The Journal

Government & Community Affairs
Monterey County Association of REALTORS

Investing In Your Future....
Your Realtor Action Fund Dollars Work For You!

May 20, 2008

Primary Election on June 3rd

The MCAR BORPAC Trustees have conducted interviews and have made the following decisions. The BORPAC Trustees act independently of the MCAR Board of Directors. Their decisions are also "recommendations" to the MCAR membership.

The BORPAC Trustees have endorsed and supported Ila Mettee-McCutchon, Monterey County Supervisor District 4.

The BORPAC Trustees chose to take a neutral position in the Monterey County Supervisor District 5 race, and to not endorse or support either Dave Potter or Don Ask.

The BORPAC Trustees sent a letter to CREPAC firmly supporting Senator Jeff Denham.

MCAR is urging REALTORS® to support Proposition 98 and oppose Proposition 99 when they vote in the upcoming statewide primary election in June.

CAR Legislative Day in Sacramento on June 4th

Don't miss CAR's annual Legislative Day in Sacramento on June 4, 2008. Legislative Day is an opportunity for REALTORS from across California to meet with their state legislators to discuss the issues that directly affect the real estate industry. Attending Legislative Day is not only a great investment in your business, but it will also provide you with opportunities to hear from the state's most dynamic political leaders and attend a fabulous reception.

The schedule this year is jam packed with wonderful events. Leaders of the state Legislature have been invited to address us at the Morning Briefing.

CAR will present the 3rd annual California REALTOR Showcase during the June business meetings in Sacramento. Taking place at the Sacramento Convention Center, the free Showcase will feature numerous exhibit booths to help REALTORS stay informed about the latest real estate products and services. The Showcase also features a 2008 Mid-year Forecast Luncheon, a CE credit course on foreclosures, and a seminar on short sales (fees apply).

The afternoon Member Director Forum is an excellent opportunity to voice your opinions regarding the future of the real estate industry with CAR leadership. This is especially important for those REALTORS who do not attend CAR business meetings.

The conclusion of this great day will be the Capitol Reception. This ticketed event has been a huge success over the past few years, and is held to thank REALTORS who contribute at least $197 a year to CAR's political activities through the REALTOR Action Fund (RAF). If you want to increase your contribution from $49 to $197, or if you have not contributed at all and want to pay your $197 PAC contribution, please contact the MCAR office.

Remember to mark June 4, 2008 on your calendars. Legislative Day is not just a chance to mingle with your colleagues, but for you to invest in your business.

Attend the MCAR/Region 10 Legislative Day Luncheon on June 4th

http://mcar.com/PDF/reg10legday.pdf

Pacific Legal Foundation Annual Contribution

The Monterey County Association of REALTORS® has made its annual contribution to the Pacific Legal Foundation. The Pacific Legal Foundation prides itself on being an action-oriented organization that gives the highest priority to carrying out a high-caliber, aggressive litigation program strategically targeting harmful government edicts. The impact of their legal program affects the public interest at the local, state, and federal levels, and therefore, does not escape the media's attention. PLF has been a valuable asset to the Monterey County Association of REALTORS® in the past.

Articles of Interest

Housing Industry: Tax Credit Would Boost Sales
Birmingham Business Journal (05/19/08); Hoover , Kent
The National Association of Realtors (NAR) and the National Association of Home Builders (NAHB) are lobbying in favor of a tax credit for first-time home buyers, which was included in legislation recently passed by the House. The one-year tax credit of up to $7,500 would provide down-payment funds that would be repaid to the government over a 15-year period. NAR chief economist Lawrence Yun predicts the credit would boost home sales to 6.5 million per year from 5.5 million, calling it "a restoration of home sales to the pre-boom years." While NAHB predicts a more modest jump in sales of 100,000, CEO Jerry Howard says the tax credit would allow existing homeowners to sell to first-time buyers and trade up. Howard hopes the Senate versi on will forgive a portion of the tax credit based on how long homeowners remain in their homes or boost the amount of the tax credit while shrinking the period of time it is available in order to further stimulate the housing market. However, the Bush administration says it will veto the package if changes are not made, as it opposes a provision permitting the refinancing of $300 billion in problem mortgages by the FHA.
(More)

Fannie Is Poised to Scrap Policy Over Down Payments
Wall Street Journal (05/16/08) P. A3; Hagerty, James R.
Fannie Mae on June 1 will end a policy that mandates higher down payments in "declining markets," or those where property values are falling. The policy was opposed by the National Association of Realtors and the National Association of Home Builders, as well as affordable housing advocates, because it hurt affordability at a time when housing markets already are distressed and priced many prospective buyers out of the market. The government-sponsored enterprise recently approved a new policy that will adopt across-the-board maximum loan percentages for owner-occupied, single-family properties. While Fannie Mae continues to offer some zero-down programs, the maximum mortgage amount is 97 percent for those approved by its automated underwriting program and 95 percent for other borrowers. Freddie Mac also has a declining markets policy, but it offers some flexibility in that neighborhoods with stable or rising home prices--despite depreciation in the entire metropolitan area--are not considered declining markets.
(More - Subscription Required)

