

Eastern Michigan Real Estate Investment Association

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Should you buy a foreclosure? MSN Money

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Foreclosed properties can be a great deal for homebuyers, whether they're planning to live in the house or rent it out. But they should know the potential pitfalls.

Michael Barton was just 19 when he bought his first foreclosure four years ago for \$37,000. The Lincoln, Neb. resident said he realized he could pay less on a mortgage than he was spending to rent a six-bedroom house with his brother and three other people.

"I was paying \$350 a month in rent and knew there were houses out there that would have a mortgage lower than that," Barton said. "My original mortgage on my first house was \$315 a month, and I had my brother living with me paying \$350 a month, (so I was) living for free.

Since then, Barton has purchased three more foreclosed properties to fix up and rent out.

By contrast, financial planner Diahann Lassus wasn't in the market for an investment property when she noticed foreclosure for sale around the corner from her Bonita Springs, Fla. home.

After extensive research and number crunching, Lassus offered the bank 20% less than its asking price—a discount that reflected the considerable costs necessary to fix up a house that had been empty for two years. Her offer was accepted, so she wound up paying \$95,000 cash for a three-bedroom house once valued at \$350,000.

The renovations cost more than she expected—about \$45,000—and the return on her investment has been less than what she's making on her stock market investments. But she has "great renters" who are covering her costs, and she expects the home to appreciate over the 10 years or so

she plans to own it.

Buying a foreclosure can be a great way to get a home for less, whether you're planning to live in the property or rent it out. The supply of foreclosures certainly isn't going to dry up soon, which means plenty of opportunities for home seekers and investors.

Plenty of pitfalls await the unprepared buyer, however.

"A foreclosure is not for everyone," said John Anderson, a longtime agent with Twin Oaks Realty in Golden Valley, Minn., who says about half of his business is short sales and foreclosures. "A lot of buyers are struggling just to get enough money" for a down payment and "don't have \$4000 to replace the carpet and \$1,000 to repaint and \$2,000 for new appliances.

Even for those who have some spare cash, it might not be enough to buy troubled properties that are too run-down to qualify for Federal Housing Administration or even conventional mortgages. Peeling lead paint can be enough to thwart an FHA loan, while more serious problems, like a roof that needs to be replaced, can stymie a conventional loan. In such cases, only buyers who can pay cash are considered.

"The buyer has to qualify for financing, but the property has to qualify, too," Anderson said. "The seller is not going to let you in to fix the property (before the deal closes), and the new bank won't let you close until the work is done."

Some properties simply need too much work to make much financial sense. A foreclosure might be \$15,000 less than a comparable property, for example, but

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FROM THE PRESIDENT - Dianna Maxwell

INDUSTRY NEWS

FEDERAL HOUSING FINANCE AGENCY STARTS THE FANNIE AND FREDDIE TRANSFORMATION

by Ken Trepeta

This column is brought to you by the NAR Real Estate Services group.

In late February, the Federal Housing Finance Agency (FHFA) issued a strategic plan for their future actions as conservators of Fannie Mae and Freddie Mac, also known as the FSEs. The initial reading in Washington was that this was simply FHFA offering a blueprint of what Congress should do with the GSEs. However, a careful reading of the strategic plan clearly indicates that FHFA intends to do most, if not all of what is in the plan on their existing authority. In other words, under their conservatorship authority, they will begin the transformation of the GSE's while attempting to protect the taxpayers from further losses and help existing borrowers deal with defaults and other problems. There are good, bad and mixed aspects to this plan. Here are some of the highs and lows.

FHFA plans to transform and modernize the securitization platforms of the GSEs. They will combine the two platforms and modernize them into a single structure for securitization. This is potentially a good thing because it is a step toward preserving one of the most important core functions the GSEs have provided—a solid, standardized way of securitizing packages of mortgages for sale. FHFA recognizes the important role the GSEs played and signals that at least FHFA believes that role cannot be abandoned without significant harm to housing finance and the economy.

