

# The Real Estate Update

Brought to you by Mount Vernon Mortgage Corporation

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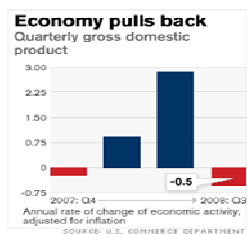
## When Will The Recession End?

To understand what will cause the recession to end, we must understand what caused the recession in the first place. There were many causes, but the most visible culprit was the uncontrolled real estate boom. First it was the sub-prime crisis halting the boom. The government indicated that real estate would weather the crisis, which did not happen. Then the government said the economy could weather the real estate crisis. Unfortunately in this case, as the real estate market goes, so does the economy. The housing industry directly or indirectly employs about one-fifth of Americans, depending upon how the numbers are counted. You cannot have such a significant section of the overall chain with a link that is weak.



So, when will the recession end? The end of the weak real estate market will bring the end of the recession. Of course, it is likely that you will then ask us, when will the real estate market become strong again?

Here we would suggest you look at the cost of ownership vs. the cost of renting. At the height of the boom, the cost of owning was significantly higher than the cost of renting—though some of these costs were masked by easy lending standards and innovative products. Now housing prices are going down and so are rates. There are already areas of the country that are reporting that owning is becoming cheaper than renting—especially after taxes are taken into consideration. When we reach this point throughout the majority of the country, the price of housing will stabilize. And when prices stabilize, banks will be more willing to lend. This cycle will lead us out of the morass.



When will that happen? We wish we had a crystal ball, however, we do know that the lower rates go, the more quickly the date is likely to arrive. □

### Inside this Issue...

- When Will The Recession End?
- Congress Targets Tax Credit
- Time To Refinance? Here Are The Reasons...
- A New Phrase: "Hot Housing"

## Congress Targets Tax Credit

House tax writers are proposing to make a first-time homebuyer tax credit more attractive to buyers. Included as one of several tax provisions drafted by the House Ways and Means Committee, Committee Chairman Charles Rangel, stated "this package was developed with strong coordination between the House and Senate leaders, president-elect Obama and his economic team."



The tax package removes a repayment requirement on the \$7,500 first-time homebuyer tax credit. This tax provision and others will be included in the overall economic stimulus bill expected to be acted upon in February.

The National Association of Realtors® has indicated that if all home buyers become eligible for a tax credit without a repayment feature, it could result in an additional 555,000 home sales, enough to meaningfully draw down excess housing inventory. An evaluation of options for a home buyer tax credit by NAR shows wide ranging implications and benefits. A full credit to all buyers means an additional 2.22 million households would meet the income requirements for purchasing a home, but only one in four of those households would actually make a purchase. □

Source: National Mortgage News & NAR

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## Did you know...?

- Rates were the lowest in history last month. Millions of Americans have chosen to act to lower their payments by refinancing. Should you be doing the same? There are many reasons to refinance during a low rate environment, from achieving a lower payment to building up equity more quickly.
- The National Association of Home Builders (NAHB) reports a drop in home size to an average 2,438 square feet in last year's third quarter from 2,629 square feet in the second quarter. NAHB research director Gopal Ahluwalia expects shrinking residence size to be a lasting trend, noting that consumers are more concerned about affordability. □

Source: USA Today

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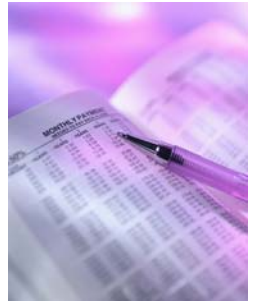
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## Time To Refinance? Here Are The Reasons. . .

If there is any silver lining to the slow economy and housing market slump, it is that mortgage rates moved to their lowest levels in almost 50 years at the close of 2009. The slump in the real estate market has served to help move the economy into this recession and the government knows that the real estate market must lead us out of recession. Real estate is our most important industry. The government has acted to support the economy and real estate by bringing rates down to historically low levels. Now the question is—how can you take advantage of these lower rates?

If you are in the market to purchase a home, now may be the time. Home prices are down and so are rates. This combination makes ownership more affordable. But what if you already have a home and don't want to move or purchase an investment property? Serious consideration should be made to refinance your mortgage. Here are some of the goals of a refinance.

