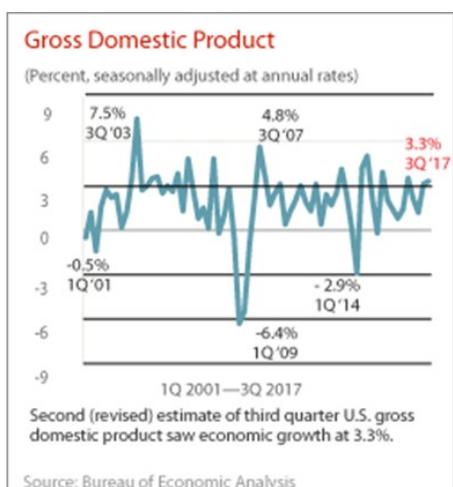


Tax Law Questions

For months we have been calling it a tax bill. Though we have covered the proposals, we have been careful not to predict what we would see in the final version. Today, the tax bill is law and, though we are aware of the major provisions, it is a very complex law and many of the details will be coming out in the coming days and weeks. Today, we will not discuss the specifics of the law, but the possible macro-effects of its implementation.

We have already seen one major positive effect. As we have mentioned previously, the major stock market rally America has witnessed in the past year was, at least partially, a direct result of the possibility of a tax cut for corporations. Theoretically, if you lower the tax liability of companies, their profits should increase and they will be more valuable. But even this obvious effect is in question with regard to the future. Now that the tax law is passed, does that mean that the stock run will continue, or has all of the good news been built in to the valuation of stocks?

Another obvious effect of the law should be to boost the economy. If tax rates are lowered for most, this will give both individuals and corporations more money to spend. This leads to two questions. How much will the economy improve? Plus, since we are already near full employment levels, if the economy improves significantly, might this hotter economy increase inflation? The possibility of higher inflation would also bring the threat of higher interest rates. Again, this is not a prediction, but a question that will be answered as time goes on. Finally, the effect of the tax law on real estate, as a result of the changes in the standard and itemized deductions, will be another significant question we will cover as the details emerge... □



New Homes to Drive Sales

New homes are expected to be a “primary driver of sales in 2018,” as 1.33 million housing starts are predicted next year—up from 1.22 million in 2017, according to a recent Freddie Mac Outlook Report gauging future real estate activity. Home sales are expected to increase about 2.0% from 2017 to 2018, according to the report. Economists also predict that the uptick in housing starts, coupled with a moderate increase in rates, will help slow the run-up in home prices in 2018,

4.9% Increase

Freddie Mac forecasts a 4.9% increase in home prices in 2018, lower than the 6.3% growth seen so far this year. Homeowners likely will continue building equity next year. In the second quarter of 2017, the dollar volume of equity cashed out was \$15 million, up \$1.2 million from the first quarter. As home prices rise, cash-out activity has been rising, too. “The economic environment remains favorable for housing and residential loan markets,” says Freddie Mac Chief Economist Sean Beckett. “For several years, we have had moderate economic growth of about 2.0% per year, solid job gains, and low interest rates. We forecast those conditions to persist into next year.”... □
Source: Freddie Mac

Selected Interest Rates

December 21, 2017

- 30 Year Mortgages—3.94%
- 2017 High (March 16)—4.30%
- 2017 Low (Sept 14)—3.78%
- 15 Year Mortgages—3.38%
- 5/1 Hybrid ARMs—3.39%
- 10 Year Treasuries—2.49%

Sources—Fed Reserve, Freddie Mac
Note: Average rates do not include fees and points. Information is provided for indicating trends only and should not be used for comparison purposes.

New FHA Loan Limits

Loan limits on forward and reverse mortgages insured by the Federal Housing Administration have been raised for next year. FHA floor loan limits are based on 65.0% of conforming limits on mortgages that are acquired by Fannie Mae/Freddie Mac. The 2018 conforming limit has been set at \$453,100. FHA issued a letter indicating that the FHA floor limit on mortgages on one-unit properties will increase to \$294,515 from \$275,665 in 2017. The floor applies to those areas where 115% of the median home price is less than the floor limit," the letter stated.

"Any areas where the loan limit exceeds this 'floor' is considered a high-cost area, and FHA sets its maximum loan limit 'ceiling' for high-cost areas at 150% of the conforming limit." In high-cost areas, the one-unit ceiling limit is increasing to \$679,650 in 2018 from \$636,150 last year. Thanks to rising home prices, FHA loan limits are increasing in 3,011 counties, while no change will occur in 223 counties. HUD also issued a letter indicating that the maximum limit for FHA-insured home-equity conversion (reverse) mortgages will be \$679,650 next year... □
Source: Mortgage Daily

Did you know...

Single women are making up a bigger share of sales. Single females comprised 18.0% of sales this year, which matches the highest share since 2011, according to the National Association of Realtors®' 2017 Profile of Home Buyers and Sellers. Single women were the second most common household buyer type, behind married couples at 65.0%. Single women tend to purchase slightly pricier homes than single men, despite earning less, according to the report.

Source: NAR

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