In the category of not so good, at least for the current housing market, FHFA is going to continue to raise guarantee fees and adjust loan pricing in order to increase revenues, and more importantly, make GSE products more expensive, thus less attractive. Much in the way the Federal Reserve raises interest rates in order to cool down demand, FHFA (and for that matter, FHA) has been increasing premiums, fees and pricing to make their loans less attractive and reduce marketshare. The problem here is that they are hurting consumers who either have to pay more than necessary or cannot afford the mortgage at all. Credit has been too tight already and this will make it tighter and more costly.

In the positive area, FHFA is going to continue to help troubled homeowners through improving the foreclosure avoidance processes, including short sales and loan modifications. As everyone knows, the short sale process still needs improvements, and for those borrowers who cannot afford their homes anymore, it is a superior outcome to a foreclosure. The same is true for the GSEs. They receive far less on average in a foreclosure than they do in a short sale.

Another somewhat positive development is that FHFA plans to be more transparent with regard to what would instigate a loan buyback situation. Loan buybacks have been a principal cause of tightening credit at the lender level. Lenders have added credit overlays above and beyond the rules for the GSEs and FHA simply because they fear every delinquent loan could be put back on them as a buyback. If the rules on buybacks, representations and warranties are clearer, lenders will have less to fear.

As you can see, FHFA's plan has some good and bad in it. NAR will be working to promote the good parts that will help sustain and promote homeownership. NAR will also be working to promote the good parts that will help sustain and promote homeownership. NAR will also seek to prevent or minimize the negative impacts. Perhaps the best part of the FHFA plan is the acknowledgment that there is no quick and easy fix to the housing finance system. Abrupt and not well thought-out changes could lead to catastrophic disruptions.

FROM THE PRESIDENT - Dianna Maxwell

REAL ESTATE

List of Improving Housing Markets Expands to Nearly 100

The list of housing markets showing measurable improvements expanded by 29 metros in February to include a total of 98 entries on the National Association of Home Builders/First American Improving Markets Index (IMI), released recently. Thirty-six states are now represented by at least one market on the list.

The index identifies metropolitan areas that have shown improvement from their respective troughs in housing prices for at least six consecutive months. The February index adds some metropolitan areas that have been particularly weak; this is due to the fact that the IMI measures improvement from a bottom, and some of the hardest hit markets are showing signs of coming off of extreme lows. Keeping this in mind, notable new entrants to the list in February include Miami, Fl; Boston; Detroit; Kansas City, Mo; Portland, Ore; Memphis, Tn; and Salt Lake City.

“The number of improving housing markets has risen for six consecutive months, and 36 states now have at least one metropolitan area on the list,” notes NAHB Chairman Bob Nielsen, a home builder from Reno, Nev. “This indicates that despite the many challenges that continue to drag on a housing recovery--including the tight lending environment for builders and buyers--improving conditions are slowly but surely spreading from one housing market to the next.”

“While many of the markets on the February IMI are far from fully recovered, the index points out where employment, home prices and housing production are no longer retreating and have held above their lowest recession troughs for six months or more,” says NAHB Chief Economist David Crowe. “This is a sign that a large cross section of the country is starting to turn the corner as local economic conditions stabilize.”

“The fact that there are nearly 100 markets now on the improving list shows that the momentum is building for a housing recovery and that more buyers and sellers are starting to feel confident enough to return to the market.” says Kurt Pfothenauer, vice chairman of First American Title Insurance Company.

The IMI is designed to track housing markets throughout the country that are showing signs of improving economic health. The index measures three sets of independent monthly data to get a mark on the top improving Metropolitan Statistical Areas. The three indicators that are analyzed are employment growth from the Bureau of Labor Statistics, house price appreciation from Freddie Mac, and single-family housing permit growth from the U.S. Census Bureau. NAHB uses the latest available data from these sources to generate a list of improving markets. A metropolitan area must see improvement in all three areas for at least six months following their respective troughs before being included on the improving markets list.

Seven markets dropped from the NAHB/First American Improving Markets Index in February as they experienced softening house prices. These metros include San Jose, Calif; Washington D.C; Kankakee, Ill; New Orleans; Worcester, Mass; Jackson, Miss; and Sherman, Texas.



Should you buy a foreclosure? (conclusion) MSN Money

may need \$30,000 in repairs and improvements to make it habitable. In such a case, the more expensive property "is a better investment, because the work is already done for you," Anderson said.