*You can lower your payment.* Lower rates mean lower payments to many homeowners. A one percent drop in interest rate on a \$300,000 mortgage can lower your payment approximately \$200 monthly. Let's say the cost of a refinance is \$3,000. This means that you will have paid back the cost in 15 months and in 10 additional years, the "profit" would be \$24,000. It should also be noted that these costs do not have to come "out-of-pocket" for many, especially if they have equity in their home. It would be important to meet with your mortgage advisor in order to determine the actual numbers for your situation.



*You can pay off your mortgage more quickly.* With houses not appreciating as fast, many have realized that the road to retirement can still start with their homes. However, instead of maximum leverage, you can build equity through an accelerated payoff of your mortgage. In the previous example, the homeowner was able to achieve a lower payment of \$200. The homeowner could also choose to keep their payment the same or even raise it slightly but opt for a 15-year to 20-year mortgage. What would the savings be on a 20-year mortgage? Let's say your payment is \$2,000 for principal and interest. The savings would be \$240,000 over the 10 year period you are not making payments. A home can be a forced savings account!

*Take cash out for other purposes.* Even with lenders' tighter guidelines there are still programs that will let you use the equity in your home, especially for those who have good credit. While it may make sense for some to use their home as a savings account to build-up equity, others would benefit from using their equity for other purposes. For example:

- *You could fund your retirement plan.* If you can't afford to make contributions to your retirement plan, you are missing out on the second most important tax advantage available to you, after ownership of a home.
- *You could consolidate debts.* Your payment could be lowered even further by converting short-term debt into long-term mortgage debt. Let's say you have \$50,000 of consumer debt that is costing you \$1,200 per month. Adding \$50,000 to your mortgage at these low rates may lower the payments to approximately \$300 monthly. There may be further savings because this new debt could be tax-deductible. Of course, spreading out the debt means you are making the payments over a longer period of time. But you could still invoke the strategy of reducing the term of the mortgage and save money in the long-run as well as the short-run.
- *You could fund home improvements.* Another way of building equity is improving the value of the home. You could add a room, finish a basement or remodel the kitchen.
- *You could invest the proceeds of the equity.* With lower stock and home prices, your financial advisor may help you decide that now is the time to make investments for your future.

*You could move from an adjustable to a fixed rate.* Many saw their payments rise during rate adjustments in the past few years. Adjustables can help you achieve lower payments in some eras, but they come at a risk of higher payments at other times. Lower rates represent the ideal time to convert adjustables into secure fixed rate mortgages. This is especially true if you feel you will be staying in your home for a long time or keeping the home as a rental property if and when you move.

There are plenty of reasons to refinance and record low rates make the timing right for many. You need to get with your mortgage advisor to determine if you qualify and for what rate based upon your credit score. Your advisor could even help you boost your score. □

## Selected Interest Rates

January 22, 2009

30 Year Mortgages	5.12%
2008 High (July 24)	6.63%
2008 Low (Dec 31)	5.10%
15 Year Mortgages	4.89%
5/1 Hybrid ARMs	5.24%
1 Year Adjustables	4.92%
10 Year Treasuries	2.56%

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.

## A New Phrase: "Hot Housing"

Some cities that were hardest hit by the real downturn are experiencing mini sales booms. Las Vegas real estate properties are down 28 percent in price, but sales of homes are up 15 percent.

Motivated buyers accounted for 64 percent of Las Vegas sales in October, says Radar Logic, a derivatives firm. That's the highest rate in the country. "There's a pretty active housing market, it's simply at a lower-priced inventory," says Michael Feder, chief executive of Radar Logic. "And there are now bidding wars taking place over homes in foreclosure."

Phoenix and San Diego are reporting similar experiences. "We're clearing out the bad news," says Kiva Patten, a director at Merrill Lynch specializing in housing derivatives.

"By the end of 2010—that's where we're calling the bottom in the forward market. You're going to get a small price appreciation in 2011," says Patten. "It's not like the turn is 10 percent per year, it'll be something like 3 percent or 4 percent." □

Source: Forbes.