

## C.A.R. Mortgage Update

This week's *C.A.R. Mortgage Update* contains information about changes to FHA lending standards; Obama administration's steps to shore up the Federal Housing Administration program; three large banks issuing more than half of U.S. residential mortgages and its impact on taxpayers; changes to mortgage interest reporting; and the possibility of a new wave of foreclosures as many option ARMs reset to higher rates.

### **FHA will tighten credit standards**

Although the Federal Housing Administration (FHA) has confirmed that as of Sept. 30 it will fall short of its legal requirement to maintain supplementary reserves of 2 percent of the loans it insures, FHA Commissioner David Stevens says that it will not be seeking a taxpayer bailout.

Instead, to help mitigate losses, the FHA will tighten credit standards to rebuild the cushion to 2 percent or more, without raising the premiums borrowers pay or seeking an increase in its down-payment requirement of 3.5 percent.

Under the new rules, lenders making FHA-insured loans would need to show net worth of at least \$1 million, an increase from \$250,000. The agency is seeking to ensure that lenders have funds available to compensate the FHA if their loans fail to meet quality standards.

The FHA also will impose a maximum loan value of 125 percent of the current estimated home value on refinanced loans, in line with Fannie Mae and Freddie Mac.

Appraisals will be valid for no more than four months, a decrease from the previous six to 12 months validation period. The FHA also plans to implement appraisal changes adopted earlier this year by Fannie and Freddie. Mortgage brokers or bank employees paid on commission won't be allowed to order appraisers.

To read the full story, please click here:

<http://online.wsj.com/article/SB125328361187423115.html>

To view additional articles about new home loans, loan refinances, or loan modifications, please visit the following:

### **Obama bolsters program that insures home loans**

To read the full story, please click here:

[http://money.cnn.com/2009/09/18/news/economy/FHA\\_housing\\_trouble/index.htm?postversion=2009091815](http://money.cnn.com/2009/09/18/news/economy/FHA_housing_trouble/index.htm?postversion=2009091815)

### **Uncle Sam bets the house on mortgages**

To read the full story, please click here:

<http://online.wsj.com/article/SB125322329116020929.html>

### **A reckoning on option ARMs**

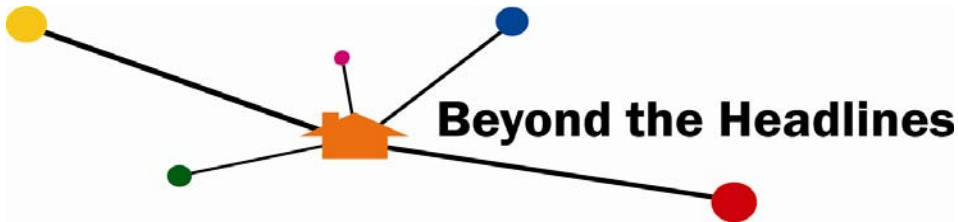
To read the full story, please click here:

[http://www.nytimes.com/2009/09/20/realestate/20mort.html?\\_r=1&ref=realestate](http://www.nytimes.com/2009/09/20/realestate/20mort.html?_r=1&ref=realestate)

### **Feds plan to tinker with mortgage interest reporting**

To read the full story, please click here:

<http://www.latimes.com/classified/realestate/news/la-fi-lew20-2009sep20,0,1828223.story>



Chicago Tribune

### **Short sales spread across real estate market, leaving frustration in their wake**

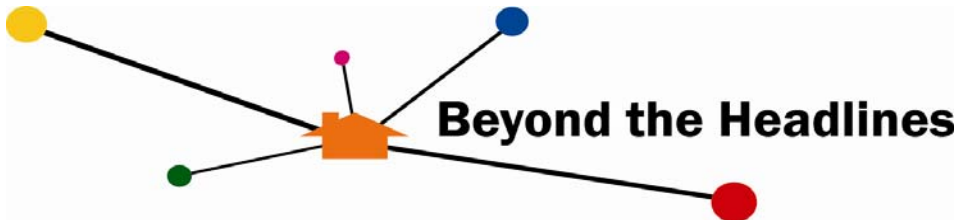
As more homeowners find themselves underwater -- owing more on their mortgage than their home is currently worth -- and unable to make the monthly mortgage payments, many are turning to short sales, which allow a homeowner to sell their home for less than owed on the mortgage. Short sales can be a win-win situation for all parties, because they enable home buyers to purchase properties in desirable neighborhoods and at favorable prices.

