

# Tom Dowdy

## Real Estate Newsletter

May - 2010

### Tom's personal notes

We've seen lots of changes in the real estate industry and in lending over the past twelve months. The first big change was the Home Valuation Conduct Code (HVCC) and it changed the way lenders and Realtors work with appraisers. As a Realtor or a loan officer we are no longer allowed to choose an appraiser for a mortgage appraisal or to have contact with the appraiser on any Conventional loan or FHA loan. More details on this are in another article in this newsletter. Underwriting guidelines were constantly evolving over the past year, making it much more challenging for buyers to get loans approved. Then on January 1, 2010, the Real Estate Settlement and Procedures Act (RESPA) revisions took place with stricter disclosure laws and time deadlines for various aspects of the loan approval process. Now all residential loan originators are in a transition period from being licensed on a state level to a national license, effective January 1, 2011. Needless to say there has been lots to learn and changes to adjust to! I've spent about four weeks in classes and taking nine examinations over the past ten months. I'm happy to report that I've passed all exams with good scores and have just completed all the requirements for my national loan originator's license.

My business has been good until early May and has dipped in May, which is unusual for this time of year. Last year was a better year for my business than 2008 and I am ahead of 2009 on year to date sales volume.

I continue to receive most of my new business from past customer referrals and thanks to my strong referral base I don't have to do much marketing for new customers. I sincerely appreciate all the referral customers!

### Houston Single Family Home Sales

The Houston Association of Realtors recently released April 2010 sales results and sales trends were positive.

#### Single Family Home Statistics

Home sales Apr 10:	5,321
Home sales Apr 09:	4,199
Avg. price Apr 10:	\$206,414
Avg. price Apr 09:	\$193,266
Med. price Apr 10:	\$153,500
Med. price Apr 09:	\$149,900
YTD sales Apr 10:	16,019
YTD sales Apr 09:	14,874
Avg. sale to list Apr 10:	95.5%
Avg. sale to list Apr 09:	95.2%
Active listings Apr 10:	30,186
Active listings Apr 09:	27,573
Days on market Apr 10:	73
Days on market Apr 09:	88

As reflected by the above statistics April 2010 was a big improvement over April 2009, with total single family home sales up 26.7% over April 2009. Average sales price are up 6.8% over the same time last year, while median prices are up 2.4%. Both of these trends reflect larger homes have increased in demand over the past year. Another reason for the increase in average sales prices and median prices is the decline of 7.2% in foreclosure sales over the past year and through April

2010. Foreclosures sales in Northwest Houston and The Woodlands over the past year represented 16.9% of total sales. Current listing inventory of foreclosed homes in that same area is down to 5.7% of total sales. Year to date sales have increased 7.7% over April 2009 but total inventory of homes for sale has increased by 9.5%. Days on market, from listing date to accepted contract date, has declined nicely to 73 days and that is a very healthy improvement.

We are seeing a resurgence of job growth in the Houston Metro area since the beginning of the year which helps restore confidence in the local economy and leads to stronger demand for homes. Builders who do not have cash reserves to use in building spec homes are pretty much limited to selling a home before they can build one. Standing inventory of new homes is very limited in some neighborhoods and new home construction is off about 40% from 2007 numbers. As the national and local economy continues to recover we can expect demand for new homes to outstrip supply and builders will be limited in how many homes



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they will be able to build because of difficulties in arranging construction loans. Most banks are requiring 40% equity on any finished construction before they will finance it and unless the building is going to be occupied by the owner banks are very reluctant to make a commercial real estate loan.

What all this means is as the local economy recovers, as well as the national economy, buyer demand will be increasing and because of an anticipated shortage of new home inventory for the next couple of years we are likely to see used home prices increasing. The rate of appreciation will likely accelerate as the consumer confidence increases. When financing becomes more available to builders then we will likely see increased new home construction and appreciation slowing on used homes.



### Tom Dowdy

#### Broker Associate & Mortgage Loan Officer

CRS – Certified Residential Specialist  
RE/MAX Lifetime Achievement Award  
RE/MAX Hall of Fame Award  
RE/MAX Platinum Award

**Tom has sold homes in Northwest Houston and The Woodlands since 1977. He has closed over 1,500 home sales during his career.**

## The art of negotiations

There are four types of negotiating styles. The **Competitor** has a Win-Lose attitude – that is, I win, you lose. This style of negotiating follows the principal of no compromising. The **Compromiser** is a negotiator that has a Win-Win attitude toward negotiations and believes in compromises by all parties leading to an acceptable agreement to everyone. The **Pleaser** is a style of negotiating that is a Lose-Win attitude where compromises are made until you reach an agreement. The last style is the **Collaborator** and that is a style of I Win-You Win, where different perspectives are merged through sharing of insights and discussions.

