SAMPLES

UNL Finance 382
Real Estate
Principles and Practices

Research & Writing
Papers

SAMPLES

Faulty Foreclosures Follow Mortgage Crisis

Finance 382X Written Project

[redacted]

Name

Most people who follow the news are more than aware of the mortgage crisis affecting our country over the last couple of years. The purpose of my research is to find out why foreclosures are now a whole new crisis and how problems with foreclosures are affecting the real estate market. This topic is not only very timely in the news today, but it also lines up with exactly what we are studying in Chapter 13 of our text. All of it is important to be aware of because it affects you and me.

Understanding the underlying causes for the mortgage crisis itself is daunting. However, in simpler terms people got greedy. Yes, everyone from mortgage lenders to real estate brokers to securities investors to buyers all wanted more and lost sight of diligent practices. The lenders wanted to keep making large profits from numerous loan and loosened restraints. As Charles E. Gilliland, Research Economist for the Texas Real Estate Center quotes in our text book, "While optimism prevails, old restraints (such as the appraisal requirements imposed during the last crisis in the 1980's) are overlooked or ignored as inconvenient obstacles." (Jacobus) In the same way, real estate brokers were eager to keep making sales and some encouraged buyers to go for that more expensive home. Investors in mortgage-backed securities were enjoying good profits and failed to question the strength and documentation behind these bundled mortgages. The home buyer too reached for that dream home a bit beyond their budget. With all of this blame to go around for the mortgage crisis, why in the world are foreclosures causing a new crisis at a time when the economy should be bouncing back?

As daunting as the mortgage crisis is to understand, the foreclosure crisis is even more overwhelming. The bottom line is that nobody wants to take the blame and, even more importantly, nobody wants to take a big financial loss. As a result, some big players in danger of tremendous loss (banks, investors, mortgage/foreclosure outsourcing firms, title companies, etc.) and some homeowners in danger of foreclosure are turning to unethical practices, loopholes and the blame game. The sheer volume of failed mortgages definitely exacerbates the situation as Ruth Simon explains, "the mortgage servicers' business model isn't suited for the high delinquency rates of the housing crisis and the pressure to rework troubled loans." (Simon, Mortgage System Woes Not Isolated)

Technological advances, such as the MERS, have also complicated the matter as new electronic records have outpaced the legal system and courts expect paper documentation. In addition, carelessness and fraud such as 'robo signers' have become a major issue in foreclosures. According to Coy, Barrett and Terhune in *Shredding the Dream,* "Allegations of carelessness and outright fraud in foreclosures has become so widespread that attorneys general in all 50 states are investigating. So are the feds." (Coy, Barrett and Terhune)

Banks are front and center in the foreclosure crisis. Real-estate law requires the physical transfer of paper documentation whenever mortgages change holders and analysts are asking how often that even occurred during the housing boom. According to Timiraos, Silver-Greenberg and Fitzpatrick, “One concern is that banks may have lost, or didn’t’ ever have mortgage certificates.” (Timiraos, Silver-Greenberg and Fitzpatrick) If this is true, banks will have to halt foreclosures for weeks to re-compile paperwork.

Investors who want to recoup losses are now taking action against banks. Kathy Patrick, an attorney representing the investors explains, “The institutional investors are seeking to have loans that didn’t meet underwriting requirements repurchased and to be compensated for losses due to inadequate mortgage servicing.” (Simon, Bondholders Pick a Fight With Banks)

Clouded Titles are yet another casualty of the foreclosure crisis. Procedural mistakes and oversights in handling mortgage documents have clouded titles showing clear ownership of homes, which is a problem that won’t go away anytime soon. Peter J. Henning, professor at Wayne State University Law School in Detroit tells us, “This is going to be a hydra. You’ve got so many potential avenues of liability. You don’t even know the parameters of this yet.” (Griffin, Keehner and Brennan)

It is clear that there are many layers of problems feeding into the foreclosure crisis at hand. But how is the overall foreclosure crisis affecting the real estate market? Unfortunately, the foreclosure crisis is affecting the real estate market in a very negative way by suppressing home values, tightening available credit and keeping homes locked up in the foreclosure process off the market for potential buyers. In addition, the economy remains in a slump and Stuart Saft shares, “You can’t get the economy moving until this whole situation gets straightened out.” (Ivry and Shenn) If people would take ownership of their mistakes, including overzealous homebuyers and shortcutting lenders, we could move beyond this crisis much sooner.

In conclusion, I have met my goal of better understanding why foreclosures are such a big crisis right now and how this crisis affects the real estate market. Unfortunately, conservative home buyers and investors are suffering right along with the greedy ones who got us into this mess! There is hope though, as our text indicates a historical pattern of boom-to-crisis cycle which means we are eventually headed toward another boom. Hopefully people and businesses will handle the next boom in a much more responsible manner.

Works Cited

Bendavid, Naftali. "Foreclosures Emerge as Hot Campaign Issue." The Wall Street Journal 16-17 October 2010: B3. ** This article was very timely with the upcoming elections and really indicates the widespread effects of the foreclosure crisis as evident by the fact that they are a hot campaign issue.

Beran, Jan E. "PowerPoint Lecture for Chapter 13." PowerPoint Lecture based from Jacobus book Real Estate Principles. October 2010. **This PowerPoint lecture was very helpful in gaining a solid foundation with regard to sources of financing before researching foreclosures and writing this paper.

Coy, Peter, Paul Barrett and Chad Terhune. "Shredding the Dream." Bloomberg Businessweek 25-31 October 2010: 76-86. **This article was my best source and included a very in-depth analysis of the foreclosure crisis (10 page article). It also lays out a very clear picture timeline starting with the feds lowering interest rates in 2001 to stimulate a weak economy and ending with an epic fail in 2010. I also really appreciate the title, "Shredding the Dream" as it indicates the obvious shredding of homeowners dreams, but also the underlying shredding of documents that should have been retained and passed along as the mortgages changed hands.

Griffin, Donal, Jonathan Keehner and Joe Brennan. "The Faulty-Foreclosure Crisis Could Last for Years." Bloomberg Businessweek 11-17 October 2010: 43-45. ** This article gave me some great information about the clouded title mess in conjunction with the foreclosure crisis as well as an overview of just how deep and long running this crisis may be.

Ivry, Bob and Jody Shenn. "Faulty Foreclosures May Prolong the Slump." Bloomberg Businessweek 4-10 October 2010: 44-45. ** This article was a great source in showing the effects of the foreclosure crisis on the nation's economy and how we won't be out of it anytime soon. It also details how some executives revealed that they signed thousands of documents without ever checking loan records.

Jacobus, Charles J. Real Estate Principles. Mason: Cengage Learning, 2010. ** Our text book is a tremendous source not only for principles and concepts, but for the terminology to gain an understanding of the exact material you are researching.

Silver-Greenberg, Jessica, Robbie Whelan and Dan Fitzpatrick. "Banks Restart Foreclosures." The Wall Street Journal 19 October 2010: A1-A2. ** This article details how the big banks like Bank of America won't just sit back on foreclosures, but are going to be as aggressive as possible. It reminds me of football teams trying to hurry and run the next play before officials can review the previous one.

Simon, Ruth. "Bondholders Pick a Fight With Banks." The Wall Street Journal 19 October 2010: C1-C2. **This article describes how bondholders are making their case against the banks to recoup some of their investment losses. They are playing hardball as welll since they don't want to take all the hit.

—. "Mortgage System Woes Not Isolated." The Wall Street Journal 16-17 October 2010: B1 & B2. ** This article is very interesting as it details how some homeowners have been treated extremely unfairly by banks foreclosing instead of finding out there is just some small glitch to work through and keep the existing mortgage.

Timiraos, Nick, Jessica Silver-Greenberg and Daniel Fitzpatrick. "Mortgage Damage Spreads." The Wall Street Journal 16-17 October 2010: A1 & A4. **This article was very informative as it described how technological advances in finance are not meshing well with the legal system and not having solid paper documentation from banks claiming the right to foreclose is not boding well in the court system.

Name

FINA 382 Written Project

THE FEDERAL HOUSING ADMINISTRATION'S ANTI-FLIPPING RULE AND ITS AFFECT ON THE CURRENT HOUSING MARKET

Introduction

Effective February 1, 2010, the Federal Housing Authority (FHA) announced it had waived its regulation which prohibited the use of FHA financing to purchase properties being resold within 90 days of their previous acquisition (Stevens, 2010). The purpose of the original regulation was to prevent real estate investors from engaging in mortgage fraud and other predatory practices. Their decision to waive this regulation emerged from the immense amount of foreclosures across the nation. For the duration of the waiver, real estate investors are encouraged to acquire and renovate properties, particularly foreclosed and abandoned residential properties, abiding by the guidelines established in accordance with the waiver. It was recently announced this waiver would be extended until the end of 2011. The goal is to stabilize real estate prices and help revitalize neighborhoods and communities that have been affected by a high rate of foreclosures.

References

Andris, Lynn. (2011, Feb. 8). *Federal Housing Administration Extends Anti-Flipping Waiver*. Lifestyles Unlimited, Inc. Retrieved from http://www.lifestylesunlimited.com/federal-housing-administration-extends-anti-flipping-waiver/
Lynn Andris addresses the extension of the anti-flipping waiver from a real estate investor's perspective. It explains the FHA's original rule and the importance of flippers in today's economy.

Cooper, Jennifer. (No date). *House Flipping Laws*. Retrieved from http://www.ehow.com/about_5376072_house-flipping-laws.html
The process of flipping is described in this article and it also describes a few unethical practices real estate investors may take part in, such as mortgage fraud. State laws and tax implications are also addressed.

Lal, Reggie. (2011, Jan. 24). *FHA Suspends Anti-Flipping Rule for Another Year*. Retrieved from http://reggielal.com/archives/1420
In this article, Lal briefly discusses the purpose of the anti-flipping rule and how the suspension of the rule for another year can impact first-time home buyers.

Stevens, David H. (2010, May 12). ***Federal Housing Administration (FHA) – Temporary Exemption From Compliance With FHA's Regulation on Property Flipping*****. Department of Housing and Urban Development. Retrieved from http://edocket.access.gpo.gov/2010/pdf/2010-12148.pdf**
This docket announces the FHA's waiver of the regulation that prohibits the use of FHA financing to purchase properties that have been resold within 90 days. This docket was used to develop a better understanding of the original anti-flipping waiver.

Stock Markets Review. (2011, Feb. 25). ***Buying Foreclosed Homes to Flip*****. Retrieved from http://www.stockmarketsreview.com/realestate/2011/02/25/buying-foreclosed-homes-to-flip/**
This article defines the process of flipping houses. It also gives advice on the type of house to purchase for a flip as well as steps to prepare for the process.

