



Experience The Difference®

STATEWIDE HOME LOAN CORPORATION™

REAL ESTATE

FINANCING NEWS

Volume 14, Issue 5

Signs of Improvement in Housing and Mortgage Markets

Discounted Home Prices, Tax Breaks, and Better Availability of Low Interest Rate Loan Programs Make Home Buying More Appealing.

By Robert W. Dudek

Home and mortgage markets show signs of recovery... sort of. Given a plethora recent publicity regarding improving property values, one may assume that the housing recession is near its end. Property values have risen in 14 out of 20 markets tracked by Standard & Poor's Case-Schiller Home Price Index. Between April and May 2009, prices appreciated between 0.1% (Portland) to 4.1% (Cleveland). Properties, which showed the most price improvement, were in the lower and mid-end segments of the market.

Buyers and investors are drawn in by heavily discounted prices of distressed and foreclosed properties. In addition, tax breaks and historically low mortgage interest rates help as well. It is premature to say that we have a robust housing recovery under way, but certainly these are hopeful signs showing that the market at is at last trying to find its bottom.



Better selection of loan programs also played some role. Till recently, lenders and the secondary market, which buys loans from lenders, almost exclusively focused on 30 and 15 year

fixed conventional loans and the FHA government-insured mortgages. FHA financing (not without its own problems – see the next article on Foreclosures), was especially popular with the first-time buyers due to its low down payment requirements (3.5%).

Now, however, other loan programs, such as 3/1, 5/1 and 7/1 Intermediate Fixed Loans are

Continued on back page

IMPORTANT PHONE NUMBERS

Office:(619) 280-9990
Toll Free:1-800-507-9990
Fax:(619) 280-2329
e-mailshlc1@shlc.com

STATEWIDE HOME LOAN CORPORATION

3838 Camino del Rio North, Suite 108
San Diego, CA 92108
Web site: www.shlc.com

New Research Study Reveals Surprising Reasons for the Foreclosure Crisis

Is the FHA Government-Backed Financing Creating a New Foreclosure Debacle?

By Robert W. Dudek

For the last two or so years, most of the mainstream media and politicians alike try to convince the general public that the main factor behind the current foreclosure crisis were the so-called "sub-prime" loans. Generally speaking, sub-prime loans were made to borrowers with lower credit scores. However, a recent research study conducted by the Center of the Analysis of Property Rights and Innovation at the University of Texas, shows new evidence contradicting this popular notion.

According to an article in the Wall Street Journal

(Liebowitz, 2009), the study focused on analyzing data of over 800,000 nationwide foreclosures in the 2nd half of 2008 and determining the leading causes. To summarize the findings, the data shows the following breakdown of the leading causes:

- 35% - Negative Equity (mortgage balance higher than the property value)
- 23% - Increased Unemployment
- 18% - Subprime Mortgages (credit score below 620)
- 16% - Low Down Payments (less than 3% of the purchase price)

Continued on back page

Experience the Difference®

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!

\$100 *Client Gift Certificate* **\$100**

RECEIVE \$100 GIFT CARD WHEN YOUR LOAN CLOSSES WITH STATEWIDE HOME LOAN CORP.

NORDSTROM

One Hundred Dollars

REDEEMABLE ONLY AT STATEWIDE HOME LOAN CORPORATION

THIS SPECIAL OFFER EXPIRES ON 12/31/2009

\$100

New Research

continued from front page

- 8% - Upward Rate Adjustment (increase of over four percent)

The Negative Equity and Unemployment factors amounted to 58 percent of all foreclosures while the Sub-prime loans were just 18 percent. The study's findings are consistent with other industry research. In the same article, Liebowitz quotes another study done by the Mortgage Bankers Association, showing that over half of all foreclosed residential properties had conventional "prime" loans with fixed interest rate mortgages. These loans were made to borrowers with excellent credit, steady employment, and required full income verification.

Even more surprisingly, since the third quarter of 2006, the foreclosure of prime loans grew by 488% comparing to 200% increase of the sub-prime segment. Another popular myth the study debunks, is the impact of upward interest rate adjustment. The findings show, that if borrowers had steady employment and positive equity in their home, the increase of interest rates had little effect unless it exceeded four percentage points from the initial rate. Approximately 8% of all foreclosures had been caused by the rate increase.

The study concludes that although these various factors are interrelated, the most important ones are whether the borrowers have a financial stake in the property (equity) and whether the ability to make the payments has changed due to the employment status.

Given the results of this research, one may question the current rationale of government lending policy promoting "affordable" low down payment financing via the Federal Housing Administration (FHA). FHA mortgages are government-insured loans, which requires only 3.5% down payment. The 1.75% FHA mortgage guaranty fee is not paid directly by the borrower but financed into the loan. Until recently, FHA had no minimum credit score requirements, making these loans essentially a "sub-prime" product.

