

# Real Estate Digest

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## Tempered Optimism Greet Fed Foreclosure Relief Program

**W**ith foreclosures on the decline and government help on the way, industry watchers are hoping the foreclosure storm is finally passing, even though Treasury Secretary Timothy F. Geithner told a Senate panel recently he wouldn't know for several months whether a key Obama administration program designed to help troubled home-owners avoid foreclosure will be successful.

"I don't think we're going to know until probably early fall whether we've got the incentives right and whether they're going to prove powerful enough," Geithner said while testifying before the Senate Appropriations financial services and general government subcommittee. "But our judgment is that this is the best package of incentives, which offers the best return for the taxpayers' resources we're going to use to help ad-

dress the housing crisis."

The administration's "Make Home Affordable" program is designed to help up to nine million homeowners reduce their monthly mortgage payments to more affordable levels. The program, a key component of the administration's efforts to stabilize the faltering housing markets, includes a provision to give up to five million homeowners with a "solid payment history" on existing Fannie Mae or Freddie Mac loans an opportunity to refinance into more affordable monthly payments.

The administration said in May that only 55,000 homeowners were enrolled in the program. And not everyone is convinced the assistance will do much good.

"It is my feeling that the previous administration, and so far this administration, has failed to come up with an approach which could dramatically turn around this increasing number of mortgage foreclosures," said subcom-

mittee Chairman Richard J. Durbin of Illinois.

Geithner said that while the pace of decline in house prices has started to slow, "Realistically, I think, you're going to still see a very challenging period ahead for many homeowners."

### Foreclosures decline

The market may also help itself by self-correcting. The RealtyTrac May U.S. Foreclosure Market Report showed that foreclosure filings—default notices, scheduled auctions and bank repossessions decreased six percent from the previous month, although they were up nearly 18 percent from April 2008. The report also shows that one in every 398 U.S. housing units received a foreclosure filing in May.

Nevada continued to document the nation's highest foreclosure rate, with one in every 64 housing units receiving a foreclosure filing during the month — more than six

times the national average.

With one in every 144 housing units receiving a foreclosure filing during the month, California posted the nation's second highest state foreclosure rate despite a 4 percent decrease in foreclosure activity from the previous month.

"Many more Americans are still at risk of losing their homes, and that's why we just want these programs to work," Geithner said.

### MORTGAGES

## Are Low Appraisals Hurting Market Recovery?



Brokers around the country are complaining that appraisers — hit by criticism for their role in the housing meltdown — have now swung too far the other way, jeopardizing deals by being too conservative.

Sales associates say deals are being killed by appraisers whose numbers come in well below the agreed purchase price, forcing sellers to either lower prices or buyers to



come up with more money. In many cases the deals just come apart.

One broker in Las Vegas said as many as 20 to 25 percent of deals were being affected by low appraisals. Some lenders believe the low appraisals are based on forecasts that area home prices will deteriorate in the months ahead.

## HUD Releases Details of \$8,000 Credit for Down Payment



Housing Secretary Shaun Donovan formally announced recently details of the agency's plan to allow first-time homebuyers

to apply the \$8,000 tax credit to their down payment on FHA-backed homes. Buyers will not be able to use the credit as their entire down payment. Buyers using FHA-approved lenders can apply the tax credit to their down payment in excess of 3.5 percent of appraised value or their closing costs, which can help achieve a lower interest rate.

"We believe this is a real win for everyone," said Donovan. "Today, the Obama Administration is taking another important step toward accelerating the recovery of the nation's housing market. Families will now be able to apply their anticipated tax credit toward their home purchase right away."

### TRENDS

## Pending Home Sales, Affordability Continue to Improve



Both the National Association of Home Builders and the National Association of Realtors report gains in affordability. The Home

Builders association reports that low prices, high supply and low mortgage rates have made the average home affordable to 73 percent of Americans, the highest rate in 18 years. According to the NAHB, a family making the median national income of \$64,000 could afford 72.5 percent of homes sold in the first three months of 2009. (To be deemed "affordable," a family making the median income would devote no more than 28 percent to housing costs.)

