

April 2010 Archive

5 costly mistakes first-time buyers make

ATLANTA – April 23, 2010 – Buying a first home can be a daunting experience. Here are five common and costly mistakes that novice homebuyers make:

1. Ignoring the cost of a low credit score. Lower-score borrowers pay thousands of dollars in increased interest rates over the life of the loan.
2. Shopping for other things before closing. Lenders continue to check credit scores right up until the time of closing. Too much shopping could cause the lender to take back the loan.
3. Scrimping on an inspection. Expensive repairs can be financially devastating.
4. Buying without contingencies. Buyers should give themselves an out if the inspection turns up problems or if the bank raises their interest rate.
5. No money for insurance. Insurance can be surprisingly pricey. Buyers who don't budget for it face a nasty surprise.

Source: CNNMoney.com, Les Christie (04/19/2010)

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How do delinquencies impair credit scores?

CHICAGO – April 23, 2010 – Fair Isaac, which developed FICO scores, used a comparison between two people to explain how mortgage delinquencies affect credit scores.

Fair Isaac derived these numbers from a theoretical calculation based on hypothetical borrowers – one with an initial score of 680 and one with an initial score of 780. FICO scores range from 300 to 850.

The hypothetical person behind the 680 score had six credit accounts, while the person with the 780 score had 10. The consumer with the 780 score had no missed payments other than the mortgage; the 680 example had two late payments before they failed to pay the mortgage.

After a mortgage payment problem, the two scores would look like this:

- * After a 30-day delinquency, the 680 score drops to somewhere between 620 and 640; the 780 score declines to 670 to 690.
- * After a 90-day delinquency, the 680 score falls somewhere between 595 and 610; the 780 score goes to 645 to 665.
- * After a foreclosure, short sale or deed-in-lieu, the 680 goes somewhere between 575 and 595 and 780 drops to 620 to 640.
- * After a bankruptcy, the 680 drops somewhere between 530 and 550; the 780 declines to 540 to 560.

Source: CNN, Les Christie (04/22/2010)

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Congress extends flood insurance to May 31

WASHINGTON – April 16, 2010 – Congress approved an extension of the National Flood Insurance

Program (NFIP) yesterday and President Obama signed it into law within the hour. The change, part of a larger bill that covered unemployment, extends the flood insurance program to May 31, 2010; and coverage is retroactive to March 28 when the current program ran out.

The extension is a patch for the program, and current bills in Congress would solidify the flood program and extend coverage beyond a few months. H.R. 4213, if passed, would extend flood insurance coverage through Dec. 31, 2010.

"In theory, the NFIP will now return to normal operations and, since the extension is also retroactive, any new policy applications or renewals that were signed and submitted during the hiatus will be effective from the date of application (or in the case of waiting periods, the waiting period will start from the date of application)," say officials of the Independent Insurance Agents and Brokers of America.

The flood insurance extension was part of a larger bill that extends unemployment insurance benefits to June 2.

Source: National Underwriter, Arthur D. Postal, April 16, 2010

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Citizens: in "best financial position" ever

TALLAHASSEE, Fla. – April 14, 2010 – State-backed property insurer Citizens Property Insurance Corp. told the governor and Cabinet Tuesday that it's flush with cash and other assets. The company said it can weather a 25-year storm, and it wouldn't have to levy assessments on all insurance-owning Floridians unless a \$14 billion storm hit the state.

Responding to a query from Agriculture Commissioner Charlie Bronson, Sharon Binnum, Citizens' chief financial officer, said market improvements and uneventful hurricane seasons mean the state's largest property insurer is well-positioned to handle all but the most catastrophic storms through the upcoming hurricane season that begins June. 1.

"Citizens is in the best financial position it has ever been," Binnum told Cabinet members. Minimal storms could be handled without imposing surcharges or assessments; more catastrophic storms, in turn, could be handled with emergency assessments and not additional long-term debt.

Citizens now enjoys a \$3.9 billion surplus in its premium-to-obligations, and has \$11 billion in cash and investments. The insurer recently obtained \$2.3 billion in pre-season hurricane financing. Citizens now insures \$405 billion in property value, or about 23 percent of the residential market.