"Just because the price is low doesn't mean it's a good deal," he said.

Here are some other things to keep in mind when you consider buying a foreclosure.

Planning to flip? You might want to rethink that. People can, and do, buy foreclosed houses cheap so they can fix them up for quick resale. In falling markets, though, it can be hard for buyers, particularly amateurs, to do this successfully. If you don't get a steep enough discount or spend too much on repairs or don't find a buyer quickly, what looked like a great deal can become a cash drain. Many investors now are focusing on properties they can rent out for several years, so they can benefit from price appreciation when it eventually returns. Lassus recommends that foreclosure buyers be ready to hang on to a property for seven to 10 years.

Don't expect to automatically get a screaming deal. Some banks slash a property's price for a quick sale, which means you'll get the house for less than comparable homes in the area. Other banks don't offer much, if any, discount, and intense investor interest in a property can lead to a bidding war that drives up the price.

Pay for a thorough inspection before you buy. Foreclosures are sold "as is", which means the bank won't make repairs or improvements. Even if the house's previous occupant didn't trash the place in a fury, the home may have hidden defects that could cost tens of thousands of dollars to repair. A bad foundation, extensive water damage or bad siding or drywall could turn a seemingly good deal into a nightmare.

"Get a registered property inspector to do a full inspection," including a termite inspection, Barton advised, "and be willing to take a loss of \$300 to \$500 (the typical inspection cost) if the inspection turns up something major."

Anderson agrees. He also gets a promise from the seller to get any utilities turned on in time for the inspection, since in many foreclosures they have been shut off.

"It's pretty tough to do an inspection if the utilities aren't on," Anderson said. "You want to make sure everything is functioning so you can get a full inspection."

Get bids for repairs and improvements before you make an offer. Even if you'll be doing most of the fix-ups yourself, you may still need pros for certain jobs. Having ballpark figures for repairs will help you know when you're getting a good deal, or when you might be overpaying. You'll also want to budget for surprises. Lassus had to scour the country to find the discontinued tile the previous homeowner had used in a

half-finished job.

Research the homeowners association. Lassus knew the homeowners association was financially sound, since she already owned a property there. She would have been far more wary if there were a lot of other foreclosures, houses for sale, empty houses and strapped homeowners. A dwindling number of dues-paying residents means the association may have to jack up the fees it charges the remaining homeowners to cover its costs.

"Some associations don't allow 'for sale' signs," so it can be hard to know on casual inspection how many homeowners are in trouble, Lassus said. Real-estate sites such as Zillow can help, as can talks with local real-estate agents.

Know the rental market. If you plan to become a landlord, you want to make sure the rent you can charge covers all of your expenses, including property taxes, insurance, repairs, maintenance, homeowners association fees and assessments, and mortgage payments. Zillow offers rent estimates for many properties, but check with local real-estate agents to make sure those are accurate.

Also, a rental market may be hot right now, but it could cool off, leading to higher vacancies and lower rents, as many renters become homebuyers, Lassus warned.

Barton said he has benefited from the fact that Lincoln is home to several colleges. A steady supply of renters means "we get extremely good rental rates," he said.

Be patient. Lassus' deal was done within weeks because she paid cash and because the lender was on the ball. Other buyers of foreclosures warn that the buying process can take months and be chaotic.

"I would say my absolute worst experience thus far is going thru the closing process of foreclosed houses," Barton said. "If you are dealing with HUD or Fannie Mae, they seem unorganized, probably due to the fact that they have thousands of these they are processing."

Barton says he's learned it's essential to work directly with the seller's title insurance company if he wants the deal to close on time.

Have an fat emergency fund. Lassus recommends every investor have an emergency fund to cover at least six months' worth of property expenses--and preferably 12 months' worth. Unexpected repairs and vacancies can play havoc with cash flow, so you want a fat cushion.

After all, the last thing you want is to lose the property and become yet another casualty in the foreclosure epidemic.

Renting: The new American dream? MSN Money

Homeownership rates are falling, and the trend is expected to continue. Is something fundamental changing in the American psyche?

Mark Kiesel and his wife, Amy, sold their Newport Beach, Calif., home in 2006, near the peak of the housing bubble. They put most of their possessions in storage and rented a 1,400-square-foot apartment that's still their home, five years later.

