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Market Watch: Houses stay for sale the longest in South Florida market

SOUTH FLORIDA – March 25, 2009 – South Florida remains the toughest market in the nation for selling a house, even as big price declines here are attracting buyers.

The typical house in Palm Beach, Broward and Miami-Dade counties lingers for 193 days, according to a February report released this week by California real estate firms Real IQ and Altos Research.

That's up from 156 days last summer and well ahead of second-place Chicago, where the average house stays on the market for 180 days.

South Florida has had the nation's slowest sales rate every month since the survey began in 2007.

Home sales in the three counties have picked up in recent months as bargain hunters respond to falling prices. Still, demand is relatively weak because distressed properties keep flooding the market as job losses mount, analysts say.

"We won't be past all this until the foreclosures are pretty much gone," said Jeff Levine, an agent for Illustrated Properties in Palm Beach County.

"Regular sellers have to be patient," said Martin Hoffman, an agent for the Keyes Co. in Hollywood. "They're going to have a hard time competing with all these foreclosures."

San Francisco had the quickest sales rate, at 98 days, according to the survey. San Diego was the next fastest at 104 days.

The survey also measured asking prices nationwide. The largest monthly drop, 4 percent, occurred in Las Vegas. It's the 11th consecutive month that Vegas has posted the fastest rate of declining prices among major markets.

South Florida's median asking price actually inched up 1.3 percent last month from January to \$453,453.

"It may be slow in Miami," said Stephen Bedikian, a partner at Real IQ, "but thank God you don't live in Vegas."

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Keep An Eye On Your Credit Score

JACKSONVILLE, Fla. – March 18, 2009 – What's the score? Your credit score, that is.

It might be lower than it was a year ago, even if you've made an effort to keep those credit cards tightly in your wallet.

Your credit score still could be worse if a bank decided to reduce a home equity line of credit because the home's value has taken a hit in the real estate market, which certainly has occurred in Northeast Florida.

A credit card company could likewise lower your borrowing limit or cancel inactive cards, thereby limiting the lender's risk.

All those changes would shrink the amount of credit available to consumers, and availability of credit is a key factor in calculating credit scores.

Martha Cox of Family Foundations, a nonprofit consumer credit counseling organization in Jacksonville, said changes in credit limits are the biggest reason for falling credit scores. They can catch consumers by surprise. Financial institutions must give 15 days notice, but they don't have to get permission from the customer before reducing credit limits.

So Rule No. 1 is to open your mail and read it. Don't assume the letter is just junk mail with another offer for a credit card.

Cox said the second step everyone should take is to read their credit reports at least once a year, just like going to the doctor for an annual checkup.

"What you want to make sure of is that what's on your report is your stuff," she said. "Unfortunately, identities get stolen and that's a monster problem to fix."

A federal law entitles consumer to get free credit reports, so there's really no excuse for not regularly checking them. The place to go is www.annualcreditreport.com. The site is operated by the three major credit reporting companies -- Equifax, Experian and TransUnion -- which are authorized by federal law to provide the free reports. The site will take you through a series of questions and then immediately display your credit report.

Consumers also can call (877) 322-8228 and order reports, but it will take two to three weeks for them to be delivered by mail.

Federal law entitles consumers to get one free report each year from each of the three credit reporting companies. You can order all three at the same time, or space out your requests by asking for a report from a different company every four months. Spacing out the requests will help you keep tabs on identify thieves or incorrect information that you want to dispute quickly.

One piece of information you won't get from the free reports is a numerical credit score.

Some sites offer those credit scores "free" but only during a trial period. If you don't cancel within the trial period, you'll be charged a monthly subscription for

continued access to your credit report and scores.

Another option is to just purchase the score. At www.myfico.com, consumers can order a credit report and FICO credit score from either TransUnion or Equifax for \$15.95. FICO scores are widely used by major banks in reviewing loan applications and determining interest rates -- the lower the score, the higher the interest rate will be.

Consumers cannot purchase a FICO score from Experian. But if you go through www.annualcreditreport.com and click on Experian, you have the option of paying \$5.95 to get VantageScore, a credit score developed by the three credit reporting companies.

