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Drop in DFW Home Prices Unlikely

Area's risk of decline is about a fifth of U.S. average, firm says

Dallas Morning News June 20, 2007

By Steve Brown

Dallas-Fort Worth residents shouldn't worry too much about a price shakeout. And they can forget about a bubble, if the latest market analysis is on track. Dallas and Fort Worth ranked at the bottom of the list of U.S. cities rated for risk of home price decline, in a survey released Tuesday by PMI Group. The California-based company is one of the largest mortgage insurance firms and regularly ranks 50 of the biggest U.S. housing markets for price decline risk. Only Pittsburgh had a lower chance of falling home prices than D-FW in PMI's latest study. Cities with the strongest likelihood for a residential value correction are in Southern California, Arizona, Nevada and Florida. Some cities there have a 60 percent chance of home prices falling during the next two years, according to PMI. Home markets in Texas have less than a 10 percent chance of price drops, the same report says. The Dallas area has only about a 7.5 percent likelihood, PMI found.

"The areas that have big run-ups in prices and have seen a significant slowdown in their appreciation rate are where the highest risks are," said PMI's Mark Milner. "When you've had big run-up in prices, you tend to get affordability out of whack, and that adds risk." At the other end of the risk scale, cities with "a history of low to moderate rates of volatility in house price appreciation have a lower risk of price declines," Mr. Milner said.

The D-FW area—which has seen very little price growth in the last two years—has only about a fifth the risk of home value declines as PMI's U.S. average. "A place like Dallas that's had good, steady appreciation is very affordable," Mr. Milner said. In the Dallas area, house prices have risen about 17 percent in the last five years, according to the latest estimate from the Office of Federal Housing Enterprise Oversight. The average nationwide increase was 53.5 percent during the same period.

Dr. James Gaines, an economist with Texas A&M University's Real Estate Center, said Texas' sound economy is also a plus for the housing sector. "Risk of price declines should be lower," Dr. Gaines said. "Austin and San Antonio are slightly higher than Dallas, Fort Worth and Houston," he said, "but not really enough to make much difference."

Subprime Mortgage Meltdown Continues

Late payments, foreclosures on ARMs reach new records

Dallas Morning News June 2007

From Wire Reports

Washington—Late payments and new foreclosures on adjustable-rate home mortgages made to people with spotty credit climbed to all-time highs in the first three months of the year.

The Mortgage Bankers Association reported Thursday that the percentage of payments that were 30 or more days past due for "sub-prime" adjustable-rate home mortgages jumped to 15.75 percent in the first quarter. That was a sizable increase from the late 2006 delinquency rate of 14.44 percent. The rate was the highest on record, the association's chief economist Doug Duncan said.

People who have taken out subprime mortgages, especially adjustable-rate loans, have been clobbered. Rising interest rates and weak home prices have made it increasingly difficult for people to keep up with their monthly payments. Lenders in the subprime market have been hit hard; some have been forced out of business. A record 3.23 percent of subprime adjustable-rate mortgages started the foreclosure process in the first quarter. The first quarter's increase in new foreclosures was mostly driven by problems in California, Florida, Nevada and Arizona, he said.

In those four states, foreclosures are being "heavily influenced by speculators who are walking away from properties now that home prices have started to fall in areas of those states and they face resets in the adjustable-rate mortgages they took out for these homes," Mr. Duncan said.

Federal reserve Chairman Ben Bernanke, in a speech last week, predicted there will be more delinquencies and foreclosures as interest rates on many subprime adjustable-rate loans rise. Analysts estimate that nearly 2 million adjustable-rate mortgages will rise this year and next. Still, Mr. Bernanke said it was unlikely that troubles in the subprime mortgage market would seriously spill over to the broader economy or the financial system.

Loose lending standards, including allowing borrowers to get mortgages with little documentation, contributed to problems in the subprime market, Mr. Bernanke said. Congress is looking into possible action. Mr. Bernanke, meanwhile, has said the Fed will consider tougher rules to curb abusive practices and improve disclosure.

For all mortgages, the delinquency rate actually dipped to 4.84 percent in the first quarter, an improvement from the fourth quarter's rate of 4.95 percent, which had marked a 3 1/2-year high. The number of all mortgages starting the foreclosure process in the first quarter rose to a record high of 0.58 percent. That surpassed the previous high of 0.54 percent in the final quarter of 2006. The association's survey covers a total of nearly 44 million loans nationwide.

The subprime meltdown began in February, when new Century Financial Corp. and HSBC Holdings reported more borrowers missing payments. The spike in bad loans scared banks and investors away from risky debt, drying up much of the industry's financing. More than 30 subprime lenders, including New Century, have gone bankrupt this year. With the hope that subprime problems eventually will be worked through and won't infect the overall mortgage market, Mr. Duncan said: "We're just urging people to take a deep breath and look at the big picture."

Investing Classes

Join the Ryan Real Estate Group at Collin County Community College for our next "Successful Real Estate Investing" class. This is a 4 week class beginning on Tuesday, July 24 from 6:30 to 9:30 p.m. In addition, the next "Successfully Buying HUD Homes" class will begin Wednesday, August 8th from 6:30 to 9:30 p.m.

To remove your name, E-Mail us at info@RyanRealEstateGroup.com