



## Stimulus Package Impacts California Housing Market

*With a new stimulus package of \$787 billion to spend, the Obama administration is spreading the wealth over multiple economic sectors in hopes that at least one will ignite a recovery.*

Among the highlights of the Housing and Economic Recovery Act of 2009 (Public Law 110–289) are generous incentives offered to homeowners, lenders and home buyers. They include:

### **The Home Buyer Tax Credit**

An \$8,000 tax credit available to first-time homestead home buyers who purchase after January 1, 2009, and before December 1, 2009. This credit does not have to be repaid, and is taken as a deduction at income tax time.

### **New FHA, Fannie Mae and Freddie Mac Loan Limits**

The bill increases loan limits to an amount equal to 125% of the 2008 local area median home price, or \$271,050 for FHA, and \$417,000 for Fannie Mae and Freddie Mac. Conforming and FHA new existing loan limits have been raised to \$729,750 in most areas of Southern California as a result of the new stimulus plan.

### **Neighborhood Stabilization**

Division A, Title XII of the bill provides \$2,000,000,000 in additional funding for the Neighborhood Stabilization Program (NSP). The NSP helps provide grants through the Community Development Block Grant program (CDBG) to aid local neighborhoods decimated by foreclosures.

### **Relief for Homeowners**

An estimated one-third of homeowners are “underwater” in their mortgages, according to the Pew Research Center for the People & the Press. The stimulus includes a loan modification program to slow the rate of foreclosures and help troubled homeowners get their loans reset by their current lenders.

### *Are you really underwater?*

First, “underwater” is a relative term. Even in the healthiest of markets, equity is built over time.

Second, the description doesn’t take into consideration the extremely generous tax benefits already in place for homeowners. The Tax Relief Act of 1997 puts most homeowners well into the plus column, even in declining markets.

Third, most homeowners are underwater if they’ve recently purchased a home, regardless of the rise or fall of their local housing markets. Amortization schedules suggest that it takes approximately four years of house payments to cover the closing costs of buying and selling and begin producing a capital gains profit.

### *A work in progress*

The stimulus program could be modified because homeowners who are paying their mortgages in full and on time dislike seeing taxpayer money used to bail out others.

Steve Cook, editor of the Reecon Advisory Report, points out that the devil’s in the details.

“The plan is a broad outline,” says Steve Cook. “What qualifies ‘responsible’ homeowners to refinance through Fannie or Freddie? Who determines if homeowners are at ‘risk of imminent default’ when they haven’t missed a payment? What happens to the Hope for Homeowners program?”

Until these questions and more are answered, it’s difficult to predict who will ultimately benefit from the stimulus package.

### *Incentives for lenders*

Banks such as Bank of America, JP Morgan Chase & Co, Citigroup and Wells Fargo have voluntarily put a temporary moratorium on foreclosures through the first weeks of March, in anticipation of government assistance in modifying troubled mortgages.

To keep banks engaged, the new stimulus loan modification program targets troubled loans owned or guaranteed by Fannie Mae or Freddie Mac.

Loan servicers will receive \$1000 per loan for eligible loans and monthly fees as long as the borrowers remain current on the new modified schedule designed to bring their payments within affordable income-to-debt ranges. Banks will also receive incentives for allowing borrowers to sell short (less than their current mortgages are worth) and for taking deeds in lieu of foreclosure.

A new \$10 billion fund will also provide participating lenders with insurance on modified loans “linked to declines in the home price index,” Cook says.

All these incentives are designed to keep homestead owners in their homes. The program is not for speculators, investors or owners of vacation or second homes.

To aid the secondary mortgage market, President Obama’s plan also includes \$200 billion from the Treasury Department to purchase preferred stock in Fannie Mae and Freddie Mac.

The effect for home buyers should be sustained low interest rates.

*(continued)*

## State Tax Credits for Home Buyers

In addition to the federal stimulus package, California lawmakers have approved a \$10,000 tax credit on the purchase of unsold and new construction for any home buyer, not just first-timers, who purchases a home after March 1, 2009.

