

Eastern Michigan Real Estate Investment Association

Eastern Michigan Real Estate Investment Association

Is it curtains for the 30-year mortgage? Marilyn Lewis MSN Real Estate

May 2011

If the government stops subsidizing mortgages for the middle class, home loans could look a lot more like they do in other countries. That could mean the nation's favored mortgage could nearly disappear.

After more than 40 years of subsidizing and boosting homeownership, the federal government is talking about backing away. The Obama administration wants to eliminate federal guarantees for home loans for all but creditworthy buyers "with modest incomes" who otherwise could not get a mortgage from a private lender, according to a report that the administration gave to Congress in February.

Change like that could make buying a mortgage more expensive. Americans' favorite home loan, the 30-year, fixed-rate mortgage, would lose ground against other mortgage types.

There's even talk that the popular 30-year loan could become extinct, though that's unlikely.

"There would definitely be fewer 30-year mortgages, but they would not disappear," says Dean Baker, co-director of the Center for Economic and Policy Research in Washington, D.C.

It's all talk, at this point, about how to shrink, change or eliminate Fannie Mae and Freddie Mac, the two huge, government-run corporations that have kept costs low for middle-class homeowners by guaranteeing home loans.

Massive defaults by homeowners, along with management and accounting scandals at Fannie and Freddie, are costing taxpayers hundreds of billions of dollars. Even

political rivals agree it's time for a new approach.

The debate among regulators, economists, politicians, consumer advocates and lobbyists could continue for years before Congress passes a plan, experts say. After that, any changes would be phased in slowly over many more years.

Meanwhile, homeowners may wonder how this change could affect mortgages today and in the long term.

What's happening to 30-year mortgages?

Today, 80% of all mortgages are 30-year, fixed rate, "conventional" loans, Freddie Mac says. "Conventional" means Fannie and Freddie can guarantee them, as long as they're below a maximum amount, so they're cheaper. By spreading lower payments over decades, conventional loans are more expensive in the long run, but they've allowed many people to buy a home.

At the tail end of the housing boom in 2008, the conventional loan's market share dropped as low as 67%. But at least 80% to 90% of all mortgages since 1990 have been conventional, Freddie Mac says.

But if the government eliminates the guarantee for conventional mortgages, buyers might look at other loan types.

"Without the guarantee, I think long-term, fixed-rate mortgages will still exist, but they'll be higher priced, and there'd be less of them, says Michael Lea, director of the Corky McMillim Center for Real Estate at San Diego State University. "You wouldn't see 90%, but you'd see maybe 30%."

Inside this issue:

Presidents Letter	2
Is it curtains for the 30-year mortgage... continued	4
Walking away from closing	6
How your credit score is calculated	7
How to buy a house that's easy to rent	8
Home Inspections Six Reasons to Inspect the Attic	8
Six things to know before you buy that Short Sale	9
How to Rent Out a House	10

EMREIA is now set up to do TRAK-1 full tenant screens.

See last months

Newsletter for details.

cont'd on page 4

President's Letter

Repeal of Expanded 1099 Reporting Requirements

By Matthew M. Wallace, CPA, JD

For you rental property owners and businesses who were dreading the implementation of the new 1099 reporting requirements, you need not fret anymore. On Thursday, April 14, 2011, President Obama signed into law the Taxpayer Protection and Repayment of Exchange Subsidy Overpayments Act of 2011. This new law repeals parts of other new laws passed last year regarding the expanded 1099 reporting requirements that were to start January 1, 2011 and January 1, 2012.

As part of last year's Small Business Jobs Act, starting January 1, 2011, record keeping for rental property owners was to become a little more complicated. As a rental property owner in 2011, you were supposed to keep records of all payments to painters, plumbers, accountants, handymen and any other individuals or partnerships who did any work for you with regard to your rental properties. If those payments exceeded \$600 in 2011, then in early 2012 you were going to have to file a 1099 with both the IRS and the service provider.

The provision in the 2010 Small Business Jobs Act that made rental property owners subject to the 1099 reporting requirements has been repealed by last week's passage of the new act. The result is for 2011, you as a rental property owner do not have to report payments in excess of \$600 in a year for services provided by individuals or partnerships for the benefit of your rentals. No more 1099 reporting requirements for rental property owners for payments made in 2011. Yeah!

