

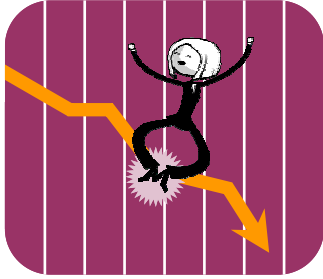
# The Real Estate Update

Brought to you by Mount Vernon Mortgage Corporation

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## The Treasury's 4.5% Solution

Nothing gets the markets more excited than the government talking about lowering rates to record levels. Ever since the Treasury floated a plan that would have the government buying loans at 4.5%, it has caused a stir that we have not seen for some time in the real estate markets. Many questions remain. For example, who would be eligible for these loans? Preliminary information would indicate that these loans would be for purchases only. The government could also restrict these loans to those with good credit, first-time buyers and/or low-to-moderate income buyers.



The most important question is, what would this plan do for interest rates on other loans? We already have that answer. Rates have hit their lowest level in over 35 years. Why? It is more than the fact that the Federal Reserve has lowered short-term rates to near zero. The government backing loans on real estate gives the markets confidence.

The markets are reacting to the possibility and this means that the general public can already take advantage of these great rates. It is not a certainty that the proposal will even come to fruition. Who cares when we have rates that are prompting many to act right now?

Meanwhile, Congress is busy formulating a stimulus package that is likely to focus on help for the housing industry. Possible proposals include an expansion of the previously passed tax credit and eliminating the requirement that the money be paid-back to the government. Some Congressional leaders are pushing for a halt to the January 1st roll back of



FHA and conforming loan limits. The higher these limits the easier it is for homeowners to achieve low-rate financing. Regardless of final details of the package, the result is likely to be good news for real estate. □

### Inside this Issue...

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## A Silver Lining for the Slump

If you're struggling to see a silver lining in the beaten-down real estate market, consider this one: It may not be a good time to sell your house, but if you've postponed a much needed renovation project on your home, now just might be the best time in years to tackle that task. The reason: Costs are starting to drop, in some cases sharply, on everything from building materials to contractors' fees as the economy weakens.



In fact, consumer spending on home improvements is off by 12% since peaking last year, according to Harvard's Joint Center for Housing Studies and that works to the advantage of anyone willing and able to remodel now. Kermit Baker, a senior research fellow at Harvard, states "With contractors hungrier for business, you'll be able to negotiate better prices, win other concessions and hire better-quality contractors than you could a year or two ago." Overall, experts say, you can expect to save at least 10% on the cost of a renovation and possibly a lot more, depending on where you live and the project you choose. The cost of home improvements could fall even further. Another benefit: Putting money into needed repairs and updates should help your home maintain its value even if other house prices continue to fall. □

Source: Money Magazine

### MOUNT VERNON Mortgage Corporation

**Your first choice for mortgage financing!**

440 Washington Street | Weymouth, MA 02188

Office: 781-337-2432 | Toll Free: 1-800-869-5882

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## Did you know...?

News reports have been packed with stories about declining home values, but a recent government report shows that the situation is not nearly so dire as some reports make it sound. Despite big loses in some areas of the country, the majority of markets continue to show growth in home value over the last five years. According to the third-quarter survey released by the Federal Housing Finance Agency, out of 292 metropolitan markets, 273 showed positive net home values in the last five years. Only 19 percent were negative. While home values declined 4 percent on average in the last year, values were up nearly 29 percent over the past five years. □

Source: The Nation's Housing



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## Can't Make Your Payments? There Are Alternatives!

According to an article released last month by CNN/Money, over 7.5 million homeowners are “underwater” on their mortgages. This means that they owe more than their home is worth. In addition, almost 1 million homes have gone into fore-closure in the past 12 months. With so many homeowners having an issue in the midst of this financial crisis, we wanted to address alternatives for those who are having troubles with their mortgage.

The first point we would like to make is that there are alternatives for homeowners in trouble and some of these alternatives are better than others. We have already mentioned the thousands of foreclosures that are occurring. Obviously, losing your home is an alternative, but it is one most would like to avoid. Not only will you have to move, but it is likely that you will not be able to own another home for a very long time. Also, there are costs that must be incurred in order to move and rent a property. Your credit will be affected adversely so that it will be difficult to even purchase and finance a car. It will literally cost you tens of thousands of dollars on higher payments during your lifetime because of your subsequent poor credit record.

