October 2011 Archive

Bargains abound: What are buyers waiting for?

NEW YORK – Oct. 28, 2011 – With low home prices and ultra-low interest rates, the housing market now offers "perhaps the best deals of a generation," notes a recent article by Bloomberg Businessweek.

Since the housing boom of 2006, home prices have fallen about 31 percent. Also, mortgage rates have been hovering at record lows for the past few weeks – in the 4 percent range or even lower on 30-year fixed-rate mortgages, according to Freddie Mac's mortgage market survey.

"It's hard to see the possibility of losing on a home purchase right now, with these mortgage rates," says economist Dean Baker. "Prices may go lower, but not by much."

The article notes the following scenario: Buying a $300,000 home with a 4 percent mortgage rate and a 20 percent down payment would mean a $1,145 monthly payment. The Mortgage Bankers Association recently predicted that home prices may fall another 3.5 percent by mid-2012, but mortgage rates will increase by a half-point. Under that same loan scenario, a home would sell for $289,000 while the monthly mortgage bill would be $1,171 – only a $26 difference.

For those who can qualify for a mortgage, "playing the waiting game" won't result in much gain, Nariman Behravesh, chief economist at IHS in Englewood, Colo., told Bloomberg Businessweek.

Source: "Crazy Home Deals Await the Creditworthy," Bloomberg Businessweek (Oct. 24, 2011)

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Baby Boomers: Home is where grandkids are

NEW YORK – Oct. 27, 2011 – According to a new poll from the Associated Press (AP) and LifeGoesStrong.com, 73 percent of baby boomers would rather live close to children or family rather than "friends of your own age," and 50 percent ranked nearby family as "deeply important."

However 27 percent prefer to live near peers, a huge potential market niche.

About a quarter (23 percent) of boomers say it's very likely they'll move out of their current area or community in retirement. However, that doesn't mean boomers imagine that their retirement home will be their last purchase. Only 40 percent of boomers expect to stay in the home permanently.

"It's easy to understand why mid-lifers are interested in being near family and staying close to home during retirement," said Barbara Corcoran, a prominent real estate entrepreneur. "It's also important to note that most boomers currently live in a suburb, and that group is more likely to have lost money on real estate since the economic downturn began. But whether or not someone was directly impacted, the recession makes all of us more aware of the importance and comfort of a close family circle, and the value of strong home roots."

Even so, three in 10 boomers say that there is at least somewhat of a chance that they will purchase a new home for their retirement years. While 67 percent consider it unlikely that they'll leave their home state if they do, 13 percent say there is a good chance they'll move across state lines.

In addition to family, 39 percent of boomers rated "being close to medical offices or hospitals" as very important, and a similar number, 38 percent, want to be "close to shops and services."

Boomers who plan to move noted the following preferences:

• smaller home (43%)
• area with a different climate (30%)
• more affordable home (25%)
• closer to family (15%)
• in a retirement community (12%)

When marketing to boomers, it's worth noting that three out of the top five reasons given have nothing to do with the home itself and more to do with weather, family proximity, and community elements.

Housing types

The survey asked boomers what they did with the empty bedrooms vacated by children to gauge their housing desires. While 51 percent did not change the bedrooms, those who did created:

• guest bedrooms (58%)
• home offices (39%)
• craft rooms (28%)
• entertainment rooms (15%)

Younger boomer parents are more likely to have repurposed their children's rooms. Among those boomer parents born from 1955 to 1964, 57 percent say they converted the room to other uses; just 40 percent of boomer parents born in 1954 or earlier say the same.

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Latest HARP program could help more Floridians

MIAMI – Oct. 27, 2011 – Despite renewed efforts to shore up the housing industry with mass refinances and federal aid, South Florida's real estate market has a long road to recovery ahead of it, industry leaders said Wednesday during a conference hosted by the University of Miami Law School.

About 200 real estate professionals gathered at the Institute on Real Property Law, a forum to discuss the direction of a housing market bogged down by shadow inventory and a growing backlog of foreclosures.

Fort Lauderdale attorney Shari Olefson, who spoke at the event, talked extensively about the long list of government initiatives aimed at fixing the housing market, highlighting their strengths and weaknesses.

The Home Affordable Modification Program, for example, has had a limited impact in South Florida, with only about 33,000 permanent loan modifications for struggling homeowners. By comparison, there have been more than 200,000 foreclosure filings since 2007.

"Instead of getting a modification, what most people got under HAMP was a really bad experience with their banks," said Olefson, author of Foreclosure Nation: Mortgaging the American Dream.

New initiatives, like the recently revamped Home Affordable Refinance Program, or HARP, aim to address some of the shortcomings of past efforts. The new HARP program, announced this week by President Obama, will open up the government's refinancing initiative to people who owe significantly more on their mortgages than their properties are worth.

That could have a relatively large impact in South Florida, where about 45 percent of homeowners are underwater, and most of those are paying above-market interest rates, Olefson said.

Mortgage lenders are also changing gears. Some are offering "relocation assistance" of up to $20,000 for homeowners who opt to sell their homes at a discounted price instead of going through the lengthy foreclosure process. (See "Bank of America: $20,000 short sale incentive to struggling homeowners")

But even with renewed efforts to prop up the real estate industry, a normalized housing market remains years away, said Bill Sklar, director of the Institute on Real Property Law at UM's Law School.

'Shadow inventory'

Part of the reason is the region's massive inventory of homes not yet on the market, due to delays in the foreclosure process. Investors are buying up many of the distressed properties, but it will take time for the "shadow inventory" to be fully absorbed, Sklar said.

"There's some recovery because there's capital investment – foreign investors are seeking to preserve their capital" with U.S. real estate, he said. "That will help fuel some recovery in certain sectors, but until we get past the current foreclosure crisis, we cannot get back to a healthy, thriving economy."

Condo associations

Real estate lawyer Mike Chesser, who came from Destin to the conference, echoed that sentiment. His firm works with several condominium associations that are struggling financially due to the foreclosure crisis, and said relief has been scarce.

"More needs to be done to help the associations," he said. "The associations are finding themselves in line behind the mortgage companies and the mortgage companies are slow to act. The associations are looking to do anything they can to shore up their finances."

The conference continues Thursday and Friday at the Biltmore Hotel in Coral Gables, with sessions dedicated to issues facing condominium communities.

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Renters spend 5% more than homeowners

NEW YORK – Oct. 27, 2011 – Rising rents are forcing renters to outspend homeowners on housing costs, according to a new study.

Since 2005, homeowners' housing expenses have climbed from 31.9 percent of their household budget to 33.2 percent. In that same time period, renters' expenses have jumped from 35.6 percent to 38.4 percent, according to the October CoreLogic U.S. Housing and Mortgage Trends.

In the last 26 years, homeowners have increased the amount they spend on household expenses by 12 percent while renters have increased it by 22 percent, according to the study.

Earlier this month, Capital Economics economists noted that for the first time in 30 years the median monthly mortgage payment is about the same – or less – than the median rental payment.