But there's more! Starting January 1, 2012, there was a second set of new reporting requirements that were supposed to apply to ALL businesses, including rental property owners. In 2010, the Patient Protection and Affordable Care Act, affectionately known as Obamacare, had provided you with this little gift. These expanded reporting requirements were enacted to help pay for the health care benefits of Obamacare. Under these new rules, practically all business transactions in 2012 and thereafter would have required 1099 reporting.

You as a business or rental property owner were going to have to report all payments to anyone in excess of \$600 in a year to the IRS. It would not have mattered if the payments were for services, office supplies, gasoline or even restaurant meals. And it covered payments to anyone, including corporations, not just individuals and partnerships.

The good news is that last week's new law also repealed these expanded reporting requirements. There is no longer a requirement that you have to report payments in excess of \$600 for goods or other property, just services. Corporations are again excluded from the list of reportable persons to whom you have made payments. And the reporting rules no longer apply to rental property owners, just other business owners.

President's Letter

The net result of all of this is, for 1099 reporting purposes the rules are basically the same as they were before the Small Business Jobs Act and Patient Protection and Affordable Care Act:

No 1099 reporting required for rental property owners for any payments made to anyone in 2011, 2012 or anytime thereafter.

Other businesses must report payments made in excess of \$600 in a calendar year to individuals or partnerships for services rendered.

The increased penalties of the Small Business Jobs Act for not properly reporting these 1099 payments were not repealed by last week's new law. If you have a business other than a rental real estate and you do not properly report these payments, you may be subject to increased penalties totaling up to \$1.5 million.

There were a number of business groups who called on Congress for the repeal of expanded 1099 reporting requirements. However, if you are a rental property owner, you should be especially thankful to the American Institute of Certified Public Accountants ("AICPA"). In its recent newsletter to members, the AICPA stated:

"The AICPA had advocated strongly for repeal of both provisions and as one of the only organizations advocating against the rental property requirement was a driving force in its repeal. When the Senate passed the bill on April 5 and sent it to President Obama for his signature, AICPA President and CEO Barry Melancon described the repeal as a "victory for taxpayers."

And a victory it is for small business owners.

Matthew M. Wallace is an attorney and CPA with the law firm of Matthew M. Wallace, PC in Port Huron and can be reached at 810-985-4320 or at

The ideas presented herein are for discussion and educational purposes only and not intended to be relied upon. For specific information regarding your needs, concerns and plan, you must consult with your tax advisor, financial planner and estate planning attorney to discuss your situation and obtain advice. To comply with U.S. Treasury regulations, we advise you that any discussion of Federal tax issues in this article was not intended or written to be used, and cannot be used, by any person (i) for the purpose of avoiding penalties that may be imposed by the Internal Revenue Service, or (ii) to promote, market or recommend to another party any matter addressed herein. © 2011 Matthew M. Wallace, CPA, JD.

L:\DATA\ARTICLES\EMREIA 2011-04 Pres Ltr Repeal of New 1099 Reporting Requirements.doc

Mortgages haven't always been cheap and easy. Look at the 1920s.

"It was a prosperous period, but if you wanted a mortgage loan, you put 40% down and got an interest-only loan for 10 years. And then you refinanced it," says mortgage expert Jack Guttentag.

In most other countries—where governments don't subsidize mortgages or where they do it differently than we do here—the 30-year mortgage is a rare bird. In Denmark, the exception, it comprises about half of all home loans.

"You don't need 30-year mortgages to have high rates of homeownership," Baker says. In the U.S., homeownership is 66.5%, down from a high of 69.2% in 2004, the Census Bureau says. But other countries do as well or better with different financing systems and different loan types, and many suffered less during the housing crash.

Lea cites these 2008 homeownership rates, for example:

Ireland: 74.5%

Australia and the United Kingdom: 70%

Canada: 68.4%

Japan: 61%

Emerging markets often have even higher rates of homeownership because they don't have well-developed rental markets, Lea says.

Mortgages around the world

Lea studies mortgages globally. In the U.S., he says, the most-common mortgages are:

Long-term, fixed-rate mortgages: These comprise about 90% of all mortgages, Lea says. Some are 15-year loans, and most are 30-year mortgages.