NAR also said its affordability index was at record highs as a result of depressed home prices and low interest rates. The association said in April a median-income family, which earns \$60,900, could afford a home costing \$296,800. The association said the median existing single-family home price in April was \$169,800.

Affordability and low interest rates helped boost pending home sales again in April, the third month in a row and an indicator that the housing market may have bottomed out. The index rose 6.7 percent to 90.3, compared to 84.6 in March. In April 2008, the index was 87.5.

The Commerce Department, meanwhile, reports sales of newly built, single-family homes recorded only a marginal 0.3 percent gain to 352,000 units in April compared to March. Inventories of unsold new homes declined 4.2 percent to 297,000 units, which is a 10.1-month supply at the current sales pace. The National Association of Home Builders said the national inventory of new homes was at its lowest since May 2001.

NAR reports existing-home sales rose 2.9 percent in April to a seasonally adjusted annual rate of 4.68 million units, compared to a pace of 4.55 million in March. The figure was still 3.5 percent below the 4.85 million-unit level a year ago.

Trade association economist Lawrence Yun said most sales were taking place in lower price ranges and activity was beginning to pick up in the mid ranges as well. The national median existing-home price for all housing types was \$170,200, 15.4

percent below 2008. Distressed properties accounted for 45 percent of sales.

## Home Sellers Collectively Shave \$27.4 Billion in Price Drops



Nearly one in four of the current homes on the market in the United States have experienced at least one price cut, totaling

\$27.4 billion in reductions. The average price-reduced home has seen a listing price reduction of 10.6 percent.

Major metropolitan areas continue to be hit hard by price reductions. Of the top 50 cities in the U.S. based on population, 33 have seen 25 percent or more of home listings reduced in price, higher than the national average of 23.6 percent. U.S. cities that have seen at least 30 percent of homes reduced in price include:

- \* Jacksonville, Florida - 36 percent
- \* Tucson, Arizona - 32 percent
- \* Boston, Massachusetts - 32 percent
- \* Los Angeles, California - 32 percent
- \* Columbus, Ohio - 31 percent
- \* Dallas, Texas - 31 percent
- \* Honolulu, Hawaii - 31 percent
- \* Minneapolis, Minnesota - 31 percent
- \* Austin, Texas - 30 percent
- \* Washington, DC - 30 percent
- \* Baltimore, Maryland - 30 percent
- \* Las Vegas, Nevada - 30 percent

"Summer time is the peak season for buying and selling, and with some of the lowest prices in the last decade, we expect it be a busy season," said Pete Flint, co-founder and CEO of real estate search site [Trulia](#). "Everyone wants to think they are getting the best deal available and price reductions are helping to spark a renewed interest in the U.S. real estate market."



The national average for price reductions on current home listings is 10.6 percent, but sellers in the areas hardest hit by foreclosures are slashing prices the most. Detroit homeowners on average reduce their home prices by 23 percent, while Las Vegas sellers reduce their homes by 16 percent and Miami sellers reduce their homes by 15 percent. Phoenix and Mesa are also experiencing deep price reductions, with 13 percent slashed off the original listing price.

Twenty-four percent of homes with a selling price greater than \$2 million are seeing price reductions—comparable to the 23.6 percent of homes on the market for the less than \$2 million. While the percentages of homes seeing discounts are almost identical at both price ranges, discounts on luxury homes are significantly more, with 14.3 percent being slashed off the original listing price, compared to only 9.7 percent for homes under the \$2 million dollar price tag.

## MARKETS

### Empty Condos Become Needed Dorm Rooms



A condo developer in Providence has made a deal with Johnson and Wales University: The developer's empty condos will serve as dorms for the housing-strapped university.

