

Real Estate Digest

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Banks, Regulators Toughen Up Subprime Rules

Federal bank, thrift and credit union regulators have been working through the summer to beef up underwriting standards for “subprime” mortgage loans. Consumer advocates had called for more-restrictive policies, while some in the banking industry argued that the changes could restrict many borrowers’ access to credit, according to an article *The Wall Street Journal*.

The new policy comes after a record number of borrowers with these loans – so named because they are generally made to consumers with shaky credit histories – entered the foreclosure process at the end of 2006 and the beginning of 2007. Flattening house prices and increases in monthly payments overwhelmed many of the homeowners. These problems have forced dozens of companies out of business.

Multiple Wall Street firms holding bonds backed by subprime mortgages are bracing for heavy losses.

Teaser tumbles

The guidelines require more than 8,000 federally regulated lenders to underwrite loans based on a borrower’s ability to make payments on a loan’s adjusted rate, not just its low introductory rate. Roughly 75 percent of the subprime adjustable-rate mortgages offered last year were loans with a low flat or “teaser” rate for the first two or three years and then a higher, floating rate for the life of the 30-year mortgage.

The guidelines are very similar to a March proposal, with two significant changes. First, with limited exceptions, the guidelines expect lenders to collect much more information to prove that borrowers have the capacity to pay.

Second, lenders are directed to give borrowers the option to refinance out of an adjustable-rate mortgage at least 60 days before the interest rate jumps to a higher level, without penalty.

Mixed reactions

The new guidelines were greeted differently by the mortgage and banking industries. Kurt Pfothenauer, senior vice president of government affairs at the Mortgage Bankers Association, said the guidelines were too restrictive and predicted they would force lenders to deny more borrowers access to mortgages.

“All regulatory actions come at a cost,” Pfothenauer said. “The people being stuck with the bill for this one are those who have been making successful use of [novel mortgage arrangements] and have paid their bills on time.”

The reaction from banks

was less critical. Both Washington Mutual Inc. and HSBC Holdings PLC’s HSBC Finance Corp., two of the country’s largest federally regulated lenders offering subprime loans, said they would comply with the new policies.

When crafting the guidelines, regulators walked a fine line between trying to curb lending practices without imposing prohibitions that could kill a market that has helped many purchase homes.

“There is no doubt in my mind that anytime you put in more stringent standards you are likely to reduce the supply of credit,” Comptroller of the Currency John Dugan said. “We don’t do that lightly.”

TRENDS

Boomers Retiring Later



Americans between the ages of 55 and 64 are postponing retirement because they have good-paying jobs that



they enjoy, according to a Brookings Institute survey. The report also shows, however, that same group is having a harder time retiring because of money siphoned off in divorces

The report, "Mapping the Growth of Older America: Seniors and Boomers in the Early 21st Century," found that 57.6 percent of heads of households in that age range were married in 2005, compared with 62.8 percent in 1990 and 65.8 percent in 1980. In addition, 39.2 percent of male heads of households and 40.2 percent of female heads of households were professionals and managers in 2005, up from 23.3 percent and 23.6 percent, respectively, in 1980.

Bankers Cautious on Rebound



Economists with the American Bankers Association are forecasting that home sales won't begin stabilizing until 2008, after which overall economic growth will resume.

"Residential home price declines could deepen, especially if mortgage rates continue to climb, but the drag on the economy should lessen as (2008) comes to a close," said Scott J. Brown, head of the ABA's economic advisory committee. The group expects more moderate consumer spending growth for the remainder of this year.

"We don't expect the current weakness in housing to put a serious dent in consumer spending, but it remains a key downside risk that bears watching," said Brown.

Upscale Homeowners Confident in Future



A survey of people living in homes valued at more than \$1 million (or \$2 million in California) finds that those homeowners are fairly confi-

dent in the future.