"If we don't have Citizens, I don't know how our economy could continue," said Belinda Miller, state deputy insurance commissioner.

Insurance policyholders have already paid more than \$5 billion in assessments to pay for damage caused by hurricanes in the 2004 and 2005 hurricane seasons.

Sam Miller, vice president of the Florida Insurance Council, said the situation was not all rosy. The agency would still fall short in the event of a 50- or 100-year storm. "They acknowledged that in the event of a severe hurricane, the federal government will have to step in," Miller said.

One reason things are improving for Citizens, Miller said, is because lawmakers ended a cap last year that kept Citizens' premiums frozen for several years following the busy '04-'05 seasons when many residents' rates increased drastically.

Source: News Service of Florida, Michael Peltier

IRS offers info on tax credits

WASHINGTON – April 13, 2010 – U.S. taxes can be offset by a number of real estate-related credits and deductions, and the IRS offers information on each.

Karen Russell, real estate industry liaison for Georgia, and in this instance, Florida as well, compiled a list of educational documents for the real estate industry to share with homebuyers and sellers.

"I am sharing the following links regarding credits available to first time homebuyers and long-term homeowners wishing to replace their primary residence," Russell says. "This information can be printed and placed for easy viewing" by interested buyers and sellers.

Energy Incentives for Individuals: <http://www.irs.gov/newsroom/article/0,,id=206875,00.html>

Seven Facts about the Non-business Energy Property Credit:
<http://www.irs.gov/newsroom/article/0,,id=214979,00.html>

First-Time Homebuyer Credit: <http://www.irs.gov/newsroom/article/0,,id=204671,00.html>

Seven Important Facts about Claiming the First-Time Homebuyer Credit:
<http://www.irs.gov/newsroom/article/0,,id=202222,00.html>

Five Tips About the First-Time Homebuyer Credit Documentation Requirements:
<http://www.irs.gov/newsroom/article/0,,id=219518,00.html>

Ten Important Facts about the Extended First-Time Homebuyer Credit:
<http://www.irs.gov/newsroom/article/0,,id=215827,00.html>

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Flood insurance hiatus impact on FAR and FAR/BAR contracts

ORLANDO, Fla. – April 7, 2010 – Congress' failure to renew the National Flood Insurance Program (NFIP) has impacted some home closings in Florida. While the program will undoubtedly be renewed after Congress returns to Washington on April 12, the void in coverage has created problems for some Realtors, buyers and sellers. Most mortgage companies demand flood insurance for homes located in Federal Emergency Management Agency (FEMA) flood zones.

As long as the NFIP program is on hiatus, closing under the FAR/BAR-8 contract and the FAR 9 contract should not be impacted at all if the following conditions are met:

1. If the contract isn't contingent on financing and, consequently, isn't contingent on the buyer's ability to obtain flood insurance. However, flood coverage is still highly recommended.
2. If the contract is contingent on the buyer obtaining flood insurance (either within a specific contract contingency dealing with flood insurance or as a condition of financing) provided the seller has an effective flood insurance policy that can be assigned to the buyer, and the contract requires the buyer to accept the assignment from the seller.

Closings will be impacted under both contracts if the following conditions apply, however:

FAR/BAR-8 Contract

The contract will not close if the home sale is contingent on the buyer obtaining financing from a lender, that lender's commitment of funds is conditioned upon obtaining flood insurance, and the seller has no flood insurance policy to assign to the buyer.

In this case, the contract will, in all likelihood, terminate on the closing date with the deposit returned to the buyer. In Florida, impossibility of performance and frustration of purpose are well-recognized defenses to nonperformance of a contract.

However, the parties could also choose to extend the contract based on the likelihood that Congress will reinstate NFIP.

FAR 9 Contract

If the contract is contingent upon financing and the buyer's loan commitment is contingent upon the buyer obtaining flood insurance – and the seller has no flood insurance policy to assign to the buyer – then the contract cannot close as scheduled.

