

# The Real Estate Update

Brought to you by Mount Vernon Mortgage Corporation

Volume 4, Issue 7 | July 2010

## No More Bullets From The Fed

The Federal Reserve Board met late last month and even though the markets were not expecting surprises to emanate from this meeting and none surfaced, an interesting article was released by CNN/Money this past week. The article asks an important question--is the Fed out of bullets? By way of background, we have been recovering from the deepest financial crisis since the Great Depression. The government, led by the Fed, has been firing on all cylinders ever since. In our opinion, they started a bit late and that became part of the problem as we were convinced the markets could survive what was then termed a "sub-prime crisis." Well, it became much more than that. Since this late start, the Fed has been doing just about everything besides washing America's dishes.



The next question arises--what if this medicine is not enough? The Fed already moved short-term rates to zero and purchased trillions of dollars of mortgage and Treasury securities while the government took over housing agencies Fannie Mae and Freddie Mac as well as doling out tax stimulus dollars like they were going out of style. What if the economy does move back into recession and more bullets are needed? We say perish the thought. From day one, this has been a crisis of confidence. The public and the markets must be convinced that the economy will recover. We must not think or speak negative thoughts. It may take some time, but



employment will grow and as employment grows, Americans will purchase houses and cars. Then our worry will be when will the Fed raise rates and how will we pay for all the bullets we have spent. Meanwhile, today we have an unprecedented opportunity to take advantage of bargains courtesy of the Federal Reserve Board. □



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### Inside this Issue...

- No More Bullets From The Fed
- Missing The Tax Credit May Have Been Good For You
- The Biggest Mistakes Homebuyers Make
- Is A Housing Shortage Coming?

## Missing The Tax Credit May Have Been Good For You

Missing the tax credit deadline might have seemed like a big mistake to some home buyers, but waiting could have been the smartest thing to do. Rates have fallen so dramatically since April 30th that the typical purchaser of a \$350,000 home, financed with a \$280,000 loan, would have saved a bundle by waiting just a few weeks later.



At April's average rate of 5.34 percent, a home buyer would have locked in a 30-year fixed rate with a payment of \$1,561.82. The same borrower could have snagged a 30-year fixed rate at a rate of 4.625 percent in May and paid \$1,439.59 per month. That's a \$1,467 annual savings. Over 30 years, it's a \$44,003 savings, dwarfing the tax credit.

Borrowers eager to lock in a very low fixed-rate should apply quickly, says Bankrate.com analyst Holden Lewis. Rates haven't been this low since the 1950s, he says, adding that rates are unlikely to fall much further. "You can float, but that's not a smart strategy. It's like asking for another card when you have 19 in blackjack. Stand and take your chances," he advises. Even more good news: the low rates held in June. □

Sources: Bankrate.com and Informa Research Services

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## Selected Interest Rates

June 24, 2010 *Record Lows*

|                     |       |
|---------------------|-------|
| 30 Year Mortgages   | 4.69% |
| 2010 High (April 8) | 5.21% |
| 2010 Low (June 24)  | 4.69% |
| 15 Year Mortgages   | 4.13% |
| 5/1 Hybrid ARMs     | 3.84% |
| 1 Year Adjustables  | 3.77% |
| 10 Year Treasuries  | 3.12% |

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.



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## The Biggest Mistakes Homebuyers Make

**B**uying a home is the biggest purchase most people will ever make, yet many go into it blind. Here are the most common, and costly, mistakes homebuyers make.

**Not knowing your credit score.** If you're even toying with the idea of buying a home, you must find out exactly what your FICO score is. If you find it is less than ideal, wage a systematic campaign to raise it. Too many borrowers ignore this step and get surprised when they get interest rate quotes. Once you've pored over your credit history and corrected any errors, your next step is to pay down revolving debt balances to no more than 30% usage. That will help raise your score significantly.



The lower your score, the higher your costs of borrowing. Fannie Mae and Freddie Mac, for example, charge higher up-front fees to borrowers with credit scores below 740. For a buyer with a credit score between 680 and 700, the fee comes to 1.5% of the mortgage principal. On a \$200,000 mortgage, that adds up to \$3,000. Someone with a 740 score pays nothing. Lower-score borrowers also get saddled with higher interest rates, about a 0.4 percentage point more for the below 700 borrower. That costs an extra \$62 a month—\$744 a year—on a \$200,000, 30-year fixed rate loan.