The **Competitor** style of negotiating often leads to alienating clients and business associates but can be useful when you are faced with a difficult adversary and have strict deadlines to meet.

The **Compromiser** style of negotiating is a great style of negotiating where all parties compromise but yet feel like they walk away from a deal a winner. It is also a fall back position to the Competitor style of negotiating.

The **Pleaser** style of negotiating is the “martyr style” where good will gestures are extended to maintain negotiations. However, this style of negotiating often leads to the negotiator being abused and a view that the buyer has all the power. Pleasers tend to walk away from negotiations leaving profits “lying on the table”.

The **Collaborator** style of negotiating is great for merging different perspectives of key players and for negotiating complex issues in a transaction. It requires more research and patience and often leads to negotiations that drag on for long periods of time.

Some of the key elements to successful negotiations follow:

1. Be prepared by thinking through the negotiation process and doing your research first so you know what your position strength is.
2. Ask the other party lots of questions and then listen to understand the other parties position carefully.
3. Be patient in listening to the other parties perspectives.
4. Control your emotions. Keep your cool in what you say and how you act. Never let your ego get in the way. If the other party loses their cool try to calmly help them separate their emotions from the problem and work out the problem together.
5. Do not try to bully or intimidate. Never allow yourself to be bullied during a negotiation. If you need more information or preparation ask for it and reconvene negotiations later.
6. Be willing to give something up to gain concessions in negotiations. This is pursuing a Win-Win strategy.
7. Be diplomatic and avoid making statements that sound like ultimatums.
8. Seek understanding of your position from the other party.
9. Think before you speak; say less and listen more. Be candid when it makes sense, as it builds trust from the other side. Negotiate for the long term as your future reputation is as important as the present deal.
10. Be empathetic to the other side’s position.
11. Maintain an upbeat atmosphere even when negotiations may get challenging. Take a break if needed to calm down negotiations.

Some other key elements to negotiations include not being intimidated by higher level people and do your research to be able to challenge negotiating points. Don’t be motivated to reach an agreement so quickly that you give up more than you have to. Don’t succumb to a “nibbler” where once you reach an agreement they come back and ask for “just one more little concession to make the deal work”. Don’t ignore statements by the other parties and respond to their issues. Recognize a bad deal and walk away when warranted. Beware of situations where the negotiating parties are not well versed to bring negotiations to a close and work to guide them to a logical conclusion. Ask the other side what they feel are the final matters to resolve to reach a deal and try to set a mutual time frame to reach an agreement. If you agree on 90% of points take a break and then agree to proceed as though reaching an agreement is a foregone conclusion.

The style I follow is the Compromiser style when possible and sometimes it is necessary to use the Competitor style when working multiple offers with tight time lines. On higher price range transactions it is sometimes necessary to use the Collaborator style and prepare more research materials to use in negotiations. What I’ve learned over my 33 years of selling homes and negotiating contracts in real estate and as a Utility District Board Member for 21 years is that being prepared with knowledge, keeping your cool and being patient, being willing to offer some compromises, and remaining diplomatic leads to more successful contract negotiations and people walking away with what they feel is a good deal for them. To have a satisfied client they have to feel like they won something in negotiations and are not leaving money on the table. I always try to learn as much about the other parties motivations as I can before making recommendations to my clients.

## FHA Mortgages

FHA loan limits in the Houston area are \$271,000 and only require a 3.5% down payment. A borrower can receive a closing cost credit from a seller up to 3% of the purchase price of the home they are buying. A buyer can also receive gifted funds toward the down payment and closing costs from an immediate family member as long as the transfer of funds is verified and the person gifting the funds provides a letter that there is no obligation for the borrower to repay the gifted funds. The guidelines for income are

the monthly payment, including principal, interest, taxes, interest, and association dues should not exceed 29% of the borrower’s gross monthly income. Combining the total monthly payment on the home and other fixed installment obligations, and child support/alimony, the ratio of this total to monthly income should not exceed 43%. Some lenders will approve loans with higher debt to income ratios if the borrower has a job that has a lot of advancement potential,

an imminent increase in income can be verified, or the borrower has strong reserve assets. Under FHA guidelines there can’t be any late payments the past twelve months on the borrower’s credit report, and they borrower can’t have filed bankruptcy in the past four years. Some lenders will approve an FHA loan with a middle credit score of 580 but most lenders require a minimum credit score of 620 on FHA loans. If a borrower is putting less than 10% down on a home FHA is most likely the best financing.