California buyers are benefiting from unprecedented price reductions, and that has fueled an unprecedented gain in housing sales. A new report by MDA Dataquick shows California housing sales in January 2009 are up 53.9 % to 29,458 over the lackluster 19,145 sales in January 2008.

Affordability is high. The median home price now hovers at about \$224,000, down 10% over December 2008 and down 41.5% from January 2008, when the median price was \$383,000.

Home buyers now enjoy the buyer's trifecta: low housing prices, high inventories, and low mortgage interest rates. Prices are rolled back to 2003. Inventories are as high as they were during the recession of the 1990s. And home mortgage interest rates are at an all-time low of 5.0% for benchmark 30-year-fixed-rate conforming loans.

## A positive outlook

The California assembly has allocated \$100 million for the credit in the recently approved state budget, enough to trigger as many as 10,000 home purchases.

"Some 711 California buyers applied for \$6.9 million worth of credits in the program's first 11 days. Industry executives hope the credit will boost sales as much as 15%," says David Lereah, co-founder of Reecon Advisors. As buyers reenter the market to take advantage of these new incentives, the window to buy at the bottom could close quickly.

According to the California Economic Forecast Project's director Mark Schniepp, a combination of factors is causing housing to tread water, including a weakening commercial market with retail closures, a drop in tourism, a sharp decline in manufacturing, and mounting layoffs.

## Don't Believe Everything You Hear ... Mortgage Money is Out There

The rumor that mortgage money is unavailable couldn't be more false, according to Michael A. Reza, president of HomeServices Lending, California.

"Qualification standards have tightened," he says, "but money is available across a number of segments."

Rates are ranging from 4% to 7% depending on whether the loan is Variable or Fixed and Conforming or Jumbo. In general, qualification is easier if you have full documentation, good credit and good reserves.

In some cases, lenders may require a down payment of 25% or more on conforming or jumbo loans and 5% or more on FHA loans.

In a market front-loaded with 40% of homes for sale bank-owned, Reza suggests that home buyers consider the FHA 203k Rehab loan to help them make improvements.

In addition, he says that luxury market money is available through a variety of wholesale lenders' products via banks like Wells Fargo.

## SAN DIEGO COUNTY

Throughout 2008, housing softened in San Diego County, with new listings outpacing homes absorbed by the market. The county was among the last in California to succumb to the housing recession which began in 2006, and it should be among the first to recover.

Home prices fell over 33% in 2008, but renewed affordability shot sales trends up over 60% for the year.

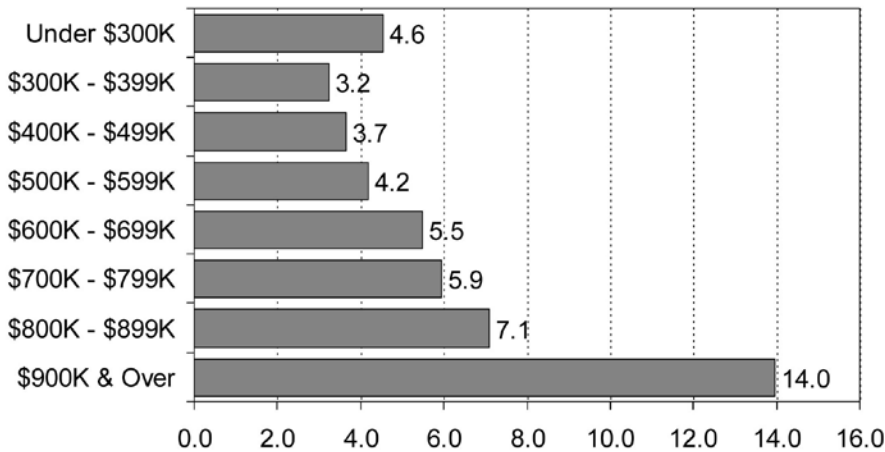
Throughout 2008, new listings and those sold in the marketplace were fairly balanced, suggesting that homeowners planned to hold tight through the downturn. But by January, 2009, new listings increased by approximately 25%, in anticipation of the stimulus, as well as a protracted period of consumer jitters.

