

# Real Estate Unleashed

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Presented by Bamboo Consulting Inc.

Vol. 12 December 2009

## Current Real Estate Update

### Some of What You Need to Know About Buying a Home

Here are some of the things that you should consider when buying a home.

First, make sure that you go rate shopping if you need a loan. You want the best possible interest rate. The challenge is that there is a lot of misleading information out there and it is hard to find what rate being offered is really the best possible rate. For example, the rate may be low, but what about the extra fees that come with that rate. Additionally, often a teaser or low rate is advertised, but in the fine print, the APR rate is different or higher. In order to get that lower rate, you would be paying points (a percent upfront payment against the loan) to get the lower rate. Also, only getting a lock on a loan (the guarantee of the interest rate for a specific number of days) for 7-10 days is simply not enough time to complete a transaction that takes on average 30-45 days. Interest rates are not the only thing to look at. Another important consideration is how long do you need to borrow the money for? Down payment, credit score, etc. impact whether a 30-year fixed or an ARM (adjustable rate mortgage) may be best for you. So, get preapproved, work with a professional, and of course compare and shop around. But, make sure you are comparing apples to apples – line the loans up, compare interest rates, points, fees, APR yield, terms (ex. a pre-payment penalty) etc. Only then can you decide which loan is the best for you.

Next, let's look at the contract. Here are some of the important items to review.

Loan or Financing Contingency - Loan contingency is the time period a seller is giving you to obtain the full and formal loan approval. Including this in your offer is important because it allows you cancellation rights if you are unable to obtain financing. A typical loan contingency is usually between 15 to 30 days.

Appraisal – The lender requires an appraisal contingency, but you should use this even if you are paying all cash. Appraisals determine the value of the property you are buying based on a set of criteria such as price per square foot, area, other competitive properties, current sales, etc. If the appraisal does not value the property at the price you bid, it will affect the loan and / or you may be required to put up the difference in cash.

The Contract Period – The contract period is the period of time in which all the due diligence you request or are required to do must be completed including loan approval, property appraisal, home inspection reports, termite inspection, etc. Make sure to give yourself enough time to get this done – think 30, 45, or 60 days.

The Home Inspection Contingency – An outside third party does home inspections. These companies inspect the property to make sure that there is no material defects that you are not aware of and which could have a significant impact on the value of the property. If there are material defects, your agent should negotiate either a reduction in the purchase price or ask the seller to make the repairs prior to the close of the transaction.

The Termite Inspection – Termite inspections can be required or not depending on your lender. Regardless of whether it is listed in the contract, you should get one because it is important. In California, use of wood with our weather makes some kind of termite damage almost a guarantee in most properties. Again, the cost of the repairs can be negotiated.

Seller Contribution – Sometimes in the negotiation, a seller will offer to pay some of your closing costs – origination points on your loan, tax escrow fees, etc. Lenders will not usually allow sellers to contribute more than a certain percentage of the purchase price or to contribute funds after the transaction closes. If a closing date is delayed, a rent back period can be negotiated. This means that your transaction will close, your loan will fund, ownership of the property is transferred into your name, but the seller rents the property back from you. Just make sure that the seller does not occupy the property for more than 30 days as this would constitute a non-owner occupied purchase in the eyes of the lender and would cause the terms of the loan to change dramatically.

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Buying a home is big decision, so get the best advice and use professionals to help you. You'll be signing legal documents and investing a great deal of money, so be smart and do it right.

## Did You Know?

### *Alcatraz*

2009 was the 75<sup>th</sup> anniversary of Alcatraz as a federal prison. Here are some facts and figures from the National Park Service that you might not know.

- 1,545 convicts did time on Alcatraz
- The ratio of prisoners to guards was 3 to 1
- There were 14 escape attempts, although none of them were successful
- 8 prisoners were either killed or drowned during escape attempts
- Alcatraz was a federal prison for 28 years
- It was closed down by Robert Kennedy

### *The Recession and the Richest People*

The recession may still be with us and according to the latest Forbes 400 even the “really” rich are getting hit. This group has collectively lost 39.2 billion dollars this year and the entry price to this exclusive club has dropped to under 1 billion dollars.