Wooley, Lemar. (2011, Jan. 28). ***FHA Extends 'Anti-Flipping Waiver' to Help Stabilize the Housing Market*****. U.S. Department of Housing and Urban Development. Retrieved from http://portal.hud.gov/hudportal/HUD?src=/press/press_releases_media_advisories/2011/HUDNo.11-007**
This article reports of the Federal Housing Administration's extension of the waiver of the "anti-flipping rule" in an effort to stabilize home values in areas experiencing numerous foreclosures.

Analysis

After studying the FHA's decision to suspend the anti-flipping rule through the end of 2011, it is obvious this decision will have an impact on real estate markets across the nation. By permitting buyers to utilize FHA financing to purchase HUD-owned properties, bank owned properties, or properties resold through private sales, homes will ideally resell quickly, which will help to stabilize real estate prices. Since February 2010, when the original waiver went into effect, the FHA has provided more than 21,000 mortgages valued at over $3.6 billion on properties resold within 90 days of the previous acquisition (Wooley, 2011). By making this decision, the FHA has not only rejuvenated the housing market and assisted thousands of families in acquiring a new home, especially first-time home buyers, but it has restored whole neighborhoods and communities suffering from astounding foreclosure rates and abandoned properties.

While the general idea of the waiver seems quite simple and effective, there are strict guidelines which help to prevent predatory practices. First, all business must be executed with no identity of interest between the buyer, seller, or other parties participating in the sales transaction. To further explain, the seller must hold title to the property, no pattern of previous flipping activity is allowed to exist as indicated by multiple title transfers, and the property must be marketed openly and fairly through a multiple listing service (MLS), auction, for sale by owner offering, or developer marketing, among other details. These restrictions prevent unethical practices, such as predatory pricing, from occurring. It also helps to avert mortgage fraud in which an investor purchases a property, an acquaintance gets a mortgage based on an artificially inflated price, and the two split the amount that exceeds what the investor paid for the property (Cooper, no date).

The waiver also includes guidelines such that when a property sells for twenty percent above the seller's acquisition costs, FHA-approved mortgagees are eligible for the waiver only if the mortgagee justifies the increase in value by verifying legitimate renovations have been performed or, if renovations did not occur, an explanation of the increase in value. A property inspection must also be ordered before closing in which the mortgagee may charge the borrower for the inspection. The inspection will investigate both latent and patent defects, including property structure, exterior upkeep, roofing, plumbing, electrical, heating and air conditioning systems, interiors, insulation, and ventilation, at a minimum (Stevens, 2010). These inspection guidelines require full disclosure to buyers which will protect them from having to make costly renovations themselves, especially for latent defects they were not aware of when they purchased the property. This guideline will also protect the FHA from insuring a property that still has defects.

By allowing real estate investors to engage in property flipping and by providing effective guidelines, the FHA is contributing to the restoration of value and quality of neighborhoods across the country. Not all flippers are careless in the restoration process, which created concerns in the first place. Effective flippers are individuals who have the capital and the ability to purchase properties and renovate them to increase their value. Banks that have acquired run-down or abandoned properties through foreclosures are not often in a position to create such value. If a property has been flipped, it has the potential to be resold or rented quickly, preventing further carrying costs. The higher selling price of flipped houses increases the value of the entire neighborhood. Therefore, flipping should be seen as a practice that revitalizes and stabilizes communities, especially when the real estate market is suffering (Andris, 2011).

Although flipping appears to be a fairly simple process if all of the required guidelines are followed, it can be dangerous in certain situations. If the market is extremely unstable, it may be difficult to resell a property, even if the renovations do improve the value of the property. Additionally, flipping should not be considered a long-term wealth builder because profits are usually used to reinvest in other properties. There could be serious consequences for naive and inexperienced individuals who invest in a property they hope to flip. If they do not understand the value of other homes in the neighborhoods, what buyers are looking for in a home, and more importantly, the FHA's guidelines, they could end up sitting on the property for a lot longer than they anticipated while incurring unexpected carrying costs. The flipper is not the only one to experience the consequences from this uneducated decision; the entire neighborhood could be affected if this contributes to a continued theme of unoccupied and foreclosed properties in the area.

Conclusion

After analyzing the FHA's anti-flipping waiver it is clear it has an effect on the national real estate market. Several federal and state regulations must be abided by in order to protect sellers and buyers, as well as the communities they live in. As we have been learning in class and from the textbook, transferring clear title is important for many reasons. In this case, it assures the FHA, buyers, and the communities there were no predatory practices involved and there have been considerable improvements to a property, resulting in a greater value which will hopefully reduce high foreclosure rates and abandoned properties in the future. Inspecting for both latent and patent defects will also help achieve the same goals of achieving a higher value and quality of a property. Considering all of the federal and state laws, guidelines, and restrictions, it is clear that property flipping is much more than remodeling and renovating a house and selling it to make a quick profit.

Name

Finance 382 Writing Project

Title

Since the advent of the recent subprime mortgage meltdown, politicians, economists, and common Americans have struggled to find answers on how allegedly the strongest financial system in world history was brought to its knees within a matter days in September 2008. Some attribute anything from irrational expectations by real estate speculators, to mortgage subsidization by government-sponsored enterprises like Fannie Mae and Freddie Mac, to even simply greed itself as to why America is in its current predicament. [illegible]s paper will attempt to dispel these claims by pointing out the true culprit behind it all—The Federal Reserve System and how its inflationary policies have immorally crippled rational perspectives in the free market.

George W. Bush was right in saying "Wall Street got drunk," (Associated, 2008). What he failed to ask was, "Who gave them the alcohol?" Akin to the arguments that terrorists 'hate us for our freedom,' I found little value in the explanation of our subprime housing bubble to be attributed quite simply to 'greed'. In fact, irrelevant and unproductive reasoning such as this tends to distort the true reasons behind the US housing bubble. Unfortunately many Americans were drunk with euphoria, and politicians relished in the apparent prosperity they blessed (or perhaps cursed) the American economy with. Now that we are all sobering up, I think it is appropriate to ask the question of "Who gave us the alcohol?" The answer is, quite simply, The Federal Reserve System.

Most Americans believe the Federal Reserve is a necessary institution for without it, chaos in our banking system would persist. In fact, the justifications I remember from my

Economics courses in high school and college were that without it, we would have financial panics. Ironic since the Great Depression and our current problems today all happened under the Fed's watch regardless.

It is interesting to turn on television today and see reporters for CNBC or other news networks claiming that, "Nobody saw this coming." Yet in fact the mortgage problem was pointed out as early as July 2002 when Congressman Ron Paul stated that:

> "Perhaps the Federal Reserve can stave off the day of reckoning by purchasing GSE debt and pumping liquidity into the housing market, but this cannot hold off the inevitable drop in the housing market forever. In fact, postponing the necessary but painful market corrections will only deepen the inevitable fall. The more people invested in the market, the greater the effects across the economy when the bubble bursts."
>
> Ron Paul, US House of Representatives

This goes to show the consequences of intervention by the Federal Reserve were entirely predictable six years in advance. Greed itself has no productive use in the debate at all since humans are always greedy. People constantly desire to pay the least amount of money and get the most amount for what they have, but there must be a catalyst driving speculation in specific directions. Housing prices themselves did not rise on their own due to greed. Rather, it was our Central Bank's policies in guiding the housing market into a speculative spree of grossly inflated values that we had the unsustainable bubble that inevitably burst.

In the old days, people bought houses because they could afford it. During the bubble years, people bought real estate for the money. These are the direct effects of an easy money policy from the Federal Reserve, and it just so happens that following September 11th the Federal Reserve lowered interest rates to 1% in order to stave off the coming recession. The result created massive speculation in the housing market because money was so cheap to borrow. Credit ratings were immaterial, down payments became unnecessary, and there were many instances where individuals didn't even have a job yet managed to acquire property worth hundreds of thousands of dollars. Americans suddenly felt a new sense of wealth as markets in California were expected to appreciate at a compounded rate of 20% per year (Peter, 2006). There was no rational explanation for it; the prices just magically escalated year after year. For so many malinvestments to be funneled so narrowly into a sector like real estate requires much more than what common greed can provide. This imprudence was pandemic throughout much of the United States and was fueled by the Federal Reserve. As one famous economist wrote:

> "Euphoria caused by a pouring of new money into the economy is followed by grumbling as price inflation sets in, and some people benefit while others lose."
>
> Murray Rothbard, The Case Against the Fed

The new money poured into the economy, as Rothbard points out, comes from the Federal Reserve simply creating it, which is what occurs when interest rates are lowered. The subsequent price inflation was the bloated housing bubble prices, and those that benefited were the first to leave the party while the rest were still drinking.

Interest rates have a strong relationship with housing prices, being quite sensitive to rate fluctuations. In order to stimulate housing demand in 2002 to prevent a recession, the Federal Reserve dropped interest rates to 1%, which allowed banks to borrow money at very low costs. This translated into lax lending standards. The problems associated with Fannie Mae/Freddie Mac securitizing mortgages, credit agencies reneging on their responsibilities of due diligence, and banks throwing money to anyone with a pulse, are all derivative consequences from the monetary policy of the Federal Reserve. Without the low interest rates, banks wouldn't be awash with funds to hand out carelessly, and so credit ratings would matter. Since less money would be available to be lent out, demand for housing would not have been artificially high as it was, and so no bubble would have been created (Englund, 2006).

Going further, mortgage rates have an inverse relationship with housing prices. Since rates were pushed to the lowest they had been in the 37 years of tracking 30-year conventional mortgage statistics, housing prices were escalating higher. I am hard pressed to point the blame onto simply greed or credit ratings considering home ownership was being force-fed to us by the extraordinarily loose monetary policy (Murphy, 2008).

Conclusion

Too often do we concern ourselves with proximate causes rather than approach the root of our crisis. Fannie and Freddie, financial institutions, and yes, perhaps even greed itself all played their roles in the bubble. My point of this essay was to highlight that without the low interest rates mandated by the Federal Reserve, the market for such poor decision-making would not exist and so criticizing Wall Street or Main Stream would detract from the actual cause of our crisis.

Loose credit is often described as a drug for the free market. The sensation of a high (bubble) eventually plateaus as the individual, or in the broad sense, the marketplace, sobers up. The present continuation of monetary inflation even as the market comes off its highs is preventing the necessary recession to occur. We eventually run the risk of killing the patient, or in this case the entire US economy, if the present course isn't reversed. We must look at the institution responsible, and the blame is exclusive to the Federal Reserve System.

References

Associated Press. (2008 July 22). "Bush Says Wall Street 'Got Drunk', Needs to Sober Up". *Fox News*. <http://www.foxnews.com/story/0,2933,389142,00.html>.

