New TRID mortgage rules make transactions more complex

Major changes came to real estate transactions this fall. Any transaction involving a mortgage must use the new disclosure forms created by the Consumer Financial Protection Bureau ("CFPB"). The Truth-in-Lending Act/RESPA Integrated Disclosures ("TRID") create timing requirements for disclosures that lenders need to make to consumers and the lender can be liable if certain costs exceed the tolerance limitations originally set forth in the TRID disclosures. In addition, the new TRID rules may delay a transaction if certain changes to the loan details occur near closing, as TRID requires a three-day review period for the buyer prior to closing.

Through the Dodd-Frank Act, Congress ordered the creation of TRID in order to improve the loan disclosures made to consumers. TRID combines the prior TILA and RESPA disclosures into two forms: the Loan Estimate and the Closing Disclosure. These two forms are intended to reduce paperwork and consumer confusion by using clear language and design that will help consumers understand complicated mortgage loan and real estate transactions. On the new forms, the interest rate, monthly payments, and the total closing costs will be clearly presented on the first page. This will make it easier for consumers to compare mortgage loans and choose the one that is right for them.

The Loan Estimate is how consumers will apply for a loan. A lender cannot charge a fee except for the credit report until after a consumer has received a Loan Estimate from the lender and has decided to proceed with the transaction. The lender must send the Loan Estimate within three business days after receiving application from a consumer and the final Loan Estimate must be issued at least 7 business days prior to the closing. The cost estimates used by the lender in calculating the Loan Estimate must be made in "good faith", meaning that the numbers will be presumed to be based on the best information available and the lender may have to refund to the consumer certain amounts if the amounts vary between the Loan Estimate and the Closing Disclosure. A consumer has 10 business days after it is deemed to have received the Loan Estimate to decide whether to proceed with the transaction with the lender. If the consumer chooses not to proceed with the transaction with this lender, this does not terminate the real estate contract and the consumer may face a loss of earnest money if they don't close on the property with a different lender.

The consumer must receive the Closing Disclosure three business days prior to closing. The Closing Disclosure captures all of the costs paid by the consumer and any last minute alterations must be reflected in an amended Closing Disclosure which will be delay the closing for three business days. Three loan changes will require a new Closing Disclosure and a new three-day waiting period: APR changes by more than 1/8%; loan product changes; or if a pre-payment penalty is added.

This new rule makes back to back closings a much larger risk as it is possible a last minute change may delay one of the transactions. Due to the new TRID rules, we'll see more seller post-closing occupancy agreements when a seller needs to sell a home and purchase their next home. Last minute negotiations may derail the closing and so buyers and seller need to have all issues resolved well in advance of closing.

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908 Snowberry Street
Longmont - $429,900
Brand new carpet. Wood floors in eat-in kitchen with granite counters. Main floor study plus separate dining & living rooms. Sitting room off master could be 4th upstairs bedroom. Cul de sac.

373 Sagewood Drive
Loveland - $259,900
Mid-Century modern in the country. Extensively remodeled ranch home with a finished basement on one acre. 4 bedrooms and 2 bathrooms. Custom walnut cabinets and walnut floors.

The best time to sell in 2016 will be early in the year, Jan. 15th through March. Let me know if you're thinking of selling your home in 2016.

869 Bluebird Lane
Lafayette - $888,000
OVER ASKING PRICE
Almost 2 acres backing to Boulder County Open Space with amazing views of the snow capped Divide. 3 bedrooms, 2 baths. Ranch with walkout, unfinished bsmnt.

Trend Report

In our last newsletter, we were discussing the slowing that was becoming apparent in the market. We've seen this late summer slowing the last couple of years and like those years, we've picked back up in activity as we near the end of the year. As you can see below in our Showing Appointments chart we've been on a moderate upward trend since the end of September. Showings remain stronger this fall than they have been at any time going back to 2007. If this year follows the pattern of the last couple of years, we'll have a Thanksgiving slowdown in showings followed by stronger showing activity through about the third week of December.

The number of single family homes that sold in October was very strong, with more sales than we saw in September offset by fewer attached homes sold. The combined sales numbers continue to outpace the sales we saw in 2014 which is reflected in the stronger Q3 2015 numbers when compared to previous years. The strong October should also correlate to a comparatively stronger Q4 2015 once all of the numbers are in.

The stronger fall is also reflected in the Months of Supply chart below. It's a little hard to see, but supply actually tightened with our October sales numbers to just over two and a half months of supply. This supply number is well below the five month threshold of a balanced market and remains firmly in the seller's market territory. This is an average for all of Boulder County and some areas and price points are stronger while other areas and price points remain much weaker.

The % of Homes Under Contract chart is also showing the late summer slowdown and the fall rebound. You can see that many areas currently have rising percentages under contract. The mid-November reading for the lower price ranges in Erie was actually at 84% under contract, a shocking number for a time of the year when most people are expecting a seasonal slowdown.

We recently conducted a poll of all of the brokers in my office and the consensus forecast for 2016 from 64 of the top agents in Boulder County was that supply will remain constrained, buyer activity will be similar to 2015, the seller's market will continue, and that annual appreciation for 2016 should be around 7.76%. If you're thinking you may want to sell your home in 2016, the ideal time will be early in the year. Mid-January through March should have the most frenzied action for sellers. Buyers should target July through August for the most supply and possibly the best deals of the year during what has become the typical late summer slowdown.

The one possible risk for the seller's market to continue into 2016 is the unknown of potentially rising mortgage rates. The Fed desperately wants to raise their target rate, but worldwide economic weakness has so far stayed their hand. With the recent terrorist attacks in Paris, the US and US Treasuries will remain the safe harbor for many overseas investors, which may keep downward pressure on rates contrary to the Fed's desires. It is unknown what will happen if mortgage rates begin to rise. Over the short term, it may drive even more buyers into the market who want to lock in lower mortgage rates before they rise further. Long term though, increasing mortgage rates should bring our local market into a more balanced position.

I hope everyone has a wonderful winter.

Mike Malec