Hybrid adjustable-rate mortgages: These ARMs are roughly 5% to 8% of all loans. They have initial fixed-rate periods, followed by adjustable rates that reset regularly, usually annually. The most popular are 5/1 ARMs—5/1 means five years at a fixed rate followed by yearly interest-rate adjustments—then 3/1, 7/1 and 10/1 ARMs.

Short-term ARMs: Roughly 1% to 2% of the market, these ARMs have no fixed-rate period and have one-to-five year terms.

But if conditions change, our mix could change. For a few examples, look at these countries:

Canada, Germany and the Netherlands: In these countries, rollover mortgages are popular. A rollover loan essentially requires the borrower to renew the mortgage at market interest rates at regular intervals, such as every five or 10 years. You can also refinance using another lender, but prepayment penalties are the rule, at least during the fixed-rate period. Throughout Europe, adjustable-rate loans are popular because their interest rates are considerably lower than fixed-rate loans. Also, hybrid mortgages play a larger role.

Many Dutch mortgages also are interest-only, which means you only pay interest for the life of the loan, which leaves the balance unchanged and ownership in the lender's hands. If never actually gaining an ownership share of your home sounds crazy, consider that these products are popular because tax benefits encourage them.

Spain: Spanish mortgages often are part fixed-rate and part variable-rate. You can take out two notes secured by one property. Unlike our first and second mortgages, these are two pieces of a first mortgage. One is at an adjustable rate and one a fixed rate.

Japan: About half of Japanese mortgages are "convertible", after a fixed period, the borrower chooses between an adjustable interest rate and another fixed-rate period.

Most of these loan products are available in the U.S., says Mark A. Calabria, director of financial-regulation studies at the Cato Institute.

"We think about the 30-year fixed, but there are a tremendous number of options," he says.

You don't hear much about these loan options because they don't compete in cost with government-subsidized, long-term, fixed-rate mortgages. But if those disappeared, borrowers who need low monthly payments might find the prices on five-or 10 year loans with adjustable interest rates more appealing. Today's borrower also is more mobile and more financially astute than in the Great Depression, when the government started supporting the home-loan market to help consumers, Calabria says.

Under the right circumstances, Canadian-style rollovers and shorter-term ARMs and hybrids that convert from fixed to variable might gain popularity.

"The typical amount of time people stay in a house is 10 years," Calabria says. "The typical life of a mortgage is five years. The question is, do rates have to be fixed for 30 years when the average person keeps the loan only an average of five (years)? That makes no sense in this day and age."

Hybrid ARMs got a bad name because they were coupled

with some of the worst abuses and risky products that sub-prime lenders pushed in the real-estate bubble. But no one's predicting a return—at least any time soon—of fraud-prone features such as exploding interest rates and loans requiring no documents, no down payments and no proof of a borrower's assets.

Prices going up

Meanwhile, Americans who still want the low-payment, predictable, 30-year -fixed mortgage undoubtedly could get it even if government support dissolves. It'll just cost more.

How much more? No one knows for sure. In Christian Science Monitor report, Bill Gross, a bond-fund investor who co-founded PIMCO and is a critic of the Obama plan, says that without government guarantees, homebuyers could pay 3 percentage points more on interest rates. That means a 4.9% rate today would be 7.9%.

Others point to jumbo loans-mortgages larger than the government will guarantee—which, because of higher interest rates, are more expensive than conventional loans but by far less than 3%. It's not a perfect comparison because jumbo customers are typically wealthier and pay a smaller premium for risk than a middle-class homeowner might. But Baker says the example could comfort some buyers.

"We have long had jumbo mortgages, with typically just a spread of 25 to 30 basis points with conformable mortgages," says Baker, who also says he thinks rates would increase by 30 to 40 basis points if conventional mortgages disappear.

A basis point is 0.01 of 1%. Twenty basis points would raise a 5% rate to 5.2%, increasing your monthly payment on a \$200,000 mortgage from about \$1,073 to \$1,098.

Calabria says he thinks rates could rise between 20 basis points and a full percentage point if government pulled out.

Not everyone expects substantial change, however.

"I don't think we're going to see new kinds of products," Guttentag says. "There's nothing abroad in the form of mortgage products that is novel or attractive to us now."

"What's going to happen is an extension of what's already happened: Down-payment requirements are up, credit restrictions are up, appraisal requirements are tougher (and) documentation requirements have increased enormously."

