

The Real Estate Update

Brought to you by Mount Vernon Mortgage Corporation

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Is Deflation Threat Real?

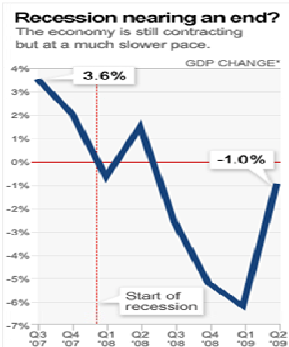
Once in a while this word pops up as a threat to the economy. This happened most recently a few weeks ago when it was revealed that consumer prices fell 2.1 percent over the last 12 months, the largest drop in 59 years. The doomsayers took that message and ran with it. If deflation comes it will be the result of a collapse of the world economy. However, the mainstream recognized that this drop in inflation was really the result of a moderation of energy prices. Remember, last year when oil prices were spiking towards \$150 per barrel? The bursting of the oil bubble saw prices plummet to just over \$30 per barrel in a matter of months and subsequently moderate in the \$60 to \$75 range.



In fact, the lack of inflation can be seen as good news. The Federal Reserve Board has indicated that even though the worst is over for the economy, a slow recovery is forecast and that means they need to keep rates very low for the immediate future. With no threat of inflation, there is no pressure on the Fed to reverse course too early. Low rates are absolutely essential to keep the economy moving.

This means that great deals for consumers on purchases such as cars and houses will continue for at least the next few months. Speaking of bargains, don't look now but the tax credit for first time homebuyers is set to expire in a few months. Bargains do not last forever and we cannot expect rates to stay this low in the long-

term. The government is borrowing hundreds of billions to finance the deficit and when consumers start borrowing in an economic recovery, the good news regarding rates could end quite dramatically. We just hope that the economy is on firm footing if and when that happens so that we can enjoy the prosperity. □



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Tax Credit to Expire Shortly

Real estate professionals report that first-time home buyers are flooding the sale market, pressed to finalize a deal before the federal government's \$8,000 tax credit offer expires on Nov. 30.



Because approvals, residential inspections, and other steps in the buying process typically take about two months, buyers hoping to take advantage of the incentive will need to have a contract by the end of September. The new flurry of activity now as house-hunters try to meet the deadline is triggering bidding wars and energizing the property market, which historically is slow at the end of summer. As a result, more homes are getting their full asking price.

There is no repayment obligation required on this credit for qualified principal residences purchased from January 1, 2009 through November 30, 2009. To be exempt from repayment, the homebuyer must stay in the home for at least three years. In addition to being a first time homebuyer, there are maximum income restrictions. □

Source: Chicago Tribune

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➤ \$8000 Tax Credit for first-time buyers is just ONE great reason why NOW is the right time to buy a home, but don't miss out—it expires on November 30th!

Did you know...?

- The recession has more than halved the formation of new households. Between March 2007 and March 2008, the number of new households grew by 772,000, compared with an increase of 1.63 million a year earlier, according to the U.S. Census Bureau. New households result in fewer home sales and rentals, less furniture sold, and less work for electricians, carpenters, painters—and real estate professionals. Harvard University's Joint Center for Housing Studies estimates that the glut of 1.5 million new homes created during the housing boom would be gone now if households had been forming at historical levels. The downturn also has pushed down immigration levels. Even inflows of illegal immigrants have stopped rising since 2008, according to the Pew Hispanic Center. □

Source: The Miami Herald

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Can't Purchase Now? Rent to Own.

There is good and bad news in this present real estate market. First, experts are declaring that now is the time to purchase a home, which is great news for many Americans—

Now is the time to buy, but that opportunity may be slipping away. For people who have a job and money, a dream house is within reach, writes Marc Roth, founder of Home Warranty of America and a columnist for Business Week. He points out that mortgage rates remain low, prices are still at historic lows and the government is offering incentives for first-time homebuyers. He also adds that the inventory of homes to buy is still large, but it is shrinking. According to the National Association of Realtors®, the housing inventory peaked in November 2008 at an 11-month supply. At the end of May 2009, it had fallen to a 9.6-month supply. Roth says anyone who dallies will miss a good opportunity to buy a first home at a terrific price or go shopping for a move-up property that is a great buy. (Source: Business Week.)

