

real estate insights

January 2007

Real Intelligence –
Real Advantages

In This Issue

Existing home sales rose 0.6 percent in November to a seasonally adjusted annual rate of 6.28 million units. While the sales pace was off 10.7 percent from that in November 2005, the slight increase from October is the second consecutive monthly increase in resales activity, and suggests that the worst in the housing market is likely to have ended. Both existing single-family and condominium/co-op sales rose in November. Home prices are stabilizing – the national median sales price for an existing home was \$218,000 in November, 3.1 percent lower than a year ago. On the positive side, for every 1.0 percent drop in home prices, NAR projects an additional 50,000 buyers are drawn into the market. **Read more.**

Running down the road. What's ahead for real estate and housing in 2007? Will we see a continuing slowdown in home price appreciation? Will homebuyers – and investors – flock back to the market? In his commentary this month, NAR Chief Economist David Lereah looks at some of the developments to look for down the road. **Read more.**

Financing the Home Purchase. For most households, purchasing their own home is one of the largest financial transactions they will make. NAR's recent **2006 Profile of Home Buyers and Sellers** asked recent buyers how they financed their home purchase, what type of mortgage loans they chose, and the source of their downpayments. Our *Market Intelligence* feature this month looks at some of the answers. **Read more.**

And now, a word from our sponsor. NAR is offering a new opportunity for companies to promote their products and services to readers of **Real Estate INSIGHTS**. Details are available on page 15. **Read more.**

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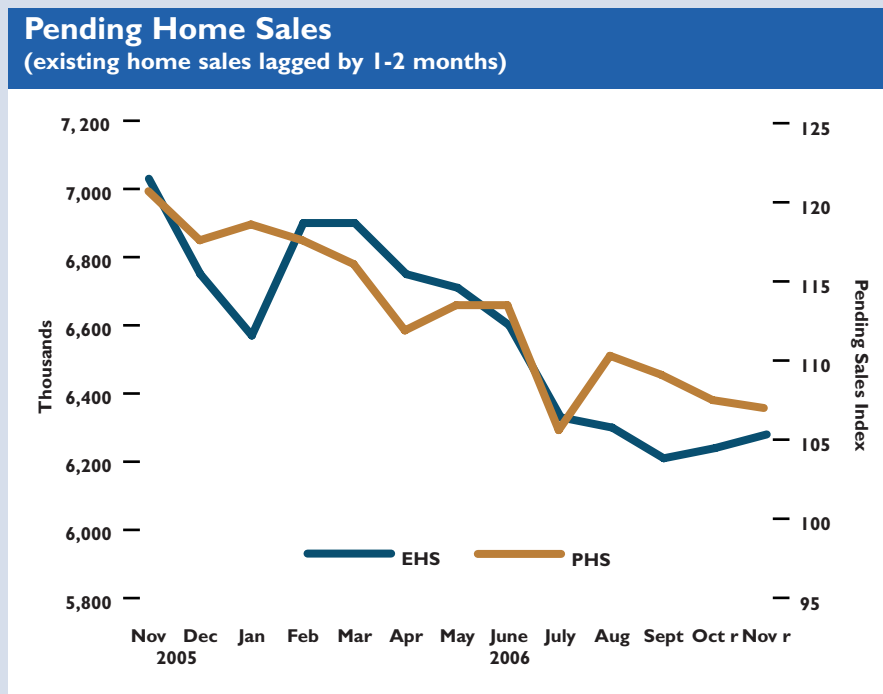
Real Estate Monitor

Monthly Indicator	Recent Figures	Likely Direction Over the Next Six Months	Forecast
<p>Existing home sales rose for a second consecutive month in November, posting 6.28 million units (seasonally adjusted annualized rate). Sales have been bouncing around the 6.2-6.3 million level for the past five months, indicating the market is stabilizing. Housing inventory decreased by 40,000 units, and is at a 7.3 months' supply at the current sales pace. Read more.</p>	Oct 06 6,240 Nov 06 6,280 Nov 05 7,030		Modest but steady rise
<p>New home sales posted 1.05 million units in November (seasonally adjusted annualized rate) – a 3.4% increase from October's pace and the third monthly increase in the past four months. New home inventory fell to a 6.3 months' supply, higher than the level a year ago, but very close to a "balanced" market. Read more.</p>	Oct 06 1,013 Nov 06 1,047 Nov 06 1,236		Fewer new homes being built and fewer new home sales opportunity
<p>Housing starts rose 7% in November after having tumbled in October. Total starts posted 1.588 million units (seasonally adjusted, annualized). Multifamily starts were essentially unchanged, while single-family units rose by 96,000. Even so, housing starts are 26% lower than they were a year ago. Read more.</p>	Oct 06 1,488 Nov 06 1,588 Nov 05 2,131		More cuts needed to bring down excessive inventory
<p>Housing affordability continues to improve. NAR's housing affordability index was 110.5 in November – the fourth consecutive monthly increase and above the level in November 2005. The increase is due to continuing low interest rates, and home price declines. Read more.</p>	Oct 06 108.0 Nov 06 110.5 Nov 05 106.0		Wages growing at 4% – more than double the pace of home price growth of 1% to 2%
<p>Mortgage rates The 30-year fixed mortgage rate dipped to 6.14% in December – its lowest level since October 2005. The one-year adjustable rate was 5.45% in December. The slower housing market – compared to a year ago – is helping keep rates low. Long-term rates are expected to rise moderately in 2007 to the mid 6% range. Read more.</p>	Nov 06 6.27% Dec 06 6.14% Dec 05 6.27%		Slow rise, but comfortable below 7% for 2007.
<p>Purchase Applications The Mortgage Bankers Association's purchase applications index rose in December to its highest level in 12 months to 424.8. Declining mortgage rates and strong job growth contributed to both purchase and refinance activities. Read more.</p>	Nov 06 405.8 Dec 06 424.8 Dec 05 455.5		Rising existing home sales (85% of the market) more than offset the declining new home sales.
<p>Employment Non-farm payrolls increased by 167,000 in December – beating most analysts' expectations. November's job creation figure was revised upward by 30,000. From December 2005 to December 2006, 1.8 million net new jobs were added to the economy. Read more.</p>	Nov 06 154 Dec 06 167 Dec 05 145		Job gains to be similar in the coming months
<p>Inflation The consumer price index (CPI) was flat in November, as was the core index, which excludes the food and energy components. Energy prices decreased slightly – by 0.2% – in November. Price growth will likely average a mild 0.2% monthly increase over the next three months, assuming moderate increases in fuel and heating costs as the winter gets into full swing. Read more.</p>	Oct 06 -0.5% Nov 06 0.0% Nov 05 3.5%		Inflation declining, partly helped by tumbling oil prices