Yet, with the bleak job market, homeownership rates continue to fall in many parts of the country, particularly among younger generations. CoreLogic found in its report that the homeownership rate for the 25-to-34 age group dropped from 51.6 percent in 1980 to 42 percent in 2010. For the 35-to-44 age group, homeownership rates fell from 71.2 percent to 62.3 percent over that period.

Source: "Renters Outspend Owners on Housing," RISMedia (Oct. 25, 2011) and Capital Economics

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'Glimmer of hope' in housing

WASHINGTON – Oct. 26, 2011 – U.S. home prices were largely flat in August from a month earlier and down almost 4 percent from a year ago, with more declines ahead, economists say.

The Standard & Poor's Case-Shiller home price data, released Tuesday, showed non-seasonally adjusted prices dipping in 10 of 20 major metropolitan areas in August from July.

Yet there was a "modest glimmer of hope" in that year-over-year results in 16 of 20 cities were better than they had been in recent months, says David Blitzer, chairman of the S&P index committee.

Case-Shiller's 20-city index showed prices down 3.8 percent in August from a year ago, while the 10-city index posted a 3.5 percent decline. August prices were flat with July in the 20-city index when adjusted for seasonal factors and down 0.2 percent when not adjusted.

The market is battling high unemployment, rampant foreclosures in some areas, weak consumer confidence and tight lending standards.

Prices will fall another 5 percent to 10 percent, says IHS Global Insight economist Patrick Newport. They'll fall even more if the U.S. economy falls into recession, he says.

Consumers clearly are distraught. Consumer confidence plunged in October to its lowest level since March 2009, the Conference Board, a private research group, said Tuesday.

The tremendous volatility in equity markets, and the European debt issue, are driving concerns, IHS says.

In addition, consumers are concerned about business conditions, the job market and income prospects, says Lynn Franco, director of the Conference Board Consumer Research Center. That will be a drag on home prices, says Jed Kolko, economist for real estate website Trulia.

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Fla.'s consumer confidence steady in October

GAINESVILLE, Fla. – Oct. 26, 2011 – Following a modest gain in September, consumer confidence among Floridians fell a point in October to 63. The lowest index possible is a 2; the highest is 150, and the latest reading is four points above a record low of 59 set in June 2008, according to the University of Florida.

While it's not a strong reading, it compares favorably to a nationwide survey released yesterday that found a more significant drop.

"Consumer confidence (in Florida) continues to be in the doldrums," says Chris McCarty, director of UF's Survey Research Center in the Bureau of Economic and Business Research. That confidence level could remain stuck for some time because "there have been no consistent economic developments over the past couple of months to push confidence lower or raise it from its historically low levels."

While four of the five indicators used in the survey showed improvement in September, only two rose in October. The overall view that personal finances are better now than they were a year ago rose five points to 54. Expectations that the economy will improve a year from now also increased, rising two points to 55.

Meanwhile, perceptions that personal finances will improve a year from now dropped two points to 72. Respondents also were gloomier about the long-run prospects for the economy; expectations that it will strengthen over the coming five years dropped one point to 67. Finally, the component measuring whether now is good for buying big-ticket items, such as automobiles, laptops, and dishwashers sank four points to 70.

The report found that consumer confidence remains shaky despite reports of slight economic improvement in some sectors. Florida's unemployment rate, for instance, dropped one-tenth of 1 percent to 10.6 percent, after remaining fixed at 10.7 percent for three months – but it's still far better than the record high 12.5 percent in March 2010.

"One thing to keep an eye on is the size of the labor force," McCarty says. "Unemployment is the percent of (people) unemployed (who are) looking for work. When people stop looking, for a variety of reasons, they are not counted. Although Florida's labor force increased by 14,000 from August to September, it is still down 26,000 from September of 2010."

Housing prices in Florida also appear to be bottoming out but may be in for more tough times, McCarty says. "A large overhang of unprocessed foreclosures and a reduction in the maximum loan Fannie Mae and Freddie Mac will finance may put further pressure on housing prices."

McCarty thinks that consumers may get more stressed when the national stage again turns to cost-cutting issues. "We must keep in mind that the Super Commission (in Congress) is required to come up with recommendations for budget cuts by Nov. 23 or automatic cuts will be triggered," he says. "Regardless of the outcome, we can expect renewed media coverage similar to the debt ceiling discussion in August that many consumers found unnerving."

On the positive side, Florida's seniors continue to report declining personal finances but that could change when cost-of-living adjustments to Social Security payments begin in January.

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Homeownership rate second highest on record

WASHINGTON – Oct. 25, 2011 – The homeownership rate is at its second-highest level on record, only behind the record high set in 2000, according to the U.S. Census Bureau, which began collecting homeownership data in 1890.

By region, the homeownership rate is:

• Midwest: 69.2 percent
• South: 66.7
• Northeast: 62.2
• West: 60.5

Nearly every metro area had more homeowners than renters in 2010. The metro areas with the highest homeownership rates were in Michigan and Florida. Monroe, Mich., had the highest percentage of owner-occupied units at 79.8 percent, followed by Punta Gorda, Fla., at 79.7 percent.

While the national homeownership rate remained high, the decrease in the rate from 2000 to 2010 by 1.1 percent – to 65.1 percent overall – is the largest decrease since the 1930 to 1940 period, the Census Bureau reported.

States with highest housing inventory

Meanwhile, housing inventory soared 13.6 percent to 15.8 million units from 2000 to 2010, growing the fastest in the South and West. The states with the largest percentage increase in housing units were:

Nevada: 41.9 percent
Arizona: 29.9
Utah: 27.5
Idaho: 26.5
Georgia: 24.6
Florida: 23.1
North Carolina: 22.8
Colorado: 22.4
Texas: 22.3
South Carolina: 21.9

Source: U.S. Census 2010 and "Homeownership Near Record," Investors.com (Oct. 20, 2011)

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Growth picture enjoys uptick

WASHINGTON – Oct. 25, 2011 – Economists have significantly raised their estimates of third-quarter economic growth ahead of the government's official report Thursday, easing near-term fears of another recession.

A consensus of economists surveyed by Bloomberg News estimates the economy grew at a still-modest 2.5 percent annual pace last quarter, up from their 1.8 percent projection less than two weeks ago. The brighter picture follows better-than-expected data on retail sales, manufacturing, jobs and business investment.

"We should take some comfort that the economy isn't hurtling into recession," says Capital Economics' Paul Ashworth. Ashworth estimates third-quarter growth was 3.2 percent.

That's not robust, but it beats the anemic expansion of less than 1 percent the first half of 2011. Amid last summer's debt battle in Congress, the downgrade of the U.S. credit rating and financial turmoil in Europe, many analysts thought the U.S. was on the verge of another downturn.

Since Oct. 3, 10-year Treasury yields have risen nearly half a percentage point, indicating growth prospects are prompting a shift of money to higher-risk assets, says market strategist Anthony Valeri of LPL Financial.

