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REAL Trends

The Trusted Source

CELEBRATING OUR 25TH YEAR

COMMENTARY

What Ails Brokerage?

REAL *Trends* Top Ten things that ail the brokerage business

1. Continued public pounding on home price decreases
2. Weariness from 6 + years of declining home sales and prices

(Commentary continued on page 2)

REAL Trends

Office:
7501 Village Square Drive, Ste. 200
Castle Rock, CO 80108
Phone: 303-741-1000
FAX: 303-741-1070
E-mail: realtrends@realtrends.com
Web site: www.realtrends.com

Editor:
Steve Murray – smurray@realtrends.com

Associate Editor:
Nicolai Kolding – nkolding@realtrends.com

REAL *Trends* Team:
Amy Broset – abroset@realtrends.com
Travis Saxton tsaxton@realtrends.com
Daniele Stufft – dstufft@realtrends.com
Tracey Velt – tracey@traceyvelt.com
Doniece Welch – dwelch@realtrends.com

3. The increased complexity of the home purchase and sale process
4. The tightening of the mortgage market
5. The complexity and frustration in short sales
6. The tsunami of electronic communications
7. Confusion about online marketing
8. Lack of new sales professionals entering business
9. Increased competition for experienced sales professionals
10. Aging of the workforce

REAL *Trends* Top Ten things that are positive about the brokerage business

1. The Internet did not crater brokerage
2. Average commission rates are up
3. Those still standing, whether brokerage firms or sales professionals will likely still be standing in the recovery
4. Brokerage firms reduced a lot of expense in areas that they have discovered they didn't need in the first place
5. The regulators are making the purchase and sale of homes far more complex which reinforces the need for sales professionals
6. Firms that invested in core services are outperforming those who did not
7. American families have not lost the desire to own their own homes
8. Total residential commission levels are $37 billion and rising
9. The rental vacancy rate is nearing all time lows which will drive new home purchases
10. According to most price indexes home prices are now in line with long term price to rental levels

As we stated in our new book, *Game Plan – How real estate professionals can thrive in an uncertain future*, brokerage firms of today have survived four major downturns, the threat from new outside competitors, a multitude of new business models, shrinking gross margins and the Internet wave over the last thirty years yet remain at the center of how families buy and sell homes. That will continue to be the case for the foreseeable future.

The purchase and sale of a home remains an infrequent and highly complex transaction. As long as that is the case, consumers will require experienced professionals to navigate the shoals of the housing market.

The market will recover, slowly and could be slowed further by shocks coming from the Dodd-Frank bill and its regulations on qualified mortgages. But it will recover. There will be between 14 and 18 million new households created in the country over the next ten years. And every indication is that the majority of them will want to own their own castle, not rent it. ■

Key Articles in this Issue

In this issue of REAL *Trends,* we feature two articles that should be of interest to anyone curious about the impact that housing has on the economy. The first is the fight against proposed changes to the mortgage market that would significantly tighten the requirements and costs for obtaining a mortgage. The second is about the trends in the economy and how housing's recovery cannot start until the economy starts to recover and that the economy won't restart fully until housing recovers.

One would think that regulators and those proposing tightening mortgage requirements know how to read. When significant economists are saying that the economy and housing are inextricably intertwined it would appear to be a lousy time to restrict mortgages to virtually every income, age and socioeconomic segment of society.

Read on to find out what we are talking about. ■

The 2011 MLS Cloud Conference: MLS Public Websites Enhance Broker's Online Traffic, Experts Say

By Jeremy Conaway, contributing editor

The 2011 MLS Cloud conference sponsored by the Houston Association of REALTORS® and produced by Bob Hale and his crew was a sell out success for its 249 attendees who cumulatively represented 47 MLS operations from three countries and 31 states. The program had top experts in each area of focus and a fast paced agenda with just the right ratio of knowledge, analysis and controversy.

Hale opened the program with a presentation centered on the subject of public facing listing websites, a concept he has championed over the past five years as the number of these sites has grown from one to over 100. He incorporated a series of very focused observations relating to the precarious condition of the current industry and its need to focus on what was important rather than the status quo. He cautioned the industry to rethink its resistance to change and its failure to expect and to reward innovation. He pointed out that while it was good news that over 800,000 agents were using the MLS cloud reporting system another 400,000 had yet to discover its benefits. He encouraged the industry to move quickly to become consumer centric by first understanding and then fulfilling the consumer's expectations and demands.

He pointed out that the price of failure would likely be the loss of even more REALTOR® ground to Internet based entities such as Zillow and Trulia. He cautioned the attendees that the growing dissidence and conflict within the REALTOR® community was not a positive sign and could only lead to a disaster in the near term.

The history of the public facing website has been marked by the opposition of large brokers who remain steadfast in their belief that absent such sites consumers would flock to brokerage sites for property searches and information. The fact that such a conclusion runs counter to all of the evidence that has been collected relative to today's consumer has not budged them from their conclusion.

The presenter on whose shoulders that task fell was WAV Group partner Marilyn Wilson and she more than rose to the occasion. Ms. Wilson drew the substance of her presentation from detailed Internet traffic studies that the Wav Group has conducted and analyzed over the past years. The evidence was both conclusive and compelling. The MLS feed public facing listing website is the odds on favorite of consumers when it comes to property searches. According to Wilson, when such sites are not available consumers migrate to a number of non-broker sites such as Zillow, Yahoo! and Trulia. For the vast majority of brokerages the great hope for success in capturing Internet leads rests with a fully functional effectively promoted public facing website.

A special recognition to Internet rock star and world-class blogger Rob "Notorious Rob" Hahn who had the most difficult role in the program. Rob was charged with providing ultimate credibility to the program by creating an impromptu presentation entitled "what went unsaid?" His observations were amazing and his comments and recommendations were unerringly correct. He cautioned the attending MLS representatives that while their mission was critical to the success of the industry as we know it, their efforts could be overshadowed by the fact that they are much less sophisticated and financed than their potential competitors. Any chance to see Rob perform should not be missed. ■

The REAL Trends Top 50 Core Service Providers

Each year, REAL *Trends* collects data on the performance of the leading residential realty services firms in the country. An important part of the data that is collected concerns the success of firms in providing a variety of settlement services.

What is equally important is that an examination of firms that offer core services versus those that do not reveals that those with core services outperformed those without by nearly two to one in the change in closed residential sides from 2009 to 2010.