If federal support for middle-class mortgages dissolves, Guttentag says he expects two or more tiers of mortgages to emerge. Cautious lenders may charge borrowers more for the degree of risk their credit profiles suggest, so you'd see a wider range of prices for borrowers.

Short-term outlook

Regardless of what policy-makers decide to do with Fannie and Freddie, expect no radical changes in the near future.

For the next three to five years, getting a mortgage will be much like today, experts say. The 30-year, fixed-rate mortgage will continue as the nation's favored home loan. Lenders will keep demanding down payments of 20% or more, plus lots of documents and details about every aspect of your financial life.

"Now the general philosophy and fear in the market is that we're going to get more declines in home prices," Guttentag says. "and the only way to protect yourself is to require more (for) down payments and higher FICO scores."

Borrowers and loans that don't fit lenders' standards will face rejection. Home-equity loans and mortgages for second homes and investment homes will continue to be scarce.

"This has particularly hurt self-employed borrowers," Guttentag says. "I get messages from people with 30% down, FICO scores of 800 and income well in excess of guidelines who can't get a loan because their income can't be adequately documented."

The one big difference is that costs will keep growing in the next few years. Lenders will pass along higher fees from Fannie and Freddie, called "loan-level price adjustments," based on your credit score and loan-to-value ration. Interest rates are going up-by percentage points or more, Calabria says—and are unlikely to drop. Many experts also expect inflation to pick up.

Any withdrawal of government support for middle-class mortgages, however, remains years away. But the chance is real that change could come to the American mortgage market.



Walking away from closing happens more often in buyer's markets than in seller's markets. That's because in buyers markets, when prices are soft, some buyers become frightened when they should be jumping for joy. Many are afraid of further declines in the market and don't feel comfortable because all their friends aren't buying.

The fear begins to creep in right after the purchase offer is accepted and builds. By the time full-blown panic has set in, it's typically a day or two before closing.

Sellers Who Walk Away From Closing

It's rare that a seller walks away from closing. If sellers are going to feel seller's remorse, that typically happens upon offer presentation, when the reality of actually selling sets in.

Although, I know a seller who bought another home and shortly thereafter changed her mind. She had moved out of her existing home and into her new home before her first home closed escrow. Within a few days of settling into her new place, she decided to cancel the sale of her first home and move back home. Of course, by then she owned two homes. But that happens once in a blue moon.

Why Home Buyers Walk Away From Closing

Well-written purchase offers generally contain contract contingencies that must be removed within a certain period of time. The time to walk away from closing or cancel a contract for most home buyers is during the contingency stage. Buyers who walk away at the last minute often do so for the following reasons:

*** Cold feet.**

Sometimes, the initial dread that confronts first-time home buyers doesn't dissipate with time. Buyers who feel remorseful toward the end probably should not buy a home because the pressures of homeownership can be too great for them to handle. These types of buyers might be better off renting vs. buying a home.

*** Rejected mortgage financing.**

Even though lenders may issue a loan preapproval letter, it doesn't mean the lender will actually give the buyers a loan. After the loan contingencies are removed, buyers could face underwriting stipulations that they cannot perform. An experienced loan officer can foresee many conditions for loan approval and fix them in advance, but alas, some loan officers are inept.

*** Found another home.**

The grass is always greener on the other side. Once a buyer has committed to buying, he or she might keep looking at homes, going to open houses and, before you know it, another home turns into that dream home. Which means goodbye to

the first dream home and hello to the second. It's not a good idea to let impulses control your life.

*** Change in lifestyle.**

Unexpected job transfers, a sudden pay demotion, an unplanned divorce, any of these circumstances can cause buyers to change their minds about following through with a purchase. Sometimes medical emergencies can cause buyers to cancel transactions. Unfortunately, one's life doesn't always work out the way it is planned after an offer to purchase is accepted. It's good to have a Plan B.

*** Natural Disasters.**

Weather conditions are unpredictable. The home itself could be destroyed in a tornado, hurricane, earthquake or flood; any number of natural disasters can cause havoc, rendering a home inhabitable. Even a hard rain storm could cause trees to uproot themselves and crash into a home.

Most buyers under those circumstances would walk away. But they will also walk if their request for repairs was not completed or something else went wrong with the home, which they might discover during a final walk-through inspection.

