

The Real Estate Update

Brought to you by Mount Vernon Mortgage Corporation

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Questions, Questions?



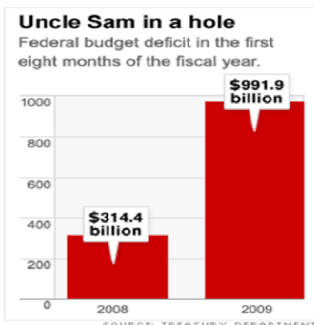
We begin the summer season with many questions on our mind. We know the economy is no longer free falling, but will it actually turn around or will we just stagnate for the time being? In the real estate market there is plenty of excess inventory to work off. On the other hand, wholesale inventories have fallen for the past eight months and this could portend a pick-up in manufacturing.

Gas prices have risen above \$2.50 per gallon and this brings up another question. Will the summer driving season be muted because of these higher prices and the weaker economy? Typically a weaker economy translates to less flying but more driving vacations in the summer. However, higher gas prices could soften the trend.

It is not too soon to start thinking about back-to-school sales. Yes, the kids have just started summer vacation in certain parts of the country, but they will be going back to school during the middle and end of the summer. This is an important season for retailers and it remains to be seen if consumers will open up their pocket books.

Finally, we have been speaking of the danger of higher rates, especially with regard to the real estate market. We believe that the markets are likely to be "self-correcting" in this regard. If rates slow the economy down, then rates will ease back down, at least temporarily. If high gas prices keep people from driving, they will also ease back, at least temporarily.

Of course, we are not predicting these things will happen. With so many questions to be answered, prognostications are not likely to be of any great value. We say, let the summer games begin! □



\$8000 Tax Credit for first-time buyers is just one great reason why NOW is the right time to buy a home! Low rates, inventory, and stable prices are three more!

Did you know...?

- *The Universities around the country are acquiring troubled condominium projects to use as student housing. In New York, Columbia University paid \$67.6 million for a condo in the Bronx that was to be called the Arbor. It now will house graduate students. In Columbus, Ohio, Capital University paid \$4 million for a building originally developed for ages 55 and older. It will house 60 juniors and seniors in good academic standing. With condo sales off 46 percent from the peak in June 2005, these sales are better than nothing for developers. For universities, it's a great deal, too. "This is a bonanza of an opportunity...for universities to acquire the space they desperately need," says Dan Fasulo, managing director of Real Capital Analytics.* □

Source: The Associated Press.

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Commercial Market Rebound?

With prices down and defaults by owners increasing, small investors in commercial property are returning to the market searching for properties to buy, says Dana Brody, a practitioner with Grubb & Ellis in Los Angeles.



Brody says even though there are some eager buyers, the market remains slow because buyers are holding out for better deals and few sellers are willing to take lowball offers.

Richard Ziman, manager of a \$630 million real estate investment fund, says waiting may be a good idea. For those determined to buy, he suggests making a supportable offer. He advises calculating how much it would cost to build the target property—the replacement cost—and offering that. Ignore the value of the land, he says.

The kinds of properties on Ziman's buy list include mobile home parks, industrial buildings, and small retail centers anchored by grocery or drug stores. He also warns investors away from mom-and-pop operations. "Mommas and poppas are dying," Ziman says. □

Sources: Los Angeles Times and Bloomberg News

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Parents: Do You Want To Help Your Children?

Owning a home is a dream that is shared by millions and millions of Americans. Earlier in the decade the national home ownership rate reached a record high as almost 70% of all families owned their own home. This number has fallen somewhat during the present recession, however the dream of obtaining home ownership has remained a goal for many who are presently renting. This year many Americans will be able to reach their goal of home ownership because of record low interest rates and lower home prices that have made owning more affordable than ever. In addition, the government has offered a tax credit of up to \$8,000 for first time buyers. It is clear that this is the time to buy your first home.

Unfortunately, many lending programs now require a greater down payment and clean credit as opposed to what was required only a few years ago. This means that even though we have a great buying opportunity, many first time buyers may need additional help in order to purchase their first home.

