

How to Mess up your Home Mortgage Approval

What is this “buyback” stuff I hear about the mortgage industry? Read this article:

<http://www.latimes.com/business/la-fi-harney-20100718.0.1118453.story?track=rss>.

I have a personal story about this: I have been working to refinance my own home over the last few months (yes, *months*. It's excruciating) The appraisal that was done in May came in at \$688,000, which was fine for my purposes. Then it turns out that the lender did a review “desktop” appraisal, which means they looked on the computer for all the sales

numbers in Eagle Rock, kind of like Zillow does. So the lender hires a licensed appraiser who thinks my house is worth \$688,000, and then they arbitrarily throw that number out. Guess what value they decided to go with—\$475,000!!! Without going into boring details, let's just say that is a ridiculous number for my incredible house.

Those of us who have been involved in such loan and appraisal nightmares question whether these lenders are interested in actually doing any

business. They appear to have taken our bailout money and stuffed it in their vaults. Well, they have done that partly to show the reserves that they have to have to prove that they are solvent. There is Catch-22 all over the place here. By that, I mean that as the value of the properties has dropped, the value of the collateral they can claim if the mortgage defaults has dropped, and you have this vicious circle of declining values.

So what is the solution? Some people are just paying cash for

properties. That's great for those who can afford it. Also, some mortgage and real estate professionals are doing a good job of documenting the values and working with appraisers who know the area they are appraising and can give realistic opinions of value. The bottom line is that if you want to buy a house, work with the best people you can find, be patient, and do everything on your end to ensure as smooth a transaction as possible.

Here is a great article every home buyer should read: http://m.cnbc.com/us_news/37826133.

(Mortgage cont. on page 2)



Views of Eagle Rock, Northeast Los Angeles, and nearby neighborhoods
TRACY KING, CRS, GRI, SRES, E-PRO CERTIFIED REALTOR

August 2010

In this Issue:

* How to get through your mortgage approval (pg. 1 and 2)

* What an FHA 203(k) loan is, and how it works in today's market (pg.1 and 2)

*NELAart Gallery Night (pg.2)

*The number 1 tip for home buyers that most people forget (pg.2)

*The Highland Park real estate renaissance (pg. 3)

*What the market is doing *now*, an explanation of the market numbers (pg.3)

*How you can help the Humane Society (pg.4)

* My recent real estate activity, since June 1 (pg. 4)

If you need real estate information in between newsletters, don't forget to check out my blog at www.TracysLARealEstate.com! Of course you can always email any questions you have to tracy@tracyking.com.

Follow my twitter feed @EagleRockRealtr for more tidbits on the community and interesting homes I see around town.

FHA 203(k) Program: what's the deal?

Right now there are a lot of good deals to be found in the Northeast Los Angeles area, but the problem is that most of them are distressed properties. While the current market looks like it offers a lot of first-time home buyers an “in” to home ownership, it's hard to find a property that really makes sense when the buyer sees that they are going to have to put a lot of cash into making most homes liveable.

Most people are aware of FHA loans – allowing buyers to make a 3.5% down payment and therefore allowing more people with good incomes but not a lot of cash to get into the market. (For those that don't know – the Department of Housing and Urban Development [HUD] has put in place various single-

family mortgage insurance programs through the Federal Housing Administration [FHA]). The tricky part is that FHA loans have strict requirements as to the condition of the property that FHA candidates can purchase. FHA lenders have more stringent appraisal policies, so issues like peeling paint or unpermitted additions won't fly.

This is where the Section 203(k) program steps in. 203(k) loans are HUD's primary method for the rehabilitation and repair of single-family homes. These renovation loans allow buyers to purchase and renovate a home with one loan, rather than having to come up with the cash for repairs, or make multiple loans with high interest rates in order to get their new

home in shape, or to try to negotiate the sellers into completing enough repairs that the lender is satisfied with their loan security (a.k.a. your home). So what's the deal with 203(k) loans?