This article was used to point out the flaw in economic logic from Capitol Hill, and why the wrong questions are being asked surrounding our housing market.

Englund, Eric. (2006 April 22). "The Federal Reserve and Housing: A Cluster of Errors?" *LewRockwell.com*. <http://www.lewrockwell.com/englund/englund34.html>.

This article highlights the problems associated with the Federal Reserve, and how its monetary policy decisions of low interest rates drove housing demand to astronomical levels that were unsustainable in the long-term.

Murphy, Robert. (2008 December 15). "Evidence that the Fed Caused the Housing Boom". *Mises.org*. <http://mises.org/story/3252>.

This article was great at pointing out raw economic statistics and analysis for mortgage rates in relationship to the Federal Funds rate, as well as the effects the Federal Reserve had on debt markets with bond prices escalating due to their purchases of over $200 billion in T-bills.

Paul, Ron. (2002 July 16). *Speeches and Statements*. U.S. House of Representatives. <http://www.house.gov/paul/congrec/congrec2002/cr071602.htm>.

This speech was used to point out that there were people with significant foresight, so much so to predict the collapse six years before it actually happened, and that we should seek their opinions rather than the ones who have gotten it wrong.

Peter Schiff Mortgage Bankers Speech. (2006 November 13). YouTube. Western Regional Mortgage Bankers Conference. <http://www.youtube.com/watch?v=jj8rMwdQf6k>.

This video explains very well the problems associated with the US economy, particularly the real estate market, providing expert analysis on the roles of the Federal Reserve and the government.

Rothbard, Murray. *The Case Against the Fed*. Ludwig von Mises Institute: 1994. <http://mises.org/books/fed.pdf>.

This book explains very well the roles the Federal Reserve have on the economy and our currency, and how the boom/bust business cycle comes about with extravagant speculation.

Name

Finance 382 – Written Project

26 October 2009

Title

"Foreclosure Flu Spreads"; "Can the White House mortgage plan stop a foreclosure avalanche?"; "No defense against foreclosure";"Foreclosure goes upscale." These are a few recent article titles regarding the housing market and foreclosures. One could be a bit freaked out about the articles titles alone, but is it as bad as they say? Or is the media using the market slump to create frenzy for their own profit? It seems that these article titles would be common to find on the newsstands on each coast, but it is not staying like that. Now the Midwest even has to worry about the foreclosure "pandemic" the U.S. is facing. In this research paper, I hope to find out this answer by developing an understanding as to where the common person stands with regards to foreclosure on their house.

In an article by Steve Daniels, "Foreclosure wave slams suburbia," he states that the foreclosing market was more prevalent in poorer areas because of the high interest rates and low credit scores that would coincide within these areas. This is not the case anymore. The foreclosing "wave" has now entered into the middle-class region. This is abnormal due to the capability of the middle-class to obtain decent to good mortgage rates which make them more competent to pay the mortgage. Daniels states that "foreclosures in the suburbs are not likely to abate until unemployment stops rising." It is pretty simple to comprehend, if unemployment is on the rise, people are losing their jobs and not able to meet the expense of their mortgages, whether or not they have good interest rates.

What is the government doing at times such as these? It is always the big debate, whether or not the government should get involved; How much need is there for them to get involved; If they do get involved, how much of the taxpayer money is going to be affected? According to an article out of *The Economist,* "Home truths; America's housing" Congress does not have the ability to stop people from losing their homes, but it can do a little to help the situation at hand. The article states that one plan to assist foreclosures and housing prices is by "allowing the government to reinsure up to $300 billion of problem loans through the Federal Housing Administration."

$300 billion, in my eyes, would not cover enough people to be worth it to fork over that much money. Which is essentially what they article goes on to say; it would help out a lot of people, but not everyone. If this crucial "bail-out" money is not going to "bail-out" the majority of the population, is it really significant it to spend that much? People may get their hopes up in thinking that some of this money may reach them, and in actuality the probability is against them.

In recent news, I have heard that the housing market is in upswing and things are "getting back to normalcy." How true is this statement and where are the facts to prove that it is true? The problem may be that things are not getting back to normal and there are many factors contributing to that. According to an article by Tony Downs, "Real Estate Recession Far From Over," "both rising foreclosures and falling sales mean the overall inventory of houses on the market is not declining. Therefore, the recession in housing markets won't be over for quite a while." Downs goes on to say in the article that there are many different factors that led to the crash in the housing market, and just one area of improvement is not going to cut it. In order for the housing market to be in an upswing most aspects of the market have to be improving.

I feel Downs is being a little pessimistic in his article, but I do agree with him in some areas. In the United States, we have to feel good about even a little improvement in our economy. The whole housing market is in a huge downturn, and if one area is good, it brings no harm to talk about and bring some positivity into the media. Positivity alone is not going to bring the market back to normal, but it also doesn't hurt it. I do believe as Americans, people feel it is necessary to always be on the move and everything work at a fast pace. This is where I believe Downs has a good point. We, as Americans, expect everything to move quickly, the problem with this is it takes time for the market to get back to where we want it. People do not understand that the housing market crash did not happen over night, it took years to happen, and it will take years to fix.

What signs should we look for to determine how the housing market is doing? It is hard to determine what exactly is showing an upswing in the housing market because it seems that whenever there is a positive, there are five negatives that follow. For example, early in 2009 we saw a decrease in foreclosures, but no matter how much of a decrease, economists are still stating that this is not the end of the foreclosures. In an article by Stephanie Armour, "Housing's good news: Foreclosures down 10%; But we're far from out of the woods, experts say" she found that according to RealtyTrac there is an expected 3 million foreclosures in 2009. By June, according to RealtyTrac, there had already been 1.9 million foreclosures for 2009, so their earlier prediction is not far from truth. Another way to look at how many foreclosures there were by June is taking the population of the whole state of Nebraska and foreclosing on it.

Foreclosing is not something that has hit directly home for me, but I think most people know, or will have known someone to go through a foreclosure during this housing crisis. I hope I will never have to see my home get foreclosed on, nor do I ever hope to see someone go through it. A home is something that a person works very hard for, and it is one of the most expensive purchases one will experience in their lifetime. It is a hard to fully understand all the foreclosures that have been occurring because of not knowing different individual circumstances. For example, if people are buying houses that are way more than they can afford, or they can afford the house at the time of purchase, but now cannot afford payments due to a loss of a job. Then you have to ask yourself, are the government bail-outs going to the people who were spending their money wisely and lost their job, or are they going to the people who knew going into their purchase more than likely they would not be able to afford it.

It is hard to understand where exactly the housing market stands, and when the large amount of foreclosures are going to decrease. We know that the amount of foreclosures is high and something that people will have to fear if a loss of job occurs, or a house that was purchased high above ones means. When will the problem decrease to a rate of normalcy is a question that seems to be answered with a lot of words and little substance. Meaning, nobody can really give a true answer because no one really knows when unemployment will go back down and the market in general will reach a normal rate. The media will always be there to amplify the problem, but with the research done through various articles there is an obvious, large problem in this area. We are unsure if it could be classified as a "pandemic," but as a lot of articles have stated "we are not out of the woods yet," and "the worst has yet to be seen."

Works Cited

Armour, Stephanie. "Housing's good news: Foreclosures down 10%; But we're far from out of the woods, experts say." *USA Today* 12 Feb. 2009. Retrieved from LexisNexis.

- This article goes in detail of different states that have been affected the most by the foreclosures and where they stand at the date of the article. She has many facts that were retrieved by different sources that gave a look into the numbers. I felt this article was a good find because it is always good to put numbers behind your research.

Daniels, Steve. "Foreclosure wave slams suburbia; City sees first decline in a year as subprime effect eases." *Crain's Chicago Business* 11 May 2009.Retrieved from LexisNexis.

- Daniels' article described the Chicago area being affected by the "foreclosure wave." Chicago and the suburban areas had not seen much of a problem with the housing crash, as it was more common on the coasts. This article went into detail about the problem with foreclosures and short-sales going to people that have never had financial trouble in the past are now experiencing difficulties and having no idea what to do next. This was an interesting article because 1) I love Chicago and I am interested in anything that has to do with the city and 2) Being from the Midwest we were somewhat shielded from all these so-called "coastal" problems, and now we are getting the late-wave of the market crash.

Downs, Tony. "Real Estate Recession Far From Over." *National Real Estate Investor* 1 Oct. 2009. Retrieved from LexisNexis.

- Downs gives a good overview on why the media is too quick to say we are coming out of the housing crisis. He explains how one area of the housing market that increases is not enough for the whole problem to go away. He believes, as well as many others, that foreclosure rates are not going to decrease and that we still have a long way to go. I like his article because he goes on to say that one glimmer of hope that the market is turning around, is just that, a glimmer, and this thing isn't going to fix itself over night.

"Home truths; America's housing." *The Economist* 10 May 2008. Retrieved from LexisNexis.

- *The Economist* always gives a more factual look at what is going on in the economy today. The article explains what Congress has tried to implement and the reasons why it is a good idea and why it is bad. They let you come up with more of your own opinion on the facts. I really like articles from *The Economist* and I was happy I found one that coincided with my research paper.

Name
Real Estate Principles
October 26, 2009

Title

When shopping for a new home, money plays a tremendous roll in which houses you can buy. Because most houses cost more money than most people have, homebuyers need to take out a mortgage to help pay for the property after it is closed upon. This paper will explain the steps necessary to obtain a mortgage and describe the various types of mortgages and other financing options available.

The first step to obtaining a mortgage is receiving a pre-approval. In this step the lender of the mortgage evaluates a homebuyer's credit score, debt ratio, and housing ratio. The lender looks at the homebuyer's monthly income and determines whether or not to trust that the buyer is capable of making the monthly payments and then approves or rejects them in advance for the mortgage. This is a very important step because it helps the seller of the house see that the homebuyers are well off enough to get the money right away for the house on the market. A home buyer can obtain a mortgage from any major bank or mortgage broker. In some cases you can obtain a mortgage from credit unions as well. (www.keystomyhome.org).

After obtaining the pre-approval a homebuyer must decide what kind of mortgage rate should be applied to the mortgage to best fit his, her, or their financial needs. A homebuyer can chose from a variety of mortgage types. The two most common are fixed rate mortgages and adjustable rate mortgages. Fixed rate mortgages are usually paid over a span of 15 to 30 years and have fixed monthly rates that never changes over those years. People find this particular mortgage appealing because their interest rates are guaranteed not to rise and fall with the changing times. (www.bankrate.com).