RANK	COMPANY	Mortgage Transactions	Title Transactions	Home Warranty Transactions	Property Casualty Insurance	Escrow Transactions	**Total Core Services**
1.	NRT LLC	38,825	156,515	35,947	4,139	0	235,426
2.	HomeServices of America, Inc.	19,644	65,213	26,416	3,207	27,144	141,624
3.	The Long & Foster Companies, Inc.	18,193	17,267	7,795	3,977	0	47,232
4.	Hanna Holdings, Inc.	6,319	7,015	9,012	6,551	0	28,897
5.	Prudential Fox & Roach Realtors	8,505	10,432	2,974	5,500	0	27,411
6.	Crye-Leike Realtors	1,921	8,525	3,850	403	10,029	24,728
7.	First Weber Group	165	14,031	3,540	174	0	17,910
8.	Allen Tate Companies	1,477	5,626	3,259	3,080	0	13,442
9.	Shorewest, Realtors	1,986	7,513	2,248	585	0	12,332
10.	Real Estate One	2,422	5,399	815	1,144	0	9,780
11.	Sibcy Cline Realtors	1,011	2,482	5,250	385	0	9,128
12.	Mel Foster Co.	0	0	1,658	5,158	0	6,816
13.	Troop Real Estate, Inc.	1,208	1,107	1,372	95	2,839	6,621
14.	Prudential HomeSale Services Group	615	3,470	1,108	1,426	0	6,619
15.	F. C. Tucker Company	830	2,222	2,224	428	0	5,704
16.	Northwood Realty Services	1,597	1,743	1,525	0	0	4,865
17.	Coldwell Banker Howard Perry & Walston Realty Inc.	606	2,208	1,830	0	0	4,644
18.	Lyon Real Estate	2,193	0	1,678	274	0	4,145
19.	Better Homes and Gardens Real Estate Metro Brokers	610	1,642	1,421	412	0	4,085
20.	William Raveis Real Estate, Inc.	2,228	564	191	1,053	0	4,036
21.	Rose & Womble Realty Company	778	3,149	0	0	0	3,927
22.	Hunt Real Estate Corporation/ERA	1,687	1,298	0	500	0	3,485
23.	Prudential Preferred Realty	490	931	1,700	180	0	3,301
24.	Watson Realty Corp.	1,297	1,920	0	0	0	3,217
25.	Baird & Warner	1,044	1,469	637	0	0	3,150
26.	Keller Williams Realty Alaska	899	2,224	0	0	0	3,123
27.	McColly Real Estate	294	2,077	542	0	0	2,913

Chart continued on next page

RANK COMPANY	Mortgage Transactions	Title Transactions	Home Warranty Transactions	Property Casualty Insurance	Escrow Transactions	**Total Core Services**
28. Prudential Georgia Realty	771	982	1,140	0	0	2,893
29. Prudential California Realty Mulhearn Grp.	651	668	0	0	1,533	2,852
30. Prudential Gary Greene Realtors	572	0	0	2,222	0	2,794
31. RE/MAX Equity Group, Inc.	882	0	1,391	498	0	2,771
32. Better Homes and Gardens Real Estate The Masiello Group	354	997	199	1,166	0	2,716
33. Prudential Carruthers Realtors	1,041	806	764	50	0	2,661
34. Realty USA	2,227	0	376	0	0	2,603
35. Coldwell Banker Heritage Realtors	537	1,316	685	0	0	2,538
36. Prudential Florida Realty	654	1,761	0	0	0	2,415
37. The Group, Inc. Real Estate	739	1,547	0	48	0	2,334
38. William E. Wood & Associates, REALTORS	1,234	1,026	0	0	0	2,260
39. Coldwell Banker Apex, Realtors	2,169	0	0	0	0	2,169
40. Coldwell Banker The Real Estate Grp, Inc.	94	1,290	725	0	0	2,109
41. Prudential Towne Realty	691	976	368	0	0	2,035
42. Prudential Patt, White Real Estate	821	615	340	257	0	2,033
43. Prudential Connecticut Realty	1,068	0	195	736	0	1,999
44. Prudential Douglas Elliman Real Estate	1,180	793	0	0	0	1,973
45. RE/MAX Professionals	0	0	1,930	0	0	1,930
46. Carolina One Real Estate	602	0	1,198	0	0	1,800
47. Dickson Realty, Inc.	141	572	1,073	0	0	1,786
48. Prudential New Jersey Properties	278	614	191	50	614	1,747
49. RE/MAX Greater Atlanta	493	751	500	0	0	1,744
50. Coldwell Banker D'Ann Harper, REALTORS	0	0	1,677	0	0	1,677

REAL Trends Housing Market Report – May 2011

May sales show surprising strength. Annualized rate of home sales increases from 4.730 million in April 2011 to 4.860 million in May 2011. Average prices of homes sold increased 1.5 percent from April 2011 to May 2011.

The REAL Trends Housing Market Report showed that the combination of new and existing home sales in May 2011 increased from 4.730 million to 4.860 million despite unfavorable news in general economy. On a year over year basis May 2011 home sales declined 8.6 percent compared to May 2010 rate of 5.318 million.

The average price of homes sold continued to increase in May 2011 with a 1.5 percent increase measured on a year over year basis. This follows an increase of 1.2 percent in average home sales price in March of 2011 over the same period the year before and represents three consecutive months of increases in the average prices of homes sold.

Housing unit sales for May 2011 were down 14.0 percent in the Midwest followed by a decrease of 9.7 percent in the Northeast. The South had the best performance where housing unit sales were down only 4.6 percent from May 2010.

Average prices of homes sold in May 2011 increased 1.5 percent across the country. The Northeast had the largest increase with the average price up 3.1 percent followed by a 2.0 percent increase in the West. Both the Midwest and the South regions saw increases in the average prices of homes sold.

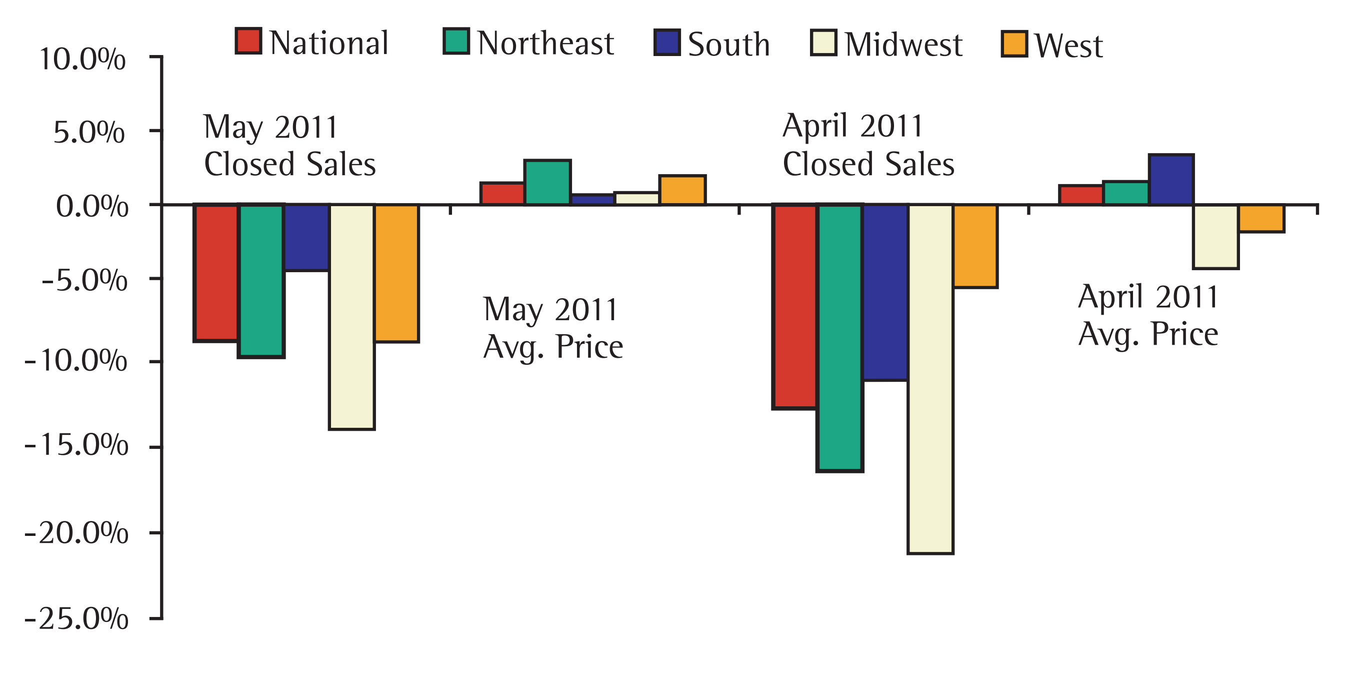
"The May 2011 REAL *Trends* Housing Report shows that housing sales show surprising strength considering the tough economic climate and comparisons to year ago sales that were significantly boosted by the 2010 tax credit program. A significant part of the decline as measured on a year over year basis is due to the Federal tax credit which significantly raised housing sales in the March through June period of 2010," said Steve Murray, editor of the REAL *Trends* Housing Market Report. "The fact that the actual average price of home sales has now increased two months in a row, despite numerous analytic reports to the contrary is another bright spot in a housing market that seems to have found the bottom." ■