Notes: All rates are seasonally adjusted. Existing home sales, new home sales and housing starts are shown in thousands. Employment growth is shown as month-to-month change in thousands. Inflation is shown as a month-to-month percent change in the Consumer Price Index. Sources: NAR, Bureau of the Census, Bureau of Labor Statistics, Mortgage Bankers Association and Freddie Mac. This report reflects data as of January 5, 2007. Compiled by Wannasiri Chompoopet, Ken Fears, Kevin Thorpe and Lawrence Yun.

NAR's Pending Home Sales Index

Pending home sales dipped slightly in November. NAR's pending home sales index posted a level of 107.0 in November – 0.5% down from October's revised index of 107.5. The index is a leading indicator for the housing sector, based on pending sales of existing homes. A sale is listed as pending when the contract has been signed and the transaction has not closed, but the sale usually is finalized within one or two months of signing. The index is derived from pending sales of existing homes. A sale is listed as pending when the contract has been signed but the transaction has not yet closed. Pending sales typically are finalized within one to two months of signing. An index of 100 is equal to the average level of contract activity during 2001 – the first year to be examined and the first of five consecutive record years of existing home sales. Pending home sales continue to hover in a narrow range, indicating that the housing market is stabilizing. [Read more.](#)



Source: NAR Research

An Old Year of Contraction; A New Year of Stability

by David Lereah, *Chief Economist*

We begin the New Year with a hint of optimism. The glass was half empty in 2006 – home sales fell throughout the year. But the glass looks to be half full in 2007. While property speculation has ceased, signs of a return to home buying have surfaced and inventory levels have topped out. REALTORS® and lenders alike are encouraged, but guarded, about 2007.

Last year was a year of contraction, a correction that was sorely needed after five years of a booming housing market expansion. Home prices were inflated and property investors (and speculators) were everywhere at the end of 2005. That set the stage for 2006 to spiral downward. Home buyers stayed on the sidelines because they could not afford the lofty-priced homes in the boom-inflicted regions. Some households also postponed buying because they believed prices would eventually drop, making them better off buying later rather than now. Property speculators fled, dumping inventories. Meanwhile, homeowners looking to sell sat stubbornly tied to their listing prices.

Let's be clear, though. The sky never did actually fall in 2006— or, to use that phrase that the media love, there were no “bubbles” bursting. But air did come out of some inflated balloons. According to our National Association of REALTORS® latest estimates for last year, existing home sales were down 8.2 percent from a year earlier. Similarly, new home sales were down 17.4 percent and housing starts were down 12.5 percent. Our nation's housing sector suffered a contraction, inhibiting overall GDP growth.

But 2007 is a new year and with it brings a cautious confidence and hopefulness. Home sales appear to have bottomed out, having reached a cyclical low in September of last year. And in recent months, home sales are inching *up*, not down. Existing home sales experienced two consecutive monthly, albeit modest, gains from September to November. Inventories have stabilized, with the nation's months' supply hovering around 7.3 months since July of last year.

What all this means is that potential home buyers have a more favorable backdrop for buying today. *It is now a buyers market.* Sellers are more flexible now, reducing prices and/or paying part of the closing costs. High inventories are now a positive rather than a negative for property buyers. Rising inventories in 2006 reflected a deteriorating marketplace, keeping buyers on the sidelines. Stable inventories in 2007 represent more choices for buyers. Mortgage rates continue to hover near cyclical lows, keeping financing costs low. And depending on where you live, affordability conditions are most

Home buyers have a more favorable backdrop for buying today. *It is now a buyers market.*

likely improving. Wages (income) are registering healthy rates of growth, while home price growth is flat or down, broadening a household's financial capacity to purchase property.

Yes, housing was bed-ridden at the end of last year. Existing home sales hit bottom during the fourth quarter of 2006. But after a frenzied five-year real estate boom, a reasonable prescription for our nation's housing sector is regular rest and a healthy regimen of exercise. I expect housing to get back on its feet in 2007.

Our forecast calls for modest quarterly gains throughout this year, but year-over-year, home sales are expected to fall by a modest 1.2 percent. New home sales are not expected to rebound until the third quarter of this year so year-over-year sales are expected to fall by a larger 9.7 percent.

Looking back, 2006 was a year of contraction. But looking forward, 2007 will represent a year of stability. Cheers to the New Year.

THE FORECAST

by Lawrence Yun, Senior Forecast Economist

Yes, it's true – home prices have retreated. Home prices have been falling for four straight months as of November and there could be a few more months of additional declines given the very high level of housing inventory. However, the rising housing demand from improving affordability conditions will inevitably cut into existing inventory and bring the market into a neutral state. Homebuilders have been helpful as well by markedly cutting back the construction of new homes.

And lower prices aren't the only thing attracting buyers back into the market. Wages have improved as well. With the jobless rate at a tight 4.5 percent at the end of 2006, companies have started bidding for workers at a higher wage rate. A typical hourly wage rate of \$17.04 in December represents a 4.2 percent increase over the year. That compares quite favorably with the annual wage growth of under 3 percent from 2002 to 2005.

Such a wage increase – in combination with a 3.1 percent home price decline recorded in November – has raised housing affordability to its highest level in over 18 months. Though home sales are still at relatively modest levels, rising sales of both new and existing homes in November were encouraging. In fact, the existing home sales rate of 6.2 million units (seasonally adjusted annualized rate) is likely to have bottomed out in the fourth quarter of 2006. There will be a steady rising trend from the first quarter of this new year that will likely continue well into 2008. By the middle of 2008, the sales pace will have reached 6.7 million – a solid 8 percent rise from its current level.

