CAREPA NEWS

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華裔房地產專業協會新聞

2010 年十一月號 November 2010

President's Message ~ 會長的話

CAREPA has elected the 2011 Board of Directors and Executive Officers. Executive Officers include: Nancy Lin, President; Ling Chow, Vice-President; Brian Chen, President-elect; Lucia Tam, Secretary; Margaret Chiu, Treasurer and Philip Hsu, Historian. Our directors will be: Lorinda Chou, Suzie Koo, Saul Larner, Vincent Lieu, Carina Pang, John Wong and John C. Wu. Congratulations!

2010 is going by fast. Our last speaker of the year, EDWARD T. HUANG, PhD, AICP, CEI, CGBP, LEED AP will talk to us about "SUSTAINABLE DEVELOPMENT AND REDEVELOPMENT ~ GREEN YOUR HOUSE ON AMERICA RECYCLE DAY" on November 10. Hope to see you all at Empress Harbor.

The National Association of Realtors is holding its annual Business Conference "NARdiGras 2010 in New Orleans from November 5-8. Please participate if you have a chance. For more information, please visit NAR's website.

CAREPA will hold its annual installation and Christmas party on Sunday, December 12, 2010 at San Gabriel Hilton, San Gabriel Ballroom, 215 E. Valley Blvd., San Gabriel Member admitted Free, Non-Members ~ $60. Please invite your friends to participate in our annual banquet. Kindly RSVP your attendance by December 4 so that we know that you are coming. If you are interested in sponsoring or putting an advertisement on the program book, please contact us right away.

November is the month of the Turkey, Thanksgiving Day. Hope you have a great thanksgiving along with your friends and family. I wish you all have a very happy holiday season.

Thank you.

PHILIP HSU 徐一飛
華裔房地產專業協會
2010 CAREPA President

10 Reasons Why California is Years Away from a Housing Bottom: Rebuttal to Those Calling for a Bottom for California Housing.

Dr. Housing Bubble's Blog

Housing in California is years away from a bottom. Let me make that clear and if you have any doubts, after reading this essay you will have a better understanding as to how I arrived at that conclusion. This article is longer since it will try to answer many of the arguments from those calling for a real estate bottom here in California. After looking at multiple sources of information like income, demographics, sales, psychology, and the economy there is no logical evidence for a housing bottom in California. It is well worth the read and certainly provides more information than a 1 minute sound bite. Recently I have noticed a resurgence of bottom talk coming from professionals in the field but also through e-mail questions.

My assessment is this renewed energy has come from two primary culprits. The first is of course the Housing and Economic Recovery Act of 2008 that provides $300 billion in loan refinances and also bails out Fannie Mae and Freddie Mac. In addition, there are many provisions in the bill to juice the market all of which will have very little impact on California. Both Fannie Mae and Freddie Mac announce earnings this week and the news isn't going to be good. Freddie Mac lost $821 million in the second quarter and announced that they will be slashing their dividend from 25 cents to 5 cents to conserve capital. This wouldn't be such a big deal except the U.S. taxpayer is now on the hook and a loss for Fannie Mae and Freddie Mac leads us one step closer to a bailout.

The second reason for the upsurge in bottom talk at least for California is the massive price drop we've seen this past year. A drop in the median sales price statewide by 38.38% is bound to get the attention of anyone. Yet simply because prices have fallen steeply in one year does not signal that now is a good time to buy. In fact, I will give you 10 solid reasons in this article why we are years away from any bottom in California.

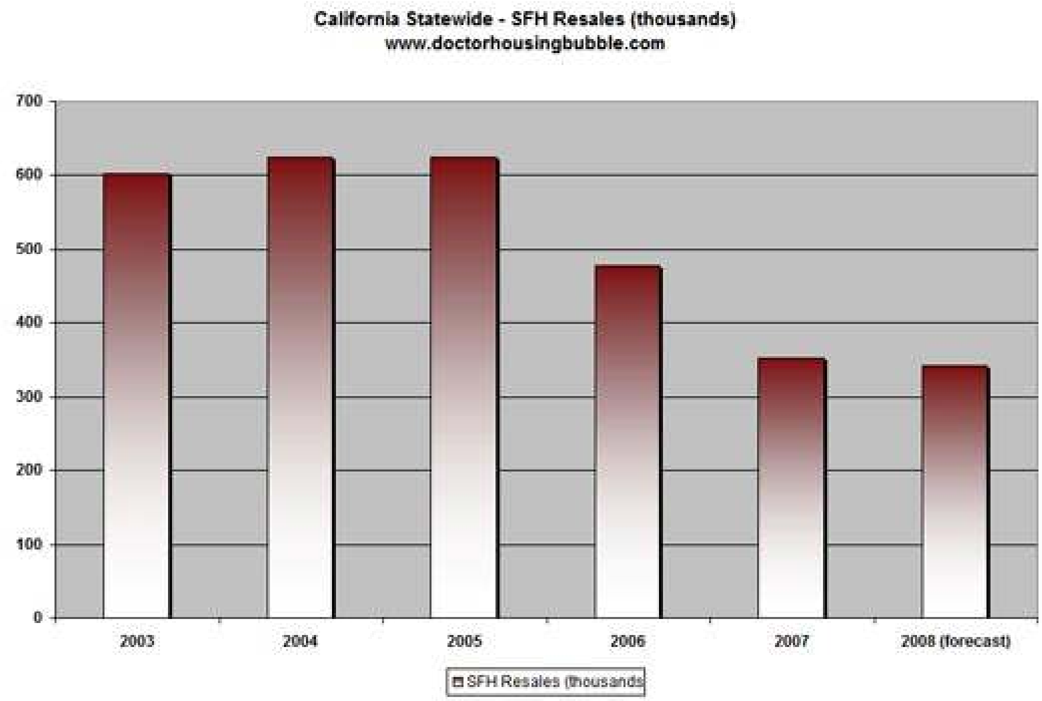
We really are living in a once in a lifetime bubble. It is highly probable that none of us will see a real estate and credit bubble of this size ever again. There will be minor jumps and dips in the future but nothing on this level. I think the best way to conceptualize this extremely large fiasco is to think of someone who is massively in debt. Everyone knows of a friend or family member that spends way beyond

Continued on page 5

The 'death tax' is far from dead

The federal estate tax remains up in the air, but the states that traditionally piggybacked on the federal tax are rewriting their rules so they don't lose their cut.

