

## Open House: Home buyers encounter stricter mortgage financing guidelines

by *Jim\_Woodard*

Many home buyers, particularly first-time buyers, are very happy to see home prices dropping. However, they now face tougher requirements in finding mortgage financing for their newly purchased residence.

Mortgage interest rates have been slowly rising, but they are still low, compared with past years. That's the good news. But most lenders are now requiring larger down payments and higher credit scores before accepting an application. They don't want to be burned again with more foreclosures.

During the period from July 2006 to June 2007, about 45 percent of first-time home buyers opted for 100 percent financing of their new homes, according to a report from the National Association of Realtors. The median percentage that first-time buyers financed was 98 percent of the home's price.

"No-down payment loans are still happening, but with a lot more restrictions than before," said Barton Pitts, president of Downers Grove, a mortgage firm.

Today's borrowers have to verify their income and their financial assets to lenders in most cases. There are few lenders who accept no-documentation or low-doc mortgage applications, it was noted by Frank Nothaft, chief economist for Freddie Mac, a major government-sponsored buyer of mortgages.

"The FICO credit score of 660 to 680 is now the minimum most lenders will consider to prove a borrower's creditworthiness," Nothaft said.

Some industry leaders now say that a 5 percent down payment on a home purchase is normally the minimum amount required in today's market.

"First-time home buyers in many markets will soon need even more money for a down payment - maybe a minimum of 10 percent," said Guy Cecala, publisher of Inside Mortgage Finance. "And I think before too long we're going to see the required down payment up to 15 to 20 percent."

In today's market, it's even more important to look for and find the right mortgage lender or broker - there's many good ones out there. Look first for one with a solid, success-proven record as a true professional. Then search for one who can offer the type of loan that meets your needs.

Q: Where are the most severe mortgage-related problems?

A: Florida, Nevada and Michigan are the states experiencing the greatest problems with mortgage foreclosures, according to a study and report by the Mortgage Asset Research Institute, LLC, for the Mortgage Bankers Association.

"The current market conditions, compounded by mortgage fraud, are having a detrimental impact on our entire national economy," said David Kittle, chairman-elect of MBA. "This report provides critical insight for those in the real estate finance industry to better understand the factors contributing to these circumstances."

The most common type of mortgage-related fraud during the past year was false information on employment history and claimed income listed on applications, the report noted.

Overall, last year marked the lowest volume of mortgage loan originations since 2002 and the highest number of delinquencies and foreclosures. The year also saw a rapid and near complete shutdown of the non-conforming secondary market, and hundreds of announced closures of mortgage originators, the report stated.

Q: Are there any special real estate investment opportunities today?

A: Investors who like to buy homes and multiunit structures for rentals are finding that college towns are among the most potential markets. While most property values are declining, those in college towns are generally rising, and there is always an ample supply of renters (students and others) in these areas.

It's more than just a large population of students that makes these areas appealing to investors. Retirees and professionals are increasingly selecting a college town for their residence due to its special lifestyle and availability of cultural activities.

One study of these markets found that 17 of 25 college towns outperformed their respective states in terms of home price appreciation last year. In Palo Alto, Calif., home to Stanford University, median home prices increased 15 percent last year compared with the previous year, while overall real estate prices in California dropped by 9 percent. In Austin, Texas, home of the University of Texas, prices increased by 6 percent, but values in the rest of the state remained flat.

Another note for real estate investors: There is an increasing demand for storage condominium units designed to accommodate recreational vehicles.

Many cities are passing regulations prohibiting the parking of large RVs on city streets. The RV market is expanding, while the availability of storage is shrinking. That combination spells higher storage prices and a more viable opportunity for investors.

"Up until now, the only alternative to RV storage was to rent a space," said investor-developer Ted Deits. "We are now offering fully enclosed garage-type storage units designed specifically for the storage of RVs that are owned, not rented. Storage rental rates have risen so high, it now makes perfect economic sense to purchase a storage unit."

Q: What's the Federal Reserve doing about the mortgage crisis?

A: Federal Reserve Chairman Ben Bernanke recently proposed four key actions to alleviate the mortgage crisis.

Those actions include prohibiting lenders from issuing loans that borrowers can't repay, making lenders verify the income and assets of the borrower, requiring escrow accounts for higher-priced loans, and banning repayment penalties.

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