A turnaround in new home sales will take a bit longer. The sales level is anticipated to bottom out in the second quarter of 2007. The lower sales is not due to lack of interest in new home purchases but from homebuilders cutting back single-family home construction by

about 30 percent on a year-over-year basis at the end of 2007.

Inventory is still slightly greater than what analysts consider a “balanced” market. As of November, there were still 3.82 million homes on the market compared about 2.2 million just two years ago when the market was considered very tight. The rise in inventory has been stronger for investor-preferred condominiums rather than for single-family homes. Consider also the additional inventory wrought by approximately 275,000 apartment units converted into condos in 2005 and 2006. That is huge considering the total condo inventory stood at 580,000 in November.

And we maintain our mantra. *All real estate is local.* Therefore, some local markets will adjust far differently from the national pattern. One principal local market variation relating to home price strength is the amount of excessive inventory that reached the market in the past year, and hence, the time required to burn off that excessive inventory. The condo-conversion was predominately in regions that witnessed the dramatic price increases during the height of the housing boom. That would include Florida and California coastal markets, Nevada, Arizona, and the Washington D.C. region.

Those markets cited in the table are susceptible to price declines – at least over the short-run – as the investor inventories are surely reaching those areas. Boise is a bit interesting in that it had the highest increase in non-owner occupied loans from 2004 to 2005 (increasing from 16 percent to 28 per-

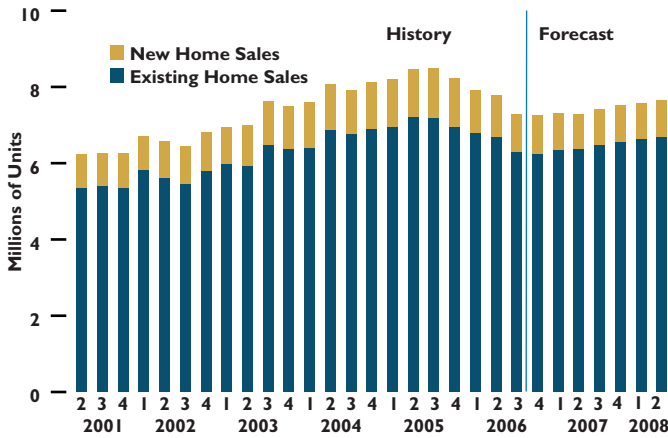
cent, respectively). So it has suddenly become a “second-home” destination. But Boise – importantly – still boasts some of the most affordable home prices in the country and, hence, price correction is unlikely.

On the opposite side of the vulnerable markets are the Midwestern markets that provide the highest value opportunity. Many homes in Columbus, Indianapolis, and Des Moines can be purchased for less than \$150,000. Any measurable job growth in any of similar affordable markets could lead to a nice increase in home price. Therefore, be mindful of the local job market trends in America's heartland.

Metropolitan Statistical Area	% non-owner occupied loans
Myrtle Beach	65%
Naples	47
Sarasota	40
Orlando	30
Boise	28
Phoenix	27
Tucson	27
Charleston, SC	27

Home Sales

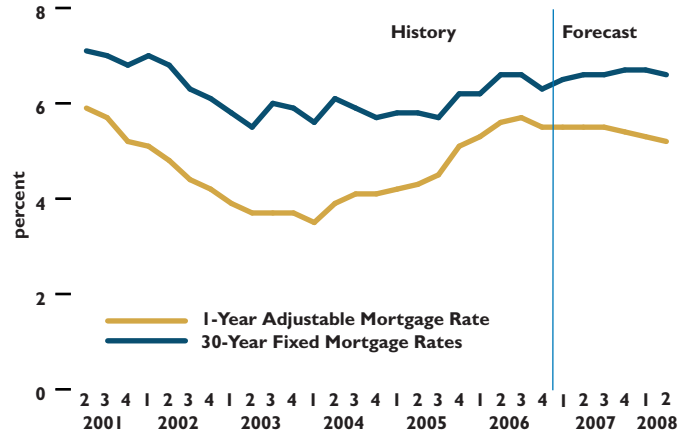
Sales stabilizing and starting to recover