In paragraph 11 (c) of the FAR 9 Contract, buyer and seller are relieved of their performance obligations if the performance is delayed, caused or prevented by force majeure.

Force majeure includes any cause not reasonably within the control of the buyer or seller. Under force majeure in the FAR 9 contract, the time periods stated in the contract are extended – not to exceed 30 days – for the period of time that the force majeure event is in place. If the force majeure event continues beyond 30 days, either party can cancel the contract without liability to the other.

Congress' failure to reauthorize NFIP may be interpreted under the FAR 9 Contract as a cause not reasonably within the control of the buyer or seller. Therefore, the buyer and seller may be relieved of their performance obligations during the hiatus period since Congress failed to reauthorize the flood insurance program.

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The good economic news keeps coming

WASHINGTON (AP) – April 6, 2010 – Employers holding out for more evidence that the U.S. economic recovery is finally taking hold got some Monday: America's service sector is growing quickly, and contracts for home sales are up.

The big question is whether the latest encouraging signs will help embolden companies to hire at a faster pace and bring down the unemployment rate.

Some economists and corporate executives say it could. And they say they no longer fear a double-dip recession – in which the end of government stimulus money would tip the economy back into contraction.

Factories are producing more. Americans are willing to spend more. And the economy added 162,000 jobs last month, the most in nearly three years.

"It's much better news than we would have thought a few months ago," said Jennifer Lee, an economist at BMO Capital Markets.

The Institute for Supply Management, a trade group, said its service index rose to 55.4 in March from 53 in February. Any reading above 50 signals expansion. It was the strongest growth since ISM revised how it measured the service sector in January 2008.

The service sector is critically important because it accounts for about 80 percent of U.S. jobs, excluding farm workers. It includes jobs in areas like health care, retail and financial services.

Offering more optimism, the National Association of Realtors said the number of people who agreed to buy previously occupied homes rose 8.2 percent in February. The index is considered a signal of future sales activity.

Home sales had been sluggish during the winter, partly because shoppers felt less rushed after lawmakers extended the deadline to qualify for a tax credit. The new deadline is April 30.

Both reports suggest the broader economy is recovering, and employers are taking notice.

Recruiters report more interest among their clients in hiring permanent, full-time workers. Companies are starting to search for permanent hires in accounting, finance and engineering positions for which they had been relying on temporary help, said Jodi Chavez, senior vice president at Ajilon Professional Staffing.

In some cases, businesses are starting hiring plans at least a month earlier than they had expected, she said.

Ketchum, a public relations company, has also been encouraged by the improving economy and is looking to hire. It has 50 open positions in North America – jobs that would raise the company payroll by 5 percent.

"We're definitely hiring right now," said Nick Ragone, a partner. "We've seen a pickup in our business." More companies are requesting proposals for marketing and PR plans as the economy improves, he said.

The reports on the service sector and home sales contracts helped spark optimism on Wall Street. The Dow Jones industrial average gained 46 points for the day, and a rally since mid-February has the index closing in on 11,000.

Some analysts are less optimistic, though. They worry the economy will slow sharply over the next few months as government stimulus ends and other factors fade, such as a rebound in company inventories.

Gad Levanon, senior economist at the Conference Board, a business research group, noted that the economy has grown at about a 4 percent pace in the past nine months. Normally, that would translate into more hiring.

But Levanon said some companies remain concerned whether the recovery is sustainable. The Conference Board forecasts that growth will slow to 1 percent to 1.5 percent in the second half of this year.

And personal income isn't rising fast enough for people to keep spending more money, Levanon said. Consumer spending moved up 0.3 percent in February, but incomes stagnated. Most of the spending increase came only because people were saving less.

Small businesses also remain wary. The National Federation of Independent Business said last week that while small companies have stopped laying off workers, they remain hesitant to hire.

"The consumer's not really back," said Bill Dunkelberg, chief economist at the NFIB. "If you have customers, many other problems get solved."

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Regulators issue guidance to allow loan closings during NFIP lapse

WASHINGTON – April 5, 2010 – Six of the nation's largest lending authorities have issued guidance to administer the federal flood insurance regulations during the current National Flood Insurance Program (NFIP) program lapse. Although each lending authority notes considerations, the consensus is, in most cases, loan closings may still occur during the NFIP lapse.