Many experts say the third-quarter upturn was due to temporary factors, particularly the end of supply disruptions after the Japanese earthquake, and the decline in oil prices. The Commerce Department said last week that retail sales jumped 1.1 percent in September, partly because of a 3.6 percent rise in auto sales as Japanese bottlenecks eased.

Meanwhile, manufacturing grew at a 4.3 percent annualized rate in the third quarter. And business investment in equipment and software has rebounded. Both measures were buoyed by the unclogging of Japanese supply channels and lower oil prices.

Many economists say growth will slow to a sluggish 2 percent rate over the next year. Unemployment, at 9.1 percent, is high and consumer confidence is shaken.

Yet a recession appears less likely. New jobless claims have been falling since summer. "You would be

seeing claims shooting up" if a downturn were imminent, says chief economist James O'Sullivan of MF Global.

Some say growth could beat estimates. Excluding autos, retail sales rose 0.6 percent last month. Consumer stock prices, often a leading job indicator, are at a record premium relative to stocks overall, says economist James Paulsen of Wells Capital Management.

But Bernard Baumohl of the Economic Outlook Group notes consumers have been borrowing more and saving less to finance their increased spending – which he says can't continue.

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A guide to administration's new mortgage-refi plan

WASHINGTON – Oct. 25, 2011 – Two big questions loom over the Obama administration's latest bid to help troubled homeowners: Will it work? And who would benefit?

By easing eligibility rules, the administration hopes 1 million more homeowners will qualify for its refinancing program and lower their mortgage payments – twice the number who have already. The program has helped only a fraction of the number the administration had envisioned.

In part, that's because many homeowners who would like to refinance can't, because they owe more on their mortgage than their home is worth. But it's also because banks are under no obligation to refinance a mortgage they hold – a limitation that won't change under the new plan.

Here are some of the major questions and answers about the administration's initiative:

Q: What is the program?

A. The Home Affordable Refinance Program, or HARP, was started in 2009. It lets homeowners refinance their mortgages at lower rates. Borrowers can bypass the usual requirement of having at least 20 percent equity in their home. But few people have signed up. Many "underwater" borrowers – those who owe more than their homes are worth – couldn't qualify under the program. Roughly 22.5 percent of U.S. homeowners, about 11 million, are underwater, according to CoreLogic, a real estate data firm. As of Aug. 31, fewer than 900,000 homeowners, and just 72,000 underwater homeowners, have refinanced through the administration's program. The administration had estimated that the program would help 4 million to 5 million homeowners.

Q. Why did so few benefit?

A. Mainly because those who'd lost the most in their homes weren't eligible. Participation was limited to those whose home values were no more than 25 percent below what they owed their lender. That excluded roughly 10 percent of borrowers, CoreLogic says. In some hard-hit areas, borrowers have lost nearly 50 percent of their home's value. Another problem: Homeowners must pay thousands in closing costs and appraisal fees to refinance. Typically, that adds up to 1 percent of the loan's value – $2,000 in fees on a $200,000 loan. Sinking home prices also left many fearful that prices had yet to bottom. They didn't want to throw good money after a depreciating asset. Or their credit scores were too low. Housing Secretary Shaun Donovan acknowledged that the program has "not reached the scale we had hoped."

Q: What changes is the administration making?

A. Homeowners' eligibility won't be affected by how far their home's value has fallen. And some fees for closing, title insurance and lien processing will be eliminated. So refinancing will be cheaper. The number of homeowners who need an appraisal will be reduced, saving more money. Some fees for those who

refinance into a shorter-term mortgage will also be waived. Banks won't have to buy back the mortgages from Fannie or Freddie, as they previously had to when dealing with some risky loans. That change will free many lenders to offer refinance loans. The program will also be extended 18 months, through 2013.

Q: Who's eligible?

A. Those whose loans are owned or backed by Fannie Mae or Freddie Mac, which the government took control of three years ago. Fannie and Freddie own or guarantee about half of all U.S. mortgages – nearly 31 million loans. They buy loans from lenders, package them into bonds with a guarantee against default and sell them to investors. To qualify for refinancing, a loan must have been sold to Fannie and Freddie before June 2009. Homeowners can determine whether Fannie or Freddie owns their mortgage by going online: Freddie's loan tool is at freddiemac.com/mymortgage; Fannie's is at fanniemae.com/loanlookup. Mortgages that were refinanced over the past 2 1/2 years aren't eligible. Homeowners must also be current on their mortgage. One late payment within six months, or more than one in the past year, would mean disqualification. Perhaps the biggest limitation on the program: It's voluntary for lenders. A bank remains free to reject a refinancing even if a homeowner meets all requirements.

Q: Will it work?

A. For those who can qualify, the savings could be significant. If, for example, a homeowner with a $200,000 mortgage at 6 percent can refinance down to 4.5 percent, the savings would be $3,000 a year. But the benefit to the economy will likely be limited. Even homeowners who are eligible and who choose to refinance through the government program could opt to sock away their savings or pay down debt rather than spend it.

Q: How many homeowners will be eligible or will choose to participate?

A: Not entirely clear. The government estimates that up to 1 million more people could qualify. Moody's Analytics says the figure could be as high as 1.6 million. Both figures are a fraction of the 11 million or more homeowners who are underwater, according to CoreLogic, a real estate data research firm.

Q: Who will benefit most?

A: Underwater homeowners in the hard-hit states of Arizona, California, Florida and Nevada could be greatly helped. Many are stuck with high mortgage rates after they were approved for mortgages with little or no money as a downpayment and few requirements. The average annual savings for a U.S. household would be $2,500, officials say.

Q: When will it start?

A: Fannie and Freddie will issue the full details of the plan lenders and servicers on Nov. 15, officials say. The revamped program could be in place for some lenders as early as Dec. 1.
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Economic reports may calm fears

WASHINGTON – Oct. 20, 2011 – Inflation slowed from its summertime blip in September, housing starts rebounded, and the Federal Reserve reported signs of modest economic growth, suggesting that fears of a double-dip U.S. recession may have been overblown.

Consumer prices rose 0.3 percent, driven by cost increases for food and energy, while builders broke ground on new homes at an annual pace of 658,000 houses and apartments, the U.S. government said in

two separate reports. Each was better than economists' forecasts. The Fed's "beige book" survey of business conditions said companies reported tourism and auto sales are leading growth in much of the nation.

The news shows inflation is well under control and growth is still weak, said Diane Swonk, chief economist at Mesirow Financial in Chicago.

The pockets of inflation in food and energy should slow as consumers balk and growth slows in developing nations that have pushed commodities prices higher, Swonk said.

"The essential story is that a very sluggish economy is keeping inflation in check," said Ken Goldstein, chief economist at the Conference Board in New York. "In August, we wondered if the economy was about to go off a cliff. Now, it looks like August was just a bad month."

