



A potential rebound...but not a full recovery

By Richard Maxstadt, SVP/Chief Operating Officer, CUC Mortgage

IT APPEARS THAT 2011 WILL BE THE YEAR U.S. HOUSING markets start to rebound. Fannie Mae expects home prices to begin rising during the third quarter. The Chicago Fed projects real residential investment to jump 9.6 percent, and the Mortgage Bankers Association and the National Association of Realtors anticipate higher home sales and construction every quarter. But despite these predictions, it is important to monitor both the positive and negative sides of the story.

Signs of recovery

During 2008, home prices declined continuously, and home sales were at or near their lowest levels in a decade. Then in 2009, housing markets started to stabilize. In January, the composite Residential Property Index produced by Radar Logic Inc., which reflects home prices in 25 of the country's largest metropolitan areas, leveled off after 18 months of rapid declines. Home sales normally follow a predictable seasonal pattern (increasing in the spring and decreasing in the fall), but in 2009, home sales continued to increase through November.

This return to some stability in the nation's housing markets was due, in large part, to the release of pent-up demand. Thanks to the substantial reduction in prices, homebuyers who had been priced out of the housing market during the boom were once again able to afford homes and came flooding back. Investors re-entered the market as well, believing the price reductions had created enormous opportunities.

Ongoing obstacles

Despite these positive trends, foreclosures continue to plague the housing market. To say that several million homes nationwide are trapped in the foreclosure net is no exaggeration. Leading research in the mortgage industry reveals that 5 to 7 million mortgages are in, or will be in, foreclosure over the next three years. And this crisis isn't dominated by the lower-income families who signed up for homes they couldn't afford;

it's the middle-income sector. The reality is that middle-income families were buying homes a notch or two higher than they could afford.

In many instances, the outlook for avoiding foreclosure is bleak. Speaking at a Federal Reserve System symposium, Sheila Bair, chairman of the Federal Deposit Insurance Corporation, said, "The regrettable truth is that many of the properties currently in the foreclosure process are either vacant or occupied by borrowers who simply cannot make even a significantly reduced payment and have been in arrears for an extended time."

Another factor affecting the housing market recovery is the rate at which homes enter the market through short sales, foreclosure auctions and REO liquidations. In a relatively optimistic scenario, homes trickle into the market at a rate that can be absorbed by weak demand while maintaining price stability. This can happen if financial firms and the government sponsored enterprises (GSEs) continue to hold much of their REO inventories off

the market in order to protect the value of their assets.

Despite ongoing obstacles, many continue to be optimistic about a market rebound in 2011. After all, home prices are very low, and mortgage rates are as cheap as anyone has seen. In the words of Stuart Feldstein, president of SMR Research, "Part of the problem is you have so much negative news from so many pessimists who always get the headlines. No one is telling the positive story, which, in fact, does exist."

As the year unfolds, the story of the housing market will continue to play out. With so many factors involved—unemployment rates, foreclosure trends, consumer confidence and more—any rebound that does occur will be far from a full recovery. But one thing is certain: It will be a step in the right direction. □

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