When considering purchasing it makes sense to consider traditional sources of aid such as our families. Traditionally, American parents have been a significant source of help when their children decide to become part of the community of homeowners. Here are a few important ways in which parents can help their children purchase real estate—

Alleviating cash shortages through gifts. According to major surveys, the number one obstacle to owning a home is a shortage of cash. Though many mortgage programs now require small downpayments in order to purchase a home, some capital must be provided by the prospective homeowners. Most mortgage programs allow some or all of the liquid assets needed for the downpayment and/or closing costs to be provided through a gift from an immediate relative such as one's parents. The most liberal programs with regard to the provision of gifts are FHA (Federal Housing Administration) and VA (Dept. of Veteran's Affairs).

FHA is a very popular program for first-time buyers and it allows all of the capital necessary for the purchase, typically 3.5% of the sales price, to come from a gift. FHA even has a special bridal registry program and allows unsecured loans from immediate family members.

VA loans are for the benefit of active military and veterans of military service. The majority of VA loans require no downpayment and therefore the use of gifts would typically be for those who need help with closing costs, especially when sellers are not contributing towards such costs.

Conventional programs tend to be less liberal with regard to the use of gifts. In many cases conventional programs require at least 3.0% to 5.0% of the cash needed for purchase to come from the purchaser, unless the gift constitutes 20% of the total purchase price of the home. More recently, low-to-moderate income homebuyer programs have been introduced which have liberalized requirements regarding gifts.

Purchasing together for income support. Purchasing a home with your children may enable those who do not have enough income to qualify for a mortgage to finance their home purchase. Once again, mortgage programs vary with regard to the allowance of co-borrowers and FHA has the most liberal requirements. Under the FHA program, immediate family members can help a relative purchase without living in the home themselves. VA is the most stringent with regard to co-borrowers, as only the spouse or another veteran who will live in the home can co-sign. Conventional programs vary with regard to their requirements, but once again these have become more liberal with the growth of low-to-moderate income programs.

Purchasing together for credit support. One area a parent can help is for children who have a substandard credit history. It should be noted that adding a co-borrower with a clean credit history in no way erases the existence of a poor credit history. On the other hand, a strong co-borrower may be able to make the difference in cases where the credit history of the child is close, but not quite up to standards.


Cash, income and credit. The three major barriers to obtaining a mortgage and reaching the American dream of homeownership. Help for overcoming these obstacles may be no further away than going back to your roots. With rates so low, a tax credit available and home prices down, there are many reasons to act now. The help of parents may surely be needed to overcome the obstacles presented by tighter credit requirements in this interesting environment. □

Selected Interest Rates

June 18, 2009

30 Year Mortgages	5.38%
2008 High (July 24)	6.63%
2008 Low (Dec 31)	5.10%
15 Year Mortgages	4.89%
5/1 Hybrid ARMs	4.97%
1 Year Adjustables	4.95%
10 Year Treasuries	3.83%

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.



Traditionally, American parents have been a significant source of help when their children decide to become homeowners.

Affordability Soaring

Home price declines have sent affordability soaring. Prices have fallen so far that the average U.S. home is now undervalued by 12.2%, according to a new report from IHS Global Insight. "The good news is that the declines are happening as consumer confidence is rising and housing sales and [building] starts seem to be bottoming out," said Jeannine Cataldi, senior economist for IHS in a statement accompanying the study.

"The bad news is that job losses continue at high rates, housing inventories are still elevated and consumers, while becoming somewhat more confident, are still wary in the face of economic uncertainty." The IHS study, House Prices in America, reported that, of the 330 markets it tracked, homes are under-priced in 248. That contrasts sharply with four years ago when only 108 markets were undervalued. One-time bubble markets are now going through sales renaissances, according to Cataldi. "In Las Vegas and Phoenix, people are going in and snapping up foreclosures," she said. "They often rent them back to the former owners." □

Source: CNN/Money