The consensus before the report was that the consumer price index would rise 0.3 percent, and that the core inflation rate, excluding more volatile energy and food costs, would be 0.2 percent. Instead, the core rate was 0.1 percent, for a 12-month gain of 2.0 percent. The two reports follow a better-than-expected 1.1 percent retail sales gain in September, said Randell Moore, editor of the Blue Chip Economic Indicators newsletter. That makes a recession less likely, although falling savings rates and the looming expiration of last year's payroll tax cut mean consumers might not have the cash to keep spending, he said.

The biggest inflation flare-ups continue to be in food eaten at home and in energy, especially gasoline prices.

Groceries rose 0.6 percent in September and 6.3 percent for the last year, while energy jumped 2 percent last month, bringing its 12-month surge to 19.3 percent.

Food inflation will likely slow soon, Swonk said. Last week's retail sales report said grocery store sales fell 0.3 percent in September as overall sales rose. Combined with falling after-inflation incomes since June, grocery-store data suggest consumers are switching to cheaper products, Swonk said.

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Top 10 reasons to own rather than rent

WOODLAND HILLS, Calif. – Oct. 17, 2011 – In an era of foreclosures, buyers focus on financial reasons for purchasing, but ownership has emotional rewards too. A California condo developer, the Met Warner Center, put together the following list – but it applies from Florida to Alaska.

Top 10 reasons to own rather than rent

1. You own it: With no landlord, you make the decisions.

2. You deduct it: Mortgage interest, property taxes and some costs involved with buying a home can be deducted from federal income taxes.

3. Interest rates: The cost to borrow mortgage money is at an all-time low. If you're going to buy, this is the time to jump into the market.

4. You invest in it: Rent money is gone forever. Mortgage payments build home equity ownership interests.

5. You save for the future: Home equity is a ready-made savings plan. Sell it and you can make up to

$250,000 cash without owing any federal income tax on the profit.

6. You can predict expenses: Unlike rent, a fixed-mortgage payment doesn't get more expensive over time.

7. You pick it: Choose from different neighborhoods, styles and price ranges.

8. You create it: Decorate, renovate, get a pet or paint the walls whatever color you want – it belongs to you.

9. You live in a neighborhood: You and your neighbors take pride in the local schools, roads and more – and you work together to build a friendly community.

10. You spend money on yourself: When you buy a chandelier or hardwood floor or kitchen cabinet, you're spending hard-earned money on yourself and building your equity at the same time.

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'Shadow inventory' of homes could slow recovery

MIAMI – Oct. 17, 2011 – Officially, there are 3.5 million homes for sale nationwide. But there are millions more lurking in the shadows – hidden neatly away on banks' balance sheets, stalled in foreclosure court proceedings, or simply occupied by nonpaying owners as lenders wait months or years before taking action.

The housing market's ballooning shadow inventory – buoyed by a yearlong foreclosure slowdown – stands as its most menacing problem, threatening to stifle recovery for several years.

And South Florida, with some 200,000 homes either already owned by lenders or headed for foreclosure, has one of the nation's largest collections of unseen inventory. The number of shadow homes dwarfs the 30,000 or so that are listed on the active market. Even as prices have shown signs of stability this year, an impending wave of foreclosures threatens to keep real estate values deflated in South Florida and across the country.

"A lot of people don't understand how much inventory is set to come online in the next 18 to 24 months," said Jack McCabe, CEO of McCabe Research & Consulting in Deerfield Beach. "When you compare what the Realtors show is inventory to what's out there, you realize we have a long way to go."

A Miami Herald analysis of four years of foreclosure data and thousands of property records found record-high levels of shadow inventory in several housing markets across the nation.

Though these shadow properties are routinely left out of monthly reports by real estate trade groups, their influence on home values has grown sharply in recent years.

In the supply-and-demand real estate market, the national supply of homes is officially listed at about 3.5 million, or nine months' worth of homes (home sales are on track to reach about five million this year). But once shadow inventory is added, that supply more than doubles, to at least 7.5 million. A healthy housing market has about six months' supply of properties, which would be about 2.4 million.

The wave of homes set to hit the market in the coming years consists of discounted distressed properties, which tend to drag down neighborhood values.

Economists insist that the housing industry will not normalize and recover until most of the foreclosures work their way through the system – a process that will likely last several more years.

Shadow inventory can be broken into three categories:

• Properties lenders have repossessed, but have not put up for sale. These homes are referred to as real estate owned, or REOs.

• Properties caught up in the clogged foreclosure process.

• Properties that are severely delinquent in loan payments – almost certainly headed for foreclosure – but have not yet entered the process.

Calculating the size of the shadow market has proven difficult, and estimates range from 1.6 million to seven million homes. The Herald analysis, using data from several mortgage research firms, real estate trade group figures and public records, found the following shadow inventory in South Florida:

• 40,000 houses already owned by lenders but not yet for sale.

• 124,000 units whose owners have received an initial foreclosure notice, or notice of default, but have not yet been foreclosed upon.

• 37,000 properties whose owners are 90 days or more behind on their payments but have not yet been served with a foreclosure notice.

For hard-hit housing markets like South Florida, Sacramento, Las Vegas and Cleveland, The Herald culled thousands of property records for lender-owned homes, and checked whether those homes were being listed on the open market. In a large number of cases, they were not.

Tale of one home

Bank of America has owned the small two-bedroom at 1711 NW 80th Street in Miami-Dade County since August 2008, when it repossessed the home from the estate of Lucile Moore (who died in 2007 after nearly 30 years in the house). Three years later, the property is not listed for sale on the open market, and is part of the bank's growing collection of unlisted properties. Bank of America did not respond to a request to comment about this property.

In the aftermath of the largest home repossession campaign in history, mortgage lenders are holding properties off the market as a matter of strategy. Flooding the fragile housing market with an additional 500,000 to 1.1 million homes – many of them deteriorating and selling at deep discounts – would cause already weak prices to fall further.

Mortgage lenders have shown no indication they are planning to ramp up foreclosure sales, and a growing number of vacant homes have idled on banks' balance sheets for several years.

According to data firm CoreLogic, which has one of the more conservative estimates of shadow inventory, the current mortgage debt outstanding in the shadow inventory is about $336 billion. Liquidating REO homes through the sales process usually leads to significant write-downs on bank balance sheets. Wary of seeing such large losses appear in earnest on their books, lenders have been reluctant to deal with bad loans head-on, said Ira Rheingold, executive director of the National Association of Consumer Advocates.

"They're afraid," he said. "They don't want to take those paper losses. Their books show that they have these assets that are worth X amount of money. But those values are not real."

In Maricopa County, Ariz., public records show that Bank of America owns about 1,300 properties, clustered in cities like Phoenix and Mesa. Most of those homes are not being marketed for sale on the lender's designated website for bank-owned properties, where only 440 Phoenix-area homes are for sale. In many parts of the country, the federal government is the largest institutional property owner, as government-run Fannie Mae, Freddie Mac and the Federal Housing Administration hold about 250,000 homes.

While at least 100,000 of those are not yet on the market, a review of public records in several states showed that Fannie and Freddie were more likely than other lenders to quickly liquidate foreclosed homes.