Another type of mortgage is an adjustable rate mortgage. This type of mortgage has interest rates that rise and fall with the market interest rates. These fluctuating rates start lower than the rates on a fixed mortgage. This is appealing at first to a homebuyer but it is more risky because that rate is not guaranteed not to rise and, in fact, will undoubtedly rise eventually over the amount of time the mortgage is being paid off. Most adjustable rate mortgages have an initial period in the borrowing time period where there is a fixed interest rate. This initial period can last anywhere from one month to ten years. This initial period can be negotiated with the lender but after this period, the interest rates will adjust every year thereafter until the mortgage is paid off. (www.bankrate.com).

In addition to fixed and adjustable rate mortgages, there are several other types of mortgages and ways to finance a new home as well. Jumbo loans give homebuyers the opportunity to borrow more money and purchase bigger homes, but they also have higher interest rates that may cause a buyer to be making larger payments over a greater period of time. Two step mortgages combine elements of both fixed and adjustable rate mortgages. They begin with an initial period that has a fixed interest rate and then set the next period with adjustable rates that change with the market. These types of mortgages help buyers with damaged credit to improve their credit scores. However if they do not succeed in improving their scores, they will be stuck in a high rate loan for a longer period of time.

In a balloon mortgage, a buyer can get lower rates and payments for a period of around ten years and then is required to pay a lump sum of the remaining principle. Construction mortgages are to help people who wish to build their homes. After the construction is finished they usually switch to a fixed or adjustable rate mortgage. Seller financing is where the seller loans the money to the buyer and instead of paying the bank, the buyer will make payments to the seller with interest accumulating over time. (www.bankrate.com).

The last type of mortgage is a reverse mortgage. Reverse mortgages are for more seasoned home owners designed to change the equity of their home into financing for living expenses, health care, improvements etc. With this type of mortgage, the homeowner does not pay the lender but rather a bank will pay the homeowner so they can have cash for the needs listed previously. Borrowers of these types of mortgages must be at least 62 years of age and own their home free and clear of debt and the home must also be free of tax liens. The money from the reverse mortgage can be received either in one large payment or in monthly payments determined by the homeowner. If monthly payments are chosen, these payments will last the remainder of the person's lifetime or line of credit. There is still an interest rate charged on these mortgages and that rate is adjustable but the amount of payments to the homeowner does not change. The money received by the homeowner does have to be paid back when the last surviving borrower dies, sells the residence, or moves to a retirement home. At that time the principle amount must be paid along with the accrued interest. However, the amount that must be paid back cannot exceed the price of the house. (www.mortgage101.com).

In conclusion, there are many different ways to finance a new home. The best mortgage option in my opinion is the fixed rate mortgage. This mortgage is less risky than the other mortgages because the rates are guaranteed never to rise. It may be more beneficial for the initial period to go with an adjustable rate mortgage but in the long run it would be more financially sound to have the guarantee of a fixed interest rate.

Works Cited Page

Neighbor Works America. (2006). ***Keys to My Home:*** **Retrieved October 26, 2009 from:**

http://www.keystomyhome.org/finance/obtaining/index.asp

This website gives homebuyers the steps it takes to buy and finance their first homes. It is a detailed list of tips and tricks to the housing and financing market. It also provides links to other helpful sites.

Bankrate Inc. (2009). ***Bankrate.com Comprehensive Objective Free:*** **Retrieved October 26, 2009 from: http://www.bankrate.com/finance/mortgages/fixed-rate-mortgages-1.aspx**

This website is all about financing the purchase of a home. It gives a lot of information about the different types of mortgage options. It also provides calculators and other tools to help homebuyers choose the options that will best fit their needs.

Internet brands Inc. ***Mortgage 101, Reverse Mortgages:*** **Retrieved October 26, 2009 from:**

http://www.mortgage101.com/article/reverse-mortgages

This website is a library on mortgages. It has links to vast amounts of information about mortgages and gives specific information to help homebuyers and homeowners determine the best ways to finance their homes. This specific link is a site that gives information about reverse mortgages.

Real Estate Writing Project

REDACTED

The Effect of Rising College Enrollment in Nearby Real Estate Markets

College enrollment is on the rise and is not expected to stop any time soon. With shrinking budgets, universities are reluctant to build more housing on campus forcing students to find housing off-campus. This influx of new tenants has caused some changes in the real estate market. In this report I will discuss these changes and how they can be beneficial and hurtful to different groups of people.

References:

Fletcher, Jane. "Undergrads Invade Off-Campus Areas". *The Wall Street Journal Online.* Retrieved Oct. 19, 2009. <http://www.realestatejournal.com/buysell/relocation/20001010-fletcher.html>

This article discusses how the overflowing of college housing into nearby neighborhoods is causing problems. Students have the extra burden of finding housing and paying hire rents while long term residents experience younger, "louder" neighbors and rising property values.

Hawn, Carleen. "Owen where the kids are". *CNNMoney.com.* Oct 27,2006. Retrieved Oct. 19,2009. <http://money.cnn.com/2006/10/24/magazines/business2/newrules_colleges.biz2/index.htm>

This article talks about the increasing ratio of students to campus beds and the interesting opportunity for real estate investment in college towns. The author gives some very general advice to people thinking about an investment into this market niche.

Marino, Vivian. "College-town Real Estate: The Next Big Niche?". *The New York Times.* Aug. 20, 2006. Retrieved Oct. 19, 2009. <http://www.nytimes.com/2006/08/20/realestate/commercial/20sqft.html?_r=1>

This article explains how the college-town real estate market is a growing niche that has the potential for large returns for investors. The author shows why the near college real estate market is a solid investment. They also show different types of investments that can be made to enter the market.

"Student Housing: A Great Niche Real Estate Investment". *The Real Estate Bloggers.* Feb. 4, 2007. Retrieved Oct. 19, 2009. < http://www.therealestatebloggers.com/2007/02/04/student-housing-a-great-niche-real-estate-investment/>

Real Estate Writing Project
REDACTED

This article demonstrates that there are high demands for housing around college campuses. The main factor for higher rents and property values are not driven by factors such as quality like in other neighborhoods. Demand is the main factor in the near campus real estate market.

Analysis

Universities are seeing a boom in the number of students enrolling. More and more freshman are moving away to college and starting their life away from mom and dad. This means that all of these college students will be looking for a place to live. All most all college campuses do not supply enough beds for every one of their students. (Carleen, 2006) This figure shows the lack of beds at a few universities across the country. The disparity between beds and students means that many college goers will be displaced into off-campus living.

NO ROOM AT THE U.

These universities have the lowest ratios of school-owned beds to students, an ideal situation for prospective land-lords.

UNIVERSITY	UNIVERSITY-OWNED BEDS	STUDENT POPULATION
Arizona State University, Tempe	5,600	49,171
North Carolina State University, Raleigh	6,700	29,637
Ohio State University, Columbus	9,200	50,995
University of California, Riverside	3,132	17,104
University of Florida, Gainesville	7,732	48,000
University of Kansas, Lawrence	5,500	28,849
University of Maryland, College Park	8,700	34,935
University of Minnesota, Minneapolis	6,300	50,954
University of North Carolina, Charlotte	4,500	20,000
University of Texas, Austin	3,000	50,377

SOURCE PRIME PROPERTY INVESTORS

This trend is believed to continue well into the future. College enrollment is expected to increase by 11 percent between 2003 and 2013. (Student Housing) College enrollment is not heavily correlated to economic conditions. (Student Housing) When the economy takes a down turn, many people return to college to strengthen their skills and marketability. On the flip side when the market is up, people are more financial able to pay for college. This growing trend is causing some problems and opportunities.

Opportunities that have arisen from the influx of college students into the real estate market are possible revenue flows for investors. Whether a person is an investor looking to place $150,000 into an apartment complex near campus or an individual looking to make a small investment in the shares of a company that deals in college living units, there are options. Most college-oriented apartments that are near campuses enjoy nearly 100 percent occupancy rates.

(Marino, 2006) These apartment complexes have enjoyed such success because of the steady demand created by college students. Like I said above, the flow of college students is not determined by economic factors. (Student Housing) Another advantage to college-oriented complexes is that unlike a traditional apartment, management can charge by the bed, meaning more revenue than a traditional apartment which charges by the unit. (Marino, 2006)

There are some definite drawbacks to owning and managing a college-oriented complex. There can be difficulty collecting rent and such complexes are much more management intensive. College students can lead to more problems than older tenants. There seems to be much more wear and tear in the units and there is risk in the very low turnover rates. (Marino, 2006) The time between one tenant moving out and another moving in is very short, making it critical that great care be taken in scheduling any work that needs to be done between tenants. It also means that there needs to be tenants lined up to be moved in. Many tenants move in at the beginning of school and the old tenants move out typical only a week or two before the start of school. Planning is critical.

The potential for revenue is not limited to larger apartment complexes. Many individual homeowners looking to rent single family properties have experienced success as well. The increase in demand for off-campus housing has made rent increase over the past few years. These rising rents have also caused the value of homes to go up making the sale of a house more valuable. (Fletcher) This also has a negative impact that I will touch upon next.

The first burden that is caused by the overflow of on campus housing is felt be the students that are being displaced. These students are forced to find other housing off campus, which can be a time-consuming and frustrating task. They must also, in many regions of the country, pay rents that are higher than their on campus equivalent. (Fletcher) Most students are not completely financially independent and do not have the income to support high costs of living. In many instances, parents are required to co-sign on a lease.

The long-term homeowners in neighborhoods near campuses also feel the burden of increased enrollment. Like earlier stated, rent in college areas have increased, driving up the value of homes. (Fletcher) This may be a positive if a homeowner is looking to sell in the short term but can be a major financial burden in the form of increased property taxes. These permanent residents also dislike the decrease in aesthetic appeal their neighborhoods experience. Many college tenants neglect general maintenance and property upkeep making the appeal of the community dwindle.

In conclusion, the increase of college enrollment and over flow of campus housing into the community has drawbacks and perks for differing groups. Investors stand to capitalize on the increased demand and rising rents created by the flood of college students while permanent homeowners feel the crunch of rising property taxes and visually unappealing properties across the street.

As we grow older and settle into our newly formed families and careers, the decision to purchase a home or continue to rent comes to the forefront of many minds. Homeownership in the United States has always held a certain priority, with it peaking in 2004 at 69.2%. With this understanding, it is important to note that the government has always tried to provide assistance through the use of laws and legislation, as well as the two government sponsored enterprises of Fannie Mae and Freddie Mac. With the recent burst of the housing bubble, the government continues to provide assistance, but before homeowners make one of the best financial decisions of their lives, they should carefully consider exactly why they want to purchase and if it is the right time.

Fannie Mae and Freddie Mac, the two largest mortgage giants in the United States, are responsible for providing affordable housing. Fannie Mae was created in 1938 with the intent to provide affordable housing and stability in the housing market. Fannie Mae accomplishes its' objectives by working with mortgage bankers and brokers to supply funds for buyers at affordable rates. To ensure its success, the United States Department of the Treasury has allocated up to $200 billion of capital to guarantee that the company can continue to provide liquidity and stability (Fannie Mae, 2009). Freddie Mac has similar objectives, in that it strives to provide stability, liquidity and affordability in the housing market. Founded in 1970, Freddie Mac buys up mortgages from lenders, thereby replenishing the money supply for future loans (Freddie Mac, 2009).

