STATEWIDE HOME LOAN CORPORATION™

REAL ESTATE FINANCING NEWS

Experience The Difference®

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Getting a Mortgage: Business NOT as Usual

Many homeowners and homebuyers alike consider taking advantage of the historically low interest rates, which at the time of this writing are hovering around 4.6-4.8%, in order to buy or refinance properties. However, even the savviest borrowers with several mortgages under their bell, should consider the new realities of the mortgage industry. Here are some most important highlights:

1. Fewer Loan Programs. There probably 90% less loan programs available today than 24 - 36 months ago. Since the beginning of the real estate downturn, which depending on the area started around 2006 – 2007, lenders discontinued hundreds of loan programs. The primary reasons: declining property values and collapse of the secondary market. This does affect not only the so called "Sub-Prime Lending," which was designed for higher credit risk borrowers, but also the very "prime" borrowers, with excellent incomes, credit, and down payment. The lesser availability of loan programs makes it more difficult, and sometimes impossible to qualify for borrowers who may have one-time situations (e.g. loss of employment), which temporarily impair their qualifications. The underwriting rules are constantly changing and often what could be done last month may or may not be the case today.

2. Want a Stated Income Loan? Forget it. This goes in line with the item #1. In the past borrowers, especially those who were self-employed or independent contractors were allowed to apply for a loan without verifying their income. The idea was to give these borrowers some leeway in averaging their incomes due to their business' profit and loss fluctuations. Currently, all loans, with an exception of special Private Placement financing, are fully documented. This means that all income documentation including W2's or tax returns, paystubs or Profit and Loss statements is required.

3. Your Credit Score is the King. Credit scores become an important part of the mortgage industry about 10 years ago, but today they are critical. In the past, some lenders accepted credit scores as low as 500, nowadays the minimum middle score is 620, and some loans will not go below 680. A word of caution: there is a multitude of companies, including all three major credit bureaus (Experian, Equifax, and Trans Union), advertising either "free" or for-fee credit reports with scores. These score are usually useless when applying for a mortgage loan because the mortgage risk score is based on a different model than the consumer scores these companies are selling. Only a mortgage broker or lender can pull your credit score for the mortgage lending purposes.

4. Down Payment / Equity is Required. If you are buying or refinancing a property, you will need to either put a down payment or have equity in your property. Gone are the100% financing loans. Today on the average, buyers need to put at least 5% - 20% down for residential owner-occupied properties and more for rentals. FHA government insured financing requires 3.5% down payment but there is an additional almost 2% FHA insurance fee (in addition to the monthly Mortgage Insurance premium), which makes it a quite expensive proposition.

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The New Reality: Foreclosure Bidding Wars

by Robert W. Dudek

After months of declining home sales and depreciating property values, residential real estate market is showing new signs of life. Prices are still falling, but the sales are up and the inventory of homes for sale is sharply lower. Probably it is premature to call it a beginning of the housing recovery, but nevertheless, the market is showing activity.

What's going on? As we all know, states such as CA, NV, AZ and FL have seen property values decline by as much as 30 - 60% in the last three years. This is certainly a bad news for sellers trying to unload their properties, especially if they bought them in the last five years. In addition, foreclosures and bank-owned properties continue to swamp the market, and sell at lower prices, which put an extra pressure on property values.

The upside of this situation is better affordability caused by much lower prices and historically low interest rates. This in turn, attracted a new generation of first time buyers who previously could not afford owning a home. However, it also attracted investors, both individual and institutional, who started to bid on the same properties. All of these, created situations where properties listed for sale, especially bank-owned and short sales, attract multiple offers and bidding wars.

As a result of the increased sales, as well as various foreclosure moratoriums, the housing inventory sharply declined in many hard-hit regions in the last

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Our commitment is to create a different experience for our Clients. We specialize in providing real estate financing to purchase and refinance real properties. Our mission is to treat every Client with the utmost care and respect and provide the highest quality personalized service. Our goal is to understand our Client's needs and work towards fulfilling them with customized financing solutions. A vast majority of our Clients are repeat customers and referrals. Your satisfaction is 100% Guaranteed.

We greatly appreciate your business and referrals – thank you!

Foreclosures

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12 months. For instance, in California: San Diego housing inventory declined by 24.1%, the supply of homes for sale is at 6.1 months, and the median price declined by 18%. In Los Angeles, the inventory dropped 25.5% to 7.8 months supply, with the price decline of 18.9%. Sacramento saw even more dramatic inventory decrease of 38%, supply shrunk to 3.3 months, and the prices declined by 20%.

So, the million-dollar question is: Is this a good time to purchase a home? Well, the answer depends on several factors. First of all, guessing a bottom in the housing market reminds me of trying to buy a stock at its lowest price. In reality, nobody really can tell when the price reached the bottom till it actually goes up. In general, buying in declining market, whether real estate or stocks, can be a risky proposition.

Consider some of the buyers or investors who bought residential real estate last year. If they put 10-20% down payment, their investment has been probably wiped out and today they might be upside-down (owing more than the value). In addition, the prices may further decline, especially those of the higher-end properties, which so far have not been as severely affected as rest of the market. The general consensus among the high-end property owners is that if they absolutely do not have to sell, they will not put their properties on the market.