"We don't have a shadow inventory because our inventory consists of homes that are on the market and homes that we're bringing to market," said Fannie Mae spokesperson Andrew Wilson. "Our goal is to sell as quickly as possible."

The outlook for shadow inventory has worsened considerably over the last year because of lender paperwork problems that have gummed up the foreclosure system.

A year ago, major mortgage servicers discovered that employees were systematically cutting corners in the foreclosure process, often signing thousands of false or incomplete legal documents each day.

As details of the "robo-signing" scandal began to spread, lenders hit the brakes on all foreclosures, setting off a yearlong slowdown that continues today.

Banks are struggling to prove that they have legal standing to foreclose, and it now takes them an average of nearly two years to repossess a property, according to data firm Lender Processing Services. In Florida and 22 other states where foreclosures are handled in court, the timeline is even longer.

More than a million foreclosures that were supposed to be completed this year have been pushed into the future, prolonging the housing crisis, real estate research firm RealtyTrac found.

In August 2010, before the foreclosure slowdown, banks repossessed more than 12,000 homes in Florida. In August 2011, there were only 5,000 repossessions.

Nationwide, there are some 2.2 million homes stuck somewhere in the foreclosure process, and many of those cases have completely stalled.

"I've got dozens of foreclosure cases in my office that started in 2008 and are still open, with lenders doing absolutely nothing to move these cases forward," said Miami foreclosure defense attorney Dennis Donet.

South Florida security guard Lebert Cosley, 65, has spent nearly four years fighting a foreclosure on his two-bedroom condo in Lauderdale Lakes. As the bank stalled the case while it searched for critical documents, Cosley's condo association decided to foreclose on him earlier this year, a practice that has become more common recently.

Living rent-free

Lenders are also waiting longer before taking action against homeowners who have stopped paying their mortgages.

Nearly two million homeowners who haven't paid their mortgage in three months or more have not received a foreclosure filing. About 800,000 of those have not made a mortgage payment in more than a

year, according to LPS.

While some of the holdup can be attributed to foreclosure prevention efforts – mortgage modifications, for example – several banks are using delay as a financial strategy, said RealtyTrac spokesman Daren Blomquist.

Lenders are basically letting delinquent homeowners stay in their homes as a lesser-of-two-evils option. Foreclosing more quickly would mean more empty homes and additional maintenance costs for banks to shoulder. Lenders, already dealing with a mountain of paperwork challenges for homes currently in foreclosure, would only be adding to their documentation woes by speeding up new filings.

"There are more distressed properties than their foreclosure departments can probably handle," Blomquist said. "Because the foreclosure pipeline is so full, the lenders have delayed foreclosing on those properties."

Additionally, banks are not selling homes fast enough to justify more aggressive foreclosure filings. Even at the currently slowed pace, national foreclosure starts are three times higher than foreclosure sales, meaning properties are being loaded onto the conveyor belt much faster than they are being taken off. In South Florida, where sales are up this year, the ratio of new foreclosures to REO sales is closer to one-to-one.

"It's kind of like a pig in a python," Blomquist said. "As you start to see more foreclosure sales, and that inventory is cleared out, then you'll begin to see more new filings."

But as lenders hold off on foreclosures as a matter of strategy, struggling homeowners are strategically gaming the system as well. So-called "strategic defaults" have grown in popularity.

Chae duPont, a Miami foreclosure defense attorney, said a growing number of her clients are opting to voluntarily default on underwater mortgages if they are unable to get a satisfactory loan modification.

"They're making a decision to continue living in the property for 18 to 36 months and then they negotiate a short sale," she said. "It's not an easy decision, but sometimes it's the only thing that makes financial sense."

Beverly Birge of Cooper City said many financial advisors told her to strategically default on her three-bedroom home in 2009 as her mortgage payments started going up right before she was to retire from her job as a teacher. Instead, she spent two years trying to do a mortgage modification, a process she said was hampered by lost documents and misinformation. The bank later agreed to accept a short sale, and Birge, 70, has been trying to sell the home since August.

"We haven't paid [the mortgage] since about April or May," she said. "Instead, we've taken that money and put it in a savings account, so that we will be able to rent when this is all over."

Alternatives

Nationwide, 2.5 million homeowners are 30 to 60 days behind on payments, a sign that the stagnant economy and tepid housing market continue to push more people into the foreclosure pipeline.

Given the grim outlook, lenders have begun to consider new alternatives to foreclosure. Short sales have increased this year, and real estate agents say the once-onerous process of selling a home for less than what's owed on it has become more streamlined.

Banks are also cutting deals with homeowners who agree to hand over the keys to a house, rather than

go through a legal battle. In some cases, lenders are forking over wads of cash to convince troubled borrowers to leave their homes amicably.

"We have been making enhanced financial relocation offers – primarily in states where the foreclosure timelines are extended," said Jason D. Menke, spokesman for Wells Fargo. "We've been offering as much as $10,000 or $20,000 to borrowers who are willing to do a deed-in-lieu or a short sale."

Birge said she is expecting to receive a $3,000 check when her short sale is completed.

A group of attorneys general has spent the past year trying to negotiate a settlement with major U.S. banks accused of wrongfully foreclosing on homeowners.

The process has been slow, as the banks have rejected calls for widespread principal reductions and public officials have called for steep penalties. California Attorney General Kamala Harris pulled out of the negotiations last month, saying the proposed agreement was "inadequate."

McCabe, the Deerfield Beach consultant, said it's in lenders' best interest to keep hundreds of thousands of struggling borrowers from entering the foreclosure pipeline, even if it means writing down principal balances for underwater homeowners.

"Unless they agree to do principal reductions coupled with mortgage modifications, these delinquent properties will eventually have to be sold," he said. "Which means more banks will fold, because they can't stomach those losses."

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Thieves target home sellers for prescription meds

SPRINGFIELD, Ohio – Oct. 14, 2011 – With prescription drug thieves targeting open houses, Realtors say home sellers need to hide or lock up their medications.

Buyers generally open medicine or kitchen cabinets while browsing homes, so Realtors recommend that sellers remove medicines or hide them in a ceramic container that cannot be opened without making noise.

Other good hiding places include under the bed or in the back of a bottom cabinet.

Sellers should also be encouraged to get ride of unused or unwanted medications.

Source: Springfield News Sun (OH) (10/11/11) Heffner, Jessica

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Baby boomers delay selling, but desire second homes

CHICAGO – Oct. 13, 2011 – The fragile economy is causing more baby boomers to delay selling their homes, even though they want to, according to a new survey from Coldwell Banker Real Estate, which surveyed about 1,300 agents to gauge home selling and buying behavior among the baby boomer generation.

However, there is still a strong desire for investment properties and second homes among this generation.

"The baby boomer generation has driven the U.S. economy for years, and like many Americans, they may be anxious about their next real estate decision," Jim Gillespie, CEO of Coldwell Banker Real Estate, said in a statement. "I know baby boomers are a very diverse group and cannot be described in generalities, but our survey clearly indicates that boomers who are financially secure are actively seeking to buy their retirement home, or a second home."

