

October 2009

Good news. The Median price in Reno has leveled out over the last three months and an up tick in values has been seen as well. Tahoe has posted some gains in sales (albeit with strong discounts), all-in-all long awaited good news. The time has come to cheer and reflect on where we go from here. This last spring I predicted that the market would very likely run out of inventory in specific price points, and it did/has, given time this will place pressure on buyers to not be able to discount at will. I also said if the controlling interest would allow it, the market would start to correct itself and to a great degree it is trying. The next six to eight months will tell Northern Nevada a lot about what to expect in establishing a new pattern of growth over decline.

First a warning - we are a long way from being out of the woods and a close look at the numbers will tell you why. Next month we are going to look at what is making up the sales and why we need to be careful on our projections so we do not find ourselves back pedaling next summer and losing hard won ground.

Now on to current and **IMPORTANT** information: Foreclosures and AB 149, Short Sales and Loan Modifications. The Obama Administration's plan of Making Homes Affordable, or MHA as it is called, has changed the landscape of distress properties and how we are dealing with distressed home owners.

www.makinghomeaffordable.gov/resources

Assembly Bill 149 went into effect in July of this year and the short version of the new law is simply this:

The affect of this law has been to encourage lenders to be more open on loan modifications or short sale options before a homeowner goes into default and to reduce the flood of homes being foreclosed on. MHA comes into effect here and we are seeing a new sense of cooperation with lenders involved in the MHA program. A homeowner that is living in a home as their primary residence and has received a NOD can request mediation with the lender of the first mortgage to meet and discuss the foreclosure. The new law is serious and does have teeth (it is not a "cram down law" as some have suggested).



If a homeowner can show that a loan modification is sustainable, the lien holder should allow time for a short sale, or that the foreclosure can be stopped by new terms acceptable to all parties, the bill does open the door to resolution. The bill will not block or delay a foreclosure that is legitimate and where the homeowner has no recourse. On the other hand, if a homeowner has their home in escrow or is trying to get the home sold, the bill can assist in getting a delay of the foreclosure so the home owner can complete a sale. If a home owner can demonstrate that a loan modification would allow them to retain possession of the home the mediation can be very effective. Our early experience with this new law has been very encouraging. Go to www.nevadajudiciary.us for more information and of course e mail me at david@dmorris.com or call me at 828-3292.

Short Sales: The short sale arena is changing every week. Though the process has been an unmitigated disaster, efforts are at hand to improve the mess. Yes – six, seven or even eight months in escrow to get a short sale through the system is all too common. Going through two or more buyers and then having the home foreclosed on as we get short sale approval is disheartening, but there is hope. (Note AB 149 above). The disconnect from top management to the troops doing the short sales is awful, but with trickle down theories at work in the next 90-120 days I do expect changes and I do expect the process to shorten to a few months. There even is a possibility that lenders will start approving sellers for a short sale before the home goes on the market. **THIS IS HUGE**. By pre-approval of a short sale we remove four to six months of wait and uncertainty and can use normal escrow timelines to get homes closed. Just how important this is cannot be overstated, this is more important than the foreclosure issues. By being able to put a home on the market that can close in a normal market time we can stop the slide of values that are created when a buyer expects an extra discount for the huge amount time it takes to close.

This is also important as a major reason for the slide in Northern Nevada values is that if we had just dealt with the foreclosure issues our prices would not have fallen as far as they have but coupled with the weight of short sales the impact has been out of proportion to the market. What most people do not realize is the majority of short sales are homes in very good condition and well maintained but they are being forced through the current system to compete not with regular sales but with foreclosed homes. As a result our market instead of being a three-tiered market i.e. Foreclosed homes (lowest price, poorest condition) followed by short sale homes, (very long escrows), and normal sales (close of escrow in 30+ days) we have a single-tiered system driven by foreclosed homes and supported by the out of control short sale process. As AB 149 and the MHA program continue to be implemented and processing departments start working with the new procedures, we are going to see a return to a two or three-tiered value system.

Loan Modifications: There is now a strong push developing to re-think the loan modification process (spurred on in part as new laws such as AB 149 and MHA come into effect). Credit reports are now out for existing homeowners that are in need of a loan modification. Up to now if you had damaged credit as the result of the last two years a loan modification was denied. In the past if you needed the modification, you could only have one if you could prove that you did not need it. Lenders are now taking action so homeowners that have had income adjustments and credit issues but do have supportable income and can document that they can make payments - albeit at a lower cost - can retain their homes and thereby cut the number of homes going into foreclosure or short sale. NOTE: I am astounded by people who actually think that they should just be allowed to walk away from their debts. Make no mistake the banks are not forgiving debt, do not even start with that premise. What they are looking at is reducing interest rates significantly to allow payments to come down enough to allow a qualified homeowner the ability to retain the home. They will foreclose if that is the best course of action.

Efforts are at hand, which will help stem the tide of red ink. We will get back to a two- tier market and in time, back to a normal market. For buyers that want to bottom fish they have the foreclosed market, but with new approaches we can see that inventory declining in foreclosed homes in 2010. By reducing the short sales and the time to close a short sale and the associated drop in values which long escrows create, we can get back on track. How fast? Our market wants to correct, it has wanted to correct since June. If forward thinking minds can continue to be heard, 2011 will be a great year for Northern Nevada.

Kind regards,

A handwritten signature in black ink that reads "David Morris". The signature is written in a cursive, flowing style with a long horizontal stroke at the end.

David Morris