Yet absorption also improved. With more homes on the market (4,847) in January, almost three-fourths of that number sold (3,042). The sales pace improved even more in February with new listings at 4,343 and an absorption rate of 3,388 units.

Like other coastal areas, San Diego inventories are heavier in homes requiring jumbo loans to purchase – those priced \$800K and above. There are over 14 months of inventory on hand for homes priced \$900K and above.

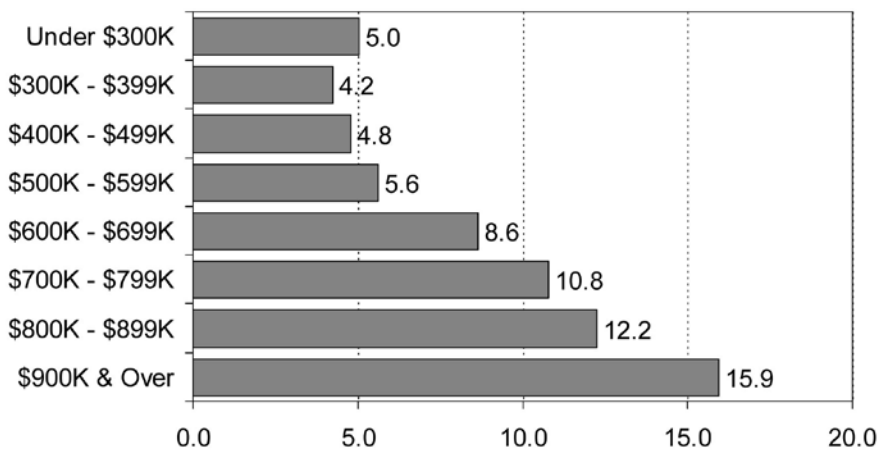
However, homes that can be purchased with conforming loans, particularly those priced between \$300K and \$699 are selling briskly.

Detached Properties - Inventory in Months



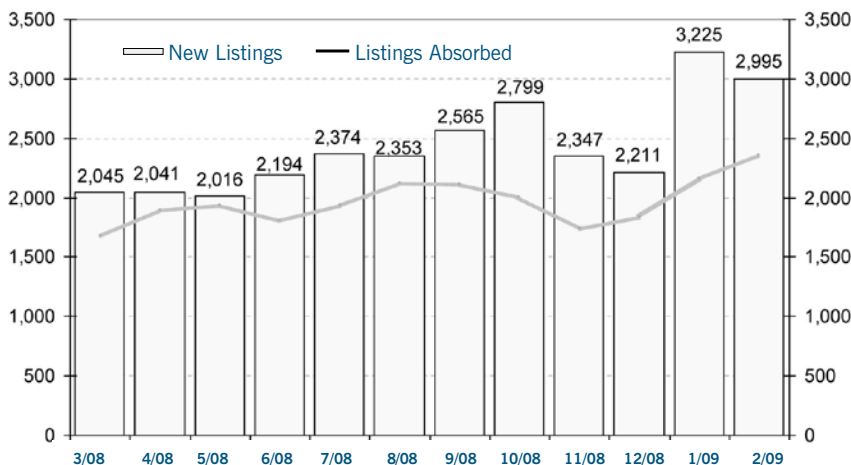
A balanced market is said to have six months of inventory on hand. Single-family homes priced under \$799K are in a seller's market, when inventories are depleted faster than six months on hand.

Attached Properties - Inventory in Months



Attached homes at conforming home levels are selling at a seller's market pace with far fewer than six months of inventory on hand below \$599K. Above conforming loan levels, sales are more sluggish, but below the national average.