In 1992, Fannie Mae and Freddie Mac were assigned the task to find alternative ways to increase homeownership in the United States. In that same year, the Office of Federal Housing Enterprise Oversight (OFHEO) was given the responsibility to make sure that they would buy back a certain portion of all low quality loans (Leonnig, 2008). To provide a hint as to how many mortgages these two giants control, between 2005 and 2007, Fannie Mae and Freddie Mac together purchased $1 trillion in Alt-A and other subprime loans (Wallison & Pinto, 2009). Collectively, Fannie Mae and Freddie Mac control up to $5.4 trillion in outstanding mortgages. On October 19, 2008, Treasury Secretary Henry Paulson announced a federal takeover of the firms, in attempt to soothe our current ailing housing market (Armour & Healey, 2008). How do these firms affect a first time homeowner? Like previously stated, because Fannie Mae and Freddie Mac own or guarantee half of the mortgages in the United States, lenders rely on these two firms to constantly provide funds so that they can continue to loan at affordable rates. Without these firms buying back mortgages, it would be extremely difficult for people with not perfect credit to obtain loans. The government also assists in the number of homeowners through a series of revised laws and new legislation.

The Community Reinvestment Act (CRA), first enacted in 1977, is designed for banks to grant loans to all customers of their chartered areas, including low and moderate income families. As anticipated, the number of low quality loans increased as the number of homeowners increased. To catch a glimpse, in the first couple years that data is available, 2000 and 2001, Fannie Mae purchased 18% of low quality loans with FICO scores less than 660, which is the government mandated level for defining subprime loans (Wallison & Pinto, 2009). In looking at real estate in an investment standpoint, legislation has also been passed to help keep money in homeowners' pockets. At the 1996 Democratic National Convention, President Bill Clinton said, "tonight, I propose a new tax cut for homeownership that says to every middle-income working family in this country, if you sell your home, you will not have to pay a capital gains tax on it ever – not ever." Under the new act proposed by Clinton and approved by

Congress in 1997 (Taxpayer Relief Act of 1997), a gain on home sales of $500,000 for married couples and $250,000 for singles could go tax exempt, so long as the home owners had lived in the house for at least two of the previous five years. This change made real estate look like a "can't miss" investment and changed the national conversation regarding housing (Bajaj & Leonhardt, 2008). Probably the most talked about government assistance plan is the $8000 or 10% of the home's value (whichever is less) tax credit for first time homebuyers in President Obama's American Recovery and Reinvestment Act. To qualify for the credit, one must purchase his/her home between January 1, 2009 and April 30, 2010 (an extension of the original plan). Other restrictions include not owning a house for the previous three years so that one would qualify as a first time buyer and also live in the house for at least three years following the date of sale (Christie, 2009).

Once one knows how the government offers assistance, everything ultimately comes down to the homebuyer's decision of whether he/she would like to buy or rent. Does one want to take out a loan for $200K or is it financially smarter to continue to rent at $1000 a month? Conventional wisdom holds that it is smarter to buy a house than rent because of the amount of wealth homeowners' pile up in relation to renters. The following table shows the difference between the wealth of homeowners and renters.

Average net worth of homeowners vs. renters

Annual income	Owners	Renters
$80,000 and up	$451,200	$87,400
$50,000 to $79,999	$194,610	$25,000
$30,000 to $49,999	$126,500	$10,600
$16,000 to $29,999	$112,600	$4,240
Under $16,000	$73,000	$500

Source: VIP Forum, Federal Reserve Board (Pulliam Weston, 2009)

Many experts argue that the long term building of wealth, which is based on the appreciation of housing prices and the forced savings consumers make to meet monthly mortgage payments, should be a key factor in the decision to purchase. Under this ideology, the earlier a homeowner gets into real estate, the longer the homeowner has appreciation working in his/her favor (Pulliam Weston, 2009).

The decision to buy a home is all about timing. In order to make the best possible decision, a homeowner must look at several items. First, one must take a look at the housing market he/she lives in. Right now, a person in Los Angeles may be better off renting because it usually makes the most sense in a weak real estate market. On the other hand, this market can be very hot and the decision to buy a home could pay off thousands in the long run. This can be explained by thinking in terms of net rent, or the annual rent a property would collect minus the property taxes, insurance, maintenance costs, and any losses that would occur for vacancy. If this earnings yield is less than 3%, it is usually smarter to rent because the return on the home is too low. Likewise, a person in Lincoln, Nebraska may be better off buying because real estate prices have proven to not fluctuate as drastically as coastal areas. If the earnings yield is over 4% in the prospective area, one should purchase the house. If the earnings yield is in between 3-4%, the decision to buy or rent should be influenced by the current housing market and whether or not the calculated rental values will hold up over the next 10 or so years (Fitch, 2009).

The above table is clear in showing that there is a distinct difference in the relative amount of wealth between homeowners and renters. At some point, it is wise to take the next step and purchase a home. With the recent collapse of the housing market, it is obvious that one should carefully examine the motives behind becoming a homeowner. Before one purchases a home, one must make sure that he/she is buying a home for the right reasons. The first mistaken reason to buy a house is because of the inclination that the real estate market will outperform the stock market. First off, the golden rule of investing is being ignored: past performance is never a guarantee of future results. The recent housing crisis has caused a drastic reduction in housing prices in some areas. In other words, no one knows how either market will react and over the past 40 years, stocks have beaten the inflation rate by roughly 7% compared to housing which has produced only a 1% gain (Pulliam Weston 2, 2009). The second illegitimate reason to purchase a house is that one thinks he/she is just throwing away money with each and every rent check. The hard earned money is not merely being thrown away; one is sending it to the landlord in exchange for a place to stay (Pulliam Weston 2, 2009). In the words of Liz Pulliam Weston in her article "The 3 worst reasons to buy a house", "in other words, homeownership is more like marriage; renting is more like living together. Make sure you're ready to be wedded to a house before you propose to leave behind life as a renter."

Conclusively, the ability to purchase a home is one of the biggest and best financial decisions one could make. With the recent housing crisis at the back of everyone's minds, I strongly advise that the homeowner take a step back and make sure that he/she is ready to leave life as a renter behind. I urge any future homeowner to carefully review the housing market that he/she lives in, so that their investment makes financial sense, and to carefully examine why they want to become a homeowner. Once this is complete, join the other 68% of Americans and enjoy life as a homeowner, statistics show that they are considerably wealthier!

Reference Page

Armour, S & Healey J. R. (2008, October 20). Taxpayers take on trillions in risk in Fannie, Freddie takeover. *USA Today*.
This article from the *USA Today* talks about the news release of the government takeover of the firms Fannie Mae and Freddie Mac. It talks about the prospective plan of the time of what the government will do and how much it will cost the American taxpayer. It also gives statistics as to how many mortgages these two firms control.

Bajaj, V, & Leonhardt, D. (2008, December 18). Tax Break May Have Helped Cause Housing Bubble. *The New York Times*, p. A1.
This article discusses the tax cut that was proposed by President Clinton and approved by Congress in 1997 regarding the purchase and sale of real estate. The article goes on to discuss how this tax cut may have played an integral role in the recent housing crisis.

Christie, Les. . (2009, February 17). *New homebuyers to get $8000 cash back.* Retrieved from http://money.cnn.com/2009/02/13/real_estate/homebuyer_tax_credit_finalized/index.htm
"New homebuyers to get $8000 cash back" talks about the tax incentive to purchase a home for first time homebuyers. It states the stipulations of the tax credit so that buyers can meet the standards. The article has a reaction from the people as to how it will work out and predicts how it will help our housing market.

Fitch, Stephane. (2009, October 29). Should You buy or rent? . *Forbes Magazine* , Retrieved from http://www.forbes.com/2009/10/29/buy-or-rent-personal-finance-home-decision.html
This article displays the decision on whether to buy or rent. It tells the reader to look at the market and to determine whether it is the right time to buy. It also tells the reader to look at earnings yield to determine if the rent option would be more beneficial. This article had different applications from places all over the country.

Leonnig, C. D. (2008, June 10). How HUD Mortgage Policy Fed The Crisis. *The Washington Post*, p. A01.
"How HUD Mortgage Policy Fed the Crisis" discusses the impact of the U.S. Department of Housing and Urban Development on the current housing situation. Within the article, it deals specifically with the policies Fannie Mae and Freddie had in buying back subprime mortgages. This articles deals with how these firms neglected to examine the borrowers of the mortgages they were buying back.

Pulliam Weston, Liz. . (2009). *Why its smarter to buy than rent.* Retrieved from http://moneycentral.msn.com/content/Banking/Homebuyingguide/P72655.asp
"Why it's smarter to buy than rent" discusses the financial background of why it's smarter to purchase a home (in order to build wealth) than continue to rent. It delivers the chart that is used to show the relative wealth between homeowners and renters.

Pulliam Weston 2, Liz. . (2009). *The 3 worst reasons to buy a house*. Retrieved from http://moneycentral.msn.com/content/Banking/Homebuyingguide/P37627.asp
This article deals with the actual purchase of a home and what the three biggest mistakes are in doing so. It names three myths that are critical in the decision to buy a home. These myths

include the idea that you are just throwing away money when you rent, real estate is a better investment than the stock market, and the tax benefits associated with purchasing a home.

Wallison, P. J. , & Pinto, E. J. (2009). A Government-Mandated Housing Bubble. *Forbes Magazine*, Retrieved April 20, 2009, from http://www.forbes.com/2009/02/13/housing-bubble-subprime-opinions-contributors_0216_peter_wallison_edward_pinto_print.html.
This article talks about the Community Reinvestment Act and its possible role in the meltdown of the housing market. Under this law, it talks specifically with the requirements Fannie and Freddie had to meet in order to comply with giving fair housing for all. This article was extremely helpful in showing exactly what Fannie and Freddie did to purchase subprime mortgages (Fannie purchased 18% of low quality loans in 2000 and 2001).

(2008, October 7). About Fannie Mae. Retrieved April 20, 2009, from Fannie Mae Web site: http://www.fanniemae.com/aboutfm/index.jhtml;jsessionid=PCZA0CLYWXW0ZJ2FQSHSFGQ?p=About+Fannie+Mae
This site was used for learning what Fannie Mae's role was in the real estate industry. It establishes how the U.S. government will help out this enterprise, including the $200 billion guarantee in capital to ensure that they can continue to provide liquidity and stability.

