Nebraska
# Mortgage Monitor
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## Also in this issue…



# MBA Applauds Congressional Passage of Veterans Benefits Improvement

WASHINGTON, D.C. – The Mortgage Bankers Association (MBA) applauds the House of Representatives for approving S. 2486, the Veterans Benefits Improvement Act of 2004. The bill, which passed the Senate on Oct. 8, 2004, provides for increasing the maximum Department of Veterans Affairs (VA) home loan guaranty amount and indexing it annually to 25 percent of the Freddie Mac conforming loan limit (resulting in a current loan guaranty amount of $333,700), and making technical changes to the VA adjustable-rate mortgage (ARM) and VA hybrid ARM programs.

"MBA commends Congress for passing this bill, which contains many provisions that are vitally important to our nation's veterans, particularly in light of the

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# Housing Activity Expected to Stay Robust Despite Rising Mortgage Rates

2005 Housing activity is expected to decline only marginally in 2005 despite gradually climbing mortgage interest rates as jobs and household incomes grow more decisively than they did last year, according to housing economists participating in an NAHB news teleconference on Jan. 6. "We are telling builders that this year will probably pose some stiffer challenges than 2004, and they should be careful about inventories and vacancy rates," said NAHB Chief Economist David Sediers. Overall, he is expecting a 3.5% decline in home sales and starts this year — with single-family production off a bit less than 3%, multifamily starts down 4% and remodeling activity up 5%— but coming out even

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# VA Loan Guaranty Service Schedules Training Broadcasts

VA Loan Guaranty Service has scheduled five interactive televised training broadcasts for employees of lenders during 2005, and one broadcast primarily for real estate sales personnel. These free broadcasts may be viewed at any VA Regional Loan Center (RLC) or most VA Regional Offices. Attendees can make reservations by calling the contact person at the most convenient regional office or RLC (and learn where the broadcast can be viewed). For those with a fast Internet connection and no firewall problems, these broadcasts are also available in "streaming video" format over the Internet. Details regarding this viewing option are available on Loan Guaranty's website, www.homeloans.va.gov/ls.htm. These seminars are interactive, so attendees/viewers will have the opportunity to ask questions.

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# Fannie Mae Housing

## The mortgage debt outlook through the end of the decade

***Berson's Weekly Commentary***

Housing and mortgage activity have been amazingly strong over the past three years, and 2004 appears to have been a record-breaker as well (with at least 3 quarters worth of data available). In the last Economic Commentary, we provided our estimates of economic, housing, and mortgage activity for this year — but how is the mortgage market likely to grow over the long run? We have recently updated our longer-term outlook, and can now provide new projections through 2010. Unlike our near-term projections, which are based primarily on cyclical events, our long-term outlook is based mostly on demographics and other data trends.

From Fannie Mae's perspective, single-family mortgage debt outstanding (MDO) is probably one of the most important measures we project — as our business volumes come from all existing mortgages (mortgage debt outstanding) rather than simply the gross flows of new mortgages (mortgage originations). The table below shows our latest projection of MDO growth as a likely range for the decade as a whole (as well as for the components that make up MDO). In addition, it shows the actual growth rates of MDO (and its components) thus far in the decade and the likely ranges for the remainder of the decade. It also shows data for the twenty-year period 1981-2000 for comparison.

**Annual Growth Rate (percent per year)**

| | 1981-2001 low | 1981-2000 high | 2001-2010 | 2001-2003 low | 2001-2010 high | 2004-2010 |
|---|---|---|---|---|---|---|
| **Households** | 1.4% | 1.1% | 1.3% | 1.2% | 1.1% | 1.3% |
| **Homeownership Rate** | 0.1% | 0.3% | 0.4% | 0.4% | 0.3% | 0.45% |
| **OFHEO Home Price Index** | 4.3% | 4.4% | 5.9% | 7.3% | 3.2% | 5.3% |
| **Other** | 1.3% | 0.9% | 1.1% | 1.1% | 0.8% | 1.1% |
| **Value of Household-Owned Real State** | 7.1% | 6.7% | 8.7% | 10.0% | 5.4% | 8.1% |
| **Debt-to-Value Ratio** | 1.6% | 1.3% | 1.6% | 1.5% | 1.2% | 1.6% |
| **SF MDO** | 8.7% | 8.0% | 10.3% | 11.5% | 6.6% | 9.7% |

For the decade as a whole, we project MDO growth of 8.0-10.3 percent — which would require growth for the rest of the decade (including 2004, as we don't have full year data yet) of 6.6-9.7 percent. Either end of the range would be below the growth rate of the first three years of the decade, 11.5 percent, which we view as unsustainable (mostly because of the burst of home price appreciation). A brief discussion of the components of MDO growth follows.