Capital Cove condos had been listed at between \$350,000 and \$550,000 per unit — but the developer had no sales and only four reservations. By converting the existing building into dorms, students will pay \$10,383 per term for one-bedroom apartments and \$9,249 for two-room units. The developer indicated the arrangement would help refinance construction loans.

### Huntsville, Ala., Named Best For Economic Prosperity



Huntsville, Ala., is the best city in the nation in terms of economic prosperity, according to *Kiplinger's Personal Finance* magazine. The magazine studied 361 metro areas, looking at employment opportunities, as well as concentrations of individuals it deemed likely to create new, well-paying positions.

#### Rounding out the top 10 were:

- Albuquerque, N.M.
- Washington, D.C.
- Charlottesville, Va.
- Athens, Ga.
- Olympic, Wash.
- Madison, Wisc.
- Austin, Texas
- Flagstaff, Ariz.
- Raleigh, N.C.

### Could Foreclosed Homes Become Emergency Shelters?



The head of Florida's Emergency Management Division is mulling a plan that would put victims of major disasters — specifically, hurricanes — into homes that already are empty because of the housing crisis. In mock drills last week, emergency responders practiced for a Category 4 hurricane and it became evident there weren't enough shelters in the state to house those who would be displaced, said interim director Ruben Almaguer.

However, he also said the state currently has some 250,000 to 300,000 homes in foreclosure — many of which are empty. Real estate agents reportedly are cool to

the idea, noting that while it may be good in concept, many foreclosed homes are occupied; those that do not have people living in them anymore also do not have furniture; and it is not known how many could actually be rented in a crisis.

## AGENTS' CORNER

### Agents Need to Know What Warranties Will Cover



The Home Warranty Association of California (HWAC) is warning real estate agents and homebuyers not to count on warranties to fund repairs in foreclosed homes, saying these costs should be dealt with in the purchase agreement.

Billy Jensen, president of HWAC, said, "Too many homebuyers are moving into their new homes with high hopes that the home's systems and appliances are in top working order and, if not, that the home warranty company will be responsible to fix those that are not operational.

"It's a common misunderstanding, particularly for first-time homeowners, that leads to upset buyers and frustrated real estate agents when a service request is denied."

Jensen said warranties are based on the premise that systems and appliances are in working order at the time coverage begins, not before.

### Median Realtor Income Falls to \$36,700



There may be high-flying top earners out there, but NAR's membership profile for 2009 shows the median income for all Realtors in 2008 was \$36,700, down from \$42,600 in 2007. The survey,

released during NAR's midyear meetings in Washington, showed that members licensed as brokers earned a median of \$49,300 last year and that sales associates earned \$28,400.

Members in the business for two years or less earned a median of \$8,600, while those with three to five years of experience earned \$27,100. For members in business for 6 to 15 years, the median was \$42,400, while members in the business for 16 years or more earned a median of \$53,900.

The survey indicated that income largely depended on hours worked. Those working less than 20 hours per week earned \$8,200 while those working 60 hours or more earned \$74,000. The typical NAR member in 2008 had been

in the business for 10 years, up from eight years in 2007. The typical member was 54 years old and worked 40 hours per week. About 60 percent of members are women.

## LAW

### HUD Withdraws 'Required Use' Definition



HUD Secretary Shaun Donovan says the new RESPA — largely formulated under the Bush Administration — will go into effect next January, but without

a provision that would have kept builders and others from steering loans to affiliates.

Key components of the revised, 30-year-old Act will make it easier for consumers to comparison shop for mortgages. HUD believes home buyers, on average, will be able to save about \$700 in closing costs under the new rules.

Donovan says, however, that HUD intends to rewrite the "required use" provision of the Act. HUD wants to crack down on builders and others who offer discounts to consumers but require them to work with affiliated lenders to qualify for the incentives. The federal agency argues the incentives are typically used to lure buyers into more costly mortgages.



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