Program Benefits:

- Mortgage based on the value of the property after improvements have been made
- Perfect solution to older home problems (like deferred maintenance and out-dated systems)
- One escrow closing and then repairs begin (sellers avoid having to make the repairs themselves)

(FHA cont. on page 2)

(FHA cont. from pg. 1)

- Enables buyers to buy a foreclosure property without having the cash to do the needed repairs

Eligible Repairs:

- Roofing, gutters and downspouts
- Interior and exterior painting
- Room additions and garages
- Kitchen and bath remodels
- New appliances
- Flooring, tiling and carpeting
- Major landscaping, decks, and fencing
- Structural alterations and additions

- Modernize plumbing, heating, AC and electrical systems
- Install or repair well or septic system
- Energy conservation improvements
- Improvements for accessibility (i.e. handicapped)

Now that all sounds fantastic, and everyone is probably wondering what the catch is. Here's the deal: there are many homes being listed in the area for under \$300,000. That's fantastic around here and a lot of people start to think that they can afford to become home buyers (especially with the FHA program!). Well, all the investors who have tons and tons of cash are also

excited by the possibilities this market holds and they are snatching up properties like they're candy bars. We are seeing this happen over and over again with buyers trying to get into the market and being outbid by all-cash offers. Or maybe there isn't an all-cash offer, but it's a multiple offer situation and a home that started out in your price range quickly shoots out of your bracket. So to even get into escrow with *any* kind of loan can be tricky. To get an offer accepted with an FHA loan is even trickier.

So what's the solution? Maybe it's time to think outside the box. Instead of rushing to bid on the latest \$250,000 foreclosure in Highland Park, how

about looking at some of the properties that have been on the market for a while, or have come back on the market? What if you look at a different zip code than you have been? Or, maybe, you should look at increasing your purchase price? After all, if you are able to buy a home that is in better condition, you will have less to spend your savings on.

Home ownership is possible for many, but with today's market some creative thinking is needed to make it happen.

For HUD's complete description on the Section 203(k) program go to <http://www.hud.gov/offices/hsg/sfh/203k/203kabou.cfm>.

NELAart Gallery Night

One of my favorite Northeast Los Angeles (NELA) events is the Second Saturday Gallery Night, put together by NELAart. It's a self-guided tour of the galleries, non-profits and artist-run project spaces located in the Eagle Rock, Highland, Glassell and Cypress Park neighborhoods.

In just a few of the times I've gone I have seen some amazing quilts at Future Studio, the ever-fascinating recycled art at Mor-York, a vintage pinball machine exhibit at Kristi Engel gallery, and the Avenue 50 collection of galleries offering a variety of ethnic paintings, sculptures and crafts. In addition to great art, the food truck craze has joined in on the night and you can get some tasty food while you're wandering around the neighborhood.

NELAart is a group of galleries and art organizations who are

dedicated to increasing the visibility of the thriving arts community in the area. It provides a resource to share information and ideas, and assist in promoting galleries and organizations.

The next Second Saturday Gallery Night is August 14, and I highly recommend it as a way to explore the area and find some neat art by local artists. Another fun way to check out the art is by joining the Spoke(n) Ride tour and exploring on bicycle.

To see a map of the galleries and art spaces that are included and get more information on NELAart, visit <http://www.nelaart.com/>. To stay updated on Second Saturday Gallery Night, follow them on Facebook!

For more information on the Spoke(n) Ride tour, visit <http://bikeoven.com/spokenart/>.

Home Buyer Tip #1 (Mortgage cont. from pg. 1)

Change the locks on your newly purchased home.

Illustrating the fact that you have no idea who might have copies of the keys to the home, how about the story (from <http://LAist.com> on July 6, 2010) of a drunk 16-year-old who used the keys from his former house to get in and then pass out naked in his previous bedroom.

It is common sense when you think about it, but it is amazing how many people don't get around to having the locks re-keyed when they take ownership. The cost is negligible compared to the damage and loss that could happen.

These three moves have always had a bad effect on your smooth close of escrow, but with the "buyback" problem that this article alludes to, it has become a really critical issue. Briefly, if you are in the process of getting a mortgage to buy a property, **don't do** these three things:

1. Get a new credit card or auto loan
2. Increase your credit card balances at all
3. Change jobs

Believe me, you will have a much easier time of getting through escrow and into your new home!

TracyTalk is written & published by Tracy King, Realtor Please contact me if you want to subscribe or change your subscription. It's free, whether you want snailmail or email!