Now here is the not so great news. Lenders have tightened underwriting requirements as the financial crisis has unfolded and because of the extremely harsh economic conditions, many who would love to purchase can't do so at the present time. However, there is a solution to this predicament

Rent to Own!

There are still plenty of sellers who cannot sell their homes in their environment and would entertain a serious offer that includes a one or two year period of renting before the home purchase is consummated. The advantage to sellers is obvious. If the home is presently vacant or they would like to move out to purchase another home, they can do so with the confidence of knowing that there will be cash flow coming from their property.



From the purchaser's point of view, there are plenty of advantages in selecting this option as well. First, you can lock in today's low prices even if you close one or two years from now when the market has turned around. The purchase price on a "rent to own" is typically set at the time of the sales contract, not when closing takes place. This gives the purchaser a big advantage from a timing perspective. It does not mean that negotiations will be easy and this is why you should be represented by a Realtor® who is experienced in such complex transactions.

Second, the time period from sales contract to closing will give you time to get your finances in order. This may mean saving for a downpayment. Note that most underwriting guidelines do not allow a credit for rental payments towards the downpayment except for any portion of the rent that is "above market." Many purchasers negotiate a seller credit towards closing costs as part of the contract, but every transaction will vary in this regard. Again this is a reason to be represented by experts within this process.

Putting your finances in order may also mean increasing your credit score during the rental period. Though you may not be given credit for your rent payments towards the cash necessary for closing, on-time rental payments will have a positive effect on your credit record. Make sure you keep a record of all rental payments, including copies of cancelled checks. Also, you may have to spend time clearing up mistakes on your credit record in addition to establishing good credit patterns.

A word of caution here. Just because you are given time to put your finances in order, you must still take the task extremely seriously. Set up a budget with a financial advisor and work with a credit score improvement specialist. If you fail to consummate the closing during the allowable time period, you are likely to forfeit your escrow deposit and the seller will be able to put the home back on the market.

The advantages are many and the opportunity is golden right now. There are many reasons to consider this option if you can't purchase presently. We suggest you find an experienced loan officer and real estate agent team so you will understand the options and be able to put together a transaction that will put you in the right position. □

The Incredible Shrinking House

For the first time in almost 15 years, the size of new homes built in the United States is shrinking. New homes are now 7% smaller, or the size of one average-sized room. To be precise, the median square footage of newly built homes fell to 2,065 square feet in the first three months of this year, compared with the same period last year, according to the U.S. Census Bureau.



2008 marked the first year of declines since 1994. That could indicate that the romance between Americans and morbidly obese McMansions has finally cooled. "A new ethic is arising right now that will become commonplace," said Sarah Susanka, author of the book, *The Not So Big House*. "As more and more people build or remodel homes that satisfy in quality rather than quantity, there will be a huge shift in what we perceive as desirable."

She believes the current shrinking trend mimics one of 100 years ago, when simple bungalows supplanted elaborate Victorian homes as the design choice for many Americans. But, it could also just be the recession. "Home size gains flatten out or decline during recessions, and we're in the midst of the most serious housing recession in decades," said Kermit Baker, the chief economist for the American Institute of Architects. □

Source: CNN/Money

Selected Interest Rates

August 20, 2009

30 Year Mortgages	5.12%
2009 High (June 11)	5.59%
2009 Low (April 30)	4.78%
15 Year Mortgages	4.56%
5/1 Hybrid ARMs	4.57%
1 Year Adjustables	4.69%
10 Year Treasuries	3.42%

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.