Sources: NAR, Bureau of the Census, NAR Forecast

Mortgage Rates

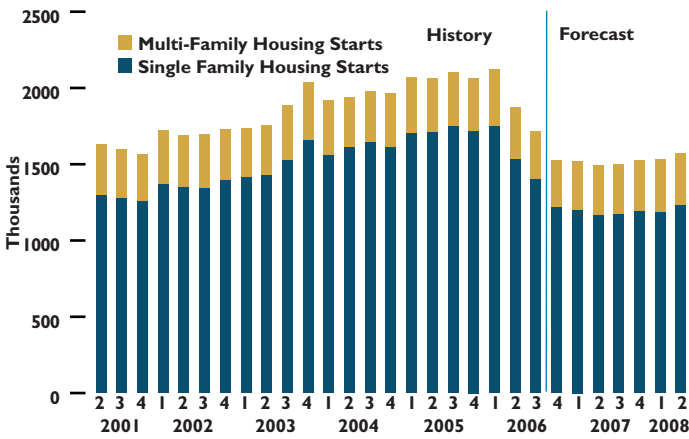
Up slightly, but still below 7 percent



Sources: Freddie Mac, NAR Forecast

Housing Starts

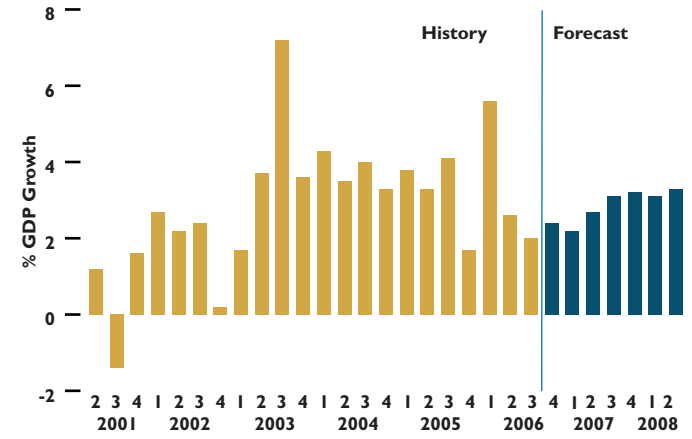
Supply current outstripping demand



Sources: Bureau of the Census, NAR Forecast

Economic Growth

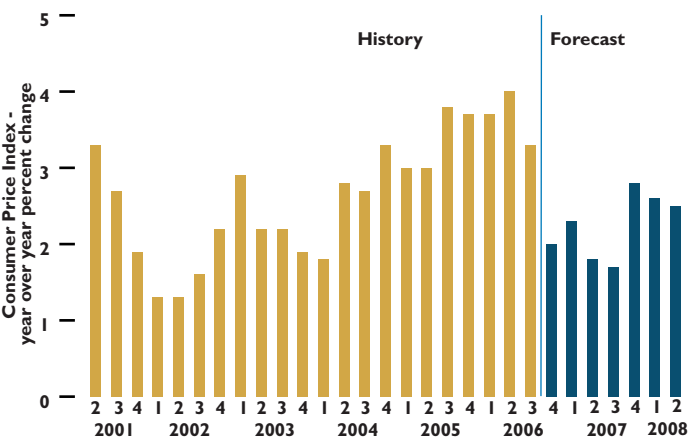
Economic expansion back on track



Sources: Bureau of Economic Analysis, NAR Forecast

Inflation

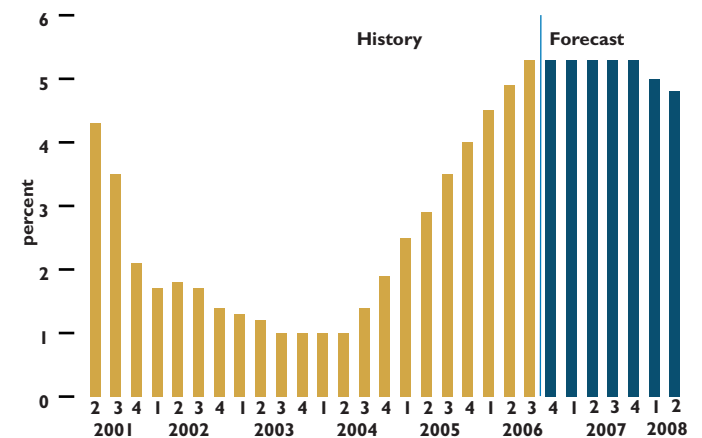
Staying under that "threshold" 3-percent



Sources: Bureau of Labor Statistics, NAR Forecast

Federal Funds Rate

The Fed to "stand pat" in '07, then cut in '08



Sources: Federal Reserve Board, NAR Forecast

U.S. ECONOMIC OUTLOOK

January 2007

	2006				2007				2008		2005	2006	2007	2008
	I	II	III	IV	I	II	III	IV	I	II				
U.S. Economy														
<i>Annual Growth Rate</i>														
Real GDP	5.6	2.6	2.0	2.4	2.2	2.7	3.1	3.2	3.1	3.3	3.2	3.3	2.5	3.2
Nonfarm Payroll Employment	1.7	1.2	1.4	1.2	0.9	1.3	1.5	1.3	1.2	1.4	1.5	1.4	1.2	1.3
Consumer Prices	2.2	5.0	2.9	-2.2	3.6	2.9	2.6	2.4	2.8	2.8	3.4	3.2	2.2	2.6
Real Disposable Income	4.6	-1.5	4.1	5.7	3.7	2.4	2.9	2.9	3.4	3.0	1.2	2.7	3.4	3.1
Consumer Confidence	106	107	104	107	107	106	106	106	107	107	100	106	106	107
Percent Unemployment	4.7	4.7	4.7	4.5	4.6	4.8	4.9	4.9	4.9	4.9	5.1	4.6	4.8	4.9
<i>Interest Rates, Percent</i>														
Fed Funds Rate	4.5	4.9	5.3	5.3	5.3	5.3	5.3	5.3	5.0	4.8	3.2	5.0	5.3	4.8
3-Month T-Bill Rate	4.4	4.7	4.9	5.0	5.0	5.0	5.0	4.9	4.7	4.5	3.1	4.7	5.0	4.6
Prime Rate	7.4	7.9	8.3	8.3	8.3	8.3	8.3	8.3	8.0	7.8	6.2	8.0	8.3	7.8
Corporate Aaa Bond Yield	5.4	5.9	5.7	5.4	5.5	5.7	5.9	5.9	5.9	5.9	5.2	5.6	5.8	6.0
10-Year Government Bond	4.6	5.1	4.9	4.6	4.8	4.9	4.9	5.0	5.0	4.9	4.3	4.8	4.9	4.9
30-Year Government Bond	4.6	5.1	5.0	4.7	4.9	5.0	5.2	5.2	5.2	5.2	4.6	4.9	5.1	5.2
<i>Mortgage Rates, percent</i>														
30-Year Fixed Rate	6.2	6.6	6.6	6.3	6.5	6.6	6.6	6.7	6.7	6.6	5.9	6.4	6.6	6.6
1-Year Adjustable	5.3	5.6	5.7	5.5	5.5	5.5	5.5	5.4	5.3	5.2	4.5	5.5	5.5	5.2
Housing Indicators														
<i>Thousands</i>														
Existing Home Sales*	6,790	6,687	6,280	6,235	6,334	6,347	6,453	6,554	6,617	6,671	7,075	6,498	6,422	6,576
New Single-Family Sales	1,111	1,100	1,018	1,012	979	942	946	962	968	985	1,283	1,060	957	965
Housing Starts	2,123	1,873	1,714	1,528	1,518	1,492	1,501	1,524	1,529	1,574	2,068	1,810	1,509	1,578
Single-Family Units	1,747	1,530	1,401	1,217	1,200	1,165	1,170	1,189	1,186	1,230	1,716	1,474	1,181	1,231
Multifamily Units	376	343	313	311	319	327	331	335	343	344	352	336	328	347
Residential Construction**	619	601	570	536	512	502	499	503	508	515	608	581	504	520
<i>Percent Change -- Year Ago</i>														
Existing Home Sales	-2.2	-7.0	-12.5	-10.2	-6.7	-5.1	2.8	5.1	4.5	5.1	9.8	-8.2	-1.2	2.4
New Single-Family Sales	-11.5	-14.3	-21.5	-20.9	-11.8	-14.4	-7.1	-5.0	-1.2	4.6	10.8	-17.4	-9.7	0.8
Housing Starts	2.6	-9.3	-18.4	-25.8	-28.5	-20.4	-12.5	-0.2	0.7	5.5	5.2	-12.5	-16.6	4.6
Single-Family Units	2.6	-10.4	-19.8	-29.1	-31.3	-23.9	-16.5	-2.3	-1.2	5.6	6.6	-14.1	-19.9	4.2
Multifamily Units	2.9	-3.8	-11.3	-9.1	-15.3	-4.7	5.5	7.8	7.6	5.2	-0.9	-4.6	-2.4	6.0
Residential Construction	6.1	-1.5	-8.1	-13.4	-17.2	-16.4	-12.4	-6.1	-0.8	2.7	10.3	-4.4	-13.3	3.2
Median Home Prices														
<i>Thousands of Dollars</i>														
Existing Home Prices	218.7	226.7	225.0	216.5	215.8	229.9	230.0	222.8	222.1	237.2	219.6	222.1	225.3	233.0
New Home Prices	244.8	246.1	232.3	244.0	244.8	247.1	235.1	247.9	249.7	253.0	240.9	241.6	248.9	257.8
<i>Percent Change -- Year Ago</i>														
Existing Home Prices	9.5	3.0	-1.0	-3.9	-1.3	1.4	2.2	2.9	2.9	3.2	12.4	1.1	1.5	3.4
New Home Prices	6.5	6.9	-1.8	1.6	0.0	0.4	1.2	1.6	2.0	2.4	9.0	0.3	3.0	3.6
Housing Affordability Index	109	103	103	112	113	108	108	110	114	115	113	107	110	114