Beyond satisfying curiosity about how your credit score stacks up, the best reason to shell out money for a score would be if you're planning a major purchase such as home or car in the coming months.

Cox said the best way to boost the score is to pay down credit card balances and take care of unpaid accounts. Then make future payments on time.

She said consumers with several credit cards can avoid cancellation of cards -- which hurts credit scores by reducing the availability of credit -- by rotating the use of cards so they aren't inactive over the course of a year. But she warned that is "fabulous advice if you actually remember to follow it." Problems arise if you're not organized and you don't keep track of what card needs to be paid when. Missing a payment will mar your credit report and score.

Also, impulse shoppers would be better off shedding some credit cards so they aren't tempted to run up debt.

"In the short run, might your credit score go down?" she said. "Sure. But unless you're going to make a major purchase in the next few months, it's not going to affect your life."

She said consumers who are headed toward making a big-ticket purchase shouldn't open new credit card accounts. That might increase the overall availability of credit, but credit-scoring companies will view it as increased risk and lower the score as a result.

As for quick fixes to low credit scores, she said they don't exist.

Consumers should avoid hiring companies that promise to "erase" bad credit or dramatically improve scores. In some cases, those companies simply challenge any problems on the credit report, forcing the credit reporting company to temporarily remove the items. But if the items are legitimate, they'll go right back on the report.

Cox said consumers also should be wary of companies that promise to settle outstanding debt for pennies on the dollar. The companies collect money from customers for a period of months to supposedly pay off the debt, but if the companies don't follow through, the customers are left holding the bag -- their credit scores have fallen even further and the company has taken their money and disappeared.

"There's a reason why they only put their signs up on telephone poles because they're really hard to find," she said.

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Mortgage Fraud up in U.S., But Dips Slightly in Florida

MIAMI – March 17, 2009 – Tighter underwriting standards weren't enough to deter consumers and crooks from submitting bogus mortgage applications in 2008. Reports of mortgage fraud rose by 26 percent nationwide compared to the prior year, the Mortgage Asset Research Institute reported Monday.

But unlike 2006 and 2007, when Florida led the nation in mortgage fraud, this year it fell to second place.

The overall increase in reported mortgage fraud can be attributed to a number of things -- more lenders reporting suspected fraud and more fraud being detected. But Denise James, who helped research and write the report, said brokers and other unscrupulous lending professionals were finding new ways to cheat the system.

Among the 50 states, tiny Rhode Island ranked first for loan fraud last year, with more than three times the amount of suspicious activity than might be considered normal relative to loan volume there. Illinois ranked third.

Lying on loan applications about income and debt was the most common type of fraud reported. In Florida, it accounted for 67 percent of complaints.

Nationwide reports of phony or exaggerated employment were also up, as were reports of inflated appraisals and falsified tax returns and bank statements.

Lenders are asked to submit reports to MARI's database only when a misstatement is considered "material," that is, when investigation reveals they would have made a different decision about funding a loan had they known the truth.

Esteban Reyes of Verification Bureau, a Miami-based fraud prevention services company, said criminals with established operations continued to commit mortgage crimes, although far more lenders are stepping up efforts to verify information submitted by applicants.

Still, the Treasury Department estimates that the cost of mortgage fraud to the industry could reach as high as \$25 billion for 2008.

While the usual schemes are still around, MARI noted a new wave of fraud emerging, including foreclosure rescue fraud and identity theft targeting the elderly and non-English speakers.

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Tips for Homeowners Who Turn into Landlords

WASHINGTON – March 11, 2009 – Homeowners who decide to rent out their properties have to stop thinking of themselves as homeowners and instead consider themselves as running a small business, experts say.

Thinking like a businessperson means focusing on the monthly cost of maintenance, mortgage and taxes, as well as being aware of landlord-tenant regulations and avoiding liabilities.

Here are key issues to consider:

- Set a fair rent. Setting the right price will make it more likely that a landlord will be able to keep the place rented.
- Understand landlord-tenant rules. Running afoul of landlord-tenant regulations and rules regarding security deposits can be costly.
- Screen applicants. Eliminating potential tenants who can't pay or who won't take care of the property is very important.
- Lay out the rules in a lease. Widely available sample leases can help. If you have questions, ask an attorney.
- Consider a property manager. Despite the expense, turning the job over to experts can help a landlord come out ahead.
- Talk to the condo association. If the property is a condominium, be prepared to deal with a host of regulations.