Of those surveyed by Coldwell Banker, 56 percent said they expected the value of their home to increase at least somewhat during the next year, and 10 percent expect a substantial increase.

About 58 percent said they believe increases will continue over the next five years and 36 percent said those increases would be significant. Some 40 percent said they felt comfortable enough with the housing market that they were considering buying a second home.

Immigrants Slowing Down on Home Buying



An Alberta University study finds that Chinese immigrants and white immigrants have the highest homeownership among those coming to the United States and Canada. African American immigrants have the lowest rates of all groups. The study looked at immigration patterns and homeownership over a 30-year period. Overall, however, the authors of the study found that immigrants in each category were not buying homes as rapidly as their predecessors, which they attributed to the rising cost of housing.

Get Top Dollar for Your Home Improvements



Before you install that custom wine cellar or bamboo flooring, it's wise to make sure such upgrades won't leave you in the red long-term. Sellers whose properties have the right add-ons in relation to their neighborhood get the highest rate of return on their investment.

That means that if your kitchen cabinets and appliances lag behind those of the guy next door, an investment of \$40,000 to

update the room completely will likely be made back and then some when it comes time to sell. But the same investment on a kitchen already at or above those in the neighborhood will have diminishing returns with each extra dollar you spend.

Another example: Don't waste your money on a new roof. Few buyers care about the materials and age of a roof; their only concern is whether or not it leaks. Similarly, don't invest too much on individualized features like a sauna or a steam bath. They might make your home stand out, but if a buyer doesn't share those tastes, it can be a strike against the property.

And don't spend a lot on technological advancements. In the early 2000s, people spent millions wiring their homes for Cat-5 connectivity; when wireless Internet became standard, those investments became worthless.

"The simple things can bring the highest rate of return," says Alan Hummel, chief appraiser of Minneapolis-based Forsythe Appraisals and former president of the Appraisal Institute.

"It can be as simple as making sure landscaping looks good, or that the exterior paint is fresh. Especially with median to luxury homes, curb appeal is very important."

That's especially true since 80 percent of buyers begin their searches online, according to the National Association of Realtors. In this case, a photograph is worth more than a thousand words; it could mean the difference between a quick sale and languishing on the market.

Another thing to consider before charging in with fixes and revamps is how American homes are changing.

Upscale homebuyers, he says, are still enamored with kitchens and master bedrooms, which makes those rooms important candidates for improvements or updates. "Master bedrooms continue to be sanctuary," Hummel told *Forbes* magazine. "Nice amenities like fireplaces and vaulted ceilings ... those are things that will set a property apart from others," he said.



AGENTS' CORNER

How to Fuel Exponential Growth



One of the not-so-secret secrets to sales success is to build on recent successes. That is what the 10/10/20 technique is all about, and here is how it works: When you list or sell a

house, knock on the 10 doors to the left and right of the house you just sold and the 20 doors across the street and distribute your postcard with a handwritten note letting the neighbors know that you have listed or sold their neighbor's home.

The 10/10/20 technique is just another way of networking, but this form of networking is much less formal than most and creates a grass-roots marketing campaign that spreads like a virus, according to Ralph R. Roberts, author of "Flipping Houses For Dummies" and "Foreclosure Investing For Dummies."

As the neighbors begin to talk about that agent who had the courtesy to knock on their doors and let them know what was going on with that house that was for sale down the street, word will begin to spread far and wide, and prospective clients will begin calling.

Although you can adjust the technique by handing out business cards, instead, the postcards are something a little different and less business-oriented and they give you more flexibility to add a personal touch.

Representation, Disclosure are Top Legal Issues for Agents



NAR has released its latest study of legal issues affecting the real estate industry, finding again this year that issues involving agency representation lead

all other concerns. The scan is based on court documents, new regulations and jury verdicts involving 655 court cases and 112 statutes and regulations.

"This updated survey allows members to quickly check and print out for their attorneys the relevant cases or legislative actions that offer guidance regarding new cases and will help members save time and money on legal costs," said NAR Chief Legal Counsel Laurie Janik.

