What's New in the Market? A lot!

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Whether good or bad, this market has kept things interesting here at Silverton!
We thought we'd use the newsletter article this month to list some of the changes in the business; what types of loans are still available; what is no longer available; and what are some unknowns. Along with products, the biggest change in the industry really just involves documentation. Banks are very, very conservative right now, so they tend to ask for more documentation than they did in the past when approving loans for closing. So, get out that box in the attic and dig out your fourth grade report card because they might ask for it! With more paperwork comes more time, so loans are just taking a little longer to get closed; however, 30 days for standard purchase and refinances is still the norm here at Silverton.

Hopefully this is helpful information as you go into the winter months and consider a possible refinance, a move, a home renovation, a second home purchase or even an investment property purchase.
What is available:

1. **There are still a few 100% programs.** These are a little tougher to get, but are still available; however, these seem to be changing daily and are usually offered for first time homebuyers only.

2. **Investment property loans.** Require a little more down (in most cases 20% or more), but rates are very good and of course there are lots of bargains out there for investors!

3. **FHA/VA**. These programs have really taken the lead in rates and availability. FHA allows borrowers to put 3% down (to go to 3.5% after January 1, 2009) and has some of the most competitive rates in the industry. FHA even allows the 3% to come from a family member as a gift and is a great product for a first time homebuyer. VA of course is just for veterans and offers some great rates, requires 0% down and has no monthly PMI!

4. **Construction loans.** These will take longer to get closed than in years past, but there are a few banks that still offer them. We estimate 60-90 days to get completed (in years past, it was 30-45); but the terms are still pretty attractive and allow borrowers to use the future value of the renovation.

5. **Equity lines.** As expected, the underwriting guidelines are tighter and the banks don't allow borrowers to pull out quite as much equity; but the terms are great right now as they are based on Prime (which is nearing an all time low).

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6. **Conventional loans (Fannie Mae/Freddie Mac).** These actually haven't varied that much as they tended to already be fairly conservative. Long term rates are good (we are looking at fixing in loans for clients that are currently in ARM products). Where rates will go is anyone's guess of course, and we have witnessed a lot of volatility in this market. (We've had weeks during which the rate had .75% movement, which makes things very difficult to predict).

7. **Jumbo loans (which are loan amounts-not the purchase price or appraised value- that are over $417,000).** Zip codes dictate this loan amount; but $417K is consistent for most of the southeast. ARM products are the most attractively priced products currently for Jumbo loans. Fixed rates are still inordinately high. Equity has become key in the market though, with most banks requiring 10-20% down for some markets.

8. **Piggyback loans (split loans- the most common formats are 80/10/10 or 80/15/5's).** These types of products are still available; however, becoming less popular as FHA and loans with PMI become a more viable option in rates and pricing. When running these scenarios for clients, we find in a lot of cases that the other alternatives provide better monthly options and even future benefits.

9. **Interest only loans**. There are fewer options than in the past, but they are still available, mainly in the jumbo market. The jumbo interest only ARMS are priced well and still available; however, a larger equity position is usually required (sometimes up to 20-25%).

What is no longer available:
1. **Stated income loans.** We've found that this impacts the self-employed borrower the most. Unfortunately, we haven't found any banks currently offering this option. Of course, we hope these types of products will be offered again. We agree that they shouldn't be offered for everyone, but if someone has great credit, a large amount of equity or down payment, and liquid reserves in the bank, stated income products shouldn't be considered risky. (What's hurt this market is that these products were opened to everyone--zero down, lower credit scores, and standard income qualifying borrowers, as opposed to the self-employed who tend to have "tricky" income sources to document.)

2. **Investors with multiple properties.** Most banks have taken the stance that investors with more than four financed properties are no longer eligible for financing. The guideline in years past used to be ten, and is now taken down to four. Of course, this seems very stringent as there are plenty of real estate investors that own more than four properties, have never made a late payment and are excellent borrowers. We hope these products become available again in the near future in order to assist our investor clients (as well as help the real estate market improve as a whole--investors are the folks who need to buy some of the oversupply that is on the market!).

3. **Condos with lower down payments/equity positions.** There are still plenty of loans available for borrowers in the condo market; however, smaller down payments are all but taken off the table. 5% or more down is often required and the condo development itself has to meet certain criteria.

The Unknown:
1. **The biggest unknown right now is the "bailout plan" and how that will be used to help current homeowners.** From what we understand, some banks are beginning to

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offer some form of renegotiation to homeowners that are currently behind. It will be based on providing evidence that the delinquency is due to outstanding factors out of the homeowners control (loss of job, property values declining combined with an adjustable rate, etc.) and based on current income levels. It appears that terms will be revised and in some cases, rates could be lowered (along with lengthening the term, for example to 40 years from 30 years to lower the monthly payment). Unfortunately, it appears that only homeowners that are currently delinquent are eligible, which would be interesting in the fact that it almost forces people to pay late when they might have been paying on time.

3. **Rates.** Based on current market conditions, in a "normal" market, rates would be lower. However, there is very little perceived security in any investments related to mortgages, so instead of people putting their investment dollars into securities backed by mortgages, they are simply taking the money and converting it into cash. This has caused rates, even though they are good, to remain higher than what they might be in a different environment. Will they get lower? It's tough to say. Once the market perceives value in mortgages again, rates could improve. However, inflation at some point could be a pressure in the opposite direction and push rates higher.

4. **Property values.** This hasn't affected us here in the Atlanta market as much as some areas of the country, but it does come into play as far as underwriting decisions. Appraisers are required to comment on the specific home's market stability and the results of the appraisal can affect the type of product for the borrower. It can mean that a larger down payment may be required in some cases and in some server areas (areas that have a large percentage of foreclosures), it can limit the loan products available.

This is a lot of information to absorb and the market, as we said, is changing daily. So, please don't hesitate to give us a ring if we can answer any questions or concerns you might have!

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