

October 24, 2008

Dear Friends and Clients,

This October newsletter is a bit late because Leslie and I were at a real estate conference last week in Florida!

Last month, we mentioned a Western myth that the Chinese word for "crisis" is composed of two characters: **Crisis = Danger + Opportunity**. The concept is still true! People ask us all the time what we think about the market, and in short, here's our reply:

- Sellers** - Don't sell!
- Buyers** - Buy (but see under what conditions!)
- Investors** - Cautious – is this close to the "bottom"?

Here's why:

**Sellers** - unless you're selling to move up or down (which is okay), or must because of job transfer or major life disruption such as death or divorce, you're putting your home on the market at a historically soft time (the holidays), plus your home value's been decimated. We think later next year will be a better time than now.

**Buyers** - we believe there are phenomenal values out there because of foreclosures. This past year, despite all the doom and gloom in the marketplace, people have been voting with their wallets and the number of home sales here is **HOT**. See actual monthly statistics on our blog at [www.VenturaRealEstateBlog.com](http://www.VenturaRealEstateBlog.com). Interest rates for FHA loans are below 6%!

Under what conditions should you buy? 1) You are buying this property as your home. You're not secretly thinking of "flipping" it sometime in the future for profit. Now you're a speculator, not a home owner. 2) You have a good job, are buying within your means and feel your job is relatively secure. 3) You are willing to see your home value go down somewhat next year if the market place is still trying to find "bottom" before it goes back up again. Your mind set is that this property is your "nest".

**Buyers – come to our REO Caravan of North Oxnard homes in the \$325 – 400k range on Saturday morning, November 15<sup>th</sup> - 9 homes in 90 minutes - wow!**

**Investors** – great values now, but is this "the bottom"? The problem for investors is that they try to buy at absolute "bottom", but you never know where "bottom" is until you see it in your rear view mirror. We believe this quarter and next quarter will be close to "bottom".

Why do we believe this? **Because the Fed and Washington want it, and are determined to make it happen**. In short, Washington wants to stop foreclosures. Second, they want to "modify" the loan terms of those who can't pay (stopping *those* loans from going into foreclosure). Third, they want home values to stabilize and go back up.

Finally, the majority of active listings here in Ventura, Camarillo and Oxnard are REOs and short sales. Once the REOs currently on the market are sold, and once a homeowner who was facing foreclosure gets his loan modified (can make his payments and doesn't need to sell), we believe there will be a drying up of inventory. **If that happens, we believe a reduced supply of inventory will begin to move price points up**. More details on the back!

Have a great upcoming holiday season!



Detailed info for the **REO Caravan** is on our website at:

[www.DonNelsonTeam.com](http://www.DonNelsonTeam.com)

For regular updates on trends, opinions, analysis and other stuff, visit our blog at:

[www.VenturaRealEstateBlog.com](http://www.VenturaRealEstateBlog.com)

Finally, lots of talk from Washington on “helping Main Street” and helping “homeowners”. What does that *really* mean?

Washington wants to stop foreclosures and here’s how. First, the Feds forced the 9 largest banks to accept billions of Fed (taxpayer) money. There is intense political pressure on the banks to stabilize the housing market. Second, this will primarily be done through “loan modifications” which means the terms of a loan will be changed. Principal can be reduced, interest can be reduced, the loan can go from variable rate to fixed rate, etc.

The FDIC now “owns” IndyMac. IndyMac has about 60,000 non-performing loans. The FDIC stopped virtually all IndyMac foreclosures. Sheila Bair stated they’ve put about 40,000 of those loans on loan mod, and they’re working on the other 20,000 loans.

Last week, Countrywide/Bank of America stated they’re doing loan mods on about 400,000 loans, dropping some rates to 2.5% and reducing principal and interest rates to levels the homeowner can afford.

But what does this really mean? **Warning!** If you’ve been faithfully making your mortgage payments because you’ve been a conscientious homebuyer, you may not like what you’re going to see next...! Here’s how a loan mod might work:

Countrywide states: “**Pay Option ARM** borrowers accepting a streamlined loan modification option will have the negative amortization feature eliminated from their loan. The mortgage interest rate will be reduced to **as low as 2.5%**, and the loan will be converted into either a fixed-rate mortgage or a ten-year interest-only loan. **For single property owners who currently have no equity in their homes, Countrywide will write-down the principal balance to as low as 95% of the current value** of the property to restore an equity position.”

	You (Responsible buyer!)	Me (flaky buyer!)
Paid for new home in 2003	\$600,000	\$600,000
Down payment	10% = \$60,000	Nothing down
Loan(s)	\$540,000	\$600,000
Interest	6.5%	7%
Today’s value	\$400,000	\$400,000
<b>After I get my loan modification (whoppeeeeeee!!)</b>		
Loan	You’re still stuck...	\$380,000
Equity	Big fat zero!	\$20,000
Interest rate	6.5% (bummer for you!)	2.5%

This is why so much rage and consternation is “out there” about Washington trying to “help” “the homeowner” and “Main Street”. The insurance industry calls it “moral hazard” – rewarding someone who conducts risky behavior. But it is what it is. For all of our friends and clients (all of you are under the “Responsible buyer” column!) – hang in there & don’t grit your teeth so hard!

Last, we love your referrals! If you know anyone thinking of buying or selling, please tell them about us! We tell it straight!