NAR said that the second-largest category of disputes involved such property disclosure issues such as mold and structural defects. Technology and privacy questions also are growing in importance. As a result, NAR suggests that agents receive better training in agency regulations, disclosure, technology, antitrust, and real estate settlement procedures.

MARKETS

Tennessee Nixes Agent-Consumer Rebates



Despite warnings from the Justice Department, Tennessee has re-enacted a law prohibiting real estate agents from rebating cash to consumers as part of a real estate transaction.

The Tennessee Real Estate Commission had a longstanding regulation prohibiting rebates but repealed it in May. The Legislature then took essentially the same wording and wrote it into law. The Justice Department objected to the legislation, saying it would limit consumer opportunities to save money by eliminating competitors who offered rebates.

Texas Town Offers Cash Back for Fixer-Uppers



City officials in Richardson, Texas have begun giving homeowners a tax break if they are willing upgrade their homes with

at least \$20,000 worth of improvements. According to the city manager's office, for every \$1 increase in assessed valuation, the city will rebate \$10.

Most of the homes in the northeast Dallas suburb are 30 to 40 years old and could use some updating. The overall hope is that residents will use the rebate program to keep up their homes and keep the city generally from falling into disrepair. To qualify for the rebate, homeowners must apply at City Hall and allow inspectors to view the property both before and after the work is done.

Earth to California Market: Return from Stratosphere



The Golden State housing market bubble is slowly beginning to deflate after a remarkable run that saw hous-

ing price increases lead the nation. Runzheimer International, a Wisconsin-based consulting firm, analyzed the average price for a 2,700 square foot home from January 2003 to June 2007 in San Francisco, Los Angeles, San Diego and Sacramento. It found that each of the four markets peaked in late 2005/early 2006 and then began a gradual decline.

By January 2006, the Los Angeles market had appreciated an astounding 72.1 percent, topping the charts for the selected cities. Although the San Diego market reached its high point first, in the fourth quarter of 2005, it has since decreased 11.25 percent, the largest drop of the four areas. Housing values assume a 2,700 sq. foot house in selected living communities where a family of three with an \$85,000 annual income would typically live.

Since their peak, home values in the four sampled cities seem to have taken a step back in time; Los Angeles and Sacramento values are back to the levels they were third quarter 2005, while San Francisco prices mirror their first quarter 2006 levels.

In San Diego, it's as if the last two years never happened. While the gradual housing market correction is likely to lead to a soft landing, potential gains in the near future in these real estate markets appear to have either severely diminished or no longer exist.

MORTGAGES

FTC Publication Educates Consumers On Mortgages



The Federal Trade Commission has developed a new print and online publication for homeowners to help them understand the mortgage process better.

The publication, "Mortgage Payments Sending You Reeling? Here's What To Do," explains different kinds of mortgages, what a homeowner can do if behind on current payments, how to avoid default and foreclosure, and how to avoid

predatory scams.

The publication was developed because consumers who have mortgages with fixed rates for a few years, followed by adjustable rates, may face "payment shock" when their rates go up. The publication is available free at <http://www.ftc.gov/bcp/edu/pubs/consumer/homes/rea04.shtm>

LIGHTER SIDE

Talk About a Unique Property: Dracula's Castle Up for Sale



Want to buy a literary legend? Just get ready for visitors, plenty of them. The Romanian castle that fired the imagination of author Bram Stoker to write the book "Dracula" is up for sale and being handled by the investment firm of Baytree Capital in New York. Bran Castle, in the Transyl-

vania region of Romania, is part of the estate of Archduke Dominic Habsburg.

The castle already is one of the top tourist locations in Romania and the Habsburg family is hoping any redevelopment will preserve the estate as a historic and tourism site.

The castle was built 700 years ago. The novel "Dracula" was written in 1897.



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