By Liz Pulliam Weston



When it comes to death and taxes, most of the focus in 2006 centered on Congress' ongoing battles over the federal estate tax.

But many states impose their own taxes and costs when residents die. Estates too small to trigger the federal tax can easily rack up thousands of dollars in state death taxes and probate costs. Far from being repealed if the federal tax is rescinded, this state burden is on track to rise over time.

- Some states have their own estate- or inheritance-tax systems that are independent of the federal estate tax system.
- Another group of states is imposing new estate taxes to make up for revenue from the waning federal tax.
- Finally, some states have expensive and lengthy probate systems that apply to an increasing number of estates.

The federal estate tax is scheduled to phase out over the next few years and disappear entirely in 2010 -- only to return in 2011 when the temporary repeal expires. Opponents of the estate tax are struggling to make repeal permanent; the House has already voted to permanently repeal it, but the bill never got to the floor of the Senate for a vote.

But many states have estate or inheritance taxes that are independent of the federal system. Those states, according to John Logan, senior tax analyst with CCH Inc., include: Connecticut, Indiana, Iowa, Kentucky, Maryland, Nebraska, New Jersey, Ohio, Oklahoma, Pennsylvania and Tennessee. (Connecticut's tax is scheduled to disappear after 2006.)
State estate taxes, like the federal version, are assessed on the estate as a whole. But states can have different rules about who pays.

Breaking down the exemptions
Inheritance taxes target bequests to the beneficiaries, rather than the estate itself. Typically, beneficiaries are divided up by their relationship to the deceased, with the biggest tax breaks going to those with the closest ties. In Iowa, for example, bequests to spouses, children, parents and other direct descendents (grandchildren, great-grandchildren, etc.) or ascendants (grandparents, etc.) are exempt from the state's inheritance tax. Property destined for brothers, sisters and siblings-in-law is assessed at rates ranging from 5% to 10%, while the rate for other inheritors runs from 10% to 15%.

You can find details about state estate taxes at CCH's financial planning Web site.

In the past, most states haven't had to impose separate taxes to get a piece of their residents' estates. Instead, the states received a portion of what the estate owed the federal government. This "pickup" tax raised state coffers without the estates owing any extra. However, states are losing this boost. The federal law temporarily repealing the estate tax has already phased out the states' ability to take a portion of said tax. That cost states billions in lost revenue.

So it's probably not surprising that several states are trying to hang on to their piece of the pie by decoupling their estate tax system from the federal system. In effect, they're pretending that the repeal isn't happening and taking from their residents' estates some of what they used to get from the federal government.

The search for funds
Illinois was the most recent state to unhook from the federal law in hopes of recouping $45 million to help fill its $5 billion budget gap.

Some states made their decoupling temporary, hoping that revenues would improve enough in coming years so that they wouldn't miss the lost tax. The states also might get a break if efforts to make the federal repeal permanent fail. The full state death-tax credit would return, along with the rest of the federal estate tax system, in 2011.

Taxes aren't the only costs associated with death. Probate, the court process that follows death, usually costs some money and typically affects far more people than estate taxes.

Fortunately, probate is no big deal in most states. Creditors are identified and paid and the remaining assets are distributed to heirs, usually all within a few months. Fees

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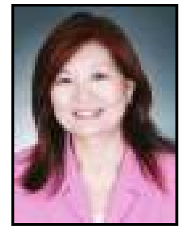
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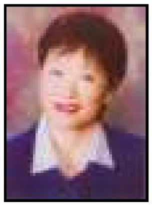
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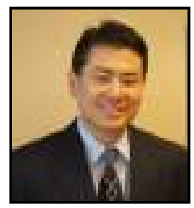
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NOVEMBER GENERAL MEETING
NOVEMBER 10, 2010

6:30PM

SPEAKER
EDWARD HUANG, PE

TOPIC
SUSTAINABLE DEVELOPMENT & REDEVELOPMENT
GREEN YOUR PROPERTY ON AMERICA RECYCLE DAY

EMPRESS HARBOR ESTAURANT
111 N. Atlantic Blvd. 3rd floor
Monterey Park, CA 91754

For reservations and information,
contact Nancy Lin @ 626-285-8333

ANNUAL CHRISTMAS & INSTALLATION DINNER

DECEMBER 12, 2010

6:30PM

OURTGOING PRESIDENT
PHILIP HSU

INCOMING PRESIDENT
NANCY LIN

SAN GABRIEL HILTON
225 W. VALLEY BLVD. BALLROOM BC
SAN GABRIEL, CA 91776

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typically range from a few hundred to a few thousand dollars.

Two states, though, are notorious for their lengthy and expensive probates: California and Florida.

The trigger
In California, probate is generally triggered when an estate is worth more than $100,000. That amount doesn't rise with inflation, so over time more and more estates are subject to probate. The typical probate in California can take 12 to 18 months, and some go on for years. (Marilyn Monroe's estate took 18 years to settle.) The long waits for heirs aren't the only problem: The costs for probating even a modest estate can be astronomical.

Attorneys and executors can *each* take 4% of the first $100,000, then 3% of the next $100,000, then 2% of the next $800,000, then 1% of anything over that amount. So a $300,000 estate can rack up $20,000 in probate fees. (Monroe's probate fees totaled more than $1 million, says estate planning expert Denis Clifford. Her total debts were about $400,000, leaving just $100,000 to be divided by her heirs.)