Kiesel is managing director at investment management company Pimco. His research for work helped him spot the coming crash, and his research today tells him there's no hurry to buy a home again. Besides, he's happy as a renter.

"I'm considering buying," he says, "but I'm pretty confident that I'll be waiting to buy until 2012, or it might be 2013."

Kiesel has plenty of company. While real-estate listings languish, the demand for rentals is growing. Nationally, rental occupancy is 93.1%, a rate last seen in 2007 (but below a peak of 96.6% in 2000).

Renting has cachet. "It's the new black," says Stan Humphries, the chief economist at Zillow. His company's research found that a quarter of Zillow users were open to buying or renting, leading the company to add rentals to its property and to unveil a feature that lets users estimate the rental value of a listing.

"There's a wall of capital moving into apartment development," says Jeff Meyers, a principal in Meyers LLC, which advises investors on the multifamily housing industry. "Put it this way: it's easier for an apartment builder to get a construction loan than it is for the average American to get a mortgage."

Plenty of reasons to rent

Is renting about to replace property ownership in the hearts and psyches of Americans? With the traumatic disruption in housing lately, it certainly feels as if something fundamental is changing.

Some economists believe an elite class of renters may be developing: high-earning workers who live in big coastal cities and switch jobs readily, Humphries says.

Powerful forces are contributing to the rise of renting:

- **Foreclosure refugees.** "We're going to take 5 million to 6 million homeowners and turn them into renters because they're going to lose their house to the bank," predicts housing analyst John Burns, the CEO of John Burns Real Estate Consulting. Credit reporting company TransUnion surveyed 1,252 managers of large and small apartment complexes last month and found that nearly half had reported an increase in tenants moving

from foreclosed properties.

- **New Households.** As soon as the economy started improving, people who'd been waiting out the recession by living with friends or family started to strike out in search of rental homes of their own.
- **Fear.** Many renters have the finances to own a home, but, like Kiesel, they don't want to. They sleep better without their savings sunk in a deteriorating housing market. Or they're younger and childless and like the freedom of renting. Or they're empty nesters who've had enough of home-maintenance chores and expenses.
- **Tight credit.** With home prices down about a third since 2006, lots of other renters would love to buy a home at current low prices, but they just can't. Even many with good credit. Newly chastened lenders are granting home loans to very few applicants.
- **Gen Y.** The biggest factor in the rental boom may not be the housing crisis at all but rather the gigantic Millennial generation - the cohort born in the 1980's and 90's. Now at average age 20, the Millennials, or Gen Y'ers, as they're also called, are a big reason for the rental demand.

Renting is huge elsewhere

In several countries - Germany, France and the Netherlands are three - many people are lifelong renters.

In Germany, for instance, the family and neighborhood stability that's supposed to come from homeownership comes instead from laws protecting renters, says Dean Baker, a co-director of the Center for Economic and Policy Research in Washington, D.C.

Carefully written laws take landlords' rights into account as well, he adds.

But despite the current boom in rentals, few experts expect to see a change here. For one thing, it's impossible to discount how deeply the value of property ownership is embedded in American culture. A CBS News/New York Times poll taken in June indicated that 59% of those polled said owning a home is "a very important part of the American dream."

Homeownership is thought to give communities greater safety and stability, and to help individuals build wealth.

"We have a fixation on ownership," Baker says. "The idea is, if you're not an owner, you're a second-class citizen."

Since the late 1970's, around 64% of U.S. homes have been occupied by their owners. The rate climbed sharply after the turn of the century, hitting a high of 69.2% in 2005, at the top of the housing boom. It's been dropping since and was at 65.9% at the end of June. (cont on pg 6)

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Although it's unlikely the U.S. will become a nation of renters, homeownership rates are likely to keep falling—and to settle well below the recent highs but also well above 50%.

Humphries, the Zillow economist, thinks it may eventually stabilize at around 64%, Kiesel, the Pimco analyst, sees a slow economic recovery driving it perhaps as low as 60%, a rate last seen in the late 1950's.

But Kiesel describes himself as bearish. Few experts expect it to reach as low as Germany (43%), the Netherlands and Denmark (54%) or even Japan (61%).