See the REAL Trends May/April Housing Market Report Chart on the Following Page

REAL Trends May/April Housing Market Report

(Versus same month a year ago)

	May 2011 Closed Sales	May 2011 Avg. Price	April 2011 Closed Sales	April 2011 Avg. Price
National	-8.6%	+1.5%	-12.8%	+1.2%
Regional Report				
Northeast	-9.7%	+3.1%	-16.5%	+1.7%
South	-4.6%	+0.6%	-11.2%	+3.4%
Midwest	-14.0%	+0.7%	-21.6%	-4.5%
West	-8.6%	+2.0%	-5.4%	-1.8%



REAL *Trends* Website Consulting

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Rent Versus Own

A growing number of Americans can't afford a home or don't want to own one, a trend that's spawning a generation of renters and a rise in apartment construction. Many of the new renters are former owners who lost homes to foreclosure or bankruptcy. For others who could afford one, a home now feels too costly, too risky or unlikely to appreciate enough to make it a worthwhile investment.

The proportion of U.S. households that own homes is at its lowest point since 1998. When the housing bubble burst four years ago, 31.6 percent of households were renters. Now, it's at 33.6 percent and rising. Since the housing meltdown, nearly 3 million households have become renters. At least 3 million more are expected by 2015, according to census data analyzed by Harvard's Joint Center for Housing Studies and The Associated Press.

All told, nearly 38 million households are renters.

Among the signs of a rising rental market:

- The pace of apartment construction has surged 115 percent from its October 2009 low. It's still well below a healthy level. But permits for apartments, a gauge of future construction, hit a two-year peak in March. By contrast, permits for single-family home are on pace for their lowest annual level on records dating to 1960.

- The number of completed apartments averaged about 250,000 a year before the boom. They fell to 54,000 last year and will probably number around the same this year. But then the number will likely double to about 100,000 in 2012 and hit 250,000 by 2013 or 2014, according to the CoStar Group, a research firm. The lag is due to the time it takes for an apartment building to be completed: an average of 14 months.

- Demand is driving up rents. The median price of advertised rents rose 4.1 percent between the end of 2009 and the end of 2010, census data shows. Few expect the higher prices to stem the flood of renters, though. One reason: Younger adults don't value homeownership as earlier generations did and many prefer to rent, studies show.

- Rental housing is giving builders more work just as construction of single-family homes has dried up. Still, that economic lift won't make up for all the single-family houses not being built. Apartments account for only about one-fourth of homes. And renters are outspent roughly 2-to-1 by homeowners, who pay for items from lawn care to remodeling and help drive the economy.

  Before the housing bust, mortgage rates were so low it was often cheaper to buy than rent. That was true a decade ago in more than half the 54 biggest metro areas, according to Moody's Analytics. Today, by contrast, it's cheaper to rent in about 72 percent of metro areas.

  From the 1940s until 2007, homes appreciated an average of nearly 5 percent a year, adjusted for inflation. In the past four years, the median price of a single-family home has sunk 37 percent, by $57,500, to its lowest since 2002. Yet in some areas, owning is still too expensive for many.

"It's becoming so difficult for most Americans to afford a home, with larger down payments and tighter credit, that it is creating a renter's nation," says Robert Shiller, a Yale economist and co-creator of the Case-Shiller home price index. "The home is no longer an investment; it's a burden."

Homeownership bestows its own financial advantages, of course. Each loan payment builds equity. Loan interest and property taxes provide tax deductions. And in normal housing markets, home values rise over time.

But for now, renting is more attractive. ■

The Economy: When Will Happy Days Be Here Again?

Source: Knowledge@Wharton
Published June 8, 2011

The latest economic reports show the U.S. recovery has faltered. But someday, surely, there will be a real recovery. What forces will drive that upturn? And will the healthy economy of the future look different from those of the past -- establishing a "new normal?"

Two intertwined factors are critical to any rebound, according to many experts: Home prices must stop declining and begin to rise, and consumers must spend more freely. In addition, exports must continue to grow and businesses and consumers must feel the government is making significant progress in resolving its deficit problems and clearing away regulatory uncertainty. Government efforts like stimulus spending and keeping interest rates low are not expected to be key factors in a recovery.

Given the many problems afflicting the economy, a vibrant recovery could be years away. The economy grew at an anemic 1.8% annual rate in the first quarter, down from 3.1% in the fourth quarter of 2010. Recently, Federal Reserve Chairman Ben Bernanke offered little optimism for the immediate future, calling the recovery "uneven" and acknowledging that it is unlikely that the central bank can solve the economy's woes by itself.

"It's too soon to be talking about a return to a healthy economy; there is a long mid-range period in our future," says Susan M. Wachter, a Wharton real estate professor, adding: "We are three, four, five years away from being back to what might be considered the 'new normal.'" The key obstacle, she notes, is the real estate market -- commercial and residential. "Construction is a job-intensive industry. It's usually the sector, in terms of employment, that leads the job recovery, and that's missing in action this time around. It makes the overall recovery far more vulnerable to other negatives."

To have a vibrant recovery and economic expansion, housing has to go from "being a headwind to a tailwind," according to Mark Zandi, chief economist and co-founder of Moody's Economy.com. "It's hard to get enthusiastic about the economy with house prices falling," adds Wharton emeritus finance professor Marshall E. Blume. "The consumer has to feel that the economy is on the right track, and there are not many headlines saying it is on the right track right now. The consumer hears this and says, 'I've got to be careful.'" With inflation taken into account, consumer spending has been virtually flat in recent months, and surveys show consumer confidence sagging.

Consumers, who traditionally account for about 70% of economic activity in the U.S., have a number of legitimate worries. While layoffs have abated somewhat, many employers are limping along, leaving workers to worry that they could be out on the street if the conditions get worse instead of better.

On June 3, the Labor Department reported that only 54,000 jobs had been created in May, compared to about 220,000 in each of the preceding three months. Also, despite a dramatic surge in the past two years, the stock market remains below its past peaks, and gains for the past decade are very meager. Many people feel poorer than they were four or five years ago, especially when they consider what their 401(k)s and other investments would be worth today had there been no financial crisis, and returns had continued at an historical rate.