- **Blog:** www.TracysLARealestate.com
- **Twitter** @EagleRockRealtr
- **Facebook:** www.Facebook.com/tracy.king
- **Website:** www.TracyKing.com
- **Email:** Tracy@TracyKing.com
- **Office:** 626-844-2256 • **Cell:** 626-827-9795

Highland Park Renaissance (To Stage or Not to Stage?)

Highland Park (90042 zip) is undergoing an interesting renaissance. This area lost about 50% of the average price value in the 2 years from the peak to its valley, between 2007 and 2009. When prices dropped that low, a number of investors began buying properties, fixing them up and re-selling them.

I sold a small 2-bedroom 1-bath fixer in Mt. Angelus last year for \$235,000. The investor did a huge amount of work including a reworked foundation, listed it for \$429,000 and it sold for \$455,000 in March of this year.

Even the fixed-up price seems pretty reasonable compared to hip areas like Silverlake and Los Feliz, and so the re-birth has begun. Companies like Better Shelter are going in and doing quality flips. They install good quality systems, artful paint

schemes, nice finishes—and then they go all out and stage them even at the lower priced level. It pays off, too. The house at 4955 Meridian was listed for \$499,000 and sold for \$540,000 earlier in the spring.

Does staging make a difference in the ultimate sales price? It's hard to say. The flip done from the one I sold last year wasn't staged, but the one on Meridian was. It seems to be trendy in Highland Park to stage homes these days. There was a property on Lincoln listed for \$399,000 and designed by Native Homes LA that was staged and went into escrow within 3 weeks of listing. My listing on Range View (also listed for \$399,000) was staged and went into escrow after just 2 weeks. The key to how staging works is that it makes the property look really

attractive and in top condition. It also helps prospective buyers imagine how their own furniture might work in the house such as where the television might go, or if a breakfast table and chairs would fit in that corner. It can be difficult for a buyer to figure out a completely blank canvas especially if the floorplan is less than ideal.

Price is just as important, however. If any of these homes had been priced too high, the staging wouldn't have helped. When you see properties selling for over asking, you know that more than one buyer thought enough of the home to bid on it.

Location is the last piece of the value puzzle. Here is where the condition and the price are essential. There is a property in

a very less-than-desirable part of Highland Park near the freeway that looked adorable in the photos and was priced well for the rest of Highland Park, though not really that inexpensive for that particular area. It went into escrow 11 days after it was listed.

So what's the answer to the staging question? Some sellers feel that if it's priced under \$500,000, it doesn't need staging because the low price will sell itself. Others stage any priced home. While it costs money to hire a stager, the money is probably justified by selling the house quicker, possibly with more offers, maybe pushing the price up a bit. If you have a property that has an odd floorplan or is vacant, you may want to consider some staging. If you want tiptop dollar, you probably want to do everything you can to get it. **Don't you?**

What's going on with the market now?

Last year (2009) in Eagle Rock, closed sales consisted of 42% foreclosures and 17% short sales, so 59% of total sales were "distress sales." So far this year (2010), closed sales consist of 17% short sales and 12% foreclosures, or 39% of the total. This is interesting in itself—the short sales are representing more of the closings than the foreclosures are, and even more than that, regular sales are now dominating the market (thank heavens). But here is something even *more* interesting: of the active listings, 28% are short sales and 9% are foreclosures and of the pending sales, 47% are short sales and 12% are foreclosures. That means that 59% of the pending sales are distress sales, the same percentage as the closed sales of last year.

If you're not as involved in the numbers as I am, let me put this into perspective for you:

A disproportionate number of pending sales are short sales, but how many actually ever close escrow? Not that many, not even this year—actually the same percentage as last year. Again, almost half the pending sales are short sales, but only 17% of the closed sales are short sales. So even though all the news articles and the common word on the street is that short sales are happening more frequently and easily, is that really true? Apparently not in Eagle Rock. And the number of sales this year is only slightly better than at the same time last year.