## Pricing Your Home In Today's Market

When you make the decision to list your home for sale, there are some basic rules to consider in pricing. 1) the location of your home is very important and perimeter lots, or lots backing up to streets, are normally worth less than interior lots. 2) the condition of your home must match buyer's expectations and not be viewed as a "money pit". 3) your home must be priced competitive with your competition. In previous newsletters, our advice for pricing your home was 3-5% above recent sale prices, but unfortunately our market has changed, and now pricing is more critical. A lot of good homes listed at or above recent comparable sales prices are getting few, if any showings.

A common mistake is to price a home according to how much money you need to

purchase your next home. Another common mistake in pricing is to add up the cost of all the improvements you've made and add that amount to what you paid for the home, plus estimated appreciation since you purchased the home. A prospective buyer does not care how much money you have invested. They only care what your home will cost them compared to another home that they feel is equal or better than your home. Some improvements will have value to your buyer and some won't. That is the exact reason builders offer upgrades; they know the added value of the upgrades is less than their cost to the majority of buyers.

When pricing your home, you should set the price considering lot location, price your home competitive to the current inventory of

other comparable homes in your area, eliminate any perceived condition issues a buyer might have, and set your price no more than 3%, above what you are willing to sell for. If you price according to your location, be it a good one or negative one, put your home in condition to "outshine" your competition, and price it no higher than comparable homes, then you should accomplish a sale within 90 days as long as values are stable and there aren't too many homes on the market. If values are declining then you must price your home according to the demand of homes vs. the supply of homes and what your competing listings are priced at. Often that is a price below what homes had been selling for, as past sales prices are no longer an influence with buyers.

## Lock In Mortgage Rate Or Gamble On Lower Rates?

Just as the stock market prices fluctuate, mortgage interest rates change just as quickly causing many people to lose at the 'Mortgage Rate Floating Game'. If you're wondering whether to lock in your rate now or continue to float the rate, this article is for you.

It is a common misconception that mortgage rates and bank rates follow the same patterns. Mortgage rates normally follow trends in the bond market, not the discount rate or federal funds rate. When bond prices go up the yield on bond investment earnings goes down and mortgage rates follow that curve. When bond prices go down the earnings yield on the bonds go up and mortgage interest rates go up. Approximately 70% of the mortgages nationwide are held by either FANNIE MAE or FREDDIE MAC and the source of funds

for these entities to purchase mortgages comes from selling bonds, commonly referred to as "mortgage backed securities".

In deciding to lock in a rate, which is a lender's guarantee that your rate will not increase prior to the lock-in expiration date, no one knows what direction rates will go. Predicting rates is no different than trying to predict the stock market. Rarely is there a clear indication of what direction bond yields will take short term and your loan officer, while being able to give some advice, can rarely accurately predict the trends, especially during these difficult economic times.

Most buyers prefer to know what their rate will be at closing rather than gamble that the rates will come down. There are buyers who are gamblers and are willing to take the risk in "floating" their mortgage rate. They then

have the option to try and time the market in getting a lower interest rate. Lock-in periods are typically 30 days, 45 days, and 60 days. Longer lock-in periods are offered by lenders and your rate is slightly higher for each incremental lock-in period. Lock-ins longer than 60 days normally require paying a lock commitment fee to the lender to protect the lender against you jumping ship and going to another lender if rates drop.

If you lock in your rate and rates drop by .25% or more, most lenders will allow the rate to be renegotiated one time to a lower rate that is slightly higher than market rates at the time of renegotiation. They offer the renegotiation to a lower rate because they don't want you to walk away from your partially processed loan and go to another lender who can give you slightly lower rate.