While a real estate rebound and surge in consumer spending are essential to a recovery, other factors can play a role, says Zandi. There must be solid growth in emerging markets to drive U.S. exports, and it will help if the dollar falls in relation to emerging market currencies like the Chinese yuan, making American goods cheaper for foreigners. Also, he adds, U.S. businesses will have to spend more on workers and expansion -- but that will not happen until they are confident that the country's fiscal problems and regulatory uncertainties are being resolved.

Even if all other factors do improve, a robust recovery seems unlikely if the real estate market doesn't get substantially stronger. The Standard & Poor's Case-Shiller Home Price Index, measuring 20 major metropolitan areas, seemed to hit bottom in March of

2009, then began a slow rise. But it reversed course last July and has since declined to new lows. Sales of existing homes are running at an annualized rate of about five million, down from seven million in 2005, despite a population increase and home-price declines. “Clearly, the housing market has to stabilize, and it looks like it’s almost in a falling condition again,” notes Blume. “Since housing is a major component of many households’ balance sheets, many households don’t feel wealthy.”

The average home is worth about 30% less than it was before the crisis, and nearly 25% of households with mortgages find they owe more than their homes are worth. (About two-thirds of homeowners have mortgages.) Being “underwater” often makes it impossible to move for another job. A few years ago, millions of homeowners refinanced or took out second mortgages to convert home equity into spending money. That’s not possible when there is no home equity left, and about 40% of those who took out second mortgages are now underwater. Even people who have good jobs and plenty of money will often restrict spending when falling home values make them feel poorer.

In large part, low home prices are due to excess supply, caused by millions of foreclosures and other “distressed” sales dumping properties on the market at fire-sale prices, says Wachter. “One glimmer of hope is that the pace of foreclosures has slowed,” she notes, adding that it could take some time for home prices to stop dropping. “The spring of 2011, when we were supposed to see a housing recovery, has been postponed.”

With the excess of supply and low prices, there is diminished need for new homes, and construction has dropped from about one million units a year in a healthy economy to about 500,000, according to Wachter. Commercial construction has also slackened. In the six recessions prior to the latest one, construction has been a key factor in the recovery, Wachter points out. Construction employment typically rises by more than 30% in the two years after a recession ends; in the two years since the end of the latest recession, however, construction jobs have fallen an additional 10%. “That is historically unprecedented,” she says.

The New Magic Number

What will it take for the housing market to turn around? Much of the home-price decline of the past few years is a reversal of the price bubble that preceded it, when easy money allowed buyers to pay far more than properties were worth by any reasonable standard. Nationwide, prices are now about where they were in 2002, before the worst of the bubble, suggesting that much of the excess has been worked off. By many standards, such as the ratio between home prices and household incomes, homes in much of the country are now selling at bargain prices.

But there is an additional problem: downward pressure on prices from the excess supply of homes for sale due to foreclosures on homeowners who have defaulted on their loans. Defaults are no longer centered on subprime borrowers who probably should not have been given loans in the first place.

Now, people who had seemed to be sound credit risks are defaulting as well. And it’s no longer just the toxic adjustable-rate loans with big payment increases that are failing: People are defaulting on standard 30-year, fixed-rate mortgages, too. The high unemployment rate is a key factor.

Federal programs have failed to keep as many troubled borrowers in their homes as the government had hoped, often because homeowners who do receive payment reductions later default anyway. Given all the problems in real estate, Wachter doesn’t expect any significant improvement in construction before the end of 2013, indicating the new normal for housing and the economy will not appear until 2016 or 2017.

But even if the housing market stabilizes, there is no guarantee that the other key to recovery -- consumer spending -- will follow suit, since consumer behavior is hard to predict. Clearly, people spend less when they have immediate money concerns. Those fears will ease if layoffs shrink and employers hire more workers. And any period of weak consumer spending is followed by a release of pent-up demand for appliances, cars and other necessities, so consumers can be expected to loosen purse strings somewhat if they begin to feel more secure.

In the past, consumers have often purchased non-necessities like vacations, bigger homes than they need and new cars to replace old ones that still work well, but there's no guarantee they will resume these habits when money is available. For many consumers, the shock of the past few years may have been a wake-up call, a notice that they were actually spending too much back in the good years. It has long been clear to financial experts that most people have been saving too little for retirement; this may now be apparent to larger numbers of consumers as well. A new frugality could slow the economic recovery, Wharton faculty and other analysts suggest.

That begs the question: Will the definition of a healthy economy be different in the future than in the past? Some experts think the unemployment rate, now over 9%, may not fall to the levels previously considered "healthy" -- around 5%. "I would not disagree that unemployment levels may increase from what they were in the past," notes Blume, referring to rates considered "normal." "We do have, in my judgment, a structural unemployment problem -- people who do not have the education or the skills to participate in this advanced economy."

The most secure workers, Blume says, will be those with jobs that cannot be exported. That will include unskilled jobs like mowing lawns, as well as highly skilled jobs that must be done locally or for which foreign workers are not equipped. But any job that can be done just as well overseas will be threatened, according to Blume. Gradually, that will include jobs like editing, analyzing x-rays, preparing financial reports, even performing legal services -- anything that can be done remotely with a computer and Internet link.

Offshore call centers are just the beginning. Many U.S. workers will simply not be prepared to compete in this environment, causing the unemployment rate to rise, Blume predicts. "It's not just the lowest-paid people who will have these problems," he says. Currently, Blume notes, surgeons have to be in the operating room, but that may not always be the case. "Ultimately, there has to be an equalization of wage rates for occupations of the same skills across the globe."

Zandi agrees that the "normal" unemployment will probably rise. "Before the recession, it was 5%. Post-recession, it's probably going to be closer to 6%." Other economists think it could be higher.

What Changed?

It is not that the recession changed the economy, says Wharton finance professor Richard Marston. In fact, the economy has been changing for decades, but in recent years the effects were masked by the housing bubble, which temporarily supplied lots of low and semi-skilled jobs in construction, real estate sales and mortgage origination.

"The long-run trend is toward higher productivity and towards an increasing need for skill and education," Marston states, noting that while overall unemployment is around 9%, the figure is just 4.5% for college graduates and 14.6% for workers who didn't finish high school. In manufacturing, he adds, production has doubled since 1980 while employment has fallen from 18.7 million to 11.5 million due to productivity improvements like computers and assembly line robots.

The future may also produce a different housing profile. In 2004, the U.S. hit its peak in home ownership, with about 69% of households owning rather than renting. Currently, the figure is around 64% and likely will fall two or three points lower, to a level consistent with most of the post-World War II era, Wachter predicts. But there is some danger that the new normal could be even lower, she adds. That would mean a significantly higher portion of the population would be subject to the uncertainties of rent increases -- and cut off from the long-term financial benefits of ownership, a key to getting into the middle class and staying there.

Already, tighter lending standards like the 20% down payment requirement make it very hard for people in their 20s to buy their first homes, she notes. Much will depend, she says, on what the new mortgage market looks like if the government phases out Fannie Mae and Freddie Mac, which have long supported low-down payment loans. "It's already an issue because we're locking people out” of the housing market, she says, adding that for many people, the vision of a nice house in the suburbs may never be realized, though they might have achieved that in the past.