Households — Because of data and methodological revisions, it is difficult to know exactly how rapid household growth has been over the past several years, but our best guess is 1.2 percent per year. Going forward, household growth will depend crucially on immigration, and the low and high projections roughly correspond with the middle and high estimates for immigration from the Census Bureau. Note that the actual immigration figures have been closer to the high series than the middle over the past few years.

**Homeownership Rate** — Homeownership rates have risen sharply in recent years, spurred by low mortgage rates and a public policy emphasis encouraging homeownership. While mortgage rates are likely to be higher over the remainder of the decade than they have been thus far, the public policy emphasis is unlikely to change — challenging both the primary and secondary markets to find ways to make homeownership achievable for creditworthy populations that have been under-represented.

**OFHEO Home Price Index** — Home prices have soared in recent years at rates that are unsustainable. Given our estimate of a 10.5 percent increase in the HPI for 2004, the low projection for the remainder of the decade assumes a 2.0 percent annual gain from 2005-2010 — about equal to the growth rate during the 1989-95

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## VA Schedules Training… *Continued from Page -1-*

### STUDENT MATERIALS

Student handout materials for each broadcast will be available for download from Loan Guaranty's web page one week before each broadcast. Students planning to attend a broadcast should download these materials and bring them to the broadcast. The web address is www.homeloans.va.gov/train.htm.

### SCHEDULE AND CONTENT OF BROADCASTS

***(Note: All Times Eastern Time)***

**Lender Appraisal Processing Program (LAPP) and the NEW Staff Appraisal Reviewer Web Based Training Course; Feb. 9,** *(12:00 noon - 2:00 p.m.)*
This broadcast is for anyone who orders, processes, or reviews VA Appraisals.

- Proposed versus new construction
- Common errors and misconceptions
- HUD Approved projects and Home Owners Associations
- Manufactured housing
- New Staff Appraisal Reviewer (SAR) computer based training module

**Closing the Loan Package; March 16,** *(12:00 noon - 2:00 p.m.)*
Attend this broadcast and save your company *time* and *money*.

- Obtain *accurate* Loan Guaranty certificates *quickly*
- *Eliminate* the need for *status requests*
- Take the *anxiety* out of *being Audited*

**Processing the Loan Package; April 13,** *(12:00 noon - 2:00 p.m. )*
Want to improve your market share? Learn how you can do just that by speeding up your ability to explain and process VA mortgage loans. Topics to be covered include:

- Basics of Eligibility: What is Eligibility? Who's Eligible? How do I find out? What Can a VA Loan be used for?
- Pre-Qualification Basics: Credit & Income; Common Scenarios; and Frequently Asked Questions.
- Fees and Charges: What's allowable and what is not.
- Property and the VA Appraisal: What is the purpose of a VA appraisal? What types of properties can be purchased?

**Loan Related Issues for Active Duty Personnel; May 11,** *(12 noon - 2:00 p.m.)*
The current world situation has caused more Reservists and National Guard Members to be called to active duty, and more troops to be deployed. Topics will include:

- Eligibility
- VA's Funding Fee
- Income issues
- Occupancy
- Powers of Attorney and Alive & Well Certifications

**Credit Underwriting Panel Discussion; June 22,** *(12:00 noon - 2:00 p.m.)*
It's *approved!* Tips and hints on mastering VA Credit Standards to arrive at well supported underwriting decisions quickly and efficiently. Presenters will include VA staff as well as lenders, covering:

- Problem credit cases
- Self employment
- Grossing up
- Many other issues

**Real Estate Professional Outreach; September 21,** *(12:00 noon - 2:00 p.m.)*
Thousands of real estate professionals are making money participating in VA's Home Loan Program. Attend this session and find out how you can too.

- Increase your pool of potential customers.
- VA loans are fast & easy to process!
- Help America's vets obtain the dream of home ownership.

## REVISED WOOD DESTROYING INSECT INSPECTION REPORT (12/23/04)

1. **PURPOSE**. This is to notify all VA Loan Guaranty program participants that effective January 1, 2005, VA now requires the use of the new Wood Destroying Insect Report Form NPMA-33 in lieu of Form NPCA-1 for VA loans on existing properties. Form NPCA-1 will be obsolete after December 31, 2004.