Bankruptcy is an alternative that may help you stay in your home if you can make your mortgage payments after your other debts are eliminated. However, going into bankruptcy will have as bad, if not worse, affect on your long-term credit record and it will not help you if your current mortgage is worth more than the value of the home. After coming out of bankruptcy, you will have a negative net-worth because of your home.

Selling your home is another alternative. Selling your home will eliminate the need to make your mortgage payment. However, once again you will have to move and rent a home and this will be expensive. There are two other problems with selling your home right now. First, with the real estate market being so slow, you may not receive any offers for your home. Secondly, if the offer is below the amount of the mortgage, you will still be dealing with a negative credit record because the mortgage will not be fully paid off when you settle. This is known as a “short-sale.”

Obviously, when you can't make your mortgage payments, some of the options are not very desirable. We do have alternatives that will help in the long run. First, if you are having a problem, you should not hide from your lender. You need to contact them. They may be able to provide help in the form of setting up repayment plans for past due accounts and even help to come up with a lower payment. Unfortunately, most homeowners do not contact their lender when there is an issue. This causes the first contact to be with the collections department and these people make a living collecting past-due accounts. Getting to the right person at the lender is a challenge, especially today with so many lenders bogged down dealing with delinquent accounts. The longer you wait, the more difficult it will be for the lender to come up with a short-term solution to help your situation.

The best news is that lenders are receiving pressure from the government to come up with solutions for those who are in trouble. This means that they are more willing to work and come up with alternatives than ever. Of course, this also means that lenders are inundated with such requests. To get the results you might need, it will help to hire an expert to represent your interests in such a negotiation. An expert is important because they may be able to...

- Get to the right people at the lender more quickly. What might take the novice many phone calls and weeks can be circumvented.
- Provide immediate temporary relief in terms of a halt to foreclosure proceedings and payments immediately due.
- Present the information the lender needs in a format that is more likely to get results. For example, showing the lender the exact value of the home.
- Make a proposal to the lender instead of waiting to “see what the lender is willing to do.” With the information at hand, it is easier to come up with a specific proposal that will be accepted by the bank and be favorable to the home owner. Experts will be able to show the lender how they will specifically benefit from a modification of the present loan as opposed to foreclosure in the form of a cost/benefit analysis.

Time and results are of the essence for a homeowner in these situations. A 1.0% reduction in rate on a \$300,000 home could mean a savings of \$30,000 over 10 years. This does not include any principal reduction or forgiveness of past due payments achieved during the negotiations. This is a time period that is critical for the homeowner in need and it is important to make sure that each homeowner receives the help they deserve. □



## Selected Interest Rates

December 18, 2008

30 Year Mortgages	5.19%
2008 High (July 24)	6.63%
2008 Low (Dec 18)	5.19%
15 Year Mortgages	4.92%
5/1 Hybrid ARMs	5.60%
1 Year Adjustables	4.94%
10 Year Treasuries	3.20%

Sources—Fed Reserve, Freddie Mac

Note: Average rates do not include fees and points. Information is provided for indicating trends only and should not be used for comparison purposes.

## Has the Time To Buy Arrived?

Five or 10 years from now, when the financial crisis has ended and housing prices are up smartly once more, we will look in the rearview mirror and realize that we missed a golden age for first-time home buyers. Then, everyone who sat on their down payment savings accounts for a few years too long will kick themselves for not taking advantage of what may turn out to be the buying opportunity of a lifetime for those who can qualify for a mortgage.

Unfortunately, we do not know when this golden age will begin because, only with the benefit of hindsight will we be able to identify a bottom to the housing market. As it will with stocks, the moment will probably arrive when everyone is feeling the most pessimistic. That moment is certainly getting closer.

Housing prices have fallen drastically from their peak levels in many areas of the country. Rates on 30-year fixed-rate loans are already close to 5.0 percent, a truly incredible figure to be able to lock in for three decades. First-time home buyers have the advantage because they do not have to sell their old place before buying a new one. That is an added advantage in areas where many available houses simply are not moving and there is bidding against you. □

Source: Your Money