While the government has worked to keep interest rates low and engaged in massive spending to stimulate the economy, none of those interviewed said new efforts of this type would be the key to an eventual recovery. For one thing, additional spending is now politically unpalatable. In addition, Marston notes, policies to stimulate by reducing interest rates traditionally work by boosting the real estate industry. “This time, we have a huge overhang of both residential and commercial real estate. As a result, we are getting no push from real estate and therefore no surge in real estate-related jobs. That is true despite record low interest rates. In this setting, further monetary stimulus is ineffective at best.

“We have to rely on the private sector to increase its demand for workers,” Marston adds. “I believe employment will gradually improve, but I must admit that the process is disturbingly slow.”

In Washington, lawmakers are wrangling over future tax policy, the deficit, spending priorities and programs like Medicare. That much uncertainty does not contribute to economic stability. “We’re coming [up on] an election year,” Blume says. “I daresay the politicians won’t make things clearer.” He notes that Republican candidates are sure to keep consumers focused on economic worries that have persisted under a Democratic president.

Many businesses will be reluctant to place bets on the future until they see the raft of regulations to be written under last year’s Dodd-Frank Wall Street Reform and Consumer Protection Act. Regulation writing is taking longer than expected, Blume points out. Other countries and international regulators are also reworking rules that affect business and financial markets, making it even harder for businesses to place their bets on the future. “There’s a lot of regulatory overhang in Washington right now, which could cause businesses to delay investments, and cause consumers to delay purchases,” Blume says. “Until that overhang is cleared, we may not have fat growth.” ■

The Continuing Evolution of Leading RE

by Nicolai Kolding, associate editor

Over the last six years, Leading Real Estate Companies of the World® has evolved from what was for its first four decades exclusively a relocation and referral organization into an ever-expanding international network that, due as much to circumstance as to design, now provides brokerage tools and programs of increasing sophistication as well as, most recently, industry advocacy on behalf its membership. In speaking with REAL *Trends*, Pam O'Connor, who has been the network's President and CEO for nearly fifteen years (and with predecessor firms for about the same amount of time), described the network as essentially being an "un-franchise" option for brokerages large and small.

Despite having over 500 member firms with over 140,000 sales professionals globally, "we are still a little misunderstood," O'Connor admitted. "We offer the freedom, flexibility, and local branding that a lot of the brokers want, but they also want the resources and the connections that a global organization can offer them. Today, we are a multi-dimensional brokerage services network that serves as an alternative to franchising, rather than just a b-to-b association operating in one little corner of the business." That corner being referrals and relocation management, which was the organization's calling when it was known simply as RELO® prior to 2005.

The broadening of its services was initially somewhat "accidental" according to O'Connor, with the focus mostly on adding vendor alliances until about five years ago. It's no coincidence that soon after Realogy Corporation (then a division within Cendant Corporation) acquired Sotheby's International Realty, O'Connor's team responded with its biggest expansion to date by launching Luxury Portfolio International®. The implicit goal was to attract those firms that did not wish to switch from the relatively low-cost licensee model that Sotheby's had operated under (where only selected listings received the full Sotheby's treatment) to the higher-service, higher-cost franchisee model that Realogy was to replace it with (where all of a brokerage's listings were to be treated the same).

In fact, many of the tools and services thereafter developed by LeadingRE (as the network is colloquially known) seem, in some ways, to be backlashes to programs from the big franchisors. While there are some initiatives that seem intended to react to those wanting a counter to the franchisors, there are others that arguably fill in service gaps that the franchisors offer (and others yet, like their new OUR WORLD™ community platform, that are unique to them). In some ways, LeadingRE is engaged in a delicate dance, cautiously moving a step back then a step closer to the big models while working to maintain its own distinctions. Whether intended or not, LeadingRE is arguably now as much similar as it is different than the franchisors and is likely facing many of the same pressures from its members to be an advocate lobbying on their behalf.

Nowhere is this more evident than with the recent controversy over the National Association of REALTORS® Franchisor IDX rule. In another example of LeadingRE's growing role for its members, the network has been one of the leading voices fighting against a rule (which has been temporarily suspended, with a final decision to come in November) in which NAR was to allow franchisors to display, on their national sites, Internet Data Exchange (IDX) listings from the markets where their own franchisees do business (which, for the larger national networks, is effectively everywhere). Distinct lines were drawn with those supporting the initial rule, such as Realogy and RE/MAX, on one side and those opposing, like LeadingRE, Realty Alliance, and HomeServices of America, on the other.

O'Connor believes that the proposed rule would fundamentally change the original goal of IDX.

"The essence of the argument really is that this is a departure from what IDX is supposed to be in the sense that IDX is broker reciprocity. Quid pro quo: I put my listings into the bucket and you put your listings into the bucket and we share and enjoy the benefits of that within a finite, participant-only MLS.

"And what this new rule did was really to say that if you're in that group then those listings can be sent off to a franchisor site," O'Connor continued. "That's actually a pretty big departure from what had ever happened. Where the confusion comes is that people think, 'Listings are all over Trulia and Zillow and every place else.' And, while that's true, the distinction is that brokers give them permission to do that. What this really comes down to is: Are we concerned about the whole concept of IDX remaining in place and protecting what that's all about, or are we not? That's really the central question."

O'Connor admits that her initial reaction to the ruling was more about wanting to compete on equal ground against her traditional competitors. As she admits, her first thoughts were, "If they're going to give that sort of a right to franchisors then why wouldn't our network have that same right?" As she and her team, along with many others in the industry, studied the issue further they developed a deeper awareness for its potential ramifications and the difficulty there would be undoing what had already been done.

"In some respects NAR is in a very difficult position," O'Connor opined. "Because they've got, on one side, people saying if you repeal this thing, 'when we've spent money,' there is an underlying threat – and I don't think threat is too strong a word –that there will be a lawsuit. But on the other side you have people saying this changes the whole complexion of IDX and what it's meant to do and if you do that then, well, we may as well all send our listings to anybody and everybody. It's really important to keep in mind that practitioners – brokerages and agents – are the ones putting forth the effort to invest and develop the listings and are liable to sellers for the use or misuse of that data. That's where it all starts, and those interests must be protected."

As O'Connor has reflected on this, she has come to believe that this all ties very deeply into the continuing struggle the industry has had with listings syndication in general. "This issue has evolved over the last few years," O'Connor said. "Brokers don't often focus on the fine print indicating that listings sent to one publisher may be re-syndicated to several other sites and they often aren't aware how listings may be displayed and monetized with competitor agents next to the property display."

It may be tempting to paint this as yet another instance of players in the brokerage community fighting against the loss of control, but there are also legitimate legal issues that O'Connor and others have raised that can't be so simply brushed aside. "If the broker owns the data then shouldn't they have some control over what happens with it?" O'Connor asks. "And while brokers may not have been as vigilant as needed in the past because they are busy running brokerages, this issue is on the radar of everyone now in a big way and it's not just the IDX Franchisor issue, it's really about how the data is being handled on many levels when it's syndicated."

A specific concern of re-syndication that will likely be a major focus of those fighting against the Franchisor IDX rule is who is ultimately responsible, and potentially liable, if listing data is inaccurate. O'Connor believes inaccuracies are inevitable as data is passed from one site to another, especially if the originator of the data doesn't explicitly approve and monitor it.