By the way, those probate fees are based on the *gross* estate -- the value of all the property, not counting any mortgages, loans or other debt.

In Florida, estates worth more than $75,000 are subject to probate. For small estates, the process usually takes about six months. Closing a larger estate can take 15 months or longer. Fees for attorneys and executors of about 3% each are usually considered "reasonable" by state law.
There are some benefits to going through probate. The process is monitored by a judge, which theoretically should make it harder for a corrupt executor to defraud your heirs. You also don't have to do anything or spend any money in advance to prepare; rather, your estate will go through probate if you don't take steps to avoid it.

The avoidance technique
But if you have even a modest estate (a home, some investments, a bit of cash), estate-planning attorneys in states with high-cost probates usually recommend avoiding the process. If your estate is relatively small, you may be able to skip probate entirely with techniques like owning real estate in joint tenancy and designating beneficiaries for your financial accounts (known as creating "pay on death" accounts; talk to your financial institutions for details). If your estate is larger, a kind of revocable trust known as a living trust might be the answer. A review of Clifford's Nolo Press book, "Plan Your Estate," could help you decide.

Now, what do you do about state death taxes? If you're rich enough, finding another state to live in is always a possibility (Alaska, maybe, or Hawaii?). Otherwise, you might decide to use tax-minimizing techniques, such as bypass trusts, or change who gets what in order to reduce inheritance taxes. If you want to provide the money to pay taxes so they don't come out of your heirs' share, a life-insurance policy held in an irrevocable trust might be the way to go.

Unfortunately, estate planning is often no place for amateurs. As you can see, the rules are complex and ever-changing. It's tough for even the pros to keep up.

If you have enough money to be worried about death taxes, consider spending a little on an attorney who's an estate-planning specialist. Your local bar association can provide referrals..

Top 10 Reasons Why Short Sales Fail

Many Short Sales Fail at the Approval Stage

By Elizabeth Weintraub, About.com Guide

No buyer wants a short sale to fail but there are steps a buyer can take upfront to prevent failure.

Short sales often remind me of Elizabeth Barret Browning. How can a short sale fail? Let me count the ways. A short sale can fail to the depth and breadth and height the soul of a nervous buyer can reach. It's normal to be fearful that a short sale will fail, because you hear more about the short sales that don't close. But many short sales also close. I'd venture to guess that 2 out of every 3 attempted short sales do not fail; they close. The success rate can be that high. Your odds of closing a short sale greatly increase in direct proportion to the number of successful closings handled by the listing agent.

That's not to say that a novice agent can't handle a short sale, but experienced short sale agents often learn from their mistakes. An inexperienced short sale agent might not have faced some of the problems inherent in short sales nor have access to a quick solution, which could cause your short sale to fail.

So what can go wrong? What can make a short sale fail? Assuming you have offered a reasonable price for that short sale and the sellers qualify for a short sale, many of the problems in a short sale occur near the approval stage. After you've waited months for short sale approval, weathered torrential rain storms and crossed sun-parched deserts. Following are 10 of the top reasons a short sale will fail:

#1) Short Sales Fail Due to Unreasonable Second Lenders

An agent friend of mine in Virginia who negotiates a lot of short sales compares herself to a ping pong ball, the way she she is often bounced between first and second lenders.

- First lender might not agree to meet the second lender's demand.
- A third lender might refuse to play ball at all.
- Some second lenders push sellers to commit short sale mortgage fraud, which could could happen if the lender demands a payment outside of the HUD-1.

#2) Short Sales Fail Because the Home is Vacant

Many servicing guidelines require that the home be occupied. They may go so far as to insist that the seller move back in, and many sellers cannot afford to do so. You will have a better chance of closing your short sale if the seller lives in the property.

#3) Short Sales Fail Due to Demands for Seller Contributions

Banks demand seller contributions all the time, even if the seller has no money and no assets. The bank might insist that the seller kick in cash or sign an interest-free, long-term promissory note.

#4) Short Sales Fail Because of Deficiency Verbiage

Many states allow deficiency judgments when lenders take a short payoff, regardless of whether the financing is purchase money or a hard money loan. Not every lender will agree to remove deficiency verbiage from a short sale approval letter. Even in situations that are exempt from deficiencies, doing a short sale might change or alter the sellers' exemption.

#5) Short Sales Fail Because PSAs Prefer Foreclosure

It's possible that the servicing guidelines might not contain any provisions for a short sale. In that event, the short sale will not be granted, even though it may have appeared all along that the bank would approve the short sale. In addition, some PSAs make more money if the home goes to foreclosure due to incentives in the guidelines.

#6) Short Sales Fail Due to Tax Liens, UCC Filings and Judgments

A quick check of the public records would disclose liens filed against the home or the seller, but few buyers order a title check until they get short sale approval. Some types of liens will follow the seller even after a foreclosure and will require payment before the short sale can close. Generally, banks will not pay those liens.

#7) Short Sales Fail Because Bank Offers Loan Modification

I've had sellers call me up in the middle of a short sale to say the bank, which had previously refused to offer them a loan modification, now wants to give the sellers an incredible repayment plan that the sellers can afford to pay.

#8) Short Sales Fail Because Home is Vandalized

Vacant homes can be sitting ducks for thieves. Water pipes can break and flood the home. Lightning can strike it and burn the home to the ground. But more often than not, thieves break in, steal the appliances and rip out copper. Banks often will not pay for repairs.

#9) Short Sales Fail Because Sellers Get a Job

Some short sales can take so long to get approved that eventually the seller will find a job. Once employed and earning a good income, the seller may no longer qualify for the short sale.

#10) Short Sales Fail Because Not Every Fee is Approved for Payment

The buyer might need a credit toward closing costs and the bank might refuse to pay it. Buyer's closing costs can amount to 3% of the sales price, almost as much as the minimum down payment for an FHA loan. If the homeowner's association dues are in arrears, a bank might refuse to pay those fees, among other charges.