Source: The Washington Post, Renae Merle (02/28/2009)

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Florida Still Growing But In-Migration Down 90 Percent

GAINESVILLE, Fla. – March 24, 2009 – The economic recession has cast a shadow over growth in the Sunshine State, according to the latest population projections from the University of Florida (UF), which see Florida's population increases falling to their lowest level in 60 years as some counties actually shrink.

With South Florida counties particularly hard hit, the state is expected to add an average of only 37,000 residents each year between 2008 and 2010, a drop of more than 90 percent from the annual average increase during the housing boom years of 2002 to 2006. The new report shows county population projections from 2008 to 2035.

"The collapse of the housing market and the lingering effects of what has been the worst economic crisis since the Great Depression have put a real crimp on migration and are likely to keep Florida's population growth at very low levels for the next few years," says Stan Smith, director of UF's Bureau of Economic and Business Research.

Not since the mid-1940s, when large numbers of military personnel who

temporarily moved to Florida during World War II returned to their home states, has the state experienced such small population increases. After growing by 60,000 to 80,000 per year in the late 1930s, Florida's population swelled by 100,000 to 300,000 per year in the early 1940s, declined for two years immediately following the war, and then entered a prolonged period of steady growth, Smith says.

The housing bust and resulting drop in home values, along with stock market declines affecting savings and retirement accounts, have made it difficult for residents nationwide to sell their homes and move to Florida, Smith says. In addition, the recession has created a loss of jobs in Florida, and employment is one of the main reasons people move to the state.

While projections call for most counties to grow slowly, 14 counties are expected to lose population during the next two years: Broward, Calhoun, Collier, Gulf, Lee, Martin, Monroe, Okaloosa, Palm Beach, Pasco, Pinellas, Putnam, Seminole and Volusia.

Since 2000, the only Florida county to lose population was Monroe. "That's an unusual case in that most of its land is in the Everglades, which is not developable, and most of the population is in the Keys, where there is little space to expand and the cost of living is relatively high," Smith says.

Counties in South Florida are hardest hit because they expanded most during the housing boom as huge numbers of workers moved into the state to take jobs in real estate and construction and other businesses, Smith said. When the economy declined, employees left and county populations fell.

"Many of the counties in North Florida had not experienced the boom to the same degree as the counties in South Florida and consequently did not experience the bust to the same degree," Smith says.

As economic growth slowed and the housing market cooled, annual population growth declined from an average of 395,000 between 2000 and 2006 to 331,000 between 2006 and 2007 and 127,000 in 2007 and 2008.

The effects are being felt everywhere from declining revenues from sales taxes and real estate transactions for state and local budgets to businesses experiencing a downturn from less demand for their goods and services.

"As the national economy recovers and as the excess supply of housing in Florida is absorbed, we're expecting growth to pick up again, probably within the next year or so, and then to increase to more normal levels during the next decade," Smith says.

The only events that might stall population growth would be a prolonged economic slowdown similar to the Great Depression, which Smith believes is

unlikely, or factors making the state a less desirable place to live, such as being hit by an unusually large number of hurricanes.

"I think heavy hurricane damage would have a psychological impact on people in terms of their thinking about whether to move to Florida, but perhaps more importantly it would have a strong economic effect by leading to a substantial increase in property insurance rates," he says.

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New Condo Loan Rules Could Hurt Distressed Areas

MIAMI – March 23, 2009 – Money is already tight at The Wilshire Condominium, and new lending rules threaten to make life even more difficult for it and other condos around the country.

Arthur Barr, a board member of the Wilshire homeowners association, estimates 30 percent of the owners in the 378-unit building in North Miami Beach are behind on their fees. That makes it difficult to pay for things like elevator repairs and gardening.

Now, Fannie Mae – the biggest player in the mortgage market – wants to ensure that if it's backing a loan for a condominium, the building is in good shape. If the building is brand new, Fannie Mae wants to be certain there are enough owners to pay for maintenance and preserve the value of the property.

Sound simple?