The good news about regular sales has been hard won. Prices are not bouncing back, as we property owners had hoped

they would. From a graph of the last 15 months showing average sales prices in Eagle Rock, we see that we are better off than the bottom of last year, but every month zigs up and down because we don't have a lot of sales (see the graphs on my blog.) The fact that the two highest sales this year both closed in May makes it look like prices went up in May and down again in June. This isn't a true trend, it is very house-specific. It just happens that over half the 11 sales in June were distress sales. In May, only one of the 11 sold was a distress sale. So far in June and July, we had several 2 bedroom, 1 bath houses sell for \$500,000 and over—all but one were regular sales. This is positive for sellers.

What's the bottom line for buyers in Eagle Rock today?

There are some really good deals on the market today and with the historically low interest rates, this is a great time to buy even without a tax credit. There are also a few houses that have, shall we say, overly ambitious prices that are not exciting. But even so, the inventory is pretty low and when a well-priced property comes on the market, we see a lot of buyers come to see it.

Which leads us to the bottom line for sellers: there doesn't appear to be a recovery of prices back to 2007 levels in the near future (5 years? 10? don't know). If you have a reason to move and you have enough equity in your home, now is as good a time as any to price it right and move on. If you are buying something as well, chances are you will get a good deal. And the low interest rates will help you and your buyer.



FIRST CLASS MAIL
U.S. POSTAGE
PAID
Pasadena, CA
Permit #740

Email: Tracy@TracyKing.com

www.TracyKing.com

Coldwell Banker ©388 South Lake Avenue ©Pasadena, CA 91101 © 626.844.2256 © Fax: 626.440.0455



On September 26, I will join thousands of others at Brookside Park, just south of the Pasadena Rose Bowl for the 12th annual Wiggle Waggle Walk for the Animals. The funds we raise will benefit the Pasadena Humane Society & SPCA, and will help them to care for more than 11,000 animals a year. Please help to save the lives of animals by making a donation today.

Or come to my **fun fundraiser** at the Colorado Wine Company on Thursday, August 19, 7-9 pm that will benefit both the Wiggle Waggle Walk and the Los Angeles North Central Shelter at 3201 Lacy St, 90031. Check my blog for more details. To RSVP, please email me at tracy@tracyking.com. I can also send you the links to donate to either directly. I hope you will be as generous as you can — not for me, but for the animals. Thank you so much for your help.

My Recent Activity (Since June 1, 2010) See www.TracyKing.com for details and latest updates.

- Active:**
- 4946 Wiota Street, Eagle Rock.** \$429,000. Cosmetic fixer with 3 bedrooms, 2 baths, Palos Verdes fireplace. Great value, you just have to have vision!
 - 5312 Sierra Villa Drive, Eagle Rock.** \$549,000. Craftsman cottage with 2 bedrooms, 1 bath, full attic and guest house.
 - 2168 Estes Rd, Eagle Rock.** \$1,100,000. Newer Mediterranean with 4 bedrooms, 3.5 baths, high ceilings, gourmet kitchen, huge 25,000 sqft lot. Available August 8.

In Escrow:

4918 Rangeview Drive, Highland Park. \$399,000. (S)

(B) I represented Buyer

(S) I represented Seller

Sold:

- 1132 Wotkyns Drive, Pasadena.** LP \$1,095,000/SP \$1,030,000. 1925 Mediterranean on street-to-street by the Rose Bowl. (S)
- 4876 Argus Drive, Eagle Rock.** LP \$449,000/SP \$485,000. Updated Spanish with 2 bedrooms, 1 bath, and full basement. (S)
- 4958 Vincent Avenue, Eagle Rock.** LP \$479,000/SP \$490,300. 3 bed., 2 baths w/lots of original charm, on a cul-de-sac. (S)
- 5212 Loleta Avenue, Eagle Rock.** LP \$525,000/SP \$525,000. Fixer with 4 bedrooms, 2 baths north of Colorado Blvd. (B)
- 1329 Avenue 45, Highland Park.** LP \$369,000/SP \$410,000. Clean 2 bedroom, 1 bath traditional with mountain views. (B)
- 5331 Candace Place, Eagle Rock.** LP \$469,000/SP \$500,000. Mid-century traditional w/ quality upgrades on cul-de-sac north of Hill Dr. (S)
- 841 Ganymede Drive, Mount Washington.** \$399,000. Rustic Big Sur-style house plus 2 lots. Major fixer. Really cool (S)

Volume 11 Issue 3