- Bill Gates is still the wealthiest person with 50 billion (down 7 billion)
- Warren Buffet comes in at #2 with 40 billion (down 10 billion)
- Larry Ellison is in third place at 27 billion (he's one of the few who did not lose money)
- The Google guys, Sergey Paige and Larry Brin, come in at #11 with 15.3 billion each

Other Bay Area notables include:

- Google CEO Eric Schmidt comes in at #40 with 5 billion
- Apple CEO Steve Jobs comes in at #43 with 5 billion
- Schwab Chairman, Charles Schwab, comes in at #50 with 4.7 billion
- Franklin Resource Chairman, Charles Johnson, comes in at #65 with 4 billion
- KKR Founder, George Roberts, comes in at #85 with 3.5 billion
- Facebook CEO, Mark Zuckerberg, comes in at #158 with 2 billion (he's also the youngest of the 400)

To check out the rest of the top 400, visit <http://www.forbes.com/400richest>

### *New Policy Set for Modified Mortgages*

People have been wondering how a mortgage modification would affect their credit score. It depends on how the lender reported it. If it was reported as partial payment, rather than paid as agreed, it did have a negative effect on your FICO score – often as much as 100 points.

But, starting November 1, 2009, under guidelines set by the Data Industry Association, lenders will be reporting modifications done under government programs as “a loan modified under a federal government plan”, which means that the provider of credit scores will ignore it when compiling your credit score (at least for now). Of course, it will still appear on the report. So, if you were delinquent in payments before the modification, the delinquency part will still show “not current”. If you have already done your modification, the lender can change the report or not. Also, the new reporting guidelines do not apply everywhere.

So what should you do?

- Make sure your modification is a government sponsored program
- Ask the lender up front if / how they will report it on the credit report

## Statistics

### Bay Area Statistics October 2009

- Home prices in October 2009 were up 7% to \$390,000. This is up 4% from \$375,000 in October 2008. This is the first year over year gain in 2 years.
- The median price is still down 41.4% from June/July 2007, where the peak was \$665,000.
- Foreclosures made up 31% of sales. This is down from 32% in September 2009 and 52% in February 2009.
- In Marin, SF, Santa Clara, and San Mateo, foreclosures were at 42.2% in October. This is up from 35% a year ago.

### Existing Single-Family Home Sales (October 2009)

County	Number	Percent Change (YOY)	Median Price	Percent Change (YOY)
Alameda	1,555	0.7%	\$369,000	-0.1%
Contra Costa	1,679	-11.1%	\$280,000	-1.8%
El Dorado	212	-	\$290,000	-25.0%
Fresno	1,011	-	\$172,000	-11.0%
Marin	264	20.0%	\$648,000	8.0%
Merced	424	-	\$115,000	-15.0%
Monterey	434	-	\$225,000	-18.0%
Napa	121	-10.4%	\$360,000	-10.0%
Placer	630	-	\$298,000	-7.0%
Sacramento	2,111	-	\$180,000	-8.0%
Santa Barbara	313	-	\$334,000	11.0%
Santa Clara	1,944	27.9%	\$500,000	4.8%
Santa Cruz	180	-	\$410,000	-10.0%
San Joaquin	1,022	-	\$167,000	-16.0%
San Francisco	553	33.6%	\$690,824	-1.2%
San Mateo	586	10.6%	\$580,000	-4.1%
San Luis Obispo	259	-	\$370,000	-11.0%
Solano	681	-8.6%	\$195,000	-18.8%
Sonoma	550	-10.9%	\$331,000	0.3%

## Save The Date

You are invited to the first Real Estate Unleashed Event of 2010:

The No B.S. Ultimate No Holds Barred Guide to Sales Success

Date: Friday, January 22, 2010

Time: 8:30am – noon

Location: Silicon Valley Community Foundation, 1700 South El Camino Real, San Mateo, CA 94402

This talk will include:

- Economy update
- State of the market
- The Sales Guide
  - The K.I.S.S. Principle
  - Positioning Not Prospecting
  - The Brave New World of Techno Selling
  - The Awesome Power of Takeaway Selling

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## Kitty's Corner

### ***Upcoming FHA and Conventional Underwriting Changes – Beware!***

Currently FHA does not have a minimum FICO score requirement. However, all lenders have their own 'credit overlay' and require a minimum 620 score for all FHA transactions. In recent months, lenders such as Wells Fargo, have raised their requirement to 640. Please note that, at the moment, only a few lenders are raising the minimum FICO requirement for FHA loans. Since mortgage brokers such as Bankers Preferred work with dozens of lenders, some of the lenders still have not changed their credit policy. However, I am confident that the other lenders will follow Wells Fargo's move in the near future. Some programs, such as cash-out refinances and 3-4 units financing, now require the borrowers to have at least 660 FICO score.