2. **ACTION**

a. The National Pest Management Association (NPMA) has released a new two-page form for existing residential real estate transactions. This form replaces the previous NPCA-1 Form. Any inspections performed after January 1, 2005, must be completed using this form to satisfy VA requirements.

b. Notice of Value Item #2A for Wood Destroying Insect Inspection will be revised in The Appraisal System (TAS) to show the new requirement for NPMA-33. Until the changes in TAS are made, reference to this requirement on a VA Notice of Value dated after January 1, 2005 should be considered to mean the NPMA-33 form.

c. In States which require the use of a State inspection form in all transactions, the State form is acceptable for VA loan guaranty purposes.

d. The NPMA-33 form is available from the National Pest Management Association at 8100 Oak Street, Dunn Loring, VA 22027 or phone 703-573-8330, other pest control report forms and software suppliers, or online from the HUD website at: http:/www.hudclips.org/sub_nonhud/html/pdfforms/npma-33.pdf

***Housing Activity…*** *from Page -1-*
with 2004's stellar performance "would not be out of the question." "On the interest rate front, the Federal Reserve is clearly on the move," and that should push up the federal funds rate to 3.75% and 30-year mortgages to 6.75% by year's end, he predicted. Home

### Price Appreciation Headed for a Slowdown

David Berson, chief economist for Fannie Mae, said that home sales will drop 7%-8% this year for several reasons: price increases have made affordability a concern in many markets despite low mortgage rates; a significant number of households who would have purchased homes this year did so instead in the past couple of years when rates were at or near record lows; and with prices slowing, investors may decide it is time to abandon the housing market.

Housing prices overall will grow by about 3% this year, compared to 10% in 2004, he said. Most places will see price gains in the 4%—4.5% range, Berson said, although prices will probably go down in some markets. Berson said he couldn't predict which markets are headed for a real price decline, but most at risk are those that have had high price gains relative to income along with other risk factors such as a high level of adjustable rate financing, relatively weak job growth and low household formations. Berson said that the investor share of home purchases has doubled over the past year— from 4.5% to the 9%–10% range— and is as high as 25%–30% in some markets. "Investors go in and out of markets all the time," he said. "They have gone in because of the high returns they can get. If prices begin to slow this year, investors will start to slow their purchases, reducing demand for housing and increasing the supply of homes on the market, slowing price gains some more."

### Refinancing Activity Continues to Slide

Rising mortgage interest rates will slow the refinance share of single-family mortgage originations substantially this year, according to Freddie Mac Chief Economist Frank Nothaft. In dollar volume, originations declined 30% last year and they should be down another 10% this year, he said, falling to $2.42 trillion from $2.75 trillion in 2004, entirely because of less refinancing activity. Although only about one in eight home mortgages are 7% or higher, refinancing will still account for about one-third of all originations by the fourth quarter of this year, fueled by families who took out Adjustable Rate Mortgages (ARMs) and are coming up to their first adjustment date and households who are using cash-out refinancing to tap into their home equity. The ARMs share of mortgages to buy homes will decline from the upper 30% range currently to about 28% by this year's fourth quarter as the spread between initial ARMs interest rates and long-term mortgage rates continues to narrow, he said. Home price appreciation is headed into the 5%-7% range for 2005, Nothaft forecasted, the slowest pace in about six years. "It is unrealistic to expect recent high levels of home value appreciation to be maintained going forward," he said.

### A Good Year for Consumers

The prognosis for the overall economy looks more favorable for consumers this year than last, said James Glassman, senior economist for JP Morgan Chase, and increases in income and job growth could counterbalance slowly rising interest rates. He predicted that housing activity will ease a little bit this year, but could hold at current levels "and the big surprise would be if housing did even better." "Interest rates are up," he said, "but the Fed is taking its foot off the gas, not stepping on the brakes, so it shouldn't be damaging to housing." Glassman forecasted that the economic drag of rising oil prices last year would be reversed in 2005, and he noted that about one-third of the run-up has already been reversed, helped along by a relatively mild winter in the U.S. Mortgage debt growth will start to slow down significantly, he said. For some time, households have been able to take on more debt without increasing their monthly payments because inflation and interest rates have been falling. Now that interest rates are moving up, debt will have to grow more in line with increases in income, which is reminiscent of the 1980s, Glassman noted.