Continued from Front Page ~ **10 Reasons Why California is Years Away from a Housing Bottom:**

his or her means and is usually in major debt. They have nine credit cards, a $700 car payment, a $4,000 mortgage, and yet seem to shuffle debt around like musical chairs. At a certain point, this game ends and some accept the reality and confront the issue head on and others live in denial.

Those that confront the reality sometimes meet with a financial professional or a debt counselor usually with advice to cut up the credit cards and develop a sustainable budget. A prudent plan. If you are serious about correcting negative cash flow situations, you really have to create a budget that takes into account how much money is coming in and going out. In the case of our country, it has gone into debt counseling, was told to cut up the credit cards but is refusing to do so and is actually applying for more credit cards!

What you will not hear from bottom talkers is any mention of incomes from the vast majority of people. Sure they will use random examples of those in Bel Air, Brentwood, Laguna Beach, or Newport Coast but that is a tiny fraction of the population. They cannot use income as a measure of support because it will demolish their bottom theory. Let us now move on to the 10 reasons why California is years away from a housing bottom.

Reason #1 – REO and Foreclosure Phony Numbers
Here are some stunning figures:
Q2 of 2008 Notice of Defaults for California: 121,341
Q2 of 2008 Foreclosures in California: 53,943

Yet when we look at the overall inventory on the market and sales, it looks like overall inventory is decreasing. How can this be? First, there are shady things going on. Can we prove this? Not with a definite yes but using multiple sources of data we can see something is not matching up. It was hard to "prove" massive fraud in the subprime markets as it was going on but we knew it was there.

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First let, us look at statewide sales for the past few years:
This chart is very important because it covers the entire yearly sales for California. Sales have been falling steadily since 2005, long before the mainstream media echoed any sentiment about a bubble in California. So this number is clear. We will use the sales figures for 2007 since those have already been recorded.

Now, let us take a look at the raw sales numbers for Los Angeles County for 2007:
Total Sales for Los Angeles County in 2007: 74,722
Total California Sales in 2007: 352,800

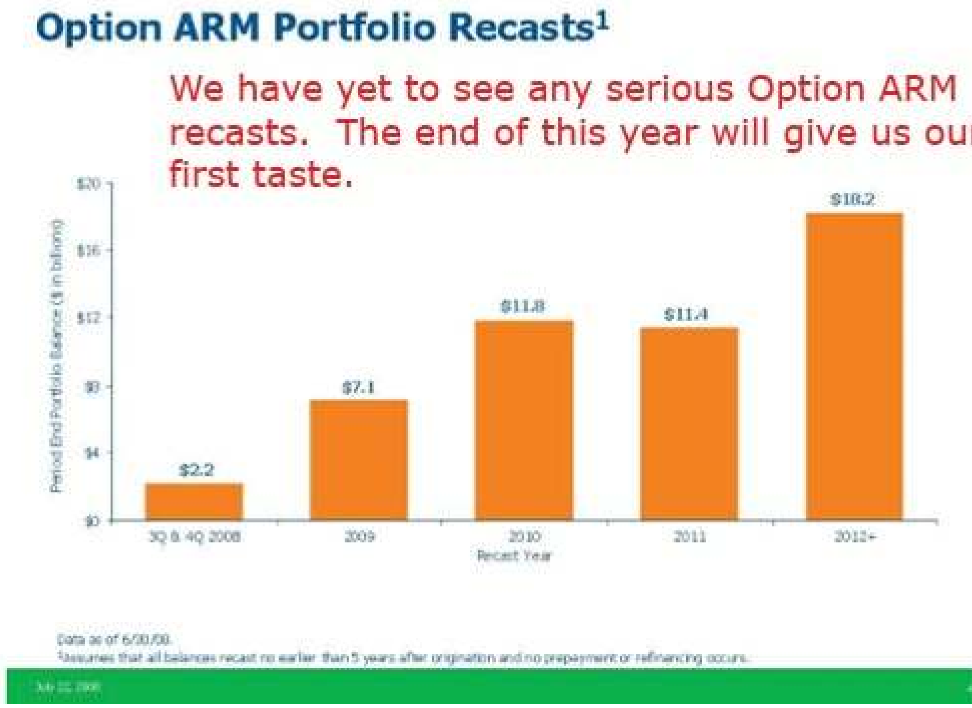
So Los Angeles County made up 21.1 percent of all sales for California in 2007. The point of this is that in a county with 10,000,000 people and 88 cities can be looked at as a microcosm of the entire state with low, middle, and high income neighborhoods. Let us now look at the latest data for Los Angeles County:
Los Angeles County second quarter NODs: 21,632
Los Angeles County second quarter foreclosures: 9,609
Current Inventory August 2008: 51,315
LA Sales in June of 2008: 5,678
Months of Inventory: 9 months

These numbers should be pointing to the fact that we have not reached a bottom. The June data for sales is normally the highest month for sales in California for many counties. So far for the first six months in Los Angeles County we have seen this many sales:

First 6 Months Los Angeles County Sales: 27,268

We are including the highest sales month in this data so we can easily see that we are nowhere close to approaching the 74,722 homes sold in 2007. Keep in mind the fall is a slow selling season and summer is almost over. We can safely assume that sales for Los Angeles County for 2008 will be approximately 50,000 to 56,000 when the year is said and done. Take a look at the NOD and foreclosure numbers for the second quarter. The fact that nearly 8 out of 10 homes that receive a notice of default in California turn into foreclosures should tell you that we are on the verge of seeing an onslaught of inventory hitting the market in the next few months.