Nothing is simple in Washington these days.

The new rules were designed to protect buyers and lenders, but they may make it harder for condo owners to sell. That could hobble the recovery of the condo market.

And in the end, critics say, the rules will mean cash-strapped associations like the Wilshire's won't be able to maintain the very buildings that Fannie Mae wants to preserve.

"I guess things can get much worse before they're going to get better," Barr said.

Under the new regulations, Fannie Mae will reject any mortgage for a condo buyer if more than 15 percent of the other owners are delinquent on their association fees. What's more, Fannie Mae will only guarantee mortgages in new or newly converted condo developments if 70 percent of the units are sold or under contract.

Critics say the rules, which went into effect this month, could force some new developments into bankruptcy because the 70-percent requirement will be hard to reach if buyers can't get a loan.

There's already more than a year's supply of condos for sale on the market. And about 93,000 new units should be completed this year, a 28 percent jump from

2008, according to Reis Inc., a real estate firm based in New York.

"By setting the higher threshold they've reduced their risk of making these loans, but they've also virtually killed the potential for many projects to be successful," said developer Jeff Spear, owner of The Spear Group in Fort Lauderdale, Fla.

"It's going to make it extremely difficult for this inventory to get absorbed."

The riskiest market in the country is Miami, which saw a building boom beginning in 2002. Since then, about 38,000 condo units have been built or are under construction in Miami-Dade County, with more than 22,000 of those concentrated in or near Miami, said Jack McCabe, president of McCabe Research & Consulting.

"It's not surprising that developers are talking about a death spiral," McCabe said. "There are so many units that are unsold and they are unable to pay off construction loans."

He estimated that as much as 40 percent of the 16,000 completed units in Miami remain unoccupied. More than a half-dozen condo projects in the Miami area are stalled because sales have slowed to a crawl and the credit needed to build them has disappeared, said Jennifer Drake, real estate attorney with Becker & Poliakoff.

Developers in other hot markets, such as Las Vegas, also rushed to build condos and condo-hotels but had developments stalled or canceled. Las Vegas real estate agent Sue Naumann estimated that of about 100 planned high-rise condo projects only about 20 were completed.

The excess condo development and subsequent financial problems were fueled in part by speculators like Izad Djahanshahi, who invested in 41 units during the real estate frenzy that gripped Miami from 2002 to 2005. Now, he has eight condos in foreclosure. He has filed for bankruptcy protection from creditors and estimates he owes about \$500,000 in back mortgage payments.

"We just bought and sold and bought and sold," said Djahanshahi (jah-han-SHAH-hee). "We kept the money in the company and we invested more and more. Suddenly, everything stopped."

As investors like Djahanshahi failed to pay mortgages, units were foreclosed upon and have remained empty, leading many condo associations to cut back on services like security, valet parking and landscaping because they can't collect enough fees.

Florida condominium ombudsman Bill Raphan could not offer specific numbers, but estimated that a "good percentage" of condominium associations have delinquencies of more than 15 percent.

Attorney Donna Berger represents 1,000 community associations in Florida. She said delinquencies were up around 5 percent among the groups she represents, and reached 90 percent in certain "mostly investor-owned communities."

"I understand (Fannie's) need to insulate their risk, but I think further tightening the stranglehold on condo owners is not the answer," Berger said.

Fannie Mae spokeswoman Amy Bonitatibus defended the company's new guidelines, saying it wants to reduce risk for lenders and protect buyers from

condo fee increases or special assessments, company spokeswoman said. But the bottom line is condo sales will likely take another hit. The rules are discouraging buyers like Jim Lyon, who wants to buy a new condo in Miami for about \$250,000.

"I'm leery of making the commitment now to a condo," said Lyon, 55. "The restrictions are that much tighter now."

As buyers get shut out condo prices may fall further. Fewer buyers also could mean higher association fees for the rest of the owners who may have to shell out more money to cover vacant or delinquent owners, said Robert White, managing director of KW Property Management & Consulting in Coral Gables, Fla.

"It's going to lock everybody in," White said, "including the people who are delinquent."