Fundamental change not likely

But even those who see Germany as a model for the U.S. don't expect we'll get there.

Each nation's mix of owners and renters tends to stay fairly stable because each depends on a complicated mix of forces, says Michael Lea, the director of the Corky McMillin Center for Real Estate at San Diego State University. Those include:

- Government subsidies that encourage renting over owning or visa versa.
- The availability of mortgages.
- Cultural values.
- The historical and economic predominance of landlords versus homeowners.

Emerging nations usually have the highest homeownership rates. That's because strong laws supporting renting haven't yet developed and few homes or apartments are available for rent. For example, homeownership rates are 71% in Mexico, 74% in Brazil, 75% in Thailand and 96% in Armenia, according to the Housing Finance Information Network.

Where rates are high, many owners may be squatters or have poor title to their land, as in Latin America, says Lea, an expert in real estate and mortgages internationally.

The U.S. government has been pushing homeownership since before World War II. We've got mortgage guarantees through Freddie Mac, Fannie Mae and the Federal Housing Administration; a mortgage-interest deduction, a property tax deduction, and a capital-gains tax exclusion for selling a primary residence.

Not all countries subsidize homeowners as heartily as the U.S. does. In Australia, Britain, Canada, Germany and Japan, for example, homeowners can't deduct mortgage interest from their taxes, Lea says. All but Australia and Japan, however, exclude a home sale from capital gains taxes.

In the U.S., the emphasis may change some, but a complete cutoff of housing's IV drip of tax money is very unlikely. Last year the mortgage-interest deduction alone (\$131 billion) far exceeded the cost of the Afghanistan war (\$105 billion) and dwarfed the \$48 billion spent on all Department of Housing and Urban Development programs.

Combined, federal tax breaks for American homeownership and subsidized mortgages cost \$230 billion in 2010. And housing typically goes where the money goes.

In contrast, only \$60 billion of U.S. taxpayer money goes toward making renting more affordable. Only about a quarter of those are eligible can actually get Section 8 housing subsidies.

"We just don't fund it," says Lea. "Congress has never come close to appropriating enough money."

A major reason people like renting is that it's flexible. Renters can pick up and move with little notice or expense. That freedom allows them, like Kiesel, to ride out the current economic storm while deciding what to do next.

Rent hikes switch the balance

But as competition for rental homes drives rents higher and as home prices continue to fall, the balance is about to shift, making buying the more affordable option. On average, rent prices are up 2% this year nationwide, and they could rise 3% more next year, according to Meyers.

Price increases are likely to cause lower-income renters serious difficulty. "Tenants will be pushed into properties of lesser value as rents increase," says Meyers.

New rental properties are under construction, but shortages could arise, particularly in Boston, Los Angeles, New York, San Diego, San Francisco, Washington, D.C., and San Jose, Calif. At the same time, assuming that mortgage credit eases up some, many renters could be driven by rent hikes into the arms of home sellers.

"My rent hasn't really gone up in five years, and I'm expecting it to," Kiesel says. "That could influence my decision. It's set to renew in January, and I can tell you that if it goes up a lot, I might want to buy. My view on the market is that we are getting close to the bottom."

But for most renters, the pressure of rising rents isn't a good enough reason to buy. It can be a lot harder to get out of homeownership than it is to get in. When you own your own home, if your income drops or your life changes and you have to sell but can't, you're stuck.

For lots of people, renting is always the right decision, whether it's the American dream or not.

Close to bottoming, home prices may rise in 2013 Lucia Mukitani

The relentless decline in home prices is nearing an end and prices should rise for the first time in seven years in 2013, but a possible new wave of foreclosures could threaten the recovery, according a Reuters poll of economists.

The median forecast of 24 economists polled by Reuters was for the S&P/Case-Shiller 20-city home price index to end the year unchanged. That was the same finding back in January for this house price gauge, which covers 20 cities.

"We are expecting a gradual improvement, but if we get a big wave of new foreclosures coming to the market, price declines could be even greater," said Yelena Shulyatyeva, an economist at BNP Paribas in New York.

The survey forecast the S&P/Case-Shiller home price index rising 2.0 percent next year, up from 1.5 percent in the January survey.