## NIFA'S DEAL MAKER'S MARKETPLACE

### *Only One Week Left to Register!*

Only one week left to register for NIFA'S AFFORDABLE HOUSING DEAL MAKER'S MARKETPLACE, January 25-26, 2005 - Omaha Marriott Hotel.

Get a national perspective on rural and urban housing from Shekar Narasimhan, Managing Partner at Beekman Advisors. He provides strategic financial advisory and investment banking services to real estate and financial services companies. He has advised numerous national housing organizations including the USDA Rural Housing Services and Fannie Mae.

Also hear about Auburn University's Rural Studio from Dan Bennett. This program develops affordable housing in the most rural areas of Alabama with recycled materials for little or no money.

Network with housing experts and be among the first to receive the 2005 Nebraska Housing Study. Register now at: http://www.nifa.org. Check out the Agenda - Over 50 speakers!: http://www.nifa.org/programs/programs.html?pi=487&search_var=prog&prog_name_sent=Deal+Maker%27s+Marketplace

***Fannie Mae Housing…*** *Continued from Page -2-*

period. The high projections assume growth of about 4.5 percent per year for the 2005-2010 period.

**Other —** This category includes spending on second homes and investment properties. Note that a significant portion of the 1.3 percent annual growth between 1981-2000 for this measure is the difference between growth in the price measure the Federal Reserve used in order to determine the value of household-owned real estate and the OFHEO HPI. In recent years, however, the Fed has changed its methodology to use the HPI, so the entire 1.1 percent annualized gain thus far this decade has come from second homes and investment demand. Research done by Fannie Mae's Mortgage Market Analysis group indicates that the investor share of purchase loans has risen sharply in the past year, while demographics suggest that second home demand should be strong.

**Value of Household-Owned Real Estate —** This is a series from the Federal Reserve's Flow of Funds database, and measures the value of all housing owned by households. It also, by definition, equals the sum of the preceding components. Growth has been extremely rapid, in large part because of the unsustainable increases in home prices, and so we expect growth to slow over the remainder of the decade. For the entire decade, we project growth of 6.7-8.7 percent (and 5.4-8.1 percent for the rest of the decade).

**Debt-to-Value Ratio —** This series is akin to the "loan-to-value" ratio, but instead of measuring this concept with the flow of new mortgages, it measures it for the stock of existing housing (including those with no mortgage). It has tended to rise over time in response to favorable changes in the tax code, declines in interest rates, and increases in home equity. Moreover, households have become more sophisticated in managing their wealth by using the equity in their homes – a trend that is likely to continue.

**Single-Family Mortgage Debt Outstanding —** MDO growth is simply the sum of the components described above. The extraordinary pace of MDO growth in recent years is likely to slow as home price gains decelerate, but even in the low projection case, MDO growth would average 8.0 percent for the entire decade (but only 6.6 percent going forward). With more optimistic assumptions, MDO growth would be over 10 percent for the entire decade (and nearly that for the rest of the decade).

A lot of releases this week, but nothing as important to financial markets as last week's employment and ISM reports.

- On Monday, wholesale inventories are expected to increase by 0.8 percent in November — continuing a string of stronger gains in recent months.
- On Wednesday, the trade deficit for November should narrow modestly to $54.0 billion – helped by lower oil prices. This will have a bigger impact in December.
- On Thursday, import prices for December are projected to decline by 0.2 percent — mostly from lower oil prices and despite the falling dollar.
- Also on Thursday, retail sales for December should rise by 1.0 percent – mostly from very strong auto sales, with the ex-auto sales rising by a more modest 0.3 percent.
- Additionally on Thursday, initial unemployment claims should drop to around 340 thousand for the week ending January 8th — countering some of the previous week's spike. Both this week and last have been affected by the Christmas and New Year holidays, and the difficulty of seasonally adjusting that data.
- On Friday, business inventories for November are expected to rise by 0.5 percent— indicating that business confidence is high enough for firms to continue re-stocking.·
- Finally on Friday, industrial production (and capacity utilization) for December is projected to increase by 0.4 percent (and to 78.8 percent) — mostly on the strength of continued improvement in the manufacturing sector.

*David W. Berson Fannie Mae Economics*

Last Revised: January 10, 2005

# Nebraska Mortgage Association Homebuyer's Fair

We are looking for lenders in the Omaha area only, to work the Homebuyer's Fair to be held February 12th at the TAC Building on 30th and Cumings from 8:00 AM to 1:00 PM.