If sales are falling and foreclosures are growing, how can months of inventory be declining? First, those that do not need to sell are probably thinking twice about selling their



*Source: *C.A.R.*

home thus artificially lowering the overall inventory numbers. Second, we have lenders who are overwhelmed and simply choose on purpose or for whatever reason not to add the foreclosure as an REO and sometimes these homes do not appear in the MLS thus keeping certain homes off inventory lists.

You can do the math. This is no bottom. In June only 35,202 homes sold statewide. For the peak month of data, this is a pathetic number.

Reason #2 – The Walkaway Pay Option ARM Test
It seems like the mainstream media is finally catching on that Pay Option ARM mortgages are a disaster waiting to happen. The state of California is waiting to see who will blink first. I've been sounding the Pay Option ARM alarm for a very long time because I really do think that this is the next major crisis. To a certain extent, the $300 billion bailout given the current guidelines is something many can swallow bitterly because it would force lenders to writedown mortgages and also the borrower will have to share future appreciation with the government. Not exactly ideal but given our government it is probably the best that we can come up with.

There is literally no way to justify the Pay Option ARM mortgage debacle that we will head into. These loans turned thousands of Californians into futures traders by making their mortgage into an options contract. How so? First, these loans allowed borrowers with a few flavors of payments. You had your 30 year fixed vanilla payment.

Your 15 year accelerated payment. Your interest only option. Or the most popular and most widely used, the negative amortization option. Many borrowers elected to make the minimum payment because why make the full payment if you were going to the flip the place in a few years?

These loans also offered longer recast dates masking the problems for years. 5 to 7 year "anniversaries" were common where a loan payment had the potential to double once the recast date hit. The only thing keeping this gig up was massive appreciation. The lenders got to book the deferred interest as income and the borrower kept making the lowest payment. This game was good until prices started to fall. Now, many of these lenders barely recovering from the subprime mess are anxiously waiting to see how borrowers are going to respond to their recast anniversaries. I can assure you that borrowers are going to let that option expire worthless.

This of course is easily explained. Why would a borrower keep making a payment on a $500,000 mortgage when the home is now worth $300,000? If they went zero down, the only incentive for them to keep making their payment is their credit history. In many cases as we are going to find out people flat out lied and never qualified for the loan in the first place. There will be no bailout for these people and this means:
(a) Lenders are going to take some massive losses and will do some serious balance sheet rebalancing.
(b) There is pent up demand alright. Pent up demand to get rid of these toxic mortgages. Many lenders are going to implode under the wait of their horrible mortgage underwriting.

We are going to find out how pervasive and extensive this fraud network is. To paraphrase Warren Buffet, the tide is going out and we are going to see who is swimming naked. Most of these loans fall under the Alt-A category and many lenders are deluded thinking these are much better than subprime loans. They are not. How many of these loans are out in California?

Total Alt-A loans as of June 2008: 688,975
Average Balance as of June 2008: $419,790
Number with a prepayment penalty: 302,909
Number with a second lien at origination: 206,216 (these are most likely worth zero)
Number with interest only payment: 252,329
Number with negative amortization: 198,385
Percent with at least one late payment in last 12 months: 27%
Percent ARM loans: 70%
*Source: New York Fed

Think about those numbers for a second. This one point is enough to quell any bottom talk. Take a look at WaMu's Option ARM portfolio, half of which is in California and you'll realize that we haven't even seen the start of this mess:
What is the actual notational value of the Alt-A junk floating out in the state? How about $289,224,815,250 as of June 2008. Those of you wondering where that $300 billion figure comes from, there you go.

Reason #3 – Free Rent?
It is hard to believe that we are even in this situation but we are going to see unintended consequences galore. First, lenders are going to realize that buyers are not going to stay current on their mortgages because:
(a) The economy
(b) Recast/payment shock
(c) Psychology

And when we say walkaway you need to realize that this is going to take on a new meaning here in California. The foreclosure process here in the state is incredibly slow. It can be anywhere from 250 to 300 days from the first sign of a problem until the sheriff comes to your door. The idea most have of walking away is that someone is going to send their keys to the lender and are going to vacate the home soon after. That is not the case.

Most people are going to walkaway psychologically first, then they'll give the keys only until the very last moment. Many borrowers already know that the market in California is in the tank. It is not coming back. Many are now realizing that come the anniversary date, they are simply unable to cover the payment. With lenders being inundated with late payments, the process is going to be delayed. If anything, borrowers have a few months maybe even a year of "free rent" as some articles are pointing out.

What will this do to the market? Well, lenders are going to get reamed because of this. First, some of the bottom callers won't see these numbers reflected as inventory but those that actually look at the data realize this is only pent up supply that will be unleashed in the next 1 to 2 years. These people are on borrowed time and so are the lenders. Instead of speeding up the process, there is even talks about making it longer! In fact, Freddie Mac only a few days ago announced that in 21 states it would extend its foreclosure timeline to 300 days from the first missed payment and 150 days from the initiation of the foreclosure process. Is it any wonder the free rent meme is now spreading?

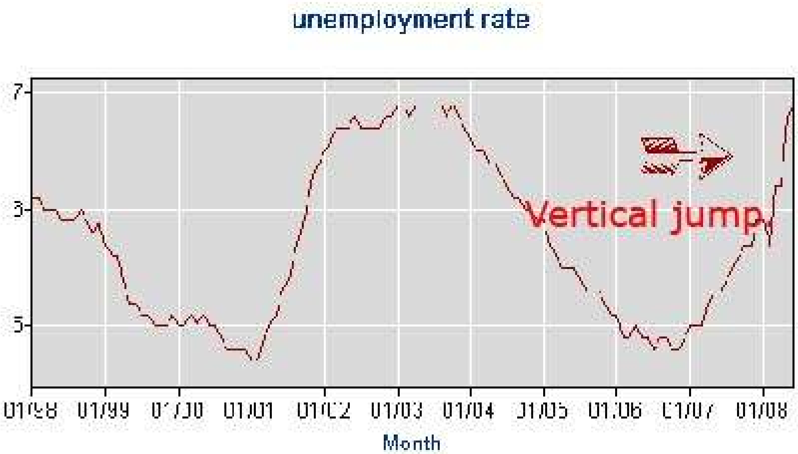
Reason #4 – The State of California is in Recession
Many of those calling a bottom forget one simple thing. The state of California is in a recession! We are seeing a unique two hit housing collapse here. In the past housing bust here in California, the economy first declined then housing followed. In this bust, we see housing declining first, the economy following, and then housing getting hit a second time. This is the lull I feel we are in. We are simply on a plateau until we start seeing prices start falling again because of the economy. The bottom callers tend to gravitate toward economist and politicians that still technically feel we are not in a recession.