Repercussions After Walking Away From Closing

Unfortunately, once buyers have released contingencies from the contract, their earnest money deposit is at risk. Some contracts call for liquidated damages in the event of default. Without liquidated damages, a seller may be free to sue for actual damages, which could exceed the deposit.

All earnest money deposits are negotiable. It is not unusual for a seller to accept \$1,000 as a deposit on a \$500,000 home; however, the higher the deposit, the more money the buyer has at risk under liquidated damages.

Buyers who don't care about closing and want to walk away will often forfeit their deposit. If it's only a \$1,000, in the overall scheme of things, that amount may not be substantial enough to a buyer to force the buyer to follow through and close. If both parties have previously agreed to liquidated damages, the money the seller receives for the buyer's default could be limited to the actual deposit on hand.

**The Fall Seminar has been scheduled for
September 23, 2011.**

**If anyone has any thing that they would like
to hear about at the seminar please contact
the office.**

Understanding Your FICO Score and How it Affects Home Buying

Home buyers who are seeking a mortgage find out early-on that their credit score plays an important part in the home buying process and in determining the interest rate that a lender offers.

What is a credit score?

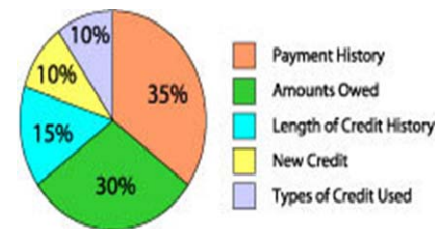
A credit score is a number that lenders use to estimate risk. Experience has shown them that borrowers with higher credit scores are less likely to default on a loan.

How are credit scores calculated?

Credit scores are generated by plugging in data from your credit report into software that analyzes it and cranks out a number. The three major credit reporting agencies don't necessarily use the same scoring software, so don't be surprised if you discover that the credit scores that generate for you are different.

Why are credit scores sometimes called FICO scores?

The software used to calculate a great number of credit scores was created by Fair Isaac Corporation—FICO.



Which part of a credit history are most important?

The pie chart above shows a breakdown of the *approximate* value that each aspect of your credit report adds to a credit score calculation. Use these percentages as a guide:

35% - Your Payment History

30% - Amounts You Owe

15% - Length of Your Credit History

10% - Types of Credit Used

10% - New Credit

Your Payment History Includes:

- * Number of accounts paid as agreed
- * Negative public records or collections
- * Delinquent accounts
 1. total number of past due items
 2. how long you've been past due
 3. how long it's been since you had a past due payment

What You Owe:

- * How much you owe on accounts and the types of accounts

with balances

- * How much of your revolving credit lines you've used—looking for indications you are over-extended
- * Amounts you owe on installment loan accounts vs. their original balances—to make sure you are paying them down consistently
- * Number of zero balance accounts

Length of Credit History:

- * Total length of time tracked by your credit report
- * Length of time since accounts were opened
- * Time that's passed since the last activity
- * The longer your good history, the better your services

Types of Credit:

- * Total number of accounts and types of accounts (installment, revolving, mortgage, etc.)
- * A mixture of account types usually generates better scores than reports with only numerous revolving accounts (credit cards)

Your New Credit:

- * Number of accounts you've recently opened and the proportion of new accounts to total accounts
- * Number of recent credit inquiries
- * The time that's passed since recent inquiries or newly-opened accounts
- * If you've re-established a positive credit history after encountering payment problems
- * In general, checking to make sure you aren't attempting to open numerous new accounts

Credit scoring software *only* considers items on your credit report. Lenders typically look at other factors that aren't included in the report, such as income, employment history and the type of credit you are seeking.

What is a good credit score?

Credit scores (usually) range from 340 to 850. The higher your score, the less risk a lender believes you will be. As your score climbs, the interest rate you are offered will probably decline.

Borrowers with a credit score over 700 are typically offered more financing options and better interest rates, but don't be discouraged if your scores are lower, because there's a mortgage product for nearly everyone.

Multiple Credit Scores

Your bank will pull credit reports and scores from all three major credit reporting agencies: Transunion, Equifax and Experian. They'll probably use the middle score to work your loan application. Ask your lender to explain which credit scores will be used and how they affect your loan application.

If you plan to become a landlord, do your homework before you buy to find out what type of dwellings are in most demand in your area.