"The more of that you have the less accurate the data is," O'Connor says of re-syndication. "You get a lot of duplication; you get a lot of homes that aren't on the market anymore because they're not de-activated once they do sell. That really does present liability for the broker because they're responsible for that data."

As this issue continues to heat up through the summer months, expect LeadingRE to be ever more influential in its advocacy. "While we never intended or wanted to be in this position, we will continue fighting for the rights of our brokers," says O'Connor. ■

Social Media's Five Key Impacts on Real Estate

by Travis Saxton, marketing & technology manager, REAL Trends

Ever since the inception of Social Media just a mere 7 years ago, the real estate industry has still yet to fully capture the impact or usefulness of this type of media on their business. With very few brokerages actually producing quantifiable revenue as a result of the efforts they expend, it is easy to see this is the big elephant in many brokerage offices. We all know that your competitors are battling in this arena so you feel you should be there as well. The main questions, however, are why and how? I hope to help answer both of these in this article.

Real estate professionals and companies can use social media on a heavy basis in four different areas and a fifth area should only be embarked upon with a strategic, thoughtful approach.

The first four key areas are:

Branding
Recruiting
Follow Up/Relationship Marketing
Link building/Search Engine Optimization (SEO)

The fifth area for later discussion that is a sore subject in the industry is:
Listing or Product Promotion

Branding - The first area in which a real estate brokerage can have a successful impact on social media is branding. Branding is still to this day one of the most important forms of advertising. The only way to effectively brand your company or personal brand if you're a real estate professional is to be very active. Increased activity can have a multiplying effect with social media. It is imperative to connect to local media and public figures that have a presence in the community, follow the conversations, and get active in those conversations. This presence is a pure form of branding and the more you're on people's minds the better. Many people in real estate are unsure of how to use Twitter properly. Twitter is a great branding tool and if you're active and retweeting local relevant stories the multiplying effect will be great for your brand.

A second area in the branding subject is your Facebook page. Spend some time jazzing it up with customization or the use of plugins/apps. Recently, Zillow has been expanding in this area offering some great solutions for implementing your listings and mapping features into Facebook. Check this out along with other FBML solutions (stands for Facebook markup language) and some developers can create very unique pages.

Recruiting - Social media can be a great medium to grow your recruiting efforts. The best way to increase your recruiting presence is via LinkedIn. You have a more professional audience and a job marketplace that is ever expanding. Getting active by sharing local research or demographics with competing agents is a great way to increase your image. A good example of this is a brokerage that is, say, partnering with a research company to produce local housing reports or data could gain some great followers by sharing this info to your competitors' agents. Sounds crazy but it simply just might work. When The Wall Street Journal and REAL *Trends'* top Thousand agents survey is published in the coming weeks this is an excellent opportunity to reach out to the agents in your market both within and outside your company and congratulate them. Sharing local news stories about your market is also a great way to stay in front of your competition and hopeful recruits.

Follow Up/Relationship Marketing - This is the number one focus I see being effective in real estate. It should be a precise practice that upon closing (or prior to) as a real estate brokerage or professional you should be collecting an email address and now more importantly connecting with your buyers on Facebook. This is a perfect medium, if ran properly, to stay in touch, disseminate new homeowner information, anniversary sentiments, birthday wishes and more. Stay in touch with life changing events that could lead to a move or an upgrade to their current home. Assign a marketing person or someone within your brokerage to coordinate the effort and brainstorm useful and strategic times to reach out to the users. This is a great arena to disseminate information for winterizing or fall/spring home prep. Use these sources and create a unique voice to stay in touch and foster/develop your existing relationships.

Link Building / SEO Campaigns – Social media is especially important in this aspect. Just about every post or tweet you present should be used in creating inbound links to your website. This is a big component of SEO and the search engine algorithms. In addition to the prior three areas mentioned be sure to be active and promote local events. The more strategic you are here, and the more active, the easier it is to get your content reposted, commented on, or retweeted. Every time this happens it creates another inbound link to your site and in no time you could triple your inbound links to your site that have slowly been built over the years.

Now, finally, for the more controversial idea: **Listing/Product Promotion -** It is largely said in our industry that social media is no place for listings or blasting your products. The inherent nature of the audience and medium tell you this as well. This is not to say listings can't be promoted on social networks but you have to find SOCIAL ways to accomplish this. Here are some examples of how you can socially engage your audience with listings. The first fundamental you need to know is to never put your actual listing and property detail in the post; instead mention it and the socially relevant point you're trying to get across and link back to your website for more information.

For example: a new school is being built in your market. Gather up a few listings in the nearby neighborhoods, place some news about the school and, say, for opportunities to live within walking distance follow these links. This example can be tweaked for restaurants, entertainment, etc. Get creative, use content from local media sources about local happenings to gain the edge. The more relevant you are the more interest and interaction you are going to get on your content. Grand openings are a great source of info for you to promote your listings so keep an eye on those in your market. Secondly use the successes of your agents as a way to promote your listings. For example, an agent closes on a four bedroom home in a nice quiet community. Congratulate the new homeowners and comment on the great neighborhood some of its perks and of course link back to nearby listings.

These are several of the ways social media can and will work for real estate brokerages and professionals. This is by no means a complete list and I encourage you to expand on these strategies to make them your own. If you are interested in REAL *Trends* Technology and Marketing Consulting, in which we can evaluate your systems, lead generation/handling, social media/marketing strategies, and your company's website, feel free to contact us at 303-741-1000 or email tsaxton@realtrends.com. ■

Comments from Mortgage Bankers Association on Qualified Residential Mortgage (QRM)

Executive Summary

The housing crisis revealed deep flaws in the mortgage securitization process. Securitizers, lenders, investors and regulators all failed to recognize and address these problems before it was too late. A new system of accountability and transparency is needed to ensure that these mistakes are not repeated. A risk retention requirement is an important step in establishing a better regulatory plan to protect borrowers and ensure a safe and reliable mortgage system.

At the same time, it is essential that any risk retention requirements be done correctly so as not to constrain liquidity. Securitization is a valuable liquidity channel for providing borrowers with affordable mortgage credit, particularly because portfolio lending does not have the capacity to meet market demands, and the future of the government sponsored enterprises is uncertain.

Without a viable securitization process, the nation's housing finance needs cannot be met. A workable risk retention requirement requires a delicate balance between creating accountability and allowing for an efficient securitization market. We believe Congress effectively threaded this needle by creating an exemption from risk retention requirements for well-underwritten, fully documented, sound and sustainable mortgages. The QRM exemption was intended to recognize that traditional mortgage loans — standard products, properly underwritten and with full documentation — were not the cause of this recent crisis, and securitization of these loans should remain unimpeded in order to return the MBS market to being among the most liquid in the world. By requiring a QRM exemption, the statute would keep consumer costs lower for these mortgages.

MBA strongly supports the intention of the Qualified Residential Mortgage (QRM) exemption from the Risk Retention provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act. That purpose is to establish an exemption from risk retention for well-underwritten and documented, sound and sustainable mortgage loans.

We believe, however, that the proposed rule implementing these provisions goes beyond what Congress intended and would drastically limit affordable mortgage financing options for moderate-income families, first-time borrowers, minorities, and many others.