The California Governor came out with a strong hand laying off 10,000+ part time state workers, calling for hiring freezes, spending cuts, and is now in a battle trying to bring 200,000 state employees down to the federal minimum wage because of the budget impasse. Oh yeah, we have a $15 billion budget deficit here in the state and the budget is now weeks over due. Does that really look like a sign of a good economy. Plus, we have one of the highest unemployment rates in the country:

The fact that 10,000+ people were just let go, you can rest assured that the next month of data is going to put us squarely over 7% for the unemployment rate. Somehow those calling a bottom forget that you also need a healthy sustainable economy for people to jump back into the market to purchase homes.

Reason #5 – Federal Reserve and U.S. Treasury Smoke and Mirrors

The Federal Reserve, who in large part was fundamental in creating the easy credit that fueled this entire mess in the first place, doesn't care about the U.S. Dollar. In fact, the U.S. Treasury doesn't care about the dollar either. How so?



First, they do their charade every so often by beating on their chest that they support a strong dollar yet do actions that actually harm the dollar. For example, recently they have started talking about their "concern" about inflation. There is a simple solution to that. All they need to do is hike the Fed Funds rate. Yet what do they do? Nothing.

The U.S. Treasury instead of punishing the egregious lending that went on for a decade decides to push the largest housing bailout in history on a weekend and extend credit to the two largest mortgage entities to purchase crap mortgages from the tiny mortgage entities! As we saw with Freddie Mac, the U.S. taxpayer is going to take it in the shorts and in the end, it isn't going to do a damn thing for the overall economy. Freddie Mac is already bleeding red and this program doesn't go into full effect until October 1, 2008! It will help a few people purchase some nice golden parachutes but the average citizen is going to quickly realize that stimulus gimmicks and bailouts do cost something in the end.

How does this apply to California? This is going to be the ultimate shock. The bailout package won't do a thing to help that $300 billion Option ARM tsunami just waiting on the balance sheets of many lenders. Some borrowers are going to want to cement that minimum payment as their 30 year fixed payment. Bwahaha! That can't happen. Try calling your credit card company and telling them, "yeah, I'm only going to give you $20 a month even though I owe $10,000 because that is all I can afford." Do you really think they are going to say, "okay, we'll writedown your balance to $5,000 just cause we like you." Each writedown is a major loss that needs to be reported and we have nearly 700,000 of these loans in the state alone.

Reason #6 – It's the Income Stupid!

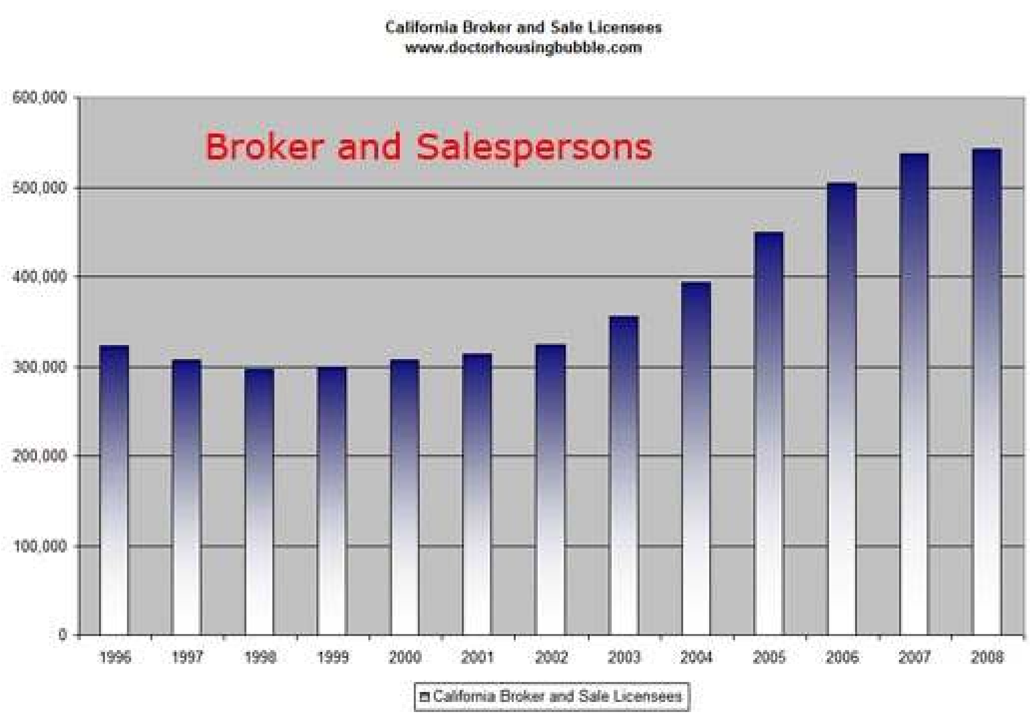
Another major point that tells us we are years from a bottom is incomes still do not reflect the median price of homes in the state. In California the median household income is **$53,770** if we look at the three-year average from the latest data at the Census Bureau. The median price for a home statewide is $368,250. That gives us a ratio of 6.8 which is still too high. It makes you shake your head when the peak price in April of 2007 was reached at $597,640 giving us a ratio of 11.11! Freaking unbelievable.