Quarterly figures are seasonally adjusted annual rates. / * Existing home sales of single-family homes and condo/coops; ** billion dollars / Source: Forecast produced using Macroeconomic Advisers quarterly model of the U.S. economy. / Assumptions and simulations by Dr. David Lereah and Dr. Lawrence Yun.

NAR Public Policy Advocacy Issues: Priorities for the New Year

by NAR Staff

At the beginning of each year, the leadership and the most politically active members of the National Association of REALTORS® examine a variety of legislative and regulatory issues impacting the real estate business. They look at issues that shape the business practices of REALTORS® and the ease with which property can be transferred between buyers and sellers. From this long list of issues, they create a public policy agenda for NAR, so the association can focus its resources on initiatives that promote a fundamentally sound and dynamic U.S. real estate market and vibrant communities in which to live and work.

In this, our initial “In Focus” feature of **Real Estate INSIGHTS**, we provide a list of some of the most significant issues on NAR’s 2007 public policy agenda.

Issues – in Alphabetical Order

Affordable Housing Tax Credit NAR supports incentives to increase the supply of affordable single family housing. NAR is urging Congress to enact legislation providing an incentive in the form of a tax credit to developers and/or investors to enhance the supply of affordable housing available for purchase.

Banks in Real Estate NAR opposes the entry of large national financial conglomerates in real estate brokerage, leasing and property management. NAR is urging Congress to enact H.R. 111 and S.98, The Community Choice in Real Estate Act, to permanently bar banks from engaging in real estate brokerage, leasing and property management.

Do-Not-Fax Implementation NAR supports efforts to limit abusive faxing of commercial solicitations to consumers and business. NAR worked with Congress in 2005 to enact the Junk Fax Prevention Act that safeguards REALTORS® from

Protecting Consumers from Banks Entering Real Estate Brokerage is NAR Priority

H.R. 111, the Community Choice in Real Estate Act, was introduced this month in the House by its sponsors Congressmen Paul Kanjorski (D-PA) and Ken Calvert (R-CA). Fifty cosponsors were added on the first day of Congress. Enactment of H.R. 111 would keep real estate brokerage and management clearly defined as commercial activities and not financial matters, ensuring that the separation of banking and commerce continues as mandated by the Gramm-Leach-Bliley Act.

NAR has repeatedly communicated to Congress its long-standing support for keeping banks as impartial providers of credit and not permitting them to control all aspects of real estate transactions. NAR noted that putting real estate brokerage into the hands of banks would leave consumers with fewer choices and higher costs. The U.S. economy depends on a strong real estate market and a healthy banking industry. Without passage of this legislation, NAR is concerned that national bank conglomerates will continue their attempts to enter into the real estate industry, putting both competition and the nation’s economic health at risk. Attempts by the Federal Reserve and Treasury to redefine real estate as a financial activity would have harmful effects resulting in less competition, higher costs for consumers, and give competitive advantages to banks.

The National Association of REALTORS® hailed the actions of the 110th Congress for quickly moving forward with key legislation that NAR believes will ensure that the nation’s real estate industry remains competitive. NAR will work with supporters of the bill towards its passage to ensure the vigorous enforcement of the law that prohibits the mixing of banking and commerce.

unfair and costly changes to their marketing practices. NAR is working with the Federal Communications Commission to assure that implementation rules do not exceed the intent of Congress.

Government Sponsored Enterprises Conforming Loan Limits NAR supports increasing the current loan limits in high cost market areas to make available homeownership opportunities for first-time homebuyers and minority homebuyers. NAR is urging Congress to enact legislation increasing the conforming loan limits in high cost areas to bring equity for American families in these markets.