Credit Scores, Not Income, to Govern FHA Insurance Rates
Chicago Daily Herald (05/16/08); Harney, Ken
The FHA could institute risk-based insurance pricing on all of the loans it insurers by mid-July, basing premiums on FICO scores and down payments rather than on income. A study of all approved mortgages insured by the agency in fiscal 2007 showed a median income of $53,388 for borrowers with credit scores between 500 and 559, while borrowers with higher scores of 680 to 850 actually earned less--a median of $48,756. Thus, FHA officials say the new policy will benefit many low-income borrowers. Currently, all borrowers pay an upfront premium of 1.5 percent and a yearly renewal premium of 0.5 percent. The new policy would impose an upfront premium of 1.25 percent and an annual renewal premium of 0.5 percent for borrowers with credit scores over 680 who make at least a 10-percent down payment on a 30-year mortg age. However, an upfront premium of 2.25 percent and an annual renewal premium of 0.55 percent will be charged to borrowers with credit scores between 500 and 559 who make down payments of less than 5 percent. FHA says that, under the new formula, "a larger number of low-income borrowers [will] benefit from premium reductions than... moderate-, middle- and upper-income borrowers combined."
(More)

Market bottom exists -- how to get there
Guest perspective: No real estate death spiral here
By Sean O'Toole, Tuesday, May 20, 2008.
Inman News

I spend all day every day looking at and working on foreclosures. It can be depressing. And given that the primary causes of foreclosure are price declines brought about by excess inventory, created in part by foreclosures, it's easy to see how the doom-and-gloomers argue that we are in a self-reinforcing death spiral with no bottom.

In reality, nothing could be further from the truth. There is a bottom, and the gloom will clear.
Let me explain.

Nearly all residential appraisals are based on comparable sales -- comps. However, most commercial appraisals rely more on the "income capitalization" approach to valuation. This latter method, applied to residential real estate, casts a lot of light on the market run-up and can help you find the bottom of the bust in your market.

The idea with the income-capitalization approach to home valuation is that rents (income), minus expenses and divided by investment (sales price) equals the return on investment (capital). This return on capital is commonly referred to in the industry as the "cap rate" and should be considered analogous to the percentage return you'd receive on other investments like stocks or treasuries. So, for example, a commercial building with a cap rate of 6 percent on a $1 million investment should be expected to generate a return of $60,000 per year.

If you look at cap rates for residential real estate over the past few years it isn't hard to see we've had a problem during this time.

In my neighborhood, houses that were selling for $850,000 at the peak of the market rent for about $2,000 per month. After deducting property taxes and insurance (assuming zero maintenance and zero vacancy), the cap rate is about 1.5 percent, or a "one and a half cap." Now let me ask you: How is this a good investment? You might want to answer "appreciation," but keep in mind that unless rents increase, rising prices only continue to lower the cap rate. Thus appreciation is fundamentally limited by the growth of rents (or how bad of an investment one is willing to make).

Looking forward, you can quickly and easily estimate where the bottom might be in your market by taking local rental rates, multiplying by 12, subtracting taxes and insurance, and dividing by a reasonable cap rate. A reasonable cap rate will vary, going as low as 2 percent for a trophy property in a fabulous location to 12 percent or more in high-crime areas.

Like I said, no self-reinforcing death spiral.

The one reform I'd really like to see come out of the foreclosure mess is the death of the comparable sales appraisal approach in lending. By tying lending limits to local rents, we can ensure that homes remain a great investment for everyone. In places like Stockton, Calif., where prices have fallen as much as 40 percent, cap rates are quickly becoming attractive. While inventories are still downright scary, agents are seeing a noticeable uptick in sales. You can actually buy rentals that cash flow. Renters can afford to buy with traditional 30-year fixed-rate financing. Smart parents that thought negative-amortization ARMs were lunacy are now willing to help their kids, who are now using conventional loans. And enterprising Realtors capitalizing on this new opportunity by letting buyers know they can help find bargains are doing just fine.
If you are in an area where sales are slow and prices have not yet corrected, you may want to secretly hope they do soon. And stop working against yourself by trying to convince everyone that your market is special and can't possibly go down. Buyers won't come knocking until you do. It's going to be a really hard transition for banks, builders, recent buyers and owners that used their homes as ATMs, but despite the best efforts of legislators and regulators, only lower prices will get this market going again.

And don't buy into the message that prices have no bottom. They absolutely do -- largely determined by rents and cap rates.

Just do the math.

Sean O'Toole is founder and CEO of ForeclosureRadar. His blog is located at Foreclosuretruth.com.

Monterey County Board of Supervisors Agendas