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Residential still buoyant despite many unknowns

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Recently, I've had the rather unpleasant experience of applying for a residential mortgage. Having read a fair amount about the difficulty in getting new mortgages, and even refinancing, I thought those problems would be mostly for first-time buyers and/or a significantly younger age group. Not true!

Without naming names, I applied to a bank that already made loans to me, and was up-to-date on my financial circumstances. Nonetheless, I got a request for enormous amounts of information, on everything it seemed I ever did. I told them the list was unfathomable, and I could not produce it all, nor would various partners want me to. After additional discussion, the bank carved out a modified approach, but I wondered how others could survive this.

As the same time this was going on, I had been reading that the amount of mortgage applications (Mortgage Bankers Association), and the pace of residential sales in June dropped relative to the preceding month. My immediate conclusion, in light of my own mortgage application process, was that rates were going up, but more importantly applicants were being discouraged by the process.

I set out to write a story about this, but after some additional research, realized that my premise was wrong. In fact, June was a relative anomaly, and now July figures showed housing strength once again. Based on National Association of Realtors statistics, I learned that July metrics, including the pace of sales and the median price of sales were once again up from the month of June, and significantly higher than July a year ago. Specifically, the total existing sales, including all single-family, condo, co-op, etc. increased 6.5% over the month of June, and 17.2% above July, 2012. Regarding median price, the July 2013 was 13.7% above the pricing July 2012. That was 17 consecutive months of year-over-year price increases, which last occurred in January 2005. I was also astonished (even incredulous) to learn that the national median price was now only 7.3% below July 2006, the alleged peak in the market. Two years ago, that median price was 25.7% below the peak!

Obviously there are differences among regions, which are predominately dependent on the economy and job production. The regional analysis showed, however, that all movements had been upward, with New England and Midwest leading other areas in year-over-year pace of sales, and the South and the West leading year-over-year on the price of sales. There were no huge gaps among the regions. In other words, although there were differences, all signals were a go.

All of that good stuff said, there are still warning flags, ones I had presumed at the beginning of this article. The chief economist from the NAR feels that the initial rise in interest rates recently provided a strong incentive for closing deals. Thus, further rate increases may well diminish the pool of buyers. On the other hand, he also thought that the stringent underwriting standards that I had encountered should "normalize" as default rates fall and perceived risk in the marketplace lessens. They certainly can't get worse! In other words, simpler underwriting standards could make up some of the loss in loan applicants potentially caused by raising rates.

All-in-all, I was impressed with the recent statistics. It is clear that even with some blips in the market, overall trends will continue to improve. However, the usual variables are out there including, tapering of bond buying by the Feds, rising interest rates, stagnant inflation- adjusted incomes, rising housing prices and most importantly continuing unemployment. It's still a potent mix of unknowns.

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