The housing market's collapse pushed the economy into its longest and deepest recession since the 1930s. Historically, housing has led the economy out of recession, but it has been the weakest link in the recovery that started in mid-2009.

While residential construction accounts for a mere 2.3 percent of gross domestic product, home prices have an oversized reach in the economy, influencing a wide range of consumption decisions by households.

House prices have so far fallen about 32 percent from their peak at the end of 2005, and an estimated 11 million Americans now owe more on their homes than they are worth.

A resulting tide of foreclosures has held back the housing market's recovery.

The survey predicted about 1.5 million foreclosed properties will come on to the market this year. While there is no comparison for this figure, most analysts believe the foreclosure wave has either peaked or is close to toping out.

Given that foreclosures and the accompanying fear of

further price declines are the main obstacles to any housing market recovery, few analysts say that further purchases of mortgage backed securities by the Federal Reserve will help.

Fed officials meet on April 24 and 25 to debate whether further steps are needed to drive borrowing costs lower to spur stronger economic growth.

Mortgage rates are already near record lows and house affordability is the best in history.

"The problem with the housing market is not necessarily that mortgages are expensive," said Millan Mulraine, a senior macro Strategist at TD Securities in New York.

"It's more the expectation that prices may continue to fall and cause a lot of potential buyers to sit on the sidelines to wait for more attractive entry points. I don't think there is lot more mileage to be achieved from MBS purchases."

Further MBS purchases by the U.S. central bank, however, could help keep mortgage rates low as the economy's recovery gains momentum.

The survey forecast the 30-year mortgage rate averaging 4.00 percent in 2012, down from 4.15 percent in the January poll.

Although job growth slowed in March, the labor market is expected to continue strengthening this year.

That should help to lift home sales. Sales of previously owned homes are expected to register an annualized 4.70 million unit annual pace in both the second and third quarters of this year before topping at 4.80 million units in the fourth quarter.

That compares to a rate of 4.60 million units and 4.70 million units in the second and third quarter respectively in the January survey.

"This gradual healing is encouraging, but we must tread carefully as the housing market is still far from a robust recovery," Michelle Meyer, an economist at Bank of America Merrill Lynch in New York.

4 hidden costs of being a landlord by Margarett Burnette

Life as a landlord may be tempting to homeowners unable to sell their homes and others looking to add properties to their investment portfolio.

However, many costs associated with rental properties catch novice landlords by surprise. The following are four hidden expenses experts say new landlords should consider.

1. Increased insurance costs

Rental homes may cost more to insure.

For example, homeowners who cannot sell their homes should be aware that renting out the home changed the owner's status from primary occupant to "investor," says Brian Mikelbank, an associate professor of urban studies at Cleveland State University, in Ohio.

As a result, it costs more money to insure the home with a special landlord insurance policy. According to the Insurance Information Institute, the premium is about 25 percent more than with typical homeowners insurance.

The tenant rent payment may help cover the increased expense, but Mikelbank says landlords shouldn't always count on it.

"Homes will usually have tenants for less than 12 full months out of the year, since it takes time to find a renter, or a tenant could potentially leave before their lease is up," he says.

2. Legal fees and administration charges

Landlords should budget money and time for getting legal advice, learning their rights and drafting rental agreements, says Lisa Sevajian, a Realtor in North Andover, Mass.

"Some attorneys will charge a flat rate of about \$200 for landlord services," Sevajian says. Other lawyers may charge by the hour.

Owners should also be prepared to pay for additional work if a tenant needs to be evicted, or there is some other legal dispute, she says.

In addition to legal expenses, landlords will have to pay for administrative costs related to interviewing potential tenants, running their credit histories and checking references, Sevajian says.

Property management companies can handle these tasks for the property investor, but typically charge about 10 percent of each month's rent for their services.

Many municipalities require owners to register rental homes and make them available for examination, Mikelbank says.

"The city will send out an inspector to make sure the property is up to code," Mikelbank says.

If there is a defect, the owner will have to pay to fix the problems, he says.

Some municipalities also ask new landlords to attend day-long training classes that cover topics such as how to find good tenants, best practices in property management, and how to spot and report potential illegal activity.

Mikelbank says more cities are offering these classes because of an

increase in "casual landlords" who may not understand all the legal regulation involved in owning rental property.