So from a relative perspective, yeah that 6.8 ratio doesn't seem so bad but anything seems better then the ratio of 11.11. Let us use the hypothetical numbers of this median income family buying the median priced home with a conventional 30 year fixed mortgage:

Median Income: $53,770

Median Price for a California Home (June 2008): $368,250

30 year fixed mortgage with 5% down



Down payment: $18,412

PITI: $2,594
Net Take Home Pay: $3,607 (filing as a married person with 2 exemptions)

At this rate, 71.9% of the household net monthly income is being taken up by the house payment. Even if we use gross monthly income, this person would not qualify for the underwriting in government-backed loans. Now that income does matter and income is a direct reflection of the health of the economy, we are going to enter the next phase of the housing market. The first phase was the bubble bursting creating the economic decline and prices falling, the second phase is going to be the uncovering of the fraud and toxic loans while recasts hit at the most inopportune time.

Reason #7 – Renting is Hot
Renting or leasing a place is going to look a lot more attractive. In fact, in Los Angeles County the majority of people actually rent. Take a look at some of the rental rates for certain counties:
Households that Rent (per county):
San Francisco: 65%
Los Angeles: 52.1%
San Diego: 44.6%
Fresno County: 43.5%
Orange County: 38.6%
Riverside County: 31.1%

As you can see, the amount of homeownership in a county is not indicative of a healthy market. One of the most battered counties Riverside has a high home ownership rate at 68.9%. San Francisco which is one of the last areas to fall and has held up stronger than most California counties only has a 35% homeownership rate.

What this should tell you is that renting in many places has already been a solid alternative. In places like San Francisco and Los Angeles the majority of households do rent. This is because even before the boom these were very high cost areas and after the boom they simply went into wonderland territory thus keeping the renting numbers high or stable.

Many people who would have qualified under the "fog a mirror" guidelines during the past decade will now have a hard time landing a loan. Given the overall median income of the state the buyer pool just shrunk on a massive scale. Another argument I have been seeing looks simply at the supply side assuming everything will once again play out simply because the inventory count is decreasing. So what. Look at the phantom shady REOs and the pent up supply that will hit the market shortly. Take that plus the market demanding more stringent loan requirements and you just took away a large portion of your market. The only way to get the housing market in California roaring again is to bring back the shady mortgage loan network and the complicit Wall Street backers hungry for loans to sell off to unsuspecting foreign buyers. Do all foreigners think all Californians live in Beverly Hills? Apparently, Wall Street wanted them to believe this because stuff rated as AAA in areas with Real Homes of Genius makes no logical sense.

Now renting doesn't seem like such a bad idea and many of those that will lose their homes will become renters. Many others simply do not want to buy given the current market prices.

Reason #8 – Demographics
California has 36,457,000 people. That is approximately 12% of the U.S. population. The argument is a simple one for many bottom callers because the raw number of people is growing in the state of California. Yet given our overall economics this will not help the housing market. First, much of the demographic growth is not with people who earn high incomes. Most growth is in lower to middle income households. Yes, these households do require housing but they aren't going to be paying $400,000 for a shack. They are either going to do two things which they already are:
(a) rent or lease a home (see Reason #7)
(b) purchase a lower priced home

There is demand but for **Affordable Housing** in California and the unseen benefit is that this market correction is starting to do what politicians and builders couldn't do. That is, create a surge of affordable housing through the real estate crash. You really have to love how the politicians scream and stomp their feet about affordable housing yet when prices start coming down hard they do everything they can to sign in legislation to keep prices unaffordable! This backward logic is the reason our President and Congress have ratings that are tanking faster than housing prices.

The idea that the sheer number of people coming into California is going to keep prices sky high is an absurd argument. If that were the case, China with 1.3 billion people would have $1 million dollar homes in every single corner. In addition, the fact that our budget is so poor we are most likely going to see higher taxes which will impact businesses further and additional state cuts creating more job losses. From most recent reports we have actually seen a net migration of middle income earners from the state.

Reason #9 – The Real Estate Feedback Loop
It wasn't uncommon to hear during the bubble days of California loan officers making $20,000 to $30,000 a month with a high school diploma. That made the lender happy but also made the state happy when they collected their income. The agents that were selling those median priced $597,640 homes were happy when they got their 6% cut. The appraiser, escrow officers, title companies, and sellers all had smiles on their faces in the mania which was the California housing market. Much of this income was a once in a lifetime opportunity. Wall Street through their sophisticated gambling racket of mortgage backed securities and all the synthetic derivatives based off these loans figured out a way to fool the world into believing the rate of growth in real estate was somehow sustainable.
Just to give you an idea of how many people jumped onto this ship, take a look at the number of broker and salespersons licenses given out by the Department of Real Estate here in California:

There are currently 542,267 broker and salespersons licensed in the state. This for a state that saw only 35,202 sales in June of 2008! In June of 1998 there were only 297,359 licenses in the state. So basically the number of people jumping into real estate doubled this decade while the population went up slightly:
1998: 32,987,675
2008: 36,457,000 (an increase of 10.5%)

So our economy suddenly turned into one fueled by real estate. The government was happy because it was collecting beaucoup tax receipts from the decade long spending orgy. Incomes kept going up as the Ponzi housing scheme kept growing. That is the predicament we now find ourselves in. A state so dependent on real estate for everything is now facing a market that is collapsing. We didn't diversify and we are now paying the price. Jobs connected to real estate that are now going away include:
Construction
Agents
Brokers
Banks
Home Repair
Insurance

These were good high paying jobs. Not only do these people face the pain of seeing their income fall sharply but they also do not spend hurting our "consumer" economy. These were the people buying luxury cars, clothes, and eating at expensive restaurants. The ripple effects will be felt throughout the country. Those cars made in Detroit will no longer be purchased here in California at the same level because people simply cannot spend money they do not have. The fact that fuel has surged has only accelerated the decline. Fuel is ticking lower slowly and this is good because it will bring attention back to the number one issue, which is the housing and credit crisis.