One may argue that the reasons behind the FHA financing are well intentioned: adding liquidity to the strained housing market. However, given declining housing prices, borrowers getting these loans have a negative equity within a few months of funding. Assuming that the negative equity is the number one reason for foreclosures, does it make much sense to put more borrowers in that position?

The latest statistics validate this concern. According to a recent FHA statement, serious delinquencies over 90 days past due on FHA loans originated within the last 24 months jumped to 14% and FHA will soon run out of funds to cover its losses (Hagerty, 2009). Since the FHA financing represent over 60% of the currently funded residential loans, one may ask a question: is this lending policy creating yet another foreclosure debacle in not so distant future?

References:

- Liebowitz, S. (2009). New Evidence on the Foreclosure Crisis. Wall Street Journal. Retrieved July 09, 2009 from <http://online.wsj.com/article/SB124657539489189043.html>
- Hagerty, J. (2009). Defaults Rise on Home Mortgages Insured by FHA. Wall Street Journal. Retrieved July 10, 2009 from <http://online.wsj.com/article/SB123840821794969275.html>

Got Loan?

- Customized Lending Solutions
- Personal Customer Service
- Loans to Purchase, Refinance, and Cash Out
- Residential and Commercial Loans
- Institutional and Private Placement Financing
- Low Interest Rates
- Loan Amounts: \$100,000 - \$25MM
- Lending Territory: California and Hawaii



Robert W. Dudek
Chief Lending Officer

For more information or FREE Confidential Consultation please contact Robert W. Dudek at 1-800-507-9990 ext.110 or rdudek@shlc.com. OAC, interest rates and terms subject to market change.

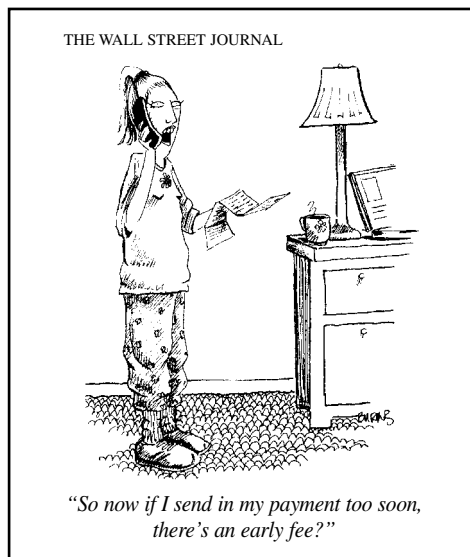
Interest Rates

continued from front page

also being offered. These loans, which can start as low as 3.25%, are fixed for the initial term (3, 5, or 7 years) and then adjust annually. The clear advantage of these mortgages is their low interest rates and lower monthly payments. The disadvantage is their future exposure to potentially higher interest rates. These types of mortgages are best suited for borrowers with definite home ownership plans.

Yet, not all segments of the housing market are improving. More expensive, high-end properties are still, on average, losing value. They also account for a rapidly growing segment of foreclosures (35% of all foreclosures, up from 16% last year). Part of the problem is lesser availability of the so-called "Jumbo Loans," which also have higher interest rates than the conforming loan programs. But a far more important factor is the overall weakness of the economy and rising unemployment numbers.

Simply put, during recessions, times of economic uncertainty and high unemployment, folks do not buy expensive properties. Many would be sellers of the higher end properties don't even bother to put them on the market, because they would have to accept significant price reductions. But not everybody can wait. Some homeowners have to sell and subsequently the sales prices reflect the weakness of this segment of the housing market.



body, mind, and soul

"If you haven't got all the things you want, be grateful for the things you don't have that you don't want."
- Unknown

"Everyone can afford to give a smile."
- Unknown

"Just when you think you've graduated from the school of experience, someone thinks up a new course."
- Mary H. Waldrip

"In each of us there is a little of all of us."
- Georg Christoph Lichtenberg

"The past always looks better than it was because it isn't here."
- Finley Peter Dunne

"Sharing what you have is more important than what you have."
- Albert M. Wells, Jr.

JOKE DU JOUR

"We've got to hire another chauffeur," said the steamed husband, home from work. "He nearly killed me today!"
Oh, c'mon," said wife, "Give him another chance."



Licensed California Mortgage and Real Estate Broker, DRE License #01194809
Licensed Hawaii Mortgage Broker, DCCA License #1432

This newsletter is designed to provide accurate and authoritative information about the subject matter covered but some aspects of the material may have changed since publication. For further information about tax or legal matters that may be included here, we urge you to seek the advice of an expert in those fields.
Copyright ©2009 Statewide Home Loan Corp. All Rights Reserved.



MARKET UPDATE: Current Interest Rate Indicators

Prime Rate	3.25% ↓
10 year U.S. Treasury Bond	3.35% ↑
11th District Cost of Funds	1.41% ↓
12 month MTA	0.63% ↓
1 month LIBOR.....	0.24% ↓

Source: SHLC Market Research 10/09