MBA's presentation highlights these concerns and the concerns of other organizations. The presentation uses independent and reliable data and information to make the following key points:

- The proposed regulation will hurt consumers by limiting access to credit for well-qualified borrowers.
- In particular, the proposed down payment, loan-to-value (LTV) and debt-to-income (DTI) requirements are unnecessary and not worth the societal cost of excluding far too many borrowers from the most affordable loans.
- By prescribing hard-wired down payment, LTV and DTI standards, the government will effectively take ownership of risk rather than require private lenders assume the risk and underwrite sustainable loans for consumers.

The Proposed Risk Retention Regulations Reduce Credit Options for Qualified Borrowers

- The impact will be worse for minorities, first-time borrowers and homeowners with limited equity and threatens to disturb the balance between the rental and homeownership markets.
- Excluding risky products and requiring sound underwriting, full documentation and

verification are the right steps to return private investment to the housing market and ensure sustainable and affordable housing credit for as many families as possible.

- The QRM provisions in Dodd-Frank share the same purpose of ensuring well underwritten mortgages as the Qualified Mortgage (QM) proposed under Dodd-Frank's separate ability to repay provisions, and the QRM should be aligned with the QM.

- Regardless of the deadline set by Dodd-Frank, it is important that this rule not be rushed.

While a rule along the lines proposed, as well as the alternative proposal, will likely have a limited near-term impact on today's mortgage market, it creates significant long-term challenges to the return of private capital and a normal, healthy mortgage market.

- The mortgage market is functioning today because of heavy government support — a position that is neither sustainable nor desirable long-term. With Fannie Mae and Freddie Mac securitizing, and government agencies including FHA, VA and the Department of Agriculture insuring or financing most of the nation's mortgages, private investment capital remains largely on the sidelines. The rule, as proposed, could make it even harder for that to change. In fact, if finalized as proposed, the rule is likely to increase both the GSEs' and agencies' roles at a time when the future of the GSEs' and the government's role in housing has yet to be determined.

Detrimental Impact of Proposed Rules on Qualified Residential Mortgages White Paper Prepared by Howard Hanna Mortgage Services

Introduction

The adoption of the proposed QRM Rule is harmful to the public interest. It discriminates against classes of individuals and severely constraints the majority of Americans from participating in the American Dream of homeownership. It eliminates mortgage options for consumers, greatly increases cost and does not achieve Dodd Frank's objective of decreasing default ratios while encouraging responsible lending and sound underwriting practices. It harms credit worthy borrowers and is not a viable policy option. The list of detrimental consequences stemming from the rules adoption provides cogent argument against its adoption.

Consequences of Proposed QRM Rule as it affects the Consumer

The purpose of QRMs was to create a lending environment that encouraged lenders to offer more traditional mortgage products and limit the institutions appetite for risk with loan products that offered high risk and negative features to consumers. The definition of QRMs to include mortgage products that have historically demonstrated performance with low default rates harms consumers and threatens the American dream of homeownership. The importance of the QRM exemption cannot be overstated and will govern who will qualify for homeownership for years to come.

Cost

The Mortgage Bankers Association perspective stated in a letter to Federal regulators "few loans to ordinary customers are likely to be made outside the QRM construct; the loans that are made will be costlier and more likely made only to more affluent customers." A broadened definition of a QRM will force borrowers into loan products with greater risk to the lender. This additional investor risk will be passed on to the consumer in the form of more cost and higher rates.

J.P. Morgan Chase concluded that the 5% risk retention requirement could increase rates on non-QRM loans as much as three percentage points. Under current market conditions, that means that a typical conventional mortgage now offered at 5% would rise to 8%. Total principal and interest on a conventional thirty-year fixed rate loan at $100,000 would rise from $193,256 to $264,153 an increase of $170,897 or 36% over the 30-year term. Funds that in the past may have been used to purchase consumer goods will now be earmarked solely for mortgage payments. The economy as a whole will suffer.

Elimination of Potential Homebuyers from the Market

The implementation of a broadly defined QRM will eliminate the majority of homebuyers from the mortgage market with only a marginal decrease in default rates. Further, it would reduce the existing homeowner's ability to refinance and take advantage of a lower interest rate environment forcing borrowers to pay above market interest for an extended period.

Cash out refinances would be further restricted reducing a consumers ability to access funds for remodeling or college expenses. QRM as currently defined would have a disproportionate impact on lower and middle-income borrowers. First time homebuyers would have to postpone purchases. As stated, the QRM unfairly penalizes credit worthy borrowers. Testimony from representatives from the Center for Responsible Lending before the U.S. House of Representatives expressed the belief that QRM loans should be broadly available to creditworthy borrowers.

"Ideally, these should be the loans of choice for most borrowers. Loans that do not meet these standards should remain available, but should be the exception, not the dominate product and should be subject to strict regulatory oversight to address abuses. We believe that was the intent of Congress.

"The proposed rule would do exactly the opposite of what we here suggest. It would create a category of responsible mortgages, but make them affordable to only a small proportion of creditworthy families. This is the result of down-payment, debt to income and credit history requirements so extreme they would exclude much of the middle class along with large numbers of credit worthy families of color and low-and moderate income borrowers, from access to QRMs."

A data analysis of 20 million loans demonstrated that a larger down payment is not required to ensure low default rates if private mortgage insurance and responsible underwriting standards are in place.

"High down payment and equity requirements will not have a meaningful impact on default rates but, they will require millions of consumers, who are at low risk of default, to either put off buying a home or pay unnecessarily high rates. The government is penalizing responsible consumers, making homeownership more expensive or simply out of reach for millions. We urge regulators to develop a final rule that encourages good lending and borrowing without punishing credit-worthy consumers."

Studies completed by Core Logic support the contention that the implementation of the rule would severely constrain the ability of Americans to purchase a home.

High Down Payment Requirements will Deny Millions of Homeowners

Lower Rate Qualified Residential Mortgages Percent of Homeowners with less than 20% Equity

% of Equity	National
Equity < 20%	46%
Equity <10%	34%
Equity < 5%	28%
Negative Equity	23%

Statistical data provided by Core Logic supports the contention that many borrowers will be eliminated from the market. The adoption of a required downs payment of 20% eliminates 46% of the current homeowners in the market place while a 10% requirement reduces the pool of borrowers to 34%. Further, there is no evidence to support the contention that the increased down payment requirements will result in a significant decrease in default rates. In fact, empirical studies indicate that a large down payment requirement will only have a marginal impact.

QRM: Impact of Raising Down Payment Requirements on Default Rates and Borrower Eligibility

Year	2002	2003	2004	2005	2006	2007	2008
Reduction in default rate* by increasing down payment from 5% to 10%	0.2%	0.1%	0.3%	0.3%	0.2%	0.5%	0.2%
Proportion of borrowers not eligible for QRM at 10% Down	7.6%	6.6%	0.1%	8.4%	10.9%	14.7%	8.4%
Reduction in default rate* by increasing down payment from 5% to 20%	0.6%	0.3%	0.1%	0.8%	0.8%	1.6%	0.6%
Proportion of borrowers not eligible for QRM at 20% down	19.2%	16.7%	23.0%	22.9%	25.2%	28.2%	20.7%

A review of default rates compared to down payment requirements clearly demonstrates that there is not a strong correlation between default rates and a large down payment. The number of borrowers not eligible for a QRM ranges between 19.2% and 28.2% for the years 2002 through 2008. During this same period defaults ranged from 0.6% to 1.6%. The data clearly demonstrates that while there is a significant reduction in the pool of borrowers qualifying for a QRM there is only a marginal decrease in default rate.