**Buying a car before a house.** Anytime consumers open new credit accounts—credit card, auto loan, etc.—their FICO score could drop, according to Craig Watts, a spokesman for Fair Isaac, the creator of FICO scores. "Hence the admonition to not open other new accounts while your mortgage application is in process," he said.

A big purchase would use up a considerable proportion of a borrower's total credit limit, which results in a drop in the score. Lenders often continue to check credit scores in the weeks before closing. "The lender will likely slam on the brakes if the applicant's credit scores have suddenly dropped below the minimum required for the requested loan rate," Watts said.

**Skimping on the home inspection.** Buying a pig in a poke can cost buyers big bucks, just when they can least afford it. So it's vital to find all the costly flaws before you buy. Many homes on the market today are distressed properties—foreclosures and short sales—and that only increases the importance of good inspections, according to David Tamny, president of the American Society of Home Inspectors. "The owners usually didn't have the money to keep up these homes," he said. "There's a lot of deferred maintenance."

A home inspection can find problems with the foundation, electrical, plumbing, roof, attic insulation, and heating and air conditioning. In some states, separate licensed inspectors offer mold or termite inspections. Often homebuyers, who may be strapped for cash, skimp on inspections and look for the cheapest way to go. That can lead to disaster. The cost of repairs far exceeds the cost of inspection," said Tamny.

**No contingencies.** When signing a sales contract, buyers usually have to put up 1% to 3% in "earnest money," which they don't get back if they pull out of the deal except under certain conditions spelled out in the contract. Sellers try to limit the grounds for canceling, and inexperienced buyers may sign contracts that don't include common exceptions, such as uncovering major problems during the home inspection, failing to obtain financing and failure of the house to appraise. Failure to obtain financing is common these days because lenders have become very picky; underwriting is very strict.

Even if your mortgage company is still willing to finance your purchase, the house itself may be worth less than you've contracted to pay for it, and the lender will pull its approval.

With residential real estate markets still slow, sellers usually accept contingency clauses, but if they resist, it may be better to rethink the deal. Losing a deposit of \$2,000 to \$6,000 on a \$200,000 home hurts.

**Not budgeting for insurance.** Don't underestimate insurance costs and fail to budget for them. Many homebuyers don't understand just what is—and what is not—covered. Standard policies pay for theft and wind, fire, lightning, hail and explosion damage. Not covered is flooding, earthquake damage or problems caused by neglect of routine maintenance, according to Jeanne Salvatore, spokeswoman for the Insurance Information Institute, an industry-sponsored educational group. "The most important thing before you buy a home is to find out what it will cost to insure it," she said. "Insurance needs to be calculated into the cost of owning a home. Unlike a mortgage you can pay off, you'll be responsible for insurance costs forever."

For flood insurance, most buyers use the National Flood Insurance Program. Earthquake coverage may be available through a state authority or some private companies. Depending on location, flood insurance can run into a lot of money. The cost of \$250,000 worth of government flood coverage on the building and \$100,000 of its contents can go as high as \$5,714 in high-risk, coastal areas. □

Source: CNN Money

## Is A Housing Shortage Coming?

**A**s the nation struggles to shrug off the worst housing crisis in decades, it may be hard to believe a housing shortage could be on its way. The nation is simply not building enough homes to keep up with potential demand. Just 672,000 new homes were started in April, less than half the long-term run rate needed to meet the nation's natural population growth. "It is ironic, but there is a growing consensus that there may be a new housing shortage coming," said James Gaines, a real estate economist with Texas A&M.

So far, the shortfall has been masked by a weak economy that has put a damper on homebuying. Once the job market rebounds, however, people will look to have their own homes again. This pent-up demand could be unleashed on unprepared markets, causing shortages and rising local prices. Household formation has been on hold during the past few years as young people, especially, have been unable to find jobs. In the past, an average of more than 1.3 million households were formed each year, causing demand for 1.5 million new homes, including replacement homes. In 2009, only 398,000 new households were formed, according to the Census Bureau. That is much lower than average and a quarter of the number formed just two years earlier. "The decline in household formation is artificial," said Gaines. "The young are moving in with their parents. There's even doubling up among working class people. There's a pent-up demand coming if and when the economy recovers."

Those doubting a new bubble is near point to a large inventory overhang. The inventory number, however, can be deceiving for two reasons: People may not want to live in hard-hit areas where the houses are or the homes may be beyond repair. "Many of these vacant homes may not be habitable or are in locations where nobody wants to live," Gaines said. □

Source: CNN/Money