The foreclosure moratoriums, either self-imposed by the lending institutions or government mandated, will expire at some point, and that will again increase the supply of properties, likely further depressing the prices. And of course, there is a big (if not the biggest) question about the economy. If the economy regains traction, resulting in creation of good paying, private sector jobs and if the inflation is under control; we may see a beginning of true housing recovery. On the other hand, if this is going to be a prolonged recession (more than it already has been), with high unemployment and high inflation (a situation known as stagflation), it may be a while before we see a stable housing market.

Perhaps, the most important question any buyer should ask him/herself is about the purpose of the purchase. If the purpose is to hold the real estate for a long haul, especially as an owner-occupied residence, it is a distinctly different objective than, for example, trying to buy and "flip" a property for a quick profit. Buyers might be successful with both strategies, but in this author's opinion, they should clearly understand their goals, available resources, and must proceed with a healthy dose of caution.

Both residential and commercial real estate has potential to be a great asset and investment, especially for a long-term, but it also has some drawbacks. Two of them are: price and illiquidity. Buying a property, pretty much of any size, involves a large investment, which is usually leveraged with financing. This leverage can be both beneficial and dangerous.

Consider this scenario: a buyer purchases a house for $100,000. He puts 20% down ($20,000) and finances the rest ($80,000). If the property value goes up 20% to $120,000, his cash investment is up 100% (minus holding costs, such as interest on the loan, etc.). However, if the price goes down by 20% to $80,000, his initial investment is wiped out resulting in 100% loss and he still owes $80,000 (which hopefully can be offset by the value of the property).

Real estate mistakes can be costly, as proven in the last few years. The sheer size of the investment in real estate is a factor. If you buy 100 shares of a $5 stock and you make a mistake, most you can lose is $500 (plus commissions). Compare this to buying even the smallest piece of real estate, which usually costs at least tens if not hundreds of thousands of dollars.

This is not to say that one should be investing in stocks, not in real estate, but it does illustrate the point about the size of the investment. At the same time, real estate by definition, is not a highly liquid investment and it is expensive to sell. Again, if you want to sell your 100 shares of $5 stock, you can probably do it online for about $10 or so. Compare this with selling a real property where the average commission is 6% of the sales price and there are other closing fees.

For those of you who are ready to pick up the phone and call me to either curse me for trying to dissuade them from buying real estate, or to get some hot stock tip – relax, that's not the point. The point is, that one should be smart and cautious about making ANY buying decisions, and that includes real estate. Purchasing real property can be a wonderful way to improve your standard of living and/or build wealth. However, just because there are bidding wars, it doesn't mean that you are going to lose if you don't participate. After all, we all remember the bidding wars three to five years ago, and now we know the end result. You have to make your own decisions based on your individual situation.

PS. Speaking of bidding wars…I remember, a few years ago I was reading about the legendary, ultra-successful investor and philanthropist, Sir John Templeton. In his investing, Sir Templeton followed what he called: "The Principle of Maximum Negativity." According to this principle, he invested only in assets, in his case mainly stocks, which depreciated to the point of ridiculous. These stocks were extremely undervalued due to a limited demand by the public. He was known for his contrarian philosophy of "avoiding the herd" and "buying when there is blood in the streets." Essentially, he saw opportunity in every crisis, however; he was very selective in choosing the right opportunities.

Getting a Mortgage

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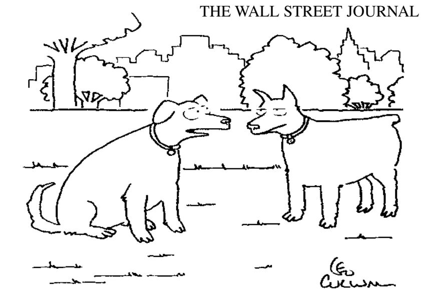
5. Appraisal–New Russian Roulette. Effective May 1, 2009 a new law known as the Home Valuation Code of Conduct (HVCC) requires lenders to order appraisals on residential properties for conventional financing thru Appraisal Management Companies (AMC). Mortgage lenders or brokers may no longer directly order the appraisal from a state licensed appraiser, which they feel is the most qualified to prepare the report. The AMC will randomly select the appraisal firm and assign it to the lender. This process was designed by the lawmakers to ensure the integrity of the appraisal reports. However, serious questions remain regarding the implementation of HVCC and its cost to the consumers.

6. Be Prepared. Now more than ever, it is important to have your docs together when applying for a mortgage loan. Planning goes a long way: talk to your loan professional in advance and discuss your situation before even applying for a loan. Having a good working relationship with an experienced lender will be of great help in understanding the lending requirements, going thru the loan process, and finally getting your loan approved.

THE WALL STREET JOURNAL



"I buried my bones in the backyard and then they foreclosed on the house."

Licensed California Mortgage and Real Estate Broker, DRE License #01194809
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MARKET UPDATE:
Current Interest Rate Indicators

Prime Rate	3.25% –
10 year U.S. Treasury Bond	3.45%↑
11th District Cost of Funds	1.62%↓
12 month MTA	1.34%↓
1 month LIBOR	0.31%↓

Source: SHLC Market Research 5/09