Fees for these administrative services add up.

"The cost for registration, inspections and training can be a couple hundred dollars a year," Mikelbank says.

3. Cleaning, care and maintenance costs

To attract tenants, landlords may have to spend up to \$1,000 on paint, carpet and landscaping, Mikelbank says. Otherwise, it might be difficult to find a reliable tenant.

So, homeowners who can't sell and decide instead to rent their home should plan to spruce up the place—just as they would before a sale.

"The same upkeep problems that could be holding a house back on the 'for sale' market could also be holding it back from the rental market," Mikelbank says. "The difference is, houses can be sold 'as is,' but a renter may not be willing to rent 'as is.'"

When a tenant does move in, the landlord may be contractually obligated to fix new maintenance issues, such as a leaky toilet, Sevajian says.

Once the tenant moves out, the landlord will need to spend more money to clean up the home for the next resident, she added.

Landlords should be prepared to pay these expenses out of pocket, Sevajian says.

"Owners can require a security deposit to help cover certain cleanup costs, but it won't pay for everything if the tenant stops paying rent early or badly trashes the house," she says.

4. Increased taxes

Many states and municipalities have tax rules that favor owners who live in their homes, such as the homestead exemption, Mikelbank says.

These tax breaks don't apply to investment property. So, new landlords should be aware that they may have a higher tax burden on their investment property.

This issue is especially pertinent to homeowners who turn a primary home into a rental. An owner will probably have to give up the homestead exemption if he or she moves out of a property while continuing to own it. This would mean higher property taxes.

Once the real estate market rebounds, an owner may decide to put his or her home up for sale, Mikelbank says. But if that person hasn't lived in the dwelling for at least two of the previous five years, the owner likely will lose his or her capital gains tax exemption, which allows individual filers to keep \$250,000 of profit from the sale tax-free.

Of course, other expenses related to rental properties actually generate tax breaks for the landlord. Mikelbank urges novice property investors to talk to an experienced tax professional to understand how becoming a landlord could affect the individual's tax situation.

Fed to banks: Rent out more foreclosures

By Margaret Chadbourn

The Federal Reserve took steps to encourage banks to turn more of their foreclosed homes into rental properties in new policy guidelines issued on Thursday that could help lessen the flood of distressed property sales that is depressing prices.

"Banking organizations should make good-faith efforts to dispose of foreclosed properties," the Fed said in a six-page policy statement.

But it said that given "extraordinary market conditions that currently prevail," renting out surrendered properties falls in line with its regulations.

Many at the Fed have argued that converting more single-family homes into rentals could curb declines in home prices that have fallen more than 30 percent from their peak in 2006.

The central bank issued a policy paper to Congress earlier this year and suggested lenders jump into the rental market as a way to reduce their losses on foreclosed properties, an approach that would also help shore up the housing market and meet the growing demand for rentals.

"The continued inflow of new real estate owned properties to the market - expected to be millions more over the coming years - will continue to weigh on house prices for some time," the Fed statement said.

The Fed cautioned that banks must always consider the overall "costs, benefits, and risks of renting," and that full documentation of a rental strategy is needed.

Banks are allowed to rent out a foreclosed property "without having to demonstrate continuous active marketing of the property provided that suitable policies and procedures are followed."

Those banks using 50 or more properties as rentals need to document how they are meeting supervisory standards, the Fed said.

Despite the number of repossessed properties being rented, the central bank reminded lenders that they must comply with federal, state, and local statutes, including keeping up with maintenance codes and landlord-tenant laws.

Banks must carefully balance the demands of rehabilitation and leasing, the Fed warned, and establish policies to ensure the properties stay under standard maintenance codes.

If banks use property managers or outside agents to manage the repossessed properties, the Fed said contracts and solid track record are necessary.

15-year mortgage rate hits record low

by Martin Wolk

Mortgage rates fell over the past week, sending the 15-year benchmark to a record low, mortgage giant Freddie Mac said Thursday.

While 30-year fixed-rate mortgages are more common, low mortgage rates have made 15-year notes more realistic for some homeowners, especially those who have relatively low balances and want to pay off their principal more quickly.