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THE WALL STREET JOURNAL *by Ray A. Smith*

Wish you could invest in real estate without having to own or manage a property, while earning tax-exempt or tax-deferred income from that real estate? Well, financial planners are increasingly recommending an investment strategy that allows investors to do just that.

Buying property using an individual retirement account is a way to earn tax-exempt or tax-deferred income. And buying or creating mortgages or notes is a way an investor can invest in real estate without actually having to own and manage the property itself. Now more investors are combining the two -- using traditional and Roth IRAs to buy or create mortgage notes.

One example of how the strategy works: A seller of a property would create a mortgage or note for the buyer. (Such notes or mortgages are usually created between individuals, not traditional lenders.) The borrower/buyer would make monthly payments plus interest to the seller. The property seller would then sell that mortgage to an investor for cash upfront, often at a discounted price. The investor would buy the mortgage through his or her IRA and would earn income through the interest on the mortgage as well as the difference between the actual mortgage amount and what the investor paid -- all without having to own the actual property or manage it. (See accompanying chart for details.)

The investor would normally have to pay tax on the income earned. But with an IRA, the investor would defer or wouldn't have to pay taxes on that income. Profits gained from investments aren't taxed in a traditional IRA until the money

is withdrawn. And withdrawals from a Roth IRA are tax-exempt, provided the individual is age 59½ or older and has the Roth IRA open at least five years.

Using IRAs to buy notes isn't new, but financial planners and advisers are increasingly urging their clients to do it now. One reason is that interest rates on these kinds of notes or mortgages are typically higher than the average market interest rates, which remain relatively low, says Patrick W. Rice, president of IRA Resource Associates Inc., a Camas, Wash.-based advisory firm specializing in real-estate investing for IRAs. Other investments pegged to market interest rates aren't offering rates of return as high.

Also, in contrast with owning property outright, there are few tax advantages with owning notes. But by using an IRA to buy notes, an investor gets the tax advantages of the retirement account. IRAs are "a great vehicle to hold these instruments," says Dyches Boddiford, a real-estate investor based in Atlanta.

There are some risks, however. If the borrower stops making payments, Mr. Rice says, the IRA may end up having to foreclose on the property, a sometimes costly and lengthy process. What's more, the money to cover the expense associated with a foreclosure has to come out of the IRA and can't come from the investor's own pocket. That could erode an investor's retirement account.

Hubert Bromma, chief executive of Entrust Administration Inc., an Oakland, Calif.-based administrator of IRAs, recommends that investors conduct credit checks on borrowers. In addition, he says the IRA holder should require the borrower put up a significant equity stake, which could give the borrower more incentive to pay off the loan.

Mr. Boddiford adds that investors want to make sure that the mortgage they are buying is the so-called first lien. The first lienholder gets priority repayment treatment over other lienholders.

Suggested Directions

Investing in real-estate mortgages with self-directed IRAs requires a little work on the part of the IRA holder. Here's some suggested guidelines for how to go about investing in real-estate mortgages with an IRA.

- An individual with a self-directed IRA account who wants to invest in mortgages must first conduct a transfer from his or her account with a stock broker, banker or insurance company to an independent custodian that offers real estate as an investment option.
- Once the individual finds a mortgage to buy or create, he or she signs a direction letter, a form that instructs the custodian to buy or create the note.

- The IRA can't purchase a mortgage from or create a mortgage for a related party such as a family member (ascendant, descendant or spouse thereof).
- The lien and title are in the custodian's name on behalf of the investor or IRA holder.
- All the note payments , including the interest, go to the IRA. The checks are made to the custodian for the benefit of the account.
- The income earned from the notes are tax deferred in a traditional IRA. The individual will have to start taking distributions at age 70½ years. At that point, distributions are taxed at the ordinary tax rate.
- With a Roth IRA , distributions are tax-free, provided the individual is 59½ or older and has the Roth IRA open at least five years.
- Once the note is paid off , the borrower owns the property free and clear of that mortgage.

Source: Entrust Administration

Home Buyer Migration

The number of out-of-state residents moving to Florida in 2008 was down 30 percent compared to five years ago, according to an AP analysis of driver's license applications. The number of new residents from New York, Florida's top feeder state, declined 50 percent.

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Source: The Washington Post, Renae Merle (02/28/2009)

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