(2009). Freddie Mac: Our Business. Retrieved April 20, 2009, from Freddie Mac Web site: http://www.freddiemac.com/corporate/company_profile/our_business/
This site was used for learning about what Freddie Mac does in the real estate industry. I learned here that Freddie competes in the secondary mortgage market and the overall objective of the company is to provide liquidity, stability, and affordability in the U.S. mortgage market.

Lastname, First name

Finance 382 Writing Project

TITLE GOES HERE

Overview of Topic and Goal of Research

Purchasing a home for the first time is an enduring process that takes a lot of time and consideration. This brief analysis will discuss factors that first time home buyers need to think about before selecting a property. Calculating your credit score, seeking professional resources, and selecting the appropriate mortgage loan are things that will be covered throughout the paper.

References

Block, Sandra. "Housing Bailout Act has Help for More Than Just Struggling Owners". *USA Today*. July 2008. Retrieved October 23, 2008 using Academic Search Premier at UNL Library at <http://0-web.ebscohost.com.library.unl.edu/ehost/delivery>.

This article explains how the housing bailout act has made many changes to the mortgages that home buyers can receive. In particular, it talks about the tax credit that is available for first-time home buyers for the tax year of 2008. The article expresses it advantages as well as the drawbacks of receiving the tax credit.

Curry, Sheree R. and Tanisha A. Sykes. "Buying Your First Home?". *Black Enterprise*. August 2007. Volume 38. Issue 1. p 76-82. Retrieved October 23, 2008 using Academic Search Premier at UNL Library at <http://0-web.ebscohost.com.library.unl.edu/ehost/delivery>.

This article talks about things to consider when buying a home. Determining your credit and true income, getting preapproved before looking for a house, using professional resources as well as studying the market are some suggestions that the article makes. In addition, it also talks about determining the right mortgage and locating first-time home buyer programs that are available.

Knox, Noelle. "First Rung on Property Ladder Gets Harder to Reach". *USA Today.* July 2007. Retrieved October 23, 2008 using Academic Search Premier at UNL Library <http://0-web.ebscohost.com.library.unl.edu/ehost/delivery>.

This article talks about the difficulty that many people face to come up with money to put towards a down payment. As lenders are raising their standards for borrowers, many people are turning to living with their families and friends in order to save money. In addition, a portion of people are cashing in their retirement or pension accounts to come up with adequate money for a down payment.

Ody, Elizabeth. "An Open Door For First-Time Home Buyers". *Kiplinger's Personal Finance.* Feb. 2008. Volume 62. Issue 2. p79. Retrieved October 25, 2008 using Academic Search Premier at UNL Library at <http://0-web.ebscohost.com.library.unl.edu/ehost/delivery>.

This article offers advice for first-time home buyers who fear that they do not have enough money to put towards a down payment. The article comforts first-time home buyers by saying that 5% down payment loans are available instead of paying a down payment of 10% that is more common.

"Thinking About Buying Your First Home". ***Rock Financial.*** **2007. Retrieved October 23, 2008 <http://www.rockfinancial.com/home-loans/home-buying-article/first-home.html>.**

This article "Thinking About Buying Your First Home," discusses several things that should be considered before purchasing your first home. Determining the length of time you plan on living in the home and if the home will meet your future needs are two things that are discussed. The article also explains examining your financial health and where the money for the purchase will come from.

ANALYSIS

First-Time Home Buyers

Buying your first home can be intimidating, nerve-racking, thrilling, and costly all at the same time. Before purchasing your first home there are several things that should be thought about before plunging into the process. Even though you think you may have found the perfect house, it may not last a lifetime. It is important to think about how long you plan to live in the house and if the house will meet your future needs. Several factors such as children or special projects can change the amount of space you might need to function. Personally, I hope to one day be able to work out of my home, so I would want to have room for my own office in my house. Instead of buying your dream house on an impulse, you should take time to think about your future. Also financially, if you only plan to live in your house for a short amount of time you may end up paying money to sell it because the house hasn't had enough time to appreciate ("Thinking About Buying Your First Home" 2007).

An article from *Black Enterprise*, "Buying Your First Home?" suggests ten things you need to know before you start to buy your first home. The first step is to check your credit score. This can be done by obtaining a free credit report from www.annualcreditreport.com. There are several ways low credit scores can be improved such as making payments on time, keeping credit card balances below 30% of the available balance, and keeping unused accounts open. After calculating your credit score, determine your true income. True income can be evaluated by taking your monthly income, including investments and subtracting monthly expenses such as insurance premiums, credit card payments, child support, and groceries (Curry and Sykes 2007).

After calculating your personal information and finances, it is important to use professional resources to further your decision process. Getting preapproved by a lender before looking for your future home is a way to benefit from professional resources. Finding a home is the easy part; however, knowing if you will be able to afford it is not so easy. In order to know that you can afford the desired home, prepare a document with your current assets and income and give the information to a mortgage lender. If the results are good, the mortgage lender will provide you with a preapproval letter. Other ways the article suggests to use professional resources is to listen to referrals made from realtors, lenders, title companies, and appraisers. Their opinions are valuable because these professionals are not connected to real estate agents or sellers. Therefore, a neutral team will have your best interest at heart. Another beneficial resource is to use a home inspector. Hiring a home inspector is a way to get an outsider's opinion instead of just relying on the seller's world about the quality of the house (Curry and Sykes 2007).

In addition to evaluating how much money can be provided towards the purchase of a house and seeking aid from professional sources, the article also concludes that studying the market is very crucial for first time home buyers. Reviewing neighborhoods, crime rates, and school rankings will tell prospective buyers about the value of the house for sale (Curry and Sykes 2007).

Finally, when buyers feel they have found their dream home, they should determine the right mortgage based on their lifestyles. Although the 30-year fixed-rate mortgage is the most common and safest, there are also adjustable-rate mortgages that offer lower interest rates. People who choose to use the adjustable-rate mortgages should be cautious because the lower interest rates can jump instantly and that will drastically change your monthly payments. If additional help is needed to fund and determine what mortgage is needed, there are first-time home buyer programs and government agencies. Websites such as GinnieMae.com and American Dream Down Payment Assistance are essential tools for first-home buyers (Curry and Sykes 2007).

Although buying a house can be a huge financial burden for many people, the government has recently approved legislation that will aid people struggling to finally own their own home. The Senate recently approved the housing bailout act that is designed to help troubled homeowners. However, the act also helps families who want to purchase their first home. The housing bill offers an appealing tax credit for first time buyers. First time home buyers who plan to purchase a home between April 9, 2008, and July 1, 2009, will be eligible for the tax credit. The credit consists of $7,500 or 10% of the purchase price depending on whichever is less. An advantage of the tax credit is that it is refundable. Therefore, if your federal tax bill does not exceed $7,500, then the difference will be refunded (Block 2008).

However, there are also disadvantages to the new bill. First time home buyers who receive the credit are required to pay it back in equal installments over 15 years. The payments must being during the second year after the house is bought. Although payments over a span of 15 years may seem convenient and less stressful, many people do not live in one house for 15 years. Therefore, if you choose to sell your house before the 15 years is over, the entire balance will have to be repaid. Also there are certain guidelines as to who qualifies to receive the tax credit. An adjusted gross income of $75,000 for a single taxpayer will grant them the credit. Married couples who file $150,000 or less will also be included (Block 2008).

Another area that first-time home buyers struggle with is finding the money for a down payment. According to Noelle Knox, a writer for *USA Today*, almost half of first time home buyers put no money towards a down payment. The remaining first time buyers put down a median of 2% of the purchase price (Knox 2007). The tighter mortgage market is putting pressure on first time borrowers, and as a result, many are not receiving the funds they need to make an appropriate down payment. However, according to Jim McMillan, a senior loan officer for JP Morgan, more people are finding ways to put down a larger payment. A 10% down payment is now becoming the norm (Ody 2008). Since first time home buyers typically have large debts, a new job to work with, and brief credit history, a number of people are moving in with friends, family or sharing apartments to save money (Knox 2007).

In conclusion to my analysis about first time home buyers, I would like to stress one more important aspect to remember. No matter how much you plan ahead and save or stress to find the best mortgage loan, the ongoing costs of home ownership will still remain the same. Maintenance costs as well as taxes and insuring your home are all costs that will need to be factored into your monthly payments ("Thinking About Buying Your Own Home"). Curry and Sykes, authors of "Buying Your First Home?" suggest saving at least three months' worth of payments, insurance, taxes, and interest before you buy your home. In addition, depending on how many years you plan to live in your home you might want to make improvements to increase the selling value.

All in all, purchasing a home for the first time is a learning experience. If you do research and find out where you stand financially, finding a home will be a fun experience. The key is to be patient and use all your resources wisely.

Lastname, Firstname

The Importance of Your Credit Score when Purchasing a Home

Credit scoring is very important in the real estate industry. Credit scores are often used to receive the loans/mortgages needed to obtain a home. Many people often do not know what a credit score is or what it does for them, but at the same time it is difficult to understand. This analysis of credit scoring will help explain what a credit score is and what it does, a breakdown of what makes up your credit score, the importance of your credit score, what is a good credit score, and four myths of credit-scoring which will in turn relate credit scores to the purchasing of a home.

According to Wikipedia.com, a credit score is a numerical expression based on a statistical analysis of a person's credit files, to represent the creditworthiness (the risk of loss due to a debtor's non-payment of a loan or other line of credit) of that person (Credit Score). The credit score concept was developed by Fair Isaac and Company. Even though credit scores were once hidden from consumers, it now can be viewed for a reasonable fee. The number affects how much you pay for credit, insurance, and other life necessities (Obringer). There are other life necessities, such as renting an apartment, you may be engaged in now. According to class discussion, many landlords will check your credit history to assure you will make your payment of rent. Maybe you have noticed this when you had to sign a consent form, for a credit check, on the rent application at your apartment complex.

Now you know what a credit score is, you need to learn what makes up the actual number called your credit score. The FCIO method, the scoring method used by most lenders, was developed by the Fair Isaac Corporation. The method was developed with the help of three major credit bureaus – Experian, Equifax, and TransUnion. This method is used as a grading system of your credit. The final grade is a number ranging from 300 to 850. Although the actual formula used to calculate the score is owned by the Fair Isaac Corporation and is unknown, the breakdown of how it is determined is public information (Obringer):

- 35% - Payment History
- 30% - Outstanding Debt
- 15% - Length of Time You've Had Credit
- 10% - New Credit
- 10% - Type of Credit You Currently Have

If you haven't personally obtained your credit score, you may be able to relate in a different way. Paying off monthly credit card balances in full every month and having a large debt in college loans are two things that may have a great roll on my credit score.