Government Sponsored Enterprises (GSE) Reform NAR supports the housing mission

of Fannie Mae, Freddie Mac and the Federal Home Loan Banks to assure a steady, affordable supply of mortgage credit to creditworthy homeowners. NAR is urging Congress to enact legislation promoting the GSE’s safety and soundness while preserving their housing mission.

Improving the Effectiveness of FHA NAR is a strong supporter of the single- and multi-family programs administered by the Federal Housing Administration (FHA). However, FHA’s market share has diminished considerably threatening its ability to serve its public purposes. NAR is working with the Department of Housing and Urban Development (HUD) to modernize FHA to enhance

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Advocacy Issues (continued)

its effectiveness in today's mortgage marketplace.

Leasehold Improvements NAR supports current law allowing commercial property owners to depreciate the cost of tenant improvements over 15 years. However, depreciation for these assets returns to a 39-year schedule at the end of 2006. NAR is urging Congress to permanently extend the 15-year cost recovery period for leasehold improvements.

Mortgage Interest Deduction One of the most effective tax incentives to expand homeownership is the mortgage interest deduction (MID). Current law permits deductions of the interest paid on combined mortgage debt of up to \$1 million on a primary residence and one additional residence. In addition, the interest paid on home equity loans of up to \$100,000 may be deducted. The MID is a central feature of homeownership and is probably the best known benefit of homeownership. Changes to the MID could seriously erode the value of homes and homeownership. NAR aggressively supports current law. Retaining the MID consistently ranks as the most important issue in all of NAR's public policy surveys.

Natural Disaster/Flood Insurance NAR supports the promotion of affordable and accessible homeowners' insurance, especially in disaster-prone areas. Additionally, NAR supports reforming the National Flood Insurance Program to ensure its financial and actuarial soundness. NAR is urging Congress to enact legislation ensuring the availability of adequate, affordable homeowners' insurance to consumers in disaster-prone areas, and NAR is urging Congress to fully fund FEMA's flood map modernization program.

OCC Rulings Expanding Bank Powers NAR opposes legal rulings by the Office of the Comptroller of the Currency (OCC) to expand the ability of national banks to engage in real estate development and ownership and in merchant banking. The rulings violate the letter and spirit of the Gramm-Leach-Bliley

More about the Mortgage Interest Deduction

The MID has not been attacked since 1996. MID has a checkered history, however.

- In 1995, and in each Congress thereafter, legislation was introduced that would create a "flat tax" system that would significantly broaden the tax base and lower the rates so that there would be a single tax bracket. This legislation would repeal the MID.
- A proposed National Sales Tax would make the MID irrelevant and would increase the carrying costs for all homeowners with mortgages in place at the time a sales tax went into effect. In November 2005, the President's Advisory Panel on Tax Reform recommended converting the MID into a tax credit and significantly reducing the amount of a mortgage that would be eligible to receive tax benefits. These two proposals represent a significant tax increase for homeowners.
- In addition, the Panel recommended completely eliminating the MID for second homes and for home equity loans and lines of credit. The deduction for property taxes would also be repealed. While these proposals appeal to some economists, they are very controversial. This proposal would likely cause the value of all housing to fall, but would be particularly unfair to high cost areas. This, in turn, would have an adverse impact on the local tax base of many communities.
- The 2005 proposal to change MID came from various policy analysts who believe that converting the deduction into a credit would provide some tax benefit to non-itemizing homebuyers. Some analysts have even advocated that such a credit-conversion approach could be used to redistribute the MID benefit from upper-income homeowners to lower-income homeowners and homebuyers.

REALTORS® can anticipate that the MID will remain volatile for the foreseeable future.

(GLB) Act. NAR is urging Congress to block OCC actions that permit banks to engage in commercial real estate development and merchant banking.

Ownership of Industrial Loan Companies (ILCs) by Commercial Firms There is currently a legal loophole that allows commercial firms like Wal-Mart and Home Depot to own an industrial loan company—a kind of state bank. Both have applied to the FDIC for permission to do so. NAR, bank trade associations, and many others have voiced concerns with the FDIC and with Congress about mixing banking and commerce in this way. NAR supports legislation to close this loophole.

Property Casualty Insurance NAR opposes federal efforts to replace the current state regulatory system for

insurance with a system of mandatory, uniform national standards for personal and commercial property insurance which would eliminate the ability of states to regulate insurance rates and preempt existing state insurance laws and/or regulation. Recognizing the major challenge that finding affordable and adequate insurance has become for REALTORS®, the NAR leadership created an Insurance Task Force.

Real Estate Settlement Procedures Act NAR supports a market-based approach to RESPA reform that encourages fair competition, protects consumer choice and provides full disclosure of costs and services in the mortgage transaction. NAR is working with the Department of Housing and Urban Development

Advocacy Issues (continued)

(HUD) through participation in HUD-sponsored regional RESPA roundtables and other activities to ensure reform efforts do not have an onerous impact on the real estate industry.

Secondary Market for Commercial Mortgages NAR supports a strong secondary market for commercial and multifamily mortgages to provide liquidity for commercial real estate including the refinancing of existing commercial and multifamily mortgages. To maintain a competitive secondary market, NAR is advocating changes to rules governing real estate mortgage investment conduits (REMICs) – the principal legal vehicle used to structure commercial mortgage-backed securities – to make securitization more attractive to commercial borrowers. NAR is working with the U.S. Treasury Department to support REMIC reforms and is urging Congress to enact legislation modernizing REMICs.

Small Business Health Plans NAR supports efforts that would permit associations like NAR to make health insurance available to their members through Small Business Health Plans. NAR is urging Congress to enact Small Business Health Plan legislation.

Tax Reform NAR opposes recommendations of the President's Tax Reform Advisory Panel converting the mortgage interest deduction from a deduction to a tax credit and reducing the \$1 million cap on mortgages. NAR is urging Congress to protect and preserve the mortgage interest deduction and home-ownership/investment tax benefits from any efforts reforming the tax system.

For more information

NAR is committed to keeping Association members well-informed about these important issues that can impact REALTOR® business and the rights of property owners. Up-to-date information about developments in legislation and regulations affecting the real estate business are available at www.realtor.org/government_affairs.