Be a part of the Association's efforts to reach low-to moderate potential homebuyers by bringing education and information to the Fair.

If you would like to assist in this Fair, please contact George Akers at First Mortgage Corporation. He can be reached by calling 402-493-7600 or emailing him at: gakers@firstmortgageco.com.

## ✔ Check us out!

Don't forget to visit our website at: www.nebraskamortgageassociation.org

And please be sure to keep us updated with your current email address. Changes can be sent to:

nebrmortassn@neb.rr.com

***MBA Applauds Congressionsal Passage…*** *from Page -1-*

current massive build-up of our armed forces and the prospect of an increasing veteran population following service members' active-duty service. During this time of war it is more important than ever for veterans and their families to enjoy the benefits of homeownership," said Kurt Pfotenhauer, MBA's senior vice president of government affairs.

Since 1945, the Veteran's Home Loan Guaranty Program has provided an important homeownership benefit to those who have served their country in the armed forces. More than 17.5 million veteran home loans have been guaranteed since the program's inception. MBA strongly supports the concept of indexing the maximum VA guaranty amount to the Freddie Mac limit because it will avoid the necessity of congressional action to keep the VA benefit relevant as home prices change. The VA guaranty amount has been raised only once since 1995, for an increase of approximately 18 percent, despite the fact that national home prices have appreciated approximately 73 percent since that time.

The hybrid ARM program, in particular, has proven to be very popular among veterans. During FY 2004, more than 59,000 VA hybrid ARMs were originated — approximately 18 percent of VA's total loan volume. MBA believes this program should continue beyond its FY 2005 termination date. The current cap on the initial interest rate adjustment has limited the vast majority of the volume to 3/1 hybrid ARMs. MBA believes that the adjustment cap structure contained in S. 2486, allowing the VA Secretary to establish the cap structure on hybrid ARMs with an initial term of more than three years, will make 5/1 ARMs more viable. Currently, 5/1 hybrid ARMs are the most popular hybrid ARMs in the conventional market. In addition, MBA believes veterans should have the option of a one-year ARM, as do Federal Housing Administration (FHA) borrowers and borrowers in the conventional market.

# Elimination of Refunds of Upfront Mortgage Insurance Premiums

Section 223 of the Consolidated Appropriations Act 2005 amended Section 203(c)(2)(A) of the National Housing Act to eliminate refunds of the Federal Housing Administration's (FHA) upfront mortgage insurance premiums except when the borrower refinances to another mortgage to be insured by FHA. This elimination of refunds is effective for those mortgages endorsed for insurance on or after December 8th, 2004, the day the President signed the act. Form HUD-92900-B, Important Notice to Homebuyers, has been revised to reflect this change and is available on www.hudclips.org.

Also effective with those mortgages endorsed for insurance on or after December 8th, the refund schedule for those borrowers who refinance to another FHA-insured mortgage is modified to a three-year time period, as shown below.

**Upfront Mortgage Insurance Premium Refund Percentages**

| | Month of Year | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Year** | **1** | **2** | **3** | **4** | **5** | **6** | **7** | **8** | **9** | **10** | **11** | **12** |
| **1** | 80 | 78 | 76 | 74 | 72 | 70 | 68 | 66 | 64 | 62 | 60 | 58 |
| **2** | 56 | 54 | 52 | 50 | 48 | 46 | 44 | 42 | 40 | 38 | 36 | 34 |
| **3** | 32 | 30 | 28 | 26 | 24 | 22 | 20 | 18 | 16 | 14 | 12 | 10 |

If you have any questions concerning this Mortgagee Letter, please contact your local Homeownership Center in Denver (800-543-9378).

## New Members

Join us in welcoming Gateway Community Bank and Regent Financial Group, Inc. as a new members of the Nebraska Mortgage Association.

## *Editor's Notes…*

I hope that everyone enjoyed their holidays with their family and friends, I sure did! I was lucky enough not to receive an Oil of Olay anti-aging kit again from my wonderful husband.

The stress of the holidays is over and it's back to business as usual. If you have any news tidbits or information on housing or meetings you would like in the Monitor, please e mail them to me at: mary.byrnes@greatwesternbank.com.

Special note to Conference vendors, I am still looking for spotlight articles!

*Mary Byrnes, Editor*