Here's How:

1. Talk to rental agents. An agent who handles a large number of rentals can tell you what type of full-time or vacation homes renters are looking for.
2. Read newspaper classifieds to determine which types of properties seem to be most popular, and how much they are renting for during all seasons the home will be available.
3. If the area attracts lots of senior citizens, one-level living may be the best choice, or at least a house with main living quarters on the first floor. Avoid homes where renters must climb a flight of stairs to reach the entrance.
4. Read real estate magazines for terms highlighted by REALTORS®, such as 'view,' 'golfing,' and 'stream.' If agents continually mention an item, it's likely in demand. Try to find a property with one or more of those features.
5. Look for property within a reasonable distance to shopping and area attractions.
6. Find a well maintained home, or plan to do an immediate fix-up. A shabby appearance won't attract renters, but will decrease rental fees.
7. Before buying a home in a development, make sure the restrictive covenants allow rentals.
8. Get a quote for homeowner's insurance, telling the agent you plan to rent the home. Ask if the agent has any special recommendations for landlords.
9. Talk with an accountant to verify that the income you can realistically expect to receive is appropriate for the home's purchase price and projected maintenance fees.

Tips:

1. When you talk with rental agents, be sure to ask about their fees and services, especially if you won't be around to handle rentals yourself.
2. Many condominium managers handle rentals within their resorts.
3. If the residence is in an area with high tourist traffic, find out if your best scenario is long or short-term rentals.

Although inspecting attics is rarely foremost on a buyer's mind, there are a lot of good reasons why buyers need to get into an attic or send their home inspector into the attic before completing a home inspection. Attics should not be overlooked. An attic reflects the history of a home. It can provide clues to serious problems that might not be disclosed or even known by the current occupant of the home.

* **Supporting Truss or Rafter Damage**

Roof inspections won't necessarily turn up defects in the structural members inside the attic. While the roof might look sound and secure, inside the attic you could find broken trusses or rafters. An inspection would disclose stress cracks that could lead to a loss of integrity and would also give buyers peace of mind that the size of the lumber was correct and up to code.

* **Previous Fire Damage**

If the rafters are any other color than natural wood, that could be a sign that the home was on fire. If the wood is black, scorched and sooty, that's almost a sure sign it had been burned in the past. However, if the wood is painted white, that could indicate that the smoke and burned damage was covered up because painting wood helps to eliminate the smell.

* **Adequate Insulation**

Attics can be insulated in a number of ways, including blowing in insulation or laying fiberglass batts. Insulation is rated with an R factor, meaning the higher the R number, typically the higher the insulating factor. Ask your home inspector if the batts are facing the right direction (paper up or paper down).

* **Water Damage**

Water flows from the top down and rarely enters a home sideways. Inspectors will look for staining on the wood supports or on the walls which would provide evidence that water had leaked or is leaking through the roof somewhere. Condensation can form around pipes, which can cause wood to rot.

* **Chimney**

Of course, one cannot inspect the interior of the chimney from the attic, but an inspector can note whether the structure itself is solid within the attic. That portion of the chimney that is not exposed to the elements can also weather and deteriorate, and this especially holds true for older homes. Inspectors will look for cracks in the bricks and whether the mortar has crumbled.

* **Squirrel, Raccoon and Rodent Damage**

The first sign that a critter has been living in the attic is often evidence discovered in the form of tiny pellets. Squirrels, raccoons or rodents often enter attics through the eaves or loose boards and can cause considerable damage.

6 Things to Know Before You Buy That Short Sale House The Wrong Short Sale House Might Not Ever Close

When you spot a short sale house that interests you, take your hand off the mouse and step away from the computer. Before you get all excited over the prospect of buying that short sale house, pick up the phone and call your real estate agent. Your agent needs to research that short sale listing first.

In some real estate markets, fewer than one in 10 short sales close. Just because that home is listed as a short sale doesn't mean it's really for sale (because it's subject to lender approval), nor does it mean it will sell at the advertised price. Here are 6 things you need to know before trying to buy that short sale.

Comparable Sales For That Short Sale House

The short sales listed are all priced below comparable sales, yet they are priced in line with pending sales. Why? Because short sales take anywhere from 2 to 4 months, on average, to close, and pending sales will become the comparable sales at closing.