Financing the Home Purchase: Highlights from NAR's 2006 Profile of Home Buyers and Sellers

by Paul C. Bishop and Harika Anna Barlett, NAR Research

For most households, purchasing a home is one of the largest financial transactions they will ever make. The majority of home buyers do take out a mortgage in order to purchase a home and so financing is one of several important aspects of the home buying process. There are many financing options available to buyers that allow them to consider the length of the loan term, the use of a fixed or adjustable rate mortgage, and how much of their savings or other assets they want to use toward a downpayment.

In 2006, NAR surveyed recent home buyers about how they financed their home purchase. Included in the survey were questions about whether or not the buyer took out a mortgage loan, what type of loan they used, the amount

of the home price that was financed, and sources of downpayment. Results from the survey are included in *The 2006 NAR Profile of Home Buyers and Sellers**. Below are highlights of that report that focus on financing the home purchase.

Financing the Home Purchase

The majority of home buyers need – or choose -- to finance at least part of their home purchase. In 2006, 92 percent of buyers reported that they financed the purchase of their home. First-time buyers were more likely to take out a loan to buy their home than were repeat buyers. That is likely because repeat buyers often have a sizable amount of equity in a home already, thus allowing them to use the proceeds from the sale

of that home towards the purchase of another.

While there is little difference across regions of the U.S. in the percentage of first-time buyers who financed their home purchase, there was more variation in the use of mortgages among repeat buyers. Eight-five percent of repeat buyers in the Northeast financed their home purchase, while 90 percent of repeat buyers in the other regions used a mortgage.

Financing and Age

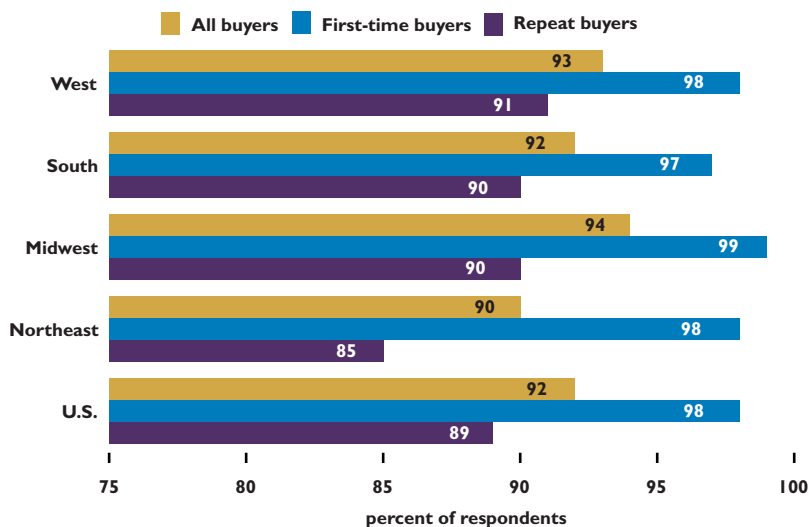
One factor that could help explain the difference between repeat and first-time buyers opting to finance their home purchase is age. Repeat buyers are typically older than first-time buyers, have higher household income, and may have other financial assets on which to draw in order to buy a home. Buyers 45 years and older are less likely to finance their home purchase than younger buyers, and the share of “financing” buyers decreases significantly after age 65. Older buyers generally have equity from homes they owned previously on which to draw. Additionally, to the extent that older buyers may be downsizing to a less expensive property, the need for mortgage financing may be reduced.

Amount of Financing

While nearly all buyers used a mortgage to finance their home, the amount of that mortgage relative to the home purchase price varied considerably. The typical buyer financed 91 percent of their home purchase. Again, first-time buyers tended to finance more of their home

Financing the Home Purchase Transaction

(percent of buyers who financed their home purchase)



Source: The 2006 NAR Profile of Home Buyers and Sellers

*The NAR profile is based on a survey of home buyers and sellers and provides information on demographics, housing characteristics and the experience of buyers and sellers in the housing market. Buyers and sellers also share information on the role of real estate professionals in their home sales transactions. The 2006 survey results are representative of home purchases between July 2005 and June 2006. Consumer names and addresses were obtained from Experian, a firm that maintains an extensive database of recent home buyers derived from county records. Information about sellers comes from those buyers who also sold a home.

Financing Home Purchase (continued)

Sources of Downpayment

(percent of respondents who made a downpayment)

	All Buyers	First-time Buyers	Repeat Buyers
Savings	50 %	73 %	40 %
Proceeds from sale of primary residence	44	4	62
Gift from relative or friend	9	22	3
Sale of stocks/bonds	7	10	6
Equity from primary residence buyer continues to own	5	1	6
401(k)/pension fund including a loan	4	7	3
Loan from relative/friend	4	8	2
Proceeds from sale of real estate other than primary residence	3	1	3
Inheritance	2	3	2
Individual Retirement Account	2	4	1
Loan from financial institution other than a mortgage	2	3	1
Sale of personal property	1	1	2
Life insurance	1	1	1
Investment property sale (1031 exchange)	1	1	1
Other	4	6	3

Source: The 2006 NAR Profile of Home Buyers and Sellers

purchase than repeat buyers. The typical first-time buyer financed 98 percent of their home and more than four in 10 financed the entire amount. The typical repeat buyer financed 84 percent of their home purchase and 19 percent took out a mortgage for the entire amount of the home purchase price.

The share of the purchase price financed with a mortgage varied by region. In the Northeast, the typical repeat buyer financed a smaller percentage of their home than did repeat buyers elsewhere. At least half of first-time buyers in the South financed the full purchase price of their home.

Sources of Downpayment

For many home buyers – particularly first-time purchasers – accumulating a downpayment can be a challenge. Savings was the chief source of downpayment funds for home buyers in general, and for 73 percent of first-time buyers. And while repeat buyers can draw on the equity from the previous home – 62 percent of repeat buyers used the proceeds from the sale of a primary residence for a downpayment – still, 40 percent drew on savings for a downpayment. The second most popular source of downpayment funds for first-time buyers was a gift from relatives or friends (22 percent).