To move forward, the lenders need verification that an NFIP flood policy application was submitted along with a premium payment sent to the insurance provider. Lenders should follow all normal flood risk evaluations prior to closing, and they should create new follow-up practices to make sure there continues to be full compliance once Congress reauthorizes the NFIP program.

Lenders should become familiar with and follow the specific guidance offered by their lending authority.

When Congress returns on April 12, NAR will push to extend the NFIP and the reauthorization retroactive to March 28, 2010, so that any properties flooded during the lapse will be covered.

Background information

Congress recessed without extending authority for the National Flood Insurance Program (NFIP), which expired on March 28, 2010. By law, flood insurance is required for the purchase of real estate in a 100-year floodplain. However, insurers may not issue new or renewal policies or increase the coverage of existing policies backed by the NFIP while it's expired.

FEMA, which administers the NFIP, issued guidance that:

- Existing flood insurance policies that were in effect on March 28 (when NFIP expired) will remain in effect and would not be affected.
- While new flood policies may not be issued after that date, new policies for which payment was received – or in case of loan closings, the application was dated on or before March 28 – will be issued.
- Renewal policies may not be issued until the NFIP is extended; however, there is a 30-day grace period during which the policy remains in effect following its expiration date.

Buyers may also "assume" the seller's existing policy without having to re-issue it (NFIP Manual, Page GR 15: (<http://www.fema.gov/pdf/nfip/manual201005/03gr.pdf>)). The page says:

"D. Assignment: A property owner's flood insurance building policy may be assigned in writing to a purchaser of the insured property upon transfer of title without the written consent of the NFIP. Policies on buildings in the course of construction and policies insuring contents only may not be assigned."

The purchase requirement for flood insurance may also be fulfilled with non-NFIP policies backed by private insurance companies. These policies, however, can be expensive and limited to only certain states. Lloyd's of London, Chubb and AIG have offered such insurance.

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Closings delayed as fed programs stumble

TALLAHASSEE, Fla. – April 1, 2010 – The National Flood Insurance Program (<http://www.floridarealtors.org/NewsAndEvents/article.cfm?id=236719>) is on hiatus because Congress failed to extend it before its recess; and the USDA Rural Housing 502 Single-Family Loan Guarantee program. (<http://www.floridarealtors.org/NewsAndEvents/article.cfm?id=236836>) is running out of money. Both problems can jettison closings, but Realtors do have a few options.

Flood insurance

If a home closing is in limbo because the buyer cannot secure flood insurance, it could still close if the seller assigns his existing flood insurance policy to the buyer.

Nancy Riley, 2007 Florida Realtors president, noted that all flood policies can be assigned and asked if an assignment could still be done if the NFIP program is on temporary hiatus. To find out, Florida Realtors Vice President of Public Policy John Sebree contacted the National Association of Realtors® (NAR); NAR, in turn, contacted the Federal Emergency Management Agency (FEMA).

According to NAR, FEMA confirmed the assignment option:

“Lenders may consider assignment of a policy in order to obtain coverage through the NFIP during the hiatus,” FEMA said in its response. **“The closing papers must show that the unearned premium on the existing policy is paid by the buyer.”**

For legal information on a specific transaction, consult a real estate attorney or call the Florida Realtors Legal Hotline – a free member benefit except for long distance phone charges, if any – at: (407) 438-1409.

USDA loans

The Rural Housing 502 Single-Family Loan Guarantee program has run short on cash, but other USDA programs have not. While the 502 guarantee is USDA’s primary loan tool, the smaller 502 direct loan program can still fund purchases.

However, the 502 direct loan program is more restrictive and smaller than the guarantee program. According to NAR, buyers qualify for the direct loan only if their income is at least 50 percent below the area’s median income, though a few exceptions allow incomes as high as 80 percent. In addition, buyers must have “inadequate” housing.

For more information on the Rural Housing 502 programs, visit the USDA website at: <http://www.rurdev.usda.gov>

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