

# The Real Estate Update

Brought to you by Mount Vernon Mortgage Corporation

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## Back to the Basics

**T**he period just before Thanksgiving gave us a reminder that the all-important powerful government can't control as much as it would like. For example, the Federal Reserve Board can't control rates. Yes, it can control short-term rates. But it can't control long-term rates. We may have forgotten this important fact in the past few years because the Fed's plan to purchase mortgages and Treasuries worked so well as the financial crisis peaked.

However, the key was that the Fed was purchasing these instruments while the economy was in shambles. The markets accepted the move. The markets do not seem to be as accepting of the Fed's plan to purchase another \$600 billion in assets over the coming months with many concerned that this stimulus could fuel inflation. This inflation scare came at the time the government reported the lowest level of consumer inflation since 1957.

Here is the point. The markets are highly psychological, especially in the short-run. That is why you can never predict the future of the stock market and rates. If the market sees a Fed move such as lowering short-term rates or purchasing assets as inflationary, long-term rates can go up in reaction. Everybody seemed to be predicting low rates for a long, long time. The fact that rates went up sharply over this period was a surprise to many. You can't predict the future. Here is the good news — or the bad news depending upon the way you look at it. The fundamentals have not changed. There is no inflation. The economy is still very slow and will slow further temporarily because of the foreclosure crisis. There is no "fundamental" reason for a short-term spike in rates. Of course, the reminder of what can happen should be taken seriously for those who are waiting to purchase a house or a car and think they can wait because they believe rates will stay low forever. Blink an eye and the world can change. □



## Inside this Issue . . .

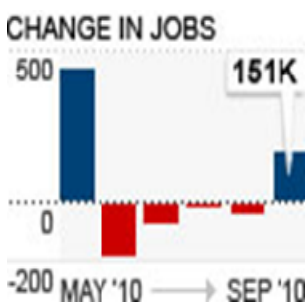
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## First Time Buyers Dominate

**F**irst-time homebuyers accounted for half of all home sales from July 2009 through June 2010, according to a National Association of Realtors survey of buyers and sellers. That's the highest share of first-time-buyer purchases in the history of the survey, which dates back to 1981. First-time buyers responding to the survey made up 47 percent of sales in 2009. The 2010 NAR Profile of Home Buyers and Sellers, was based on 8,449 responses to a survey sent to homebuyers and sellers nationwide whose transactions took place between July 2009 and June 2010, according to county records. The vast majority of first-timers (93 percent) participating in the survey, and almost three-quarters of all buyers (71 percent) responding to the survey participated in a federal homebuyer tax credit program. The tax credits were available to eligible homebuyers who bought between Jan. 1, 2009, and April 30, 2010. First-time buyers were eligible for a credit of up to \$8,000, and an extension and expansion of that program, approved Nov. 6, 2009, made repeat buyers eligible for up to a \$6,500 credit. Unlike a separate first-time homebuyer tax credit program offered between April 8, 2008, and Dec. 31, 2008, those credits do not have to be repaid. □



Source: Inman News



Wishes for a holiday season and new year filled with peace, joy, and happiness!



Are people you care about in need of expert mortgage advice? It would be my pleasure to provide them with an exceptional mortgage experience. Your referral is the greatest compliment I can receive!



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## Did you know...?

➤ Anyone who's contemplating bequeathing a home or some other property to someone other than a spouse or a charity might consider making the gift this year when there is no estate tax. After Jan. 1, 2011, the estate tax rate will be 55 percent (60 percent in some cases) on all but the first \$1 million, unless Congress changes the law. If the original owner wants to keep using the property he gives away, he will have to pay fair-market rent to the person or trust that has become the owner. It might seem awkward, but it is an excellent tax strategy. There are several strategies that help the giver avoid gift taxes as well, but they are rather complex. In general, all of these transfers require advice from an attorney, a tax expert, or both. □

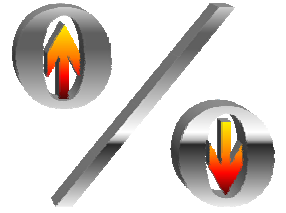
Source: New York Times

# The Real Estate Update

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## Why Is My Rate Higher?

**T**ime and time again we get this question from some of our clients. "I read in the papers that the average rate for mortgages is now \_\_\_\_%. Yet I am being quoted a higher rate than 'average.' Why am I being asked to pay more?"