Among the survey's findings:

• More than one-third (34 percent) of real estate professionals say younger baby boomers (those aged 47-55) are interested in purchasing a second home. Meanwhile, about 22 percent of older baby boomers (ages 56-64) are interested in buying a second home.

• 31 percent of younger baby boomers (47-55) are looking to sell their current home and trade up to a larger home, while only 6 percent of older baby boomers desire a larger home. For the majority of baby boomers looking to downsize, their primary reason is for a simpler lifestyle.

Source: Melissa Dittmann Tracey, Realtor® Magazine Daily News

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U.S. homes do fire plan, but not drills

WASHINGTON – Oct. 12, 2011 – Many U.S. families have a home fire escape plan, but most never practice it or have a home fire drill, a survey indicates.

The National Fire Protection Association recommends planning an emergency escape route and practicing it twice annually, while other fire safety organizations promote monthly drills to improve reaction time in case of an emergency.

A survey by First Alert of 1,000 U.S. adults indicates 79 percent reported having a home escape plan in place in case of fire or other emergencies, but 51 percent have never practiced it and 29 percent have only practiced it once.

Deborah Hanson, director of external affairs for First Alert, a manufacturer of residential fire and carbon monoxide detection devices, said it's important to determine during home fire drills whether children and others can readily waken to the sound of smoke alarms. If they fail to awaken, make sure someone is assigned to wake them up as part of the drill and in a real emergency situation.

Allow children to master fire escape planning and practice before holding a fire drill at night when they are sleeping. The objective is to practice, not to frighten, so telling children there will be a drill before they go to bed can be as effective as a surprise drill, Hanson said.

The survey was conducted Sept. 15-18. The survey has a margin of error of 3 percentage points.

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Should a retiree borrow to get a federal tax deduction?

WASHINGTON – Oct. 12, 2011 – The good coming from today's otherwise bleak economy is some of the lowest interest rates in more than half a century.

So some people want to know if they should take advantage of that – to the point of refinancing more than what they actually owe on their home loan.

One 75-year-old wanted to ask certified financial planners if they thought it was a good idea for him to take out a $250,000 loan when he owes only $50,000. The extra $200,000 he could invest in relatively safe bonds, he said. Plus, he said he could deduct the mortgage interest on his federal income taxes.

Not so fast, said the planners.

What he wants to do is borrow to invest – and that's not such a good thing, especially for a retiree, said Matt Saneholtz, president-elect of the Financial Planning Association of Greater Fort Lauderdale, Fla.

"Many advisers suggest not having any debt during the retirement years and I tend to agree," Saneholtz said. He suggested the man ask his financial planner about the strategy.

And the retiree may not save as much in taxes as he thinks: If he's in the 25 percent tax bracket, then he saves only about a fourth of the interest he pays, Saneholtz said.

Also, borrowing to take a tax deduction may not be a good idea as Congress has been floating the idea of eliminating the mortgage interest deduction, said panelist Blair Shein, a former president of the Financial Planning Association.

Shein said he doesn't think that Washington will act any time soon to eliminate the popular deduction – but it may happen down the road.

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Wells Fargo: Fla. economy to grow slowly, but still outperform national average

NEW YORK – Oct. 11, 2011 – Wells Fargo released its Economic Outlook for Florida yesterday, and the news was positive, though not by much. The company says the state is recovering more quickly that the nation in general, but part of the reason is that the state fell so far during the crash.

Still, the recession officially ended in 2009 and Wells Fargo economist Mark Vitner say the chance of a second recession is relatively low. However, he also thinks the recovery will be anything but robust, calling it "incredibly sluggish."

For a housing recovery, jobs are key, and the report foresees a total of 40,000 new jobs added by the end of this year and an additional 64,000 in 2012.

Vitner says Florida's recovery seems to have some legs as it expands beyond the tourism and health areas. The report points to an upswing of jobs, albeit small, in retail and trade, as well as professional and business jobs.

Wells Fargo report predictions

• Foreclosures will continue to impact home prices.

• The number of foreign investors could decline. European money problems have dampened demand from across the Atlantic, while a weaker Canadian dollar has impacted the value to Canadians. The flow of investors from the Americas has also declined.

• People will continue to move to Florida, though at a still-subdued pace: an expected 110,000 in 2011

and predicted 130,000 in 2012.

• The Florida economy will continue to grow. Wells Fargo predicts 2 percent in 2011 and 2.2 percent in 2012.

• Floridians' personal income will also grow: 4.2 percent in 2011 and 4.3 percent in 2012.

• Home construction, while improving, won't hit its full stride again – 1.2 million new homes – until 2015.

The full Wells Fargo report is available online.

Source: St. Petersburg Times, Jeff Harrington

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Important factors when judging neighborhoods

NEW YORK – Oct. 10, 2011 – With home prices falling, buyers are looking for a neighborhood that has a greater likelihood of holding its value over the long term. But how do you know which neighborhood is doomed and which will appreciate over time?

According to Bankrate.com, judging a neighborhood's worth over the long haul comes down to two main factors: Jobs and access to amenities.

Andrew Schiller, creator of NeighborhoodScout.com, says certain signs suggest that long-term job opportunities exist. They include low unemployment, high household income, large or prominent colleges and universities, and seats of federal or state government. The Bureau of Labor Statistics is a good resource for jobs information, particularly its Local Area Unemployment Statistics map, which provides unemployment data by metro area and county. Another tool, its Current Employment Statistics, shows how many people are employed in different sectors of the economy in a certain area.

As for judging a neighborhood's amenities that can generate long-term value, Schiller cites characteristics like a neighborhood with a variety of nearby retail stores, low crime rates, parks, distinctive architecture and good public schools.

Source: "How a Neighborhood Holds Property Value," Bankrate.com (September 2011)

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Solar systems: Energy from sun can pay for panels in about 10 years

NEWPORT NEWS, Va. – Oct. 10, 2011 – Ben Cuker lives what he teaches as a professor of marine and environmental science at Hampton University in Hampton, Va.

Max Buzard lives what he sells and installs through Royer Technical Services, also in Hampton.

Both are solar power enthusiasts, living in houses that make the energy they use. Instead of just paying electric bills, they can get checks back from clean-energy brokers and the power company.

"Photovoltaic solar panels actually start paying for themselves right after installation," says Buzard. He estimates 10 solar panels in 235-watt sizes cost about $14,000 installed; add in a 30 percent federal credit, register for renewable energy credits and you pay for the system in less than 10 years.

"Our home has 25 solar panels of various sizes. We went from $225 per month on the budget plan to $70

a month – a savings of $155. In addition, we receive solar payments of $200 per megawatt generated. Last quarter, we received $400."

For the Cukers, the savings and payback are just as great.

"Dominion (Dominion Power Co. in Virginia) charges us about $8.25 a month for staying tied to the electrical grid, so we spend just under $100 per year on our electric bill," says Cuker, who shares the house with wife, Dawn.