Some short sales are priced ridiculously low. So low that the sellers' bank will never accept them. These types of listings receive multiple offers. But all is not lost. To get your offer accepted, it will need to be priced near market value. If you're not prepared to pay above a superficial price on a lowball short-sale listing, then pass.

Mortgage Amounts, Number of Loans and Lenders

Ask your agent to research how much is owed against the home and find out the number of loans that are recorded. A second or third mortgage lender will receive peanuts as compared to the amount a senior lender in first position will get.

Moreover, some lenders, deserving or not, get a reputation for being difficult to work with. If your agent is an experienced short sale agent, he or she will know who these lenders are and can advise you of the difficulty you may encounter.

If your offer is 20% or 30% of the mortgaged amount, it is unlikely that your offer will see the light of day on the negotiator's desk.

Short Sale Listing Agent's Track Record

A listing agent who is advertising a short sale but has never closed a short sale is a risky proposition for you. That's because it's up to the listing agent to submit the short sale package to the lender and negotiate. Your buyer's agent can't talk to the bank.

Some listing agents hire outside companies to do their job, and the results of those negotiations are sketchy at best. Ask yourself, do you want to risk rejection of your short sale purchase because the listing agent has no experience?

Short Sale Seller Qualifications

Find out if the listing agent has received a completed short sale package from the seller, and ask about the contents of that package. A complete short sale package consists, at minimum, of the following:

- * Sellers' hardship letter
- * Tax returns
- * W-2s
- * Payroll stubs
- * Financial statement
- * Bank statement

Some sellers do not want to cooperate and are slow to return these documents. Others have never been told by their agent that these documents are mandatory. You don't want your short sale purchase delayed because the listing agent doesn't have the required documents.

Number of Short Sale Offers Received

Homes priced under market value will receive multiple offers. An agent is not required to disclose the terms of those offers, but you do want to know how many offers you are up against.

Here's how it generally works:

- * When a short sale home first comes on the market, the first offer will most likely be a tad below list price.
- * The second, at list price.
- * The third offer will be slightly higher, maybe by a \$1,000 or \$2,000.
- * The fourth offer will be significantly more.

You want to make an offer that will beat the competition yet still be below market, or don't waste your time.

The Listing Agent's Short Sale Procedures

Although REALTORS are required by the REALTOR Code of Ethics to treat everybody fairly, not every agent is a REALTOR. This means the short sale listing agent may decide to submit only the first offer to the bank and withhold all other offers.

Withholding other offers could be considered to be a violation of the fiduciary relationship formed between the listing agent and the seller. The seller is entitled to receive the highest and best price. Realize that even if your offer is submitted to the bank, as time marches by while waiting for the short sale approval, another buyer could out bid you.

Some homeowners decide to rent out their houses because they don't need to sell in order to buy another home. Others want an investment, and renting out the house might have been their plan when they bought the house. Still, other homeowners might be forced to rent out a house because they must move.

Maybe these homeowners were transferred by an employer and realize they can't sell their house because the market is not conducive to home selling. For example, sellers of underwater homes might prefer not to do a short sale and may elect to try to ride out the market by renting out their home. Whatever the reason for renting out a house, not every seller knows how to do it.

When I bought another home in the early 1990's, I rented out my existing house. I had bought a home for \$100 down and assumed an existing mortgage. The loan assumption costs were so low that I could keep my existing home instead of selling it.

Probably the biggest mistake I made was not running a credit report on the prospective tenants. I gave them a rental application and told them I would run a credit report. I warned that if they had any derogatory credit perhaps they should explain those credit dings to me in advance. In theory, that practice should work. Tenants would tell me about a late payment they made 5 years ago to Sears. Maybe I didn't need an actual credit report? But tenants also can lie. Therefore, I do not recommend that approach.

Screen Tenants Before Renting Out a House.

My first tenants signed a rental application containing verbiage that obligated the tenants upon approval of their application to sign a rental agreement. I approved them, and they refused to sign a rental agreement. I took them to Small Claims Court and won a judgment, which I enforced. I no longer use such a rental application as such a form is most likely not legal anymore.