Effect on First Time Homebuyers

Studies concluded by the Center for Responsible Lending indicates that the number of years required to save for a down payment are considerably extended by the adoption of a large down payment. Studies indicate that while a 5% down payment would require a family to save for 6 years, a 20% down payment requirement would raise the years needed to save to 14 years. The social ramifications are evident. Citizenship and property rights have always been associated. Many American will be deprived of the rights of property ownership and the nation will become a nation of renters.

Consequences of Proposed QRM Rule to Small and Mid-size Lenders

The proposed rule has consequences for small to mid-size lenders. Smaller institutions such as community banks and independent mortgage companies operate on narrow margins and a 5% risk retention would be problematic. The recent financial crises decimated many mortgage lenders and has created more of a monopoly in the mortgage industry.

Five of the large remaining lenders originate 50% of all mortgage originations and many of these banks were recently on the Federal watch lists and accepted TARP funds. A decade ago, these same lenders generated 33%. Mortgage pricing will be driven by larger lenders and correspondingly will result in fewer choices to the consumer with a correspondingly higher rate and higher unit profits to the lender. The Mortgage Bankers Association predicts loans made outside the QRM framework "will be costlier and likely to be made only to more affluent customers."

Effect on Affiliated Companies

Dodd-Frank's "Ability to Repay" standard establishes criteria for a QRM by setting a 3% threshold on the total "points and fees" paid by the consumer in a transaction. The determination of points and fees includes fees retained by a mortgage lender's affiliated title, appraisal, and other settlement service companies but not fees paid to a third party. These fees are included even if the fees retained by an affiliated company are no more than or less than the charges made by an unaffiliated third party.

Consequently, there is a high probability that any mortgage lender with an affiliated business relationship will exceed this threshold thereby classifying the loan as a QRM. Should the threshold be held in place services would be segmented and would result in market inefficiencies and increased cost to the borrower. Numerous studies over the years have demonstrated that the concept of an affiliated settlement service is more cost effective and delivers a higher level of service to the consumer.

Legislative Intent

The broaden definition of a QRM has been repeatedly challenged by members of Congress because it is inconsistent with the legislative intent. The QRM exemption was introduced into the Dodd-Frank Act with the intention of creating an underwriting framework to support responsible lending and borrowing. Legislative intent was to provide credit worthy borrowers with the availability of affordable financing. Congressional guidance to the regulators stated that they should jointly define a QRM "taking into consideration underwriting and product features that historical loan performance data indicate result in a lower risk of default." In a letter to the regulator in February 16, 2011, the sponsors of the QRM exemption, Senators Landrieu, Hagan and Isakson wrote:

"We are concerned that efforts to impose a high down payment requirement for any mortgage to meet the QRM exemption standard would be inconsistent with legislative intent. As the authors of the QRM provision, we can assure you that, although there was discussion about whether the QRM should have a minimum downs payment, in negotiations during the drafting of our provision we intentionally omitted such a requirement."

On April 5, 2011, the Congressional Black Caucus reaffirmed the intent of Congress to the same federal regulators. In reference to QRMs, they stated:

"This is not what Congress intended or what the data supported. It is abundantly clear from the record that Congress created the concept of a QRM to provide strong incentives for prudent loan underwriting that takes into account several key factors and the way they are layered together – not to establish arbitrary down-payment requirements. Strong documentation, income to support monthly payments for the life of the loan, reasonable total debt servicing loads, protections from payment shock, prohibitions on high risk loan features like negative amortization and balloon payments, and inclusion of mortgage insurance or comparable credit enhancement for low down payment loans, are the core underwriting factors that will lower the risk of default."

Correspondence between the regulatory agencies and Congressional representatives demonstrates that the legislature is emphatic in their opposition to a large down payment requirement. The inclusion of the current criteria for the QRM exemption is expansive and beyond the scope of legislative intent.

Conclusion

The preponderance of evidence supports the contention that the proposed definition of a QRM will eliminate the majority of American homeowners from participation in the American Dream of homeownership. It will reduce choice of mortgage options and increase consumer costs. The QRM as currently defined is discriminatory against classes of individuals and lenders. It forces first time homebuyers to postpone the purchase of a home and prohibits existing homebuyers from the opportunity for cost savings achieved through refinancing. It does not substantially reduce default rates yet at the same time; it threatens the housing recovery. The QRM proposal failed to consider the historical performance of traditional mortgages that have performed well for decades. Rather, it is arbitrary in nature. It clearly does not comport with Congressional intent and expands beyond its statutory authority. It relegates Americans to a renter status and deprives many in the middle class from achieving the American Dream. ■

Editor's Note

We will be hosting the third REAL *Trends* Leadership Institute this fall here in Denver from September 28-30, 2011.

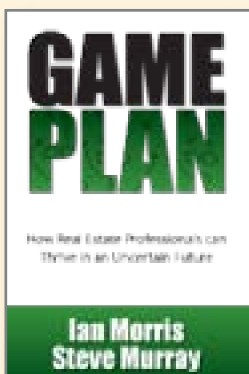
There are a few new features:

- Conference attendance will be limited to one firm per market and attendance is going to be limited to 100
- A special 4 hour session on succession planning with emphasis on family succession planning
- Discussion groups with topic leaders on hiring and selecting the right people for your company
- Outside CEO's presenting on effective leadership in challenged business environments
- An in-depth analysis and discussion of creative mergers, acquisitions, and strategic ventures in today's environment
- A session on internet and technology metrics that should be particularly valuable for financial, technology, and marketing executives
- A thorough review of the Broker Performance Report with group discussions about issues of brokerage profitability

Register online at www.realtrends.com or call us at 303-741-1000 to register.

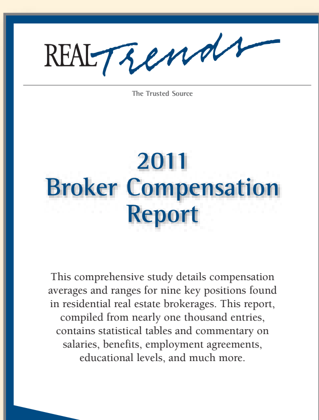
New publications available from REAL *Trends*:

Game Plan – How real estate professionals can thrive in an uncertain future



A book by Ian Morris, CEO of Market Leader and Steve Murray detailing the history of how brokerage evolved and what we can do going forward to succeed.

REAL Trends 2011 Broker Compensation Study



A comprehensive study by Nicolai Kolding as to how brokerage firms compensate nine key positions in their companies. The analysis is broken down by size of firms and region of country.

Successful Teams – A Guide to the Best Practices of Successful Teams

A practical outline of how the most successful teams are growing their businesses.

REAL *Trends* is now collecting data for its 2012 Broker Performance Report. This study follows in the footsteps of our Broker Compensation Report and will be conducted in a similar manner; we are now benchmarking financials, operational metrics, and technology/marketing statistics. We call out to residential brokerage firms of all sizes throughout the United States and Canada to participate in this valuable study. To confidentially participate (and therefore receive the final report, along with a special webinar, for free) you can either go to our website or contact us directly at nkolding@realtrends.com. The data collection will remain open throughout July with results compiled in August and the final report available in September. ■