The average 15-year rate for mortgage deals done over the past week was 3.11 percent, down from 3.13 percent a week ago. Monthly principal and interest payments on a \$200,000 mortgage at that rate would be about \$1,392.

Meanwhile the average 30-year rate fell last week to 3.88 percent from 3.98 percent. That would equate to an average monthly payment of \$941 on the same \$200,000 mortgage. Payments are lower on the longer-term mortgage, but interest paid over the life of the loan is far higher.

Rates fell for a third straight week in part because of last Friday's weak monthly employment report, said Frank Nothaft, chief economist for Freddie Mac.

"On a more positive note, the Federal Reserve reported hiring was steady, or showed a modest increase, across many of its districts in its April 11 Beige Book of regional economic conditions," Nothaft said.

Vast majority of Americans not moving, plan to remodel

Lacking confidence in the housing market, most Americans are not moving this year. And since they're stuck, most have some sort of home improvement project planned for 2012, according to a new survey.

The American Express Spending and Saving Tracker "Home Decision 2012" survey says that 10 percent of Americans - 23 million people - plan to move. Of these, 44 percent plan to buy a home and 42 percent say they will rent. As for the other 14 percent? Amex doesn't say, but maybe mom and dad should clean out the basement.

The home improvers? Seventy percent say they have a project. They plan on spending an average of \$3,500, or roughly what a contractor charges for 28 minutes of work plus lunch (we kid). Of those projects, 58 percent will be interior remodel and the top project in that category is paint, 37 percent.

Twenty-four percent must not have allergies; they plan on doing some sort of landscaping.

The survey report noted that Americans still don't trust the housing market will get better. Fifty-two percent are "not very/not at all" confident they'd get their asking price if they listed their current residence.

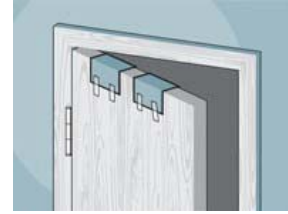
Door repair 101: How to fix a squeaky door hinge, gaps and more by Popular Mechanics

1. Sticky situation

The bedroom door sticks every time it's opened or closed, but the idea of repeatedly hanging and planing or sanding what you think are the trouble spots seems like more work than it's worth.

The quick fix

Tape carbon paper or another type of blued paper along the edge that is sticking. Open and close the door, and the bluing will mark the problem areas, allowing you to sand or plane exactly the points that are causing the door to stick. This works on the side, top or bottom.



2. Open sesame

You're starting to think you live in a haunted house because every time you open the door, your entrance is announced by a squeak coming from the hinges.

The quick fix

Just lifting the hinge pin and squirting a little oil into the hinge will work for the short run, but the squeaking will inevitably return. To ensure long-lasting silence, tap the hinge pin out of the hinge and coat the pin with white lithium grease. Tap the pin back in place and test the door. The door should open and close silently, although you may have to lubricate both top and bottom hinges.



3. Sneak a peek

Privacy's at stake when the bathroom door is out of kilter and binds on one corner.

The quick fix

Close the door and inspect the clearance along the sides and top to see if it's misaligned in the frame. Check the hinge mortises to see if one is deeper than the other. If so, install a thin cardboard shim or playing card under the hinge leave to adjust the alignment. If necessary, add more shims until the door swings freely.



4. Rough ride

A sliding glass door that doesn't stay in its track is more than a minor annoyance, it's a safety hazard.

The quick fix

First, check if the door has adjustable rollers and adjust to improve the door's action. The metal guides that contain most sliding glass doors can get bent out of shape by daily wear and tear. Badly bent or flattened guides will allow the door to slide out of the track, and badly damaged tracks need to be reformed into their original shape. Use a scrap piece of lumber (or a large building block from a child's wood block set) that is just thick enough to fit into the slot of the tracks. Secure the wood in place and use a mallet to pound the track guides back into their correct position.



5. Poltergeist door

Every house has one – a door that slowly drifts shut every time you try to leave it open.

The quick fix

Rather than resetting the hinges or propping it open with a potted plant, remove one of the hinge pins, lay it on a hard surface, and strike it lightly with a hammer until the hinge pin has a slight bend. Tap the pin back in place. The increased friction will keep the door where you want it.



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