Wells Fargo is also tightening up the debt to income ratios (DTI) for all FHA transactions to 45%. This is to better match Fannie Mae's new guideline change that will take place on 12/12/2009. During the weekend of December 12, Fannie Mae will be upgrading its automatic desktop underwriting engine (a.k.a. DU) to Version 8.0. One major change is that Fannie Mae will be lowering the maximum DTI to 45%, but it may go up to 50% with compensating factors. This is a huge reduction from what we have today. What does this mean for borrowers? Recently I got a loan approved for a \$585,000 loan amount, 75% LTV, non-owner occupied purchase with 63% DTI. If this borrower were to buy after 12/12, he would not qualify for this loan. Here is a link to the Fannie Mae website which talks about this new upgrade:

<https://www.efanniemae.com/sf/guides/duguides/pdf/current/rndodu80.pdf>.

Also note that on November 16th, Fannie Mae asked for an additional \$15 billion in government aid after posting another big loss in the 3<sup>rd</sup> quarter. It posted a quarterly loss of \$19.8 billion, including \$883 million in dividends paid to the Treasury Department. With this kind of loss, mortgage lending will not be easing up any time soon.

The good news is that the first time homebuyer tax credit has been extended to the end of April of 2010. This bill also allows move-up buyers to receive \$6,500 in tax credit and increases the income restriction for individuals from \$75,000 to \$125,000 if single, or \$245,000 if married.



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## Dear Carole & Kitty

### **Question: Do you get incentives on appraisals and mortgages for “greening” your property?**

**Answer (Carole):** Yes, you do. For example, if you are getting a FHA loan, you can get a 5% larger mortgage by undertaking energy efficient improvements. And, in the American Clean Energy and Security Act (cap and trade bill), which will be passed soon, there are lots of incentives for consumers to build more energy efficient dwellings. Here are some of the details of the bill:

- The FHA has been directed to insure a minimum of 50,000 energy efficient loans in the next 3 years (defined as one property in which energy consumption is reduced 20% following renovations).
- Fannie Mae and Freddie Mac are directed to develop more mortgage products and better rates for energy conscious borrowers and builders. (ex. These loans would increase the qualifying income of applicants by at least one dollar for every dollar of energy saving)
- Real estate appraisers would be required to take energy improvements into account when valuing a home.
- Banks need to set up “green centers” inside their banks to help consumers obtain “green” financing.
- State governments will be required to make sure that any homeowners whose energy upgrade allows them to “get off the grid”, meaning they are no longer fully dependent on a utility company, will not be denied by insurance companies.

Will the public buy into all this “greening”? Time will tell, but so far, a Seattle real estate firm, G2B Ventures, which is raising \$50 million for an Energy Efficient Real Estate Fund to buy and rehab houses, says that their research shows “green” houses sell for 50-75% more per square foot. So there might be some extra green in going green.

### **Question: What is 'walls-in' or H-06 insurance and why do I have to buy it?**

**Answer (Kitty):** If you own a condominium, part of your HOA dues is to pay for the homeowners' insurance in case of fire or sometimes flood damage. However, not all condominiums carry insurance to cover the interior of a condominium unit should the unit be destroyed by fire. Hence, the insurance will pay to rebuild the exterior walls, but may not include the interior improvements such as electrical wiring, plumbing fixtures, kitchen cabinets, carpet etc. should the building be destroyed. If the association insurance does not include an H06 endorsement, then the individual unit owner is required by many lenders to carry separate "Walls In" coverage, also known as H-06 insurance (this is more than just personal property coverage but generally includes this also). Almost all lenders require the “walls in” coverage amount to be 20% of the appraised value. For example, if you are buying a \$500,000 condo, the “walls in” coverage should be \$100,000.

*If you have a question for Carole or Kitty, please email it to  
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