A credit score is important for several reasons. A low score can keep you from receiving the loan for your dream home, or if you get the loan, your low score could make the price of your loan extremely expensive. The lower your credit score, the greater the risk you appear to be to the lender. When relating credit scores to the real estate industry, we think about the loans and mortgages needed in the purchasing of homes. Although you may have not obtained a loan for a home personally, you may understand the importance of a high credit score~~s~~ because of your student loans. In order for you to receive your loans, your parents had to put their credit scores on the line, in the co-signing process.

At myFICO.com, an adaptive chart is available for you to see how your credit score affects the interest rates of a mortgage. You can select either the national average or a state average to receive adjusted rates and monthly payments. You can also decide the amount of your mortgage to further adjust the rates and monthly payments. If you decided to choose a $250,000 mortgage, an above average home in Lincoln, NE, and use the Nebraska average. The information from the table is as follows (The Score That Matters):

FICO Score	APR	Monthly Payment
760-850	5.555%	$1,428
700-759	5.775%	$1,463
680-699	5.951%	$1,491
660-679	6.163%	$1,525
640-659	6.590%	$1,595
620-639	7.131%	$1,685

As said before, 30% of your credit score comes from your outstanding loans. If you wanted to buy a home right after college, you would have a higher APR and greater monthly payment because of the higher amount of outstanding loans you have causing a lower credit score. If you waited until your college loans were paid off, you would be able to cancel your outstanding debt (30% of credit score) and better your credit history (35% of my credit score) raising your credit score to a higher level. This could potentially lower your APR by a full percentage point and reduce your monthly payment by over $250.

So now the question is what is a good credit score? According to the article titled, *Credit Scores and You – What is a Good Credit Score,* Christine A. Mathews wrote a 620 – 650 credit score is average. With a score over a 650, you should be able to receive a quick and simple credit approval (Mathews). When you graduate from college and are looking for a new home, you should wait until your credit score moves above 650. As discussed in the last paragraph, you could see a full percentage point reduction in your APR and a $250 break in your monthly payment just by increasing your credit score from the low average end to a good, slightly above average price of 650.

Now you are informed of what a good credit score is it is time to clear up any misconceptions of credit scores. Liz Pulliam Weston says there are four common misconceptions about credit scores: closing accounts can help your credit score, checking your FICO score can hurt your credit, credit counseling will hurt your score as much as a bankruptcy, and your FICO isn't the only score you need to check. All four of these misconceptions are as simple as they sound. They are common thoughts from the average person who doesn't understand what a credit score is, but you need to remember to do the opposite of each of these four common misconceptions so you can stay up to date with your credit score (Pulliam Weston).

When you graduate from college and are getting ready to purchase your first home, remember the importance of your credit score. Don't forget how your credit score affects your APR rates and monthly payments. Credit scoring in the real estate market can come down to one number allowing or stopping you from signing the contract to your dream home.

REFERENCE SUMMARIES

Credit Score. *Wikipedia.* Retrieved October 26, 2008, from http://en.wikipedia.org/wiki/Credit_score.

Although Wikipedia is not an article, it is an online encyclopedia used in order to find the exact definition of a credit score. It was used to strengthen my explanation of what a credit score is.

Mathews, Christine A. "Credit Scores and You – What is a Good Credit Score?" *Free Real Estate Articles.* Retrieved October 26, 2008, from http://www.free-real-estate-articles.com/credit-scores-and-you-what-is-a-good-credit-score.

Christine Mathews goes over what a good credit score is in the section of the article entitled, "Where do you fall – What is a good credit score?" Mathews says a FICO score ranges from 375 to 900 points, with the higher the score being considered a better risk. As score of 650 or higher is usually a simple and quick credit approval, while a score between 620 and 650 is considered average.

Obringer, Lee Ann. "How Credit Scores Work." *HowStuffWorks.* Retrieved October 26, 2008, from http://money.howstuffworks.com/personal-finance/debt-management/credit-score.htm.

"How Credit Scores Work," written by Lee Ann Obringer, is an article explaining different aspects of a credit score, how it works, and what it does for you. The article has several different sections attempting to explain the different aspects of a credit score: how a credit score works, credit score breakdown, what your score affects, improving your score, and a section with much more information. These different sections go into more depth of the different aspects of the credit score which has importance in the home buying process.

Pulliam Weston, Liz. "4 Credit-Scoring Myths." ***MSN Money.*** **Retrieved October 26, 2008, from http://articles.moneycentral.msn.com/Banking/YourCreditRating/4creditScoringMyths.aspx.**

The article, "4 Credit-Scoring Myths," written by Liz Pulliam Weston covers four myths of credit-scoring misinforming those people acquiring a loan for a house. The four credit-scoring myths discussed are closing accounts can help your credit score, checking your FICO score can hurt your credit, credit counseling will hurt your score as much as a bankruptcy, and your FICO isn't the only score you need to check.

The Score that Matters. ***myFICO.*** **Retrieved October 26, 2008, from http://www.myfico.com/?semengine=google&semcampaign=Brand&semadgroup=FICO&semkeyword=fico_credit&semcreative=na&sempage=home&semmatch=broad&semmarket=corescore_content&CMP=KNC-Google.**

At myFICO.com there is a chart comparing FICO scores, APR, and monthly payments. It can adjust to your own personal criteria and give you related results to which you were searching. This reference is not an article, but it is used as a reference to the numbers and figures in a table to help compare credit scores and interest rates which would have to paid.

Lastname, Firstname

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10/27/2008

Zoning: Protection of Rights or Abuse of Power

A common issue when purchasing a piece of real estate is ~~the~~ following the zoning codes that the land is subject to and what you are able to do there. Can you raise livestock there? Can you build a skyscraper? Can you open a superstore? Zoning ordinances will regulate what you can and can't do with real estate. Some people may feel the government is overstepping their boundaries by telling them what to do with their property, but some feel safer by living in areas with zoning laws. So, who is right?

Zoning laws were first implemented to protect citizens' rights to quiet enjoyment of their property. The purpose of these ordinances is to have land-use regulation in urban areas that will align with the public's interests. They regulate anything from the height of a building in a particular area to where you can operate a dog-breeding farm. The ultimate goal of zoning regulations is to reduce negative externalities and attempts to separate uses of land that are incompatible. A few examples of negative externalities that zoning laws regulate include noise, air pollution, congestion, water pollution, visual pollution, and blocked or altered natural light.

New York City and Chicago were the first municipalities to introduce zoning laws. The~~y~~ original idea was to regulate the size and shape of skyscrapers to prevent them from blocking out smaller buildings. However, an important judicial decision in 1926, *The Village of Euclid, Ohio v. Ambler Realty Co.*, affirmed the government's right to exercise this power. In that particular case, the city of Euclid had decided that they did not want industrial Cleveland to overflow into their town. As a result, the city government implemented a zoning ordinance that would not allow for industrial construction in certain areas of interest to Ambler Co.. The company took the city to court on the grounds that they were infringing the 14th Amendment's due process clause. On these grounds, they argued that the rules were simply discriminatory and had no rational basis. However, the Supreme Court upheld Euclid's right to zone the property stating they were exercising the government's right to police power. As a result of this decision, zoning laws were here to stay.

Zoning laws can have a significant impact on many aspects of real estate. For example, they can have a great influence on the value of real estate. They are generally thought to "enhance owners' enjoyment of real estate by limiting potentially harmful activities to specific locations." (Asabere & Huffman, 1999) Residential areas are more appealing to buyers if they are protected from nuisances by zoning laws, therefore making them more valuable. However, this may only be the case for residential areas where there is usually uniform interests in the community. Zoning laws may diminish the value of some industrial or business districts. In some cases, they may prevent potential buyers from purchasing the real estate because the zoning laws in place may hinder their business or not even allow it. With all things considered, zoning laws still protect businesses operating in the area, so they are thought to have an overall positive affect on real estate values.

Another affect of zoning can be the preservation of a community's lifestyle and well being. For example, some urban areas have established zoning laws that prohibit large superstores such as Wal-Mart Supercenters. Many smaller municipalities are following suit to preserve their communities smaller retailers and grocers and keep out retailing giants.

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Discrimination can also be disguised through zoning regulations. Local governments sometimes intentionally or unintentionally pass zoning ordinances that have a discriminatory affect. This is common in cases involving people with disabilities. Multiple cases have arose involving "disparate treatment" of people with disabilities that include zoning ordinances that may restrict accommodations for people with disabilities. Additionally discrimination of religion, race, social class, and ethnicity by subtle zoning ordinances that either restrict people's freedom or exclude them all have happened in the past. However, if legitimate zoning ordinances are in place the resulting effect should be to promote equality.

Ultimately, zoning ordinances are here to protect the people. They keep property owners from infringing upon their neighbor's quiet enjoyment of their property. Although some may see zoning laws as pesky hindrances to their land, they serve a necessary function. So, unless you think it is ok for someone to open up a feedlot in downtown Lincoln, be thankful for zoning ordinances.

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References:

Asabere, Paul and Huffman, Forrest. (1999, December). *Price Impacts of Incompatible Land Uses.* Retrieved October 23, 2008 from http://www.business.uiuc.edu/orer/V13-1-3.pdf

This article discusses the potential impacts on the price of real estate by conflicting interests of nearby properties. It makes the case that zoning ordinances aid the value of real estate by aligning the interests of adjacent properties.

Butler, Sherri. (2002, December). Avoiding Discriminatory Zoning Practices. *Local Government Insurance Trust.* Retrieved October 26, 2008 from http://www.lgit.org/docs/Claims/Claims_Briefs/cb27.pdf

This particular is an informational newsletter to local governments with the goal of education of past cases of discriminatory zoning ordinances and recommendations on how to avoid future problems in this area.

Colwell, Peter and Dehring, Carolyn. (1999, December). *The Value of Zoning.* Retrieved October 23, 2008 from http://www.business.uiuc.edu/orer/V13-1-2.pdf

This article provides an analysis of the effects of zoning on residential areas. It takes into consideration the stated value of real estate governed by specific zoning ordinances. The primary focus is on hierarchal zoning.

Lefcoe, George. (2005, April). *The Regulation of Superstores: The Legality of Zoning Ordinances Emerging from the Skirmishes between Wal-Mart and the United Food and Commercial Workers Union.* University of Southern California Law School. Retrieved October 25, 2008 from http://papers.ssrn.com/sol3/papers.cfm?abstract_id=712801

This paper illustrates how local governments are enacting zoning ordinances in areas that prevent Wal-Mart from opening Supercenters. It discusses how the local governments have been pressured to institute these laws by the United Food and Commercial Workers Union who are upset with many of Wal-Mart's business practices. Additionally, it states that they are enacting these laws to maintain their communities' local businesses and culture.