This is a very good question and one that deserves more than a "cryptic" answer. After all, your home is the most important investment and typically your largest payment. The rate you are charged directly affects that payment.

First, you must understand that the averages reported by major informational sources such as Freddie Mac and BankRate.com will be based upon averages of those who have certain "personal" and "transactional" characteristics or variables. Each of these variables may affect the rate you will be asked to pay. In this report we will explain many of these variables that can affect the rate and thus the payment of a home loan.

### Personal Variables

**Credit Score.** The most widely recognized and most important of all variables is tied to your credit score. Most applicants now understand that a poor credit record can affect the rate they pay. The higher the score, the better, and you may need a score of 720 or more in order to procure the lowest rate quote.

What can cause your score to be lower? Late payments, significant blemishes such as judgments or bankruptcies, too much credit or not enough credit, and more. It is important to note that a low score does not only affect your mortgage rate, but can also affect your rate on credit cards, other loans and even insurance rates. Here is the good news: by working with someone knowledgeable, such as your loan officer, you can raise your score and lower your quote.

**Too many debts.** If you are carrying too many debts, you may not only have a lower credit score, but also a high "debt-to-income" ratio. This high ratio may result in not being qualified for all loan programs. When choices are restricted, the choices that remain may result in a higher rate.

**Not enough income.** In the past, "no-income verification" programs solved the problem for many who had income, but could not document that income for lenders. The financial crisis has caused most of these programs to go away and again limits choices to those which may allow higher debt-to-income ratios.

### Transactional Variables

**Primary Residence.** Most mortgage "averages" are quoting the rate on a primary residence, which means you live in the property. If you are purchasing or refinancing a property you are renting out as an investment, the rate is going to be higher and there will be other underwriting restrictions such as a requirement for a larger down-payment. Second or vacation homes not rented out, often times, are quoted the same as primary residences but that is not always the case. For example, one popular program, FHA, does not finance second homes except in unusual circumstances.

**Down-payment or equity.** If you are putting the minimum down or you have little equity in the home when refinancing, you are likely to be asked to pay mortgage insurance that protects the lender against default. This raises the cost of the mortgage. Some programs will charge a rate premium as well as mortgage insurance.

**Large loan amounts.** If you are looking for a large mortgage which exceeds the conforming (Fannie Mae or Freddie Mac), as well as FHA and VA loan amounts, then you will be asked to pay a higher rate. The secondary markets are not as efficient for "jumbo" mortgages as the government does not support this segment of the markets as significantly.

**Type of property.** Many property types can cause a higher rate. One of the most common is condominiums, especially those that don't have approval from the entities specified in the previous paragraph. What would cause a condo project not to be approved? Perhaps there is a high percentage of investors owning units or a high percentage of owners behind on paying association dues. Other property types that may include premiums on rate could include duplexes, rural properties, properties with combined commercial usage and other unusual properties.

## Glory Days for Investors

**T**hese are the glory days of the residential real estate investor. Low prices, rock-bottom rates and stable rental markets have created huge buying opportunities. "It's awesome right now. I don't think we'll ever see another time like this," said Tanya Marchiol of Team Investments, which has operations in about 10 states but focuses mostly on the Phoenix market. These investors are known to many as vultures because they swoop in and buy "distressed properties"—foreclosures and short sales—cheap.

Places like Las Vegas, Phoenix and Miami are popular because home prices there have dropped as much as 70 percent. But how they're investing has changed. In the boom years, they would buy a property and flip it for a quick cash out. Today, they are holding and renting for hefty, steady incomes. Once they analyzed their decisions based on home-price appreciation, which is very speculative. Now they consider potential rental profits, which is far more stable. Back then, they flipped often and helped to bid up home prices into a froth. Now investors can be a part of stabilizing neighborhoods. □

Source: CNN/Money

This list should not be considered exhaustive as there are other situations that may affect your rate. However, this list does demonstrate the importance of meeting with your loan officer BEFORE you purchase a home so that you can make a more informed decision. □

## Selected Interest Rates

November 18, 2010

30 Year Mortgages _____	4.39%
2010 High (April 8) _____	5.21%
2010 Low (October 14) _____	4.17%
15 Year Mortgages _____	3.40%
5/1 Hybrid ARMs _____	3.54%
1 Year Adjustables _____	3.26%
10 Year Treasuries _____	2.90%

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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