Why the Bubbles Aren’t Bursting !!!!! Also How Student Loans are Effecting the Housing Market !!!!!!!!!!!!!!!!!!!!!!!

Hi Guys and Gals, Below is an Article from the San Diego Association of Realtors !!!!!

I have also included another article from the California Association of Realtors (Market Snapshot) !!

Above is a Current Mortgage Rate Sheet in the Attachment!!!!!!!!!!!!!!!!!!!!!!!!!!!!!!

If You Know Anyone Interested in Selling, Buying or Just may have Questions about Real Estate Please let Me Know? Thanks,

TODAY'S MARKET

WHY THE BUBBLES AREN'T BURSTING

As robust demand and tight inventories drive up home prices at double-digit rates in dozens of hotter markets, warnings of local bubbles again are making headlines. Should we be afraid?

By Steve Cook, RealEstateEconomyWatch.com

As prices rise faster than incomes, some forecasters are raising fears that the crash of a decade ago may repeat itself on a local basis in metros like Denver, Seattle, Miami and Portland. The housing bust nine years ago reached catastrophic levels because millions of owners simply could not afford their mortgages. Recent reforms ended the risky and fraudulent lending practices responsible for many of the bad loans made during the boom. Though tougher underwriting standards and new ability-to-pay requirements protect consumers from a repeat of the 2007 bust, bubbles are still theoretically possible.

Skimpy Inventories

There's no doubt that today prices are outstripping income levels in many markets, especially on the West Coast, yet there seem to be no short term consequences. The primary brake on sales in the hottest markets is not rising prices, but skimpy inventories. If local buyers cannot afford rising price levels, why does demand remain strong? Why isn't the law of supply and demand slowing down demand and cooling off prices? If bubbles are forming, why are there no busts?

New research suggests that the reason for the disconnect between demand and prices is that simple ratios of income levels to prices do not paint a complete picture of buyers' ability to afford to buy homes. A study by three Belgian economists scheduled to be published later this year by the *Journal of Housing Economists* found that, since most buyers finance their purchases over 15 or 30 years, factors that have nothing to do with either income or prices significantly increase buyers' ability to pay. Specifically, the greatest factors that increase buyers' ability to pay for homes are the mortgage interest deduction and declining mortgage interest rates.

Value of Mortgage Interest Deduction

The economists calculated and compared the value of the mortgage interest deduction and interest rates to buyers' ability to pay in the United States, the United Kingdom, Belgium, the Netherlands, Sweden, Norway, Finland and Denmark. Three of the nations studied allow a tax benefit for mortgage interest—Belgium, the Netherlands, and the United States. The study found that in the United States, a 1 percent increase in mortgage rates from 3.5 percent to 4.5 percent decreased borrowers' ability to pay by 7.21 percent and

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decreased demand enough to lower house prices by 8.61 percent. Abolishing the mortgage interest deduction (MID) would reduce borrowers' ability to pay for their homes by 17.65 percent and would lower house prices by 19.94 percent.

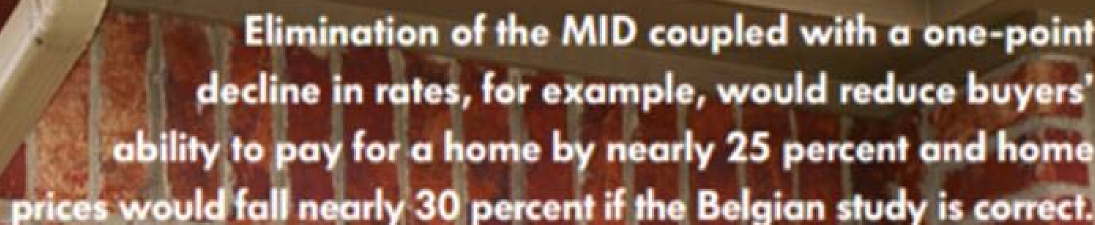
"Although the price-to-income ratio is a commonly used measure of housing market imbalances at many policy institutions, income alone seems insufficient to explain the evolution of house prices. As unsustainable house prices may raise concerns about financial stability, it is important to understand the factors behind the evolution of house prices. An important element is that the budget constraint depends on mortgage characteristics and the MID. An additional borrowing constraint and market clearing result in a relationship between house prices and a measure of the amount that households are able to pay," concluded Sven Damen, Frank Vastmans and Erik Buyst, economists based at Center for Economic Studies, at KU Leuven, Belgium.