## Nine months into Home Valuation Code of Conduct

Over the years, lenders have always been able to employ salaried staff appraisers, or use independent fee appraisers to order appraisals from. Because of the mass fraud committed on mortgage loans in recent years a law suit was filed by the Attorney General of New York against Fannie Mae that was settled with Fannie Mae and Freddie Mac agreeing to a Home Valuation Code of Conduct that requires all lenders selling mortgages to either Fannie Mae or Freddie Mac to order appraisals through appraisal management companies or appraiser pools. Loan officers can no longer pick an appraiser and mortgage brokers can not pick their preferred independent appraiser. While this reduces the risk of collusion between a lender

and an appraiser, it has led to a lot of inaccurate appraisals completed by inexperienced appraisers and appraisers being sent into areas they are not familiar with. A good example of how this has been a negative impact is neighborhoods where the home construction standards are not consistent between area builders and the assigned appraiser lacks familiarity. Appraisers, not having to worry about future business from the loan officer, are often more conservative on appraisals, as no reputable appraiser wants to be investigated for having set too high a value on a property that winds up in foreclosure within a short period of time and it becomes obvious the property was appraised too high to begin with. There have

been long delays in lenders receiving appraisal reports from appraisal management firms and this has slowed down the loan approval process. There have been a lot of sales killed by low appraisals and appraisal management companies' unwillingness to increase the appraisal value when good sales comps were supplied by the lender to support a higher value. Appraising is not an exact science and is nothing more than the appraiser's opinion, based on current research, of what the market value of a property might be. There is a bill pending before congress to end HVCC due to losses and expenses absorbed by consumers because of substandard appraisal work and the long delays in lenders getting appraisals back.

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### Featured Property:



**Trophy Club** – Remodeled 2 bedroom 2 bath condo on the ground floor with covered parking. Patio and outside storage room, nice green area behind building, pool and tennis court close by. All appliances included. Super clean and looks new! **\$66,000**

*Tom Dowdy's listings have sold in an average of 51 days and for 98.8% of the asking price for the past 10 years! (271 homes)*

## The Conventional loan approval process in 2010

**Conventional loans** – Down payment requirements for conventional loans start at 3% for My Community Mortgages for borrowers with incomes at or below 100% of area median income and middle credit score of 680 or higher. First time borrowers must complete prepurchase education and counseling. Mortgage insurance companies require debt to income ratio to be no higher than 41% before they will insure a mortgage. Debt to income ratio is the ratio of the total monthly mortgage payment, including principal, interest, taxes, insurance, and association dues, plus all monthly installment credit payments, plus child support or alimony, as a percentage of a person's gross monthly verifiable income. Verifiable income includes base salaries, pensions, self employment income reported on 1040 tax return for a minimum of two years, and some bonus income if it has been received for two years or more and employer will verify the bonus income is expected to continue for another three years after the loan closing occurs. On any conventional loan with a down payment between 5% and 19.9% it is difficult to obtain mortgage insurance on any borrower with a middle credit score below 720. For borrowers who want to convert their present home to a rental home when

purchasing another home to live in, there are some strict guidelines. The home you are converting to a rental must have 30% equity, based on an appraisal, you must provide a copy of a lease with the tenant, and you must provide proof of the tenant's security deposit being deposited into your bank account. If you meet these guidelines then the lender can count 75% of the rental income to offset the monthly ownership costs. If you don't meet these requirements on your present home then you must have a sales contract executed on your home to obtain approval and then provide proof of sale closing before you can close on the replacement home.

Qualifying for a conventional loan requires that you provide your lender with copies of your last two pay stubs, a copy of your last two years W-2s, a copy of your last year's income tax return (with all schedules attached), a copy of your last two month's banks statements, a copy of most recent savings account statement(s), and a copy of most recent brokerage account statement(s). You may have to provide copies of your last two year's income tax returns and if you are self employed you always have to provide copies of your last two year's income tax returns. As of January 1, 2010, a lender can

not give you a Good Faith Estimate until they have your name, social security number, income, loan amount, address of property being purchased and estimated property value. Once you provide that information a residential mortgage lender is required to give you a written Good Faith Estimate & Truth in Lending Disclosure within three business days that sets out what your lender fees and other closing fees will be, as well as the cost of borrowing stated in an Annual Percentage Rate. Once the lender gives you a Good Faith Estimate their fees can not change for ten days minimum and you can not close your loan in less than seven days. Then after you have your lender lock your mortgage rate the lender fees can not vary unless there are changed circumstances. The lender then has to wait three more business days after you sign your Good Faith Estimate before they can order an appraisal and can not close your loan any earlier than three business days after you have signed a receipt for your appraisal. Your debt to income ratio can not exceed 41% if you put less than 10% down on the home and if you put 20% or more down then your debt to income ratio can vary from 45% to 50% with strong compensating factors such as a verifiable increase in income or strong reserve assets.