There are other sources for downpayment funds besides savings, gifts or equity from a previous home. Ten percent of first-time buyers used the proceeds from a sale of stocks or bonds, as did six percent of repeat buyers. While current tax law allows use of funds from a 401(k) or pension fund – tax free—for a downpayment on a home purchase, only four percent of all buyers accessed funds from such an account for their downpayment.

Types of Mortgages

There are a number of different types of mortgages available to home buyers, although they can be broadly categorized as either fixed rate or adjustable rate. Within these broad categories of mortgages, however, the specific terms can vary widely. Some buyers start with an adjustable rate loan and then “convert” to a fixed-rate mortgage. Others begin with a fixed-rate mortgage that then adjusts the rate periodically. The defining characteristics for most of these mortgages is whether the interest rate is fixed for the life of the loan, fixed for only an initial period of the loan, or whether the rate varies throughout the loan period.

Seventy-one percent of recent home buyers reported that they had a fixed-rate mortgage; eight percent had an adjustable rate loan. Repeat buyers were somewhat more likely than first-time buyers to finance their home purchase with a fixed-rate loan. First-time buyers were more likely than repeat buyers to start out with fixed-rate loan that eventually had rates that adjusted.

Perhaps surprisingly, three percent of recent home buyers did not know the type of mortgage loan they had.

The Internet as a Source of Information

The Internet has increasingly become

Financing Home Purchase (continued)

a major source of information for both home buyers and sellers as they search for a home to purchase. Of those recent buyers who used the Internet in their home search, five percent applied for a mortgage online, and seven percent pre-qualified for a mortgage online. Four percent found a mortgage lender online after having searched for a property on the Internet.

The Role of Real Estate Professionals

Real estate agents are not mortgage lenders. But because they are the primary source of information about the home purchase transaction for most home buyers, they often are the “ones buyers turn to” for information about financing options. Among recent home buyers, 19 percent reported that their real estate agent provided a better list of mortgage lenders.

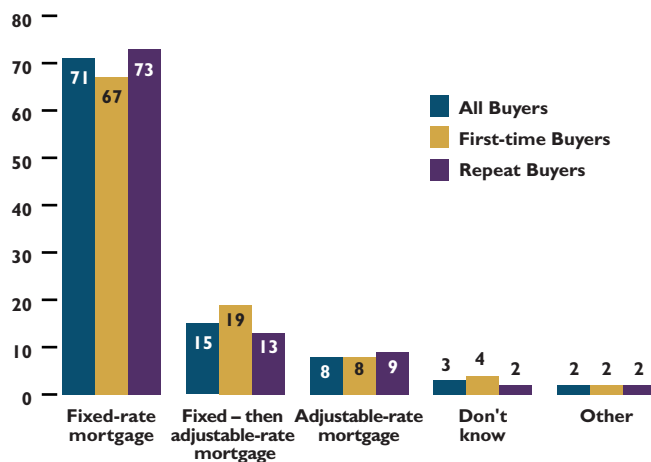
A Home is “A Home”

Most households purchase a home because of the desire to “own a home of one’s own.” But the benefits of homeownership extend beyond the value of a home as shelter. Homeownership provides an opportunity to build a nest egg through the accumulation of equity as a home appreciates in value and as the mortgage is paid down. Even in the wake of a slowing housing market, more than half of recent buyers view their home as a better investment than stocks.

For more information

The questions regarding home financing in the 2006 survey of home buyers and sellers were limited. But more details about home finance – types of mortgages, average/median downpayment, terms, type of lender, etc. – are compiled by the Federal Financial Institutions Examination Council (FFIEC) and the data published in compliance with the Home Mortgage and Disclosure Act (HMDA). The data is regularly analyzed by NAR. For more information on HMDA data, email NAR Research at eresearch@realtors.org.

Type of Mortgage
(percent distribution among those who financed home purchase)



Source: The 2006 NAR Profile of Home Buyers and Sellers

** The **2006 NAR Profile of Home Buyers and Sellers** is available for purchase. To order, call 1-800-874-6500. Ask for item #186-45-0506. Price for members is \$50; for nonmembers \$125. Or visit, www.REALTOR.org/Research. Click on “Buy Research.”

Links to Statistical Data Series

To view the latest housing statistics from NAR, click on the links below.

Existing Home Sales – Monthly series

- [November existing home sales and median sales prices](#) – single-family and condominiums/co-ops
- [Single-family home sales and median sales prices](#)
- [Condominium/co-op sales and median sales prices](#)
- The latest EHS statistics in spreadsheet format available [here](#)

Existing Home Sales and Metropolitan Area Median Home Sales Prices – 3rd Quarter 2006

- 3rd Quarter 2006 [existing home sales by state](#)
- Existing home sales by state in [spreadsheet format](#)
- 3rd Quarter 2006 [Median Home Prices by Metropolitan Area](#)
 - [3rd Quarter Single-family median home prices](#)
 - 3rd Quarter Single-family median home prices in [spreadsheet format](#)
 - [3rd Quarter Condominium/Co-op median sales price](#)
 - 3rd Quarter Condominium/Co-op median sales price in [spreadsheet format](#)

NAR's Pending Home Sales Index

- [November pending home sales index](#)
- The latest pending home sales index in spreadsheet format available [here](#)

NAR's Housing Affordability Index

- [November HAI Index](#)
- November Housing Affordability Index in spreadsheet format available [here](#)
- Quarterly Housing Affordability Series
 - [3rd Quarter 2006 Affordability Index](#)
 - 3rd Quarter 2006 Affordability Index in spreadsheet format available [here](#)
 - [First-time homebuyer Affordability Index, 3rd Quarter 2006](#)
 - First-time homebuyer Affordability Index in spreadsheet format available [here](#)

Click [here](#) for more details about NAR's existing home sales, pending home sales, and housing affordability index series, including methodology, links to the latest news releases, statistical release schedule, and how to access historical information.

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