This is the feedback loop we are now in and will be in for many years. As you can see from the chart above the real estate economy here in California took a decade to build and will not dissolve into the economy over night. Where do the bottom callers think these people will find jobs? The few sectors that do show growth, those of healthcare, leisure and government have their own nuisances:
(a) healthcare – requires advanced training
(b) leisure – much lower paying jobs typically in the service sector
(c) government – Arnold said a hiring freeze so no luck there

I'm not sure we are looking at the same data. Many of those seeing a bottom also thought the subprime mortgage mess would be contained. There is nothing contained about this multi-front onslaught of credit and wealth destruction.

Reason #10 – Consumer Psychology: Why Buy Today when Tomorrow it will be Cheaper

I talked about certain trends that are emerging. The idea of the "all hat and no cattle" mentality is something I talked about at great length in a previous article. To blame only one sector is unfair because this was a collective spending orgy. There was the powerful line that agents used of "national prices have never fallen" that is, until they did fall. This was the first time that we have ever seen a national median decline in price since the Great Depression. In fact, this decline in sharpness and strength is actually hitting at a quicker speed then that of the Great Depression. So that mantra is no longer true.

In states like California, how do you explain a median price drop of 38% in one year? I love the new argument that goes like this, "well the few sales that are occurring are distressed properties and don't accurately reflect the overall market." Newsflash. The entire state is distressed. Unless you are selling prime property in the Hollywood Hills get accustomed to distressed sales. The number one issue on the minds of Americans is the economy. The vast majority don't feel like buying homes when the economy is in the gutter.

Also, let us assume this is the bottom. What in the world will cause prices to jump up in the next year? If anything you can rest assured that prices are going to stay the same for a few years. I would argue that prices in California won't bottom until May of 2011 and those that are betting with their money in the futures market are in the same boat as I am.

After looking at the above reasons, you can rest assured that many of those buyers sitting on the fence are aware of some of the 10 reasons. One reason may be enough to keep them from buying. 10 reasons are enough to keep you from jumping into a bubble that still has plenty of air to release.

What Does Mortgage Debt Relief Mean to Short Sale Sellers?

I know it's very confusing with all the different bills and legislation especially when you are under the stress of loosing your home. This article deals with tax forgiveness that was approved last April for the state of California. With so many bills, it's important for you to know what bills affect you if you have or had a Short Sale or foreclosure.

Early this year, Governor Schwarzenegger signed SB 401 which was an incredible relief to Short Sale sellers and those homeowners whose homes were taken in foreclosure proceedings. In this bill, those who received "cancelled debt" due to a Short Sale, Foreclosure, Deed in Lieu or a principal reduction/loan modification got the good news that this shortfall would not be included as income on California income tax.

The state of California aligned itself with the Federal Mortgage Debt Relief Act of 2007. This provision however is ONLY for those properties/homes that are or were **owner-occupied** at the time of sale or foreclosure. This mortgage relief act runs through 2012.

You will or have been issued a 1099 from each lender on your loans and depending on whether or not it was your primary residence will depend upon whether or not the tax is forgiven. You must declare this amount from the 1099 and not disregard it. I think it's wise to get help doing your taxes if you have had a short sale or foreclosure and were issued a 1099 due to inability to pay your home mortgage. As always make sure you check with your attorney or CPA whether you qualify for the relief offered by the State and by the Federal government.

I continue to hope that as a state who has had terrific unemployment and drastically cut many jobs as well as downsizing hours having had a direct impact on the bottom line of many homeowner's income that we will see relief for all distressed homeowners. We have many who have suffered during this time and I believe we need to extend a hand to all.

As a Short Sale Realtor ® I see a lot of distressed homeowners who have had a difficult time paying their mortgage and never wanted to loose their homes. No one enjoys loosing their home or investment property but with these economic times many have little or no choice. If there was ever a time Sacramento needed help, now is the time…not just a time for some but hopefully, a time for all. Extend a hand…

SB 931 EFFECTIVE JANUARY 1, 2011 HELPING HOMEOWNERS IN TROUBLE

SB 931 will be taking effect starting January 1, 2011 which will help Short Sale sellers who have 1 loan on a mortgage for a house or 1-4 units avoid a deficiency judgment that refinanced. Only applies to first mortgage or deed of trust, though.

The new law, SB 931 will finally help those homeowners who refinanced their loans get the relief from banks that they so rightfully deserve. Many homeowners refinanced to get out of bad loans but unfortunately now find themselves in a position where they can't afford the house payment.

SB 931 does **NOT** need to be owner-occupied in order to applicable to help the homeowner.

SB 931 does not include those homeowners with HELOC loans or anyone who is in the throes of a strategic default. It also does not apply when fraud has been committed (lying on a hardship) nor does it apply if the homeowner has trashed the property or removed appliances and intentional damaged the property.

EDITOR MESSAGE;

CAREPA has gone through a very productive year thanks to the support of many speakers, participation of the membership and friends and sponsorship from many organizations. Thank you very much to all. Hope you have a very blessed holiday Season. Keep safe!

CAREPA News" is newsletter published by CAREPA, Chinese American Real Estate Professionals Association with the goal to facilitate and serve our membership needs. CAREPA does not particularly endorse the content of the articles and may not agree with the writer.

If you would like to contribute an article, include an advertisement, make a comment and/or sponsor any program, please contact Lucia Tam at 626-221-2888 or e-mail to luciatam@yahoo.com or contact CAREPA President, Philip Hsu, at 626-230-9655。

ARTICLES/WRITE-UP
If you have an interesting article you would like to submit, please send to luciatam@yahoo.com by the 20th day of the month before the article is to appear.

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