Here are the types of things a prospective landlord should find out about a tenant before renting out a house to a stranger:

- * Past and Present Employers
- * Former Landlords
- * Present Income and Monthly Debt Obligations
- * Credit Scores

- * Number of Occupants (subject to the Fair Housing Amendments Act of 1988)
- * Type of Pets
- * Police Report
- * Personal References

Hiring a Property Management Company to Rent Out Your House

If this information is too time consuming to gather or too difficult to obtain and verify, a homeowner might want to contract with a professional management company. Management companies typically charge 8% to 10% of the monthly rent, but they will do all the work on behalf of the homeowner. Moreover, there will be state and federal laws to follow. For example, all homeowners must comply with the Fair Housing Act. In addition, there might be county ordinances to adhere to and city fees to pay. A local real estate agent might be your best source to get recommendations for property management companies.

Here are things most property management companies will do for a homeowner:

- * Advertise the house for rent
- * Screen potential tenants
- * Collect rent and security deposits
- * Negotiate rental agreements and sign leases
- * Conduct periodic property inspections
- * Handle repair issues
- * File evictions, if necessary

Tip: If you are handling your own rental, you might want to sneak a peek at the tenant's automobile. Is it clean and in good condition? Or beat up and trashed? That could be an indication of how the tenant will maintain your rental house.

If anyone has a topic they would like to see in the newsletter or an article that you think other members would be interested in, please contact Jodi at 810-385-2332 or by email at jgalbraith@innovativehousing.org

HURON

TITLE COMPANY

**330 Michigan Street
Port Huron, MI 48060**
810 / 987 - 2141
1 / 800 - 878 - 4853
Fax 810 / 987 - 1317

PLUMBING & HEATING AIR CONDITIONING

188 14th Street
Marysville, Michigan
48040

(810) 364-5211
Fax (810) 364-3020

Lou Gordon



MATTHEW M. WALLACE, P.C.

ESTATE PLANNING, BUSINESS PLANNING & REAL ESTATE

MATTHEW M. WALLACE, C.P.A., J.D.

ATTORNEY & COUNSELLOR AT LAW
701 HURON AVENUE, SUITE 102
PORT HURON, MICHIGAN 48060

www.wallaceplaw.com
matt@wallaceplaw.com

(810) 985-4320
FAX (810) 985-4108

The
OPPLIGER
LAW FIRM

DAVID E. OPPLIGER
ATTORNEY AND COUNSELOR

1111 PINE GROVE AVENUE
PORT HURON MI 48060
(810) 966-1881 • FAX: (810) 966-1893
OPPLIGER@SBCGLOBAL.NET

Stewart,
Beauvais
& Whipple P.C.



CERTIFIED PUBLIC ACCOUNTANTS

Providing Valued Services Since 1945

- Tax Preparation & Consulting • Business Consulting
- Estate Planning • Audits & Financial Statement Preparation
- Business Valuation • General Ledger/Payroll Services
- Personal Financial Planning

Larry J. Allen, CPA Paul L. Bailey, CPA
Michael T. Turnbull, CPA Stephen R. Zimmer, CPA

1979 Holland Ave., Port Huron, MI 48060
(810) 984-3829 • SBWCPA.COM

Advertising Price Rates

1/8 page: \$125/yr \$14/mo

1/4 page: \$165/yr \$18/mo

1/3 page: \$185/yr \$20/mo

1/2 page: \$200/yr \$22/mo

Full page: \$400/yr \$44/mo

*based on 9 issues per year

**Eastern Michigan Real Estate
Investment Association**

3051 Commerce Dr, Ste 5
Fort Gratiot, MI 48059

Phone: (810)385-2332
Fax: (810)385-8875

Email: jgalbraith@innovativehousing.org



«First» «Last»
««Company»
«Address»
«City» «State» «Zip»

E.M.R.I.E.A. ADVISOR

Our office is located at:

3051 Commerce Dr, Ste 5
Fort Gratiot, MI 48059

Phone: (810)385-2332
Fax: (810)385-8875

www.emrha.org

Office Hours:

Monday - Thursday
8:30 a.m. - 5:00 p.m.

Friday
8:30 a.m. - 4:00 p.m.

Board of Directors

President	Matt Wallace	810-985-4320
Vice President	Judy Harris	810-385-3284
Secretary	Ken Montgomery	810-385-3150
Treasurer	Edward Schultz	810-385-2332
	David Oppliger	810-966-1881
	Renae Kiehler	810-385-2332
	Kathy Swantek	810-388-1200
	Dianna Maxwell	586-801-6068
	Virginia Irland	810-982-6239