#### **KEEP THIS IN MIND**

- Theoretically, short sales should be a win-win for the bank and the homeowner. Although the bank does not receive the full amount owed on the mortgage, it also does not incur the costs of foreclosure and/or eviction, if necessary. Many homeowners also prefer short sales because it is less damaging to their credit scores than a foreclosure. However, many real estate experts say that the majority of banks are reluctant to approve short sales, and often let properties go into foreclosure, even when there are reasonable offers on the property. In addition to considering the price, most lenders also take into consideration whether the homeowner can demonstrate financial hardship. If the homeowner is capable of making payments, many lenders will try to work out a loan modification, rather than a short sale.
- Unlike foreclosed properties, which may be run-down and vacant for many months, short-sell properties are likely to be better maintained, as most owners may still live in the home.
- Short sales often are more time intensive than traditional transactions and often require additional paperwork. Due to the large number of offers on short sales, many take as long as a few months to receive approval. If information or required forms are missing or incomplete, the bank may set the offer aside, which could delay the process and cause the property to go into foreclosure. To expedite the process, sellers should work closely with their REALTOR® to provide all of the necessary paperwork
- Working with a REALTOR® who has experience with short sales can help both sellers and home buyers during the transaction. A seasoned REALTOR® will be able to serve as the mediator between the seller and the lender, and lead to a successful transaction.
- It is important to remember that in a short sale, although the seller may be anxious about selling the property and willing to accept any offer, it is ultimately up to the lender to determine if, and at what price, the property can be sold. Home buyers should work closely with their REALTOR® to submit realistic offers.

To read the full story, please click here:

<http://www.chicagotribune.com/classified/realestate/chi-sun-short-sales-0920sep20.0.5529436.story>



## In Other News...



San Francisco Chronicle

### **U.S. home prices rise 0.3 percent in July**

U.S. home prices rose slightly in July from a month earlier, according to a government index, further evidence the housing market is stabilizing.

To read the full story, please click here:

<http://www.sfgate.com/cgi-bin/article.cgi?f=/n/a/2009/09/22/financial/f072850D08.DTL&type=realestate>



CNN Money

### **1.4 million Americans score \$8,000 tax credit**

More than 1.4 million Americans have already claimed the new tax credit for first-time home buyers, according to a report from the Internal Revenue Service.

To read the full story, please click here:

[http://money.cnn.com/2009/09/17/real\\_estate/homebuyer\\_tax\\_credit\\_claims\\_soaring/index.htm?postversion=2009091815](http://money.cnn.com/2009/09/17/real_estate/homebuyer_tax_credit_claims_soaring/index.htm?postversion=2009091815)



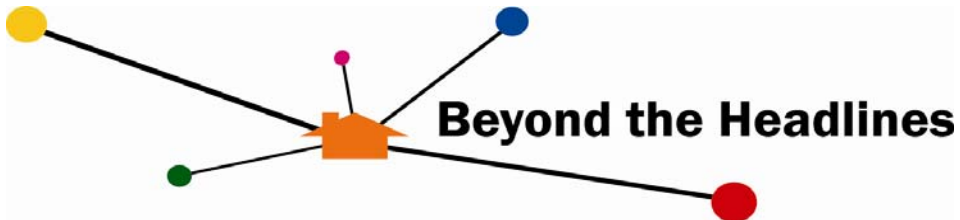
The Wall Street Journal

### **Want the home buyer tax credit? Don't shop for furniture**

With the deadline on the first-time home buyer tax credit looming, plenty of buyers are under contract and looking to close before Nov. 30. Excited to move into a new home, some of these first-timers start hitting the stores shopping for new furniture, appliances, or curtains. Big mistake.

To read the full story, please click here:

<http://blogs.wsj.com/developments/2009/09/18/want-the-home-buyer-tax-credit-dont-shop-for-furniture/>



Los Angeles Times

### **Homeowners who “strategically default” on loans a growing problem**

Research using a massive sample of 24 million individual credit files has found that homeowners with high scores when they apply for a loan are 50% more likely to “strategically default”—abruptly and intentionally pull the plug and abandon the mortgage—compared with lower-scoring borrowers.

To read the full story, please click here:

<http://www.latimes.com/classified/realestate/news/la-fi-harney20-2009sep20,0,2560658.story>



San Francisco Chronicle

### **\$30 billion home loan time bomb set for 2010**

Next year, many option ARM payments will begin to readjust, slamming borrowers with dramatically higher monthly mortgage bills. Analysts say that could unleash the next big wave of foreclosures—and home-loan data show that the risky loans were heavily used in the Bay Area.

To read the full story, please click here:

<http://www.sfgate.com/cgi-bin/article.cgi?f=/c/a/2009/09/20/MNOR19N2B1.DTL&type=realestate>