continue to Rise?



Prudential Real Estate Investors says its economic models suggest home prices should continue to rise 2.5 percent to 3 percent per year over the next five years, despite worries that interest rate increases could slow - or even collapse - the market.

PREI says three fundamental forces are driving housing apprecia-

tion: income growth, interest rates, and the amount of money households are willing to spend on mortgage payments.

"Some analysts have suggested that irrational exuberance has propelled the housing market and are predicting that the market is poised for a collapse in values," said Youguo Liang, managing director of research for PREI. "However, market drivers indicate that the market is structurally sound and should weather impending interest rate hikes without a catastrophe."

PREI notes that the national median home price has never fallen. It says that while rising interest rates could cause downward pressure on prices in the immediate future, rising income should offset those increases.

NAR: Jobs Growth Tied to Interest Rates



Some experts argue that there's only one important economic indicator - jobs. And according to the National Association of Realtors, while job growth is on the upswing, the rate is slow when viewed over the long term, and that should keep interest rates rising slowly.

"Job gains have been modest over time but the rate of growth is relatively weak. The Bureau of Labor Statistics Household Survey showed there were 1.3 million jobs produced last year," said David Lereah, NAR's chief economist.

"That's a wider measure of jobs than a separate survey of companies because it includes the self-employed, but we still have a way to go to recover all the jobs lost early in this decade. The silver lining now is that interest rates probably won't move much until late in the year, when the unemployment rate is expected to drop to 5.4 percent," he said.

Lereah predicts the 30-year fixed-rate mortgage will trend up very slowly this year, reaching 6.3 percent by the fourth quarter. "Keeping interest rates close to historic lows will sustain very strong home sales, which should be only a few percentage points below last year's record," he said.

At latest report, the Mortgage Bankers Association predicted the 30-year mortgage rate will average 5.6 percent this year. That would be the lowest average annual rate in more than four decades.

AGENT'S CORNER

NAR Hits 1 Million Member Milestone



The National Association of Realtors has announced that its membership has passed one million - making it the first trade association in the country to reach that milestone. Just five years ago - when technology burst onto the real estate scene with the promise of making transactions more efficient - many pundits predicted NAR's membership would fall, possibly as low as 350,000. About half of all real estate licensees nationwide are members of NAR.

If you're not a member, better not call yourself a realtor. As expected, the U.S. Trademark Trial and Appeal Board has upheld the right of the National Association of Realtors to determine the use of the trademarked word "Realtor."

Former Cornell University student Jacob Zimmerman had asked the board to declare that the word "Realtor" had passed into the public domain and was used to describe anyone with a real estate license. The board refused to make that declaration. Zimmerman had sued to make the word generic so that he could legally sell off Web site names that incorporate the

word "Realtor" in them — such as YourHomeTownRealtor.com. NAR bars such use of the word.

MARKETS

Americans Scramble For Canada Housing



Retirees and aging baby boomers "from the States" are being drawn

in record numbers to Canadian property for a number of reasons, chief among them the very favorable dollar exchange rate.

According to Canadian brokerage Royal LePage, U.S. residents are the main reason the average house in Whistler, B.C., has leaped to \$650,000. In addition, Americans have purchased 50 percent of the new high-end waterfront condominiums sold in downtown Vancouver. In the east, Americans have been grabbing vacation properties in Nova Scotia and downtown condominiums in Montreal.

Americans can borrow from Canadian banks and vice versa. But trying to finance Canadian property with U.S. funds becomes difficult. Location, security in the property and ability to enforce simply make the package unattractive to most U.S. lenders, according to Tom Kelly, a syndicated real estate columnist.

And, if Americans do choose to buy and borrow Canadian, they shouldn't expect to see the many loan options available here. Many investment advisors say that folks looking to purchase property abroad—for investment or a principal residence—often refinance or take out a home-equity loan on a property in the U.S. and pay cash for the "offshore" home. That way, all financing questions are eliminated and the interest on the home-equity loan or refinance often is tax deductible.

Affordability in Golden State Drops to New Low



Affordability has again plunged in California, with new numbers suggesting a family must make at least \$91,690 in verifiable income to be able to buy a median-priced home in the state, according to the California Association of Realtors. Only about 24 percent of families in California make that much money.

According to CAR's February affordability index, the median price of a home is \$394,300. A year ago the median price was \$326,640, which required a median income of \$77,220.

NY's Hudson Valley Posts Record Sales



Sales of existing single-family homes in the entire state of New York increased 6.7 percent in March from the same month last year, but that's nothing compared to the state's Hudson

Valley, which runs north of New York City to Albany.

Greene County led the state in sales growth percentage compared to March 2003, recording an increase of 140 percent. Columbia County recorded a 75 percent increase in sales growth percentage from February 2004.

The preliminary data showed a median selling price increase of nearly 27 percent compared to the same period a year earlier. The statewide median selling price in March rose to \$239,900, compared to the \$189,000 median recorded in March 2003. Franklin County led the state in median sales price growth in March 2004, recording a 232 percent increase compared to the same period a year earlier. Delaware County recorded the largest median sales price growth from February 2004, recording a 51 percent increase.

TECHNOLOGY

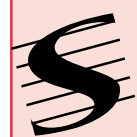
Email Marketing to Surge 300%



Spending on e-mail marketing in the United States will rise from \$2.1 billion in 2003 to \$6.1 billion in 2008, according to

Internet-watcher Jupiter Research.

Jupiter finds customer-retention e-mail campaigns accounting for the greatest share of non-spam e-mail marketing spending, and said they will continue to do so over the near term. Strong spending on retention is driven by the dramatic cost effectiveness of e-mail as compared to postal direct mail, Jupiter said.



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