Impact of Other Incentives

The study did not look at the impact that other incentives may have on increasing buyers' short-term ability to pay, especially low or no down payment mortgages. Clearly, lower down payments make it easier for buyers, especially among first-time and lower-income buyers, to buy homes. Programs like FHA stimulate demand, especially for lower-tier, affordable properties which already are in short supply. The impact of low down payment loans may be huge; they are used so widely today that the median down payment paid by first-time buyers last year was only 6 percent compared to 14 percent for repeat buyers, according to the National Association of Realtors® 2016 Buyer and Seller Report.

Buyers' ability to pay for long-term mortgages is not a simple relationship between income levels and home prices. Other factors, including incentives like the mortgage interest deduction and low down payment loan programs like FHA, are the result of public policies set by the federal and state governments. Mortgage interest rates, to the extent that they are shaped by decisions of the Federal Reserve, also reflect decisions by policymakers.

Changes in these incentives increase or decrease buyers' long-term ability to buy homes as much or more than short-term changes in the home price to income ratio. Elimination of the MID coupled with a one-point decline in rates, for example, would reduce buyers' ability to pay for a home by nearly 25 percent and home prices would fall nearly 30 percent if the Belgian study is correct. If these incentives artificially encourage and sustain bubbles, ending them would certainly bring about busts.



CALIFORNIA ASSOCIATION OF REALTORS®

Market Snapshot

The Effect of Student Loan Debt on Homeownership

Writers and politicians are very concerned about increasing costs of college and student loans on the average young person. The amount of outstanding student debt in the US is now $1.25 trillion, and debt is a prerequisite in getting a degree and joining the labor force. This has coincided with a decline in homeownership in the US to a period we haven't seen in the 60s, with similar low rates for young buyers. As home prices are higher in California, expenses that hurt young people's ability to save translate into more drastic effects on Millennial homeownership in California.

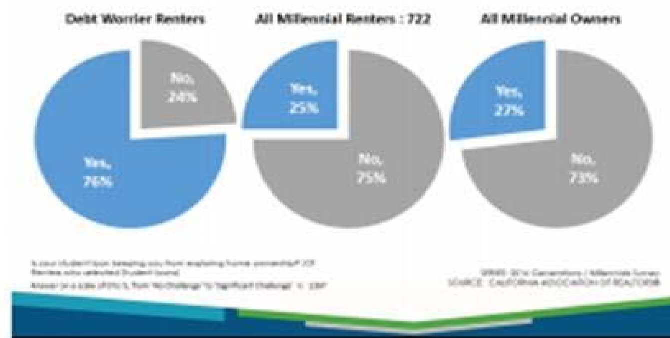
A recent C.A.R. poll showed that almost 60% of California Millennials said that they were very concerned about their overall debt; further student loans were rated as the most worrisome type of debt. In the U.S. as a whole, student loans have replaced credit cards as the second most amount of debt held (behind mortgage debt).

Do higher levels of loan debts affect homeownership? As it turns out, having a college degree is a much bigger determinant of homeownership than the amount or existence of student debt and that the weak labor market since the Great Recession has affected homeownership more than debt. Between the recession and now, the rate of homeownership dropped from 35% to 26% for degree holding millennials, and from 23% to 17% for non-degree holding millennials.

There is ample evidence that student loans hinder the ability to accumulate wealth and thus delays homeownership. But over the long term this evens out. People who have successfully completed college degrees have higher earnings over their lifetimes than those without. While non-degree seekers own more homes than degree seekers in their early 20s, by the time they turn 27, that reverses. By the age of 30, people who graduated with student debt have the same homeownership rates as people who graduated debt free.

The amount student loan debt is much less than what is often written about in the media. The typical borrower has an average debt of $25k, with a median of $13k. Thirteen percent of borrowers have more than $50k of debt, and 3% of borrowers have more than $100k (a majority of these borrowers have also gone to graduate school).

C.A.R. asked millennials who have purchased whether they thought that student loans were delaying their homeownership. Of millennials who were most worried about debt, 76% claimed that it kept them from homeownership; but only 25% of all millennials said that it was. When Millennial home purchasers were asked same question, 27% said that debt delayed purchasing. Homeownership and student loans are linked, but not in as drastic a way that many writers worry about.



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