"However, even though we use almost all the energy we make, we sell the credits for the renewable energy on the SREC (Solar Renewable Energy Credit) market. Since installing the first systems in 2009, we have made $1,940, which leaves us about $800 to the good each year, after subtracting what we pay Dominion."

SRECS are a way for utilities to buy the clean energy produced by anybody who makes solar energy and is tied to the grid, according to Cuker.

"Even though the homeowner uses most of the energy produced, the fact that it was done without burning dirty fuels is what is traded," he says.

"Current rates for SRECs are about $200 per megawatt."

Buzard's solar lifestyle includes a 33-foot-tall wind turbine that spins with the breezes at his waterfront home. But, he's not sold on wind turbines for individual homeowners.

"The bang for the buck just isn't there," says Buzard, 54. "I only get wind from 180 degrees because homes in the neighborhood block it at this height.

"For homeowners, solar panels are the way to go."

Buzard's solar panels are small, attractive units he installed on short poles camouflaged by shrubbery. Some are located on the roof of his boathouse. Microinverters attached to the panels convert the solar energy to power the house can use. The number of solar panels a house needs is based on its energy use, so cost varies from house to house. Typically, a turnkey installation with ten 235-watt solar panels runs about $14,000; add in a 30 percent federal tax credit and your cost is about $10,500, said Buzard.

Cuker, 57, wholeheartedly agrees about the solar panels, but he's taken it a step further, making some innovations on his own.

Living in their 1936-built house since 1988, Cuker wanted to showcase how an old house, not just a new house, can become near energy neutral, meaning it generates at least as much energy as it uses.

In 2009, he worked with Solar Services of Virginia Beach, Va., to install solar cells. Encountering a problem because the roof on the main structure has a roof line with east-west slopes, and not the desired southern slope, he designed and built a five-part solar awning on the south side to carry the solar panels. Each awning section supports two 215-watt panels, for a total of 10.

"We adjust the slope of the awning with the changing seasons to get the best angle on the sun and maximize production of electricity," he says.

The first year, the Cuker household made about 60 percent of their electricity needs. In 2010, Solar Services installed 10 additional panels on the east-facing roof of an addition on the house. Combined, the solar panels produce about 100 percent of the home's electricity needs now, including air conditioning for

summer.

In addition, the Cukers installed a solar hot water system. He also designed, built and installed a 20-foot-long “solar heat wall,” using acrylic panels that heat a back room; it costs about $500 in materials. A fourth system is a solar-powered attic ventilator he created with two small solar panels and two engine cooling fans for less than $200.

The Cukers’ cost for all this solar is offset by a 30 percent federal tax credit for the $38,000 spent on the photovoltaic system, meaning it cost them about $26,600. The solar hot water system, which cost just under $7,000, also got the 30 percent credit, as well as $4,000 from a special Virginia fund that encourages clean energy, helping the hot water system pay for itself within a year, according to Cuker.

During winter, the Cukers heat the house with a ventless natural gas log fireplace for about $250 for the season; they save about $30 per month by having the gas service stopped in April and restarted in November.

“The electrical system is tied to the grid,” says Cuker. “So we don’t store the energy we make, but share it with the Dominion system of distribution.”

Which means the house has a “net meter” installed on an exterior wall.

“It’s one that counts backward when we make more energy than we use,” says Cuker.

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New credit score reveals more about credit risk

NEW YORK – Oct. 10, 2011 – CoreLogic announced a new credit score service, CoreScore, which will give lenders greater insight into a borrower’s outstanding debts and help to understand their credit worthiness. The new CoreScore credit report, which will be available to lenders and consumers, will include credit-risk information, as compliant with the Fair Credit Reporting Act.

It will not replace current credit reports but aims instead to fill gaps in current credit score reports.

The report will help “lenders mitigate risk by uncovering debt obligations, and increase new lending opportunities by identifying previously hidden credit behavior that could improve a consumer’s credit profile,” CoreLogic said in a press release announcing CoreScore.

According to CoreLogic, the reports will include buyer information such as:

• Properties owned (with and without debt obligations)
• Mortgage obligations with companies that may not report to traditional credit reporting agencies
• Property legal filings, such as notices of default
• Property tax amounts and payment status
• Estimated market values on all U.S. properties owned
• Rental applications and evictions
• Inquiries and charge-offs from payday and online lenders
• Consumer-specific bankruptcies, liens, judgments and child support obligations

CoreLogic will pull the information from its real estate database, rental information and public records.

The National Association of Realtors® has published a handout Realtors may give to buyers that explains credit scores. For more information or to download, visit NAR’s website.

Source: "CoreLogic Launching New Borrower Credit Report," HousingWire (Oct. 3, 2011) and "CoreLogic to Act as Supplemental Consumer Credit Repository to Augment Traditional Credit Reports," CoreLogic (Oct. 3, 2011)

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30% of buyers denied or give up on mortgage

WASHINGTON – Oct. 10, 2011 – Credit has gotten tighter, and more buyers are being left out – or becoming so frustrated they give up. Last year, more than 2 million people were turned down for mortgages, according to the Federal Financial Institutions Examination Council.

About 30 percent of buyers are either denied a mortgage, or they drop out of the application process, the Mortgage Bankers Association estimates.

Biggest reasons for rejection:

• Insufficient income: Buyers cannot afford a $1 million home if they make $50,000 per year.

• Credit details. There are a lot of rules, and it's not easy to understand what a bank wants. Overtime income, for example, only counts if documented for at least two years to some lenders. Rental income may only count if the borrower has a 30 percent equity stake in the building.

• Bad credit. If a credit score is somewhere around 620 to 660, depending on the bank, lenders say no almost automatically.

• Appraisals. If an appraisal is lower than an agreed-upon selling price, the lender balks.

• External problems. A lender could nix an application if the homeowners' association has issues or the neighborhood has problems.

• Incomplete information. Paperwork problems – incomplete information, missing forms, etc. – bog down about 12 percent of applications.

And "it's common to get turned down if you have a gap in employment history over the last two years," says Erin Lantz, director of the Zillow Mortgage Marketplace.

Source: "Triggers for Rejection," The New York Times (Oct. 6, 2011)

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Some homebuyers bank on their parents

TOWSON, Md. – Oct. 6, 2011 – In 1991, Dan Driscoll of Towson, Md., and his wife, Theresa, wanted to buy a house, but the lowest mortgage rate they could find was 9 percent. Meanwhile, Driscoll's parents, who were retired, were earning 3 percent on their savings. At Driscoll's suggestion, his parents financed his $75,000 mortgage at a 6 percent rate.

Now, Driscoll has taken on a different role. Earlier this year, Driscoll's son Dan, 31, expressed interest in buying a larger home in his father's neighborhood. Instead of paying 4.5 percent for a traditional mortgage, Dan borrowed the money from his father at a 4.25 percent rate. The arrangement also enabled Dan to avoid paying closing costs, appraisal fees and other expenses charged by a traditional lender, Driscoll says.