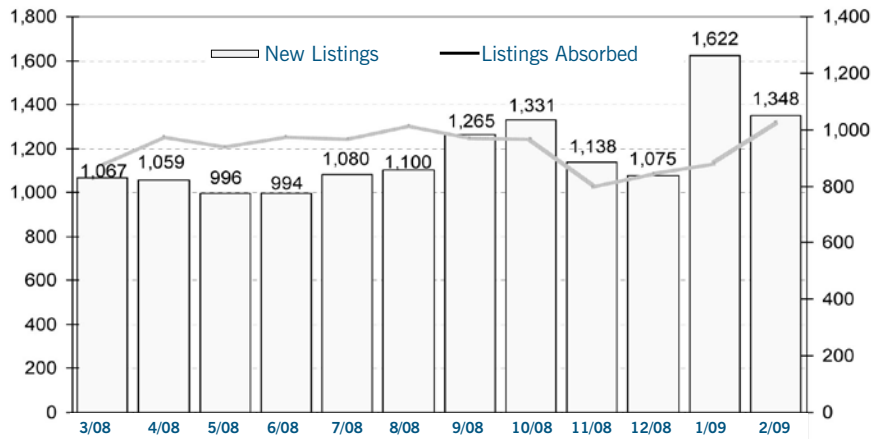
Listing Taken and Absorbed - 12 Months through February, 2009



Single-family homes in San Diego County experienced quicker absorption rates beginning in December 2008, following a decline between September and November in 2008. Again, this suggests a brief recession in sales, and a positive outlook for recovery in all price ranges.

|                   |      |      |      |      |      |      |      |      |      |      |      |      |
|-------------------|------|------|------|------|------|------|------|------|------|------|------|------|
| New Listings      | 2045 | 2041 | 2016 | 2194 | 2374 | 2353 | 2565 | 2799 | 2347 | 2211 | 3225 | 2995 |
| Listings Absorbed | 1678 | 1898 | 1936 | 1812 | 1933 | 2124 | 2110 | 2008 | 1741 | 1841 | 2163 | 2362 |

### Listing Taken and Absorbed - 12 Months through February, 2009

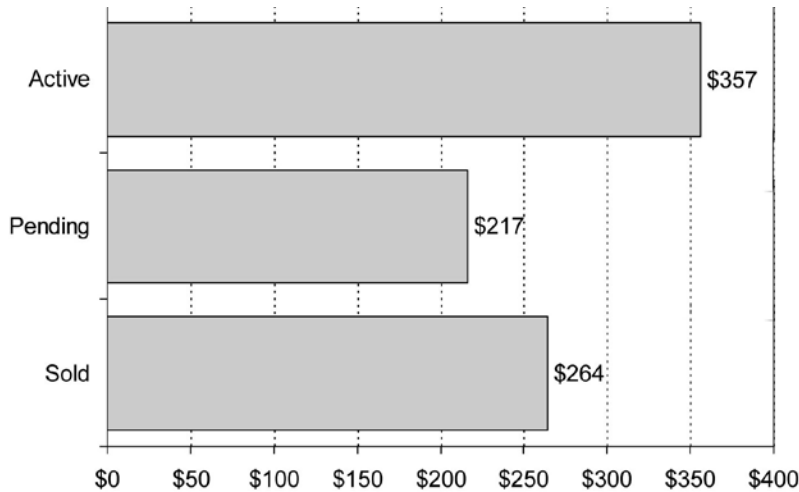


|                   |      |      |     |     |      |      |      |      |      |      |      |      |
|-------------------|------|------|-----|-----|------|------|------|------|------|------|------|------|
| New Listings      | 1067 | 1059 | 996 | 994 | 1080 | 1100 | 1265 | 1331 | 1138 | 1075 | 1622 | 1348 |
| Listings Absorbed | 877  | 976  | 938 | 975 | 968  | 1013 | 970  | 969  | 798  | 846  | 879  | 1026 |

Following a dip in confidence in October and November 2008, the absorption rate against new listings improved dramatically beginning in January 2009.

The stimulus, which began in January 2009, has improved inventory absorption in the conforming loan price ranges causing list price per square foot to look high compared to sold and pending rates in both single-family and attached homes.

### List Prices Per Square Foot by MLS Status - Detached Properties



Sellers should carefully consider current buyer demand when pricing their home. When list prices per square foot for pending and back up status properties are below that of active properties, sellers should seek the advice from their agent.

### List Prices Per Square Foot by MLS Status - Attached Properties