Family mortgages work, Driscoll says, “if your children are honest, trustworthy and responsible.”

If financing a family mortgage was a savvy strategy in 1991, the logic is even more compelling now. Returns from the types of low-risk investments favored by retirees are tiny: The average rate on a one-year certificate of deposit is 0.4 percent. Mortgage rates also are at record lows, but tight lending standards have made it impossible for many young homebuyers to take advantage of them.

For Baby Boomers who are unwilling to risk their money in the stock market, financing a child’s mortgage “is an opportunity to create a win-win,” says Timothy Burke, chief executive of National Family Mortgage, a company that sets up and services intra-family loans.

To date, National Family Mortgage has helped families finance more than $12 million in loans, ranging from an $18,500 downpayment to a $1.17 million refinancing.

Jie Jiang, 33, and his wife, Natalie Leong, learned how tough the lending market has become when they applied for a loan to buy a condo in Los Angeles.

Leong recently graduated from medical school and has started her medical residency at UCLA, while Jiang is pursuing a post-doctoral fellowship in biomedical engineering. The couple had enough money for a 20 percent downpayment but were rejected for a loan, Jiang says.

“Before the financial crisis, (banks) were giving everybody a loan,” Jiang says. “Now, unless you have a 9-to-5 job, they won’t bother with you.”

One bank officer suggested that they get one of their parents to co-sign the loan, but that would have resulted in a mortgage rate of 5 percent to 5.25 percent, Jiang says. So instead of co-signing, Leong’s father offered to finance the loan. With help from National Family Mortgage, they set up a 30-year mortgage with a 3.85 percent interest rate. The couple moved into their condo in August. Based on their expected future income, they plan to pay off the loan in 10 years.

Burke says intra-family loans have enabled some of his customers to make all-cash offers, an important advantage in the increasingly competitive market for foreclosed properties. “They were getting beaten to the punch by other cash buyers,” he says.

Banks need to get approval from several parties before selling a home in foreclosure, and a cash offer makes the process much easier, he says. In addition, they don’t have to worry about whether the buyer will qualify for a mortgage, says Erin Lantz, director of Zillow Mortgage Marketplace, an online mortgage-shopping site.

When ‘gifts’ are loans

Most parents don’t have the wherewithal to finance an entire home purchase for their children. But even parents of modest means may be able to help their kids come up with a downpayment, and many do.

Erin Attardi, a Realtor in Sacramento, recently closed a sale for a young couple who received $20,000 from their parents toward the downpayment and closing costs. The couple relocated from San Diego and recently had their first child, Attardi says.

The gift allowed the couple to take advantage of soft housing market prices and record-low interest rates, Attardi says. “In a few years, we don’t know what interest rates will look like, and prices in Sacramento don’t have anywhere to go but up from this point.”

Increasingly, borrowers need to come up with a 20 percent downpayment to qualify for the lowest interest rates on mortgages. In some cases, they may need a downpayment of 20 percent or more to qualify for a mortgage at all. The Center for Responsible Lending estimates that it would take a typical household 14 years to raise enough money to meet that requirement.

In 2010, 9 percent of first-time homebuyers who made a downpayment received a loan from a relative or friend, up from 6 percent in 2009, according to the National Association of Realtors annual Profile of Home Buyers and Sellers. Twenty-seven percent said they received a gift from a friend or relative, up from 22 percent in 2009.

Burke believes that a significant percentage of those "gifts" were actually loans. "I have a hard time believing 27 percent (of homebuyers) got a no-strings-attached gift," he says.

Homebuyers who borrow money for the downpayment may have trouble qualifying for a mortgage. Lenders fear the obligation could prevent borrowers from making their mortgage payments. Many lenders require borrowers to provide a letter attesting that the money doesn't have to be repaid, Attardi says. The lenders also may require borrowers to show that the gift came from a family member, Attardi says.

Short of prohibiting gifts, though, there's no way for lenders to prevent borrowers from quietly repaying parents or other family members who help them with their downpayments, Burke says.

Such subterfuge isn't necessary for some types of mortgages, Burke adds.

The Federal Housing Administration, which insures mortgages that are popular with first-time homebuyers, allows buyers to borrow funds for their downpayments from their parents or grandparents. National Family Mortgage has structured several family downpayment loans for FHA-insured mortgages, he says.

Risks and pitfalls

When Dan Driscoll proposed a family-financed mortgage 20 years ago, his father was in favor of the idea, but his mother had qualms. She was afraid he wouldn't be able to repay the loan.

Those concerns were unfounded. Driscoll not only repaid the loan, he did it in seven years. However, parents who decide to finance a child's mortgage – or take the less-costly step of lending them money for a downpayment – need to consider the possibility that their child will default. That could lead to some uncomfortable Thanksgiving dinners.

"If it doesn't go well, that's not something you can walk away from," says Bill Emerson, chief executive of Quicken Loans. In addition, he says, parents don't have the same remedies in the case of default as a traditional mortgage lender.

Loss of flexibility is another drawback to a family-financed mortgage, Lantz says. "You're locking up a pretty big chunk of cash in an illiquid investment asset."

Some parents may be better off getting their own mortgage, buying a house and renting it to their children, Lantz says.

While interest rates for investor-owned properties typically are higher than those for primary residences, they're still at record lows, she says. Lenders on Zillow Mortgage are offering rates as low as 4.375 percent for investor-owned properties, vs. 3.75 percent for owner-occupied residences, she says. This strategy would let families take advantage of a soft housing market and low interest rates without tying up all of the parents' cash, she says.

Parents who decide to finance a child's mortgage or help with the downpayment also could run afoul of the IRS. Potential problems:

• **Gift taxes.** Federal gift taxes are designed to prevent wealthy taxpayers from escaping estate taxes by giving away all of their money before they die. In 2011, taxpayers can give away $13,000 per person without worrying about gift taxes. A married couple can give away $26,000 per person without filing a gift tax return.

Taxpayers who exceed that amount must file a gift tax return and the amount will be counted toward the total they're allowed to give away during their lifetimes, tax-free. For estates of individuals who die in 2011 or 2012, the lifetime exclusion is $5 million; however, that amount could fall back to $1 million in 2013.

The easiest way to avoid gift tax problems is to stay within the annual exclusion, which is expected to remain at $13,000 in 2012.

• **A loan with terms that are too generous.** A loan can trigger gift tax problems if the interest rate is less than the government's applicable federal rate (AFR) at the time of the loan. The IRS adjusts short-term, medium-term and long-term AFRs monthly. For October, the long-term AFR, which applies for loans of more than nine years, is 2.95 percent.

• **Missing out on tax deductions.** Interest paid on an intra-family loan is tax-deductible as long as the loan is registered with a government authority. An attorney can draw up the appropriate documents, or families can pay a company such as National Family Mortgage to do so.

Driscoll hired an attorney to prepare the documents for his son's mortgage and file them with the county courthouse. Financing a mortgage for a child "isn't a risk-free thing," he says. "But it's an option people should consider."

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