***Village of Euclid v. Ambler Realty Co.* 272 U.S. 365 (1926). Retrieved October 21, 2008 from http://www.law.cornell.edu/supct/html/historics/USSC_CR_0272_0365_ZS.ht**

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The Supreme Court case hearing of the landmark appeal that maintained the government's right to establish zoning ordinances through the right of police power.

Young, Jonathan. (2004, September) *Effects of Zoning on Residential Value.* Department of Economics, West Virginia University. Retrieved October 23, 2008 from http://www.rri.wvu.edu/pdffiles/youngwp2004-12.pdf

This article focuses on how zoning ordinances can effect the prices of residential real estate. It takes into consideration the different types of zoning including Euclidean, Euclidean II, hierarchal, and form based. It also provides a model by which the value of real estate can be calculated which incorporates zoning codes.

Lastname, Firstname

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1031 Exchange

As real estate investor or business owner, the sale of an investment property or business usually produces a gain which incurs capital gains tax. The idea behind a 1031 exchange is to provide investors and businesses an avenue to defer capital gains tax to a later date as long as the proceeds are reinvested in similar property. This analysis of 1031 exchanges provides the necessary information to successfully complete a 1031, avoid paying capital gains tax, and grow the size of an investment without having to pay a tax penalty.

The concept of a 1031 exchange was introduced back in 1921 when the first like-kind exchange allowed for tax deference as part of The Revenue Act of 1921 when Congress created Section 202 of the Internal Revenue Code (History of Section 1031, 2008). Then Section 202 was changed to Section 112 with the passage of the Revenue Act of 1928 (History of Section1031, 2008). Then in 1935 the Board of Appeals approved the first tax-deferred like kind exchange using a Qualified Intermediary, which was the first of its kind (History of Section 1031). Then finally the 1954 Amendment to the Federal Tax Code changed Section 112 to Section 1031 of the Internal Revenue Code which was the foundation to the rules and regulations we use today in engaging in 1031 exchanges today (history of Section 1031).

The objective of Section 1031 of the Internal Revenue Code is to allow the exchange of certain types of property to defer the recognition of capital gains or losses, therefore deferring capital gains taxes (Internal Revenue Code Section 1031, 2008). A 1031 exchange is basically the selling of one piece of property for another while avoiding ~~avoid~~ capital gains taxes. What happens with an individual investor is he decides to sell his investment property to acquire a new piece of property for investment purposes. Once he sells his property, instead of the proceeds going to the investor, they go to a Qualified Intermediary who in turn holds the funds until the investor instructs them to buy another piece of property with those funds. Once the replacement property is purchased title transfers to the investor and as long as the replacement property is of equal or lesser value there will be no recognition of capital gains, therefore no capital gains taxes will be paid. In order for properties to be eligible for a 1031 exchange the properties must be for either investment or business purposes, Primary residences do not qualify for a 1031 (Internal Revenue Code, 2008).

Some rules and regulations that come with a 1031 are: that the properties exchanged must be of like-kind, meaning that both properties are of the same nature, character, or class (Like-Kind Exchanges, 2008). Most real estate qualifies as like-kind with other real estate and quality or grad does not matter. One exception is that only real estate in the United States is considered like-kind, if one piece of property is located outside the United States ~~the~~ it does not qualify for a 1031 (Like-Kind Exchanges, 2008). The major set of rules governing the 1031 exchange is the timeline that the investor must adhere to in order for the transaction to be valid. The two important pieces of the timeline are the Identification Rules of 45 days and 180 days. The 45 day Identification Rule states that the investor must identify potential replacement properties that may be acquired 45 days after the original property was sold. The 180 day rule states that the replacement property must be acquired and the exchange completed within 180 days of the original property being sold (1031 Exchanges, 2008). If either of these two rules is not met, then the exchange becomes void and cancels. Another set of rules governing the 1031 exchange are the 95% Rule, 3 Property Rule, and 200% Rule. The 200 % rule states that an investor can recognize as many possible replacement properties as possible as long as the Fair Market Value of those properties does not exceed 200% of the original property. The 3 Property Rule allows investors to recognize three properties of any price as replacement properties, and the 95% Rule states that the investor can identify an unlimited number of replacement properties as long as he acquires properties equal to 95% of the aggregate value of all properties identified (1031 Exchanges, 2008).

Sometimes 1031's fail and one way to save a 1031 if it is going to fail are to invest in a Deferred Sales Trust. What this is, is you set up a trust into which you transfer you property. The trust then sells the property and invests the proceeds. Then you get to decide where the proceeds are invested and how you acquire the funds, whether it is through an annuity or time specific installments (Saving a Failed 1031 Exchange, 2008).

1031 exchange were of particular interest to me because my father owned some rental properties in California that he had while we were growing up. Then when I came to college he bought the house my roommates and I are living in now, and I remember him talking about how he just used a 1031 exchange with some of the properties he owned in California. At the time I didn't understand what he was talking about, but now I know how they work. ~~I myself~~ Considering the marketplace under the current economic conditions, I can see myself getting into real estate investment, and these 1031 exchanges provide a great way to defer capital gains taxes.

(2008, February 2008). *Like-Kind Exchanges under IRC Code Section 1031*. Retrieved October 25, 2008 from Internal Revenue Service Web site: http://www.irs.gov/newsroom/article/0,,id=179801,00.html

This article from the Internal Revenue Service goes through what defines a 1031 exchange and how it must involve property of a like-kind, which means the items being exchanged must be of the same basis. For real estate like-kind includes all real property in the United States, but not real property outside the United States. So a 1031 would be void if the one of the two properties being exchanged was located outside the United States. This article also talks about the different structures of a 1031, along with the time limit requirements, and how to report a 1031 exchange to the IRS.

Gorman, Gary (2008, August 20). *Saving a Failed 1031 Exchange.* Retrieved October 25, 2008 from, Citywide Exchange Web site: http://www.citywideexchange.com/articles-1031/1031article-082008.html

"Saving a Failed 1031 Exchange," gives an investor the information on what happens if a 1031 fails and a couple different strategies to use if the 1031 the investor is engaged in is going to fail. Things like a Deferred Sales Trust, which is a trust in which you transfer your property. Then the trust sells the property and invests the proceeds, and you get to determine how the proceeds are invested. The article also provides ways to access that money, such as annuities, or adjustable installments. This article also provides a couple scenarios where taxes are unavoidable, and some ways to decrease the taxes that you have to pay, such as with installments.

Latulip, Christine (2008, October). *Section 1031 Case Studies #1-#3*. Retrieved October 25, 2008 from , Tax Exchange Web site: http://www.1031taxexchange.org/Articles/section-1031-case-studies-1--3.html

This article by Christine Latulip provides three different cases where 1031 exchanges are used. The first case talks about how an investor can buy a new property before selling the old property. The second case talks about you can exchange six properties for twelve condominiums, and the rules that go with that kind of transactions. The third case talks about how investors can convert an investment property to personal property and still avoid a capital gains tax.

Real Estate Writing Project
02/20/2007

The Basics of Buying a Home

When purchasing a first home there are many things to consider. In order to even begin applying for a home loan a person must first understand the different options they have. This brief analysis of buying a home will explain some of the important basics of buying a home.

When buying your first home there are many things to think about. First, you must ask yourself how long you plan to live in the home. On average, a person should plan on staying in their home at least three to four years to cover the costs of buying and selling the house (Rock Financial, 2007). If you plan on staying there for a longer period of time you must consider if the house will meet your needs. For instance, if you plan on having children a home with more than two bedrooms may be necessary. It is also important to analyze if your credit is income is sufficient to buy a home now. A lower credit score may not prevent a person from obtaining a home loan; however it will raise the interest rate. Can your finances now and in the projected future enable you to afford a home? It is important to consider income you foresee yourself earning in the future as well as any expected financial obligations. According to class, it is recommended that a person's monthly housing costs do not exceed 28 percent of their income and total debt does not exceed 36 percent of total monthly income.

Buying a home can initially require a lot of money. Buyers will be responsible for a down payment and closing costs associated with the loan. According to class, some loans, such as the FHA loan, may only require a 3 percent down payment, if any! A down payment is not always necessary. The figure below illustrates the options a homebuyer would have if they earn $75,000 combined gross annual income, pay $500.00 in monthly vehicle payments, pay $250.00 in student loans, and pay $200.00 in minimum credit card payments.

	$206,921	$212,822	$196,895
	$205,230	$217,185	$167,361
	Fixed	Fixed	Fixed
	6.0 / 30 yr	6.0 / 30 yr	6.25 / 30 yr
	$1,614	$1,613	$1,425
	$457	$470	$435
	$2,071	$2,082	$1,860
	$2,751	$2,739	$2,962
	$6,208	$0	$29,534
	$2,052	$7,962	$6,759
	$8,260	$7,962	$36,293

http://www.ginniemae.gov/2x_prequal/intro_results.asp

Buying a home is more than just a monthly mortgage payment. There will always be costs in the form of maintenance, taxes, insurance, remodeling, and improvements. A homeowner must be able to attribute some monthly income to account for these expenses.

It is important to understand the difference between a pre-qualification and a pre-approval. According to the Rock Financial website (2007), a pre-qualification gives a potential buyer an estimate of how much they may qualify for. This is based on income, and their current assets and liabilities. Under a pre-qualification none of this information has been verified, and therefore it is not a guaranteed offer by the firm. A pre-approval is one step further towards owning your own home. A credit report is pulled and your income and credit report can then be used to 'pre-approve' you for a certain amount. An official application has not been taken; therefore the loan is not fully approved.

In general, there are two ways to calculate interest for a home loan. A fixed interest rate loan has an agreed upon APR that is constant for the life of the loan. A fixed interest rate provides a means of security because the interest rate is guaranteed not to change. An adjustable rate mortgage, also known as an ARM, means the rate can change (Things to Consider, 2007). It is tied to an 'index', such as the U.S. Government Treasury Bills. In deciding how to finance your mortgage, you should compare the current fixed rate products to the adjustable rate products. Fixed rate financing is the most popular.

Another important concept related to interest rates is the annual percentage rate, or APR. According to class, the APR is the most important rate to consider when obtaining a home loan. The APR includes principle, interest, fees, points, mortgage insurance, and all other costs allied with the loan.

Not all buyers buy a house directly off of the market. Some buyers are interested in home construction. These financing situations can be handled differently than a regular mortgage. Many lenders open a construction line for the buyer to pay workers in phases as jobs are completed for the house. Many lenders will inspect the work done before releasing the funds to the line. After the mortgage is complete and all contractors and workers are paid a regular mortgage will be used to pay off the construction line. A construction line can provide flexibility for those who can only closely estimate their costs. Construction lines typically charge a higher interest rate than a regular mortgage.

Buying a home takes many considerations before the process can begin. It is probably the most expensive purchase of one's lifetime, and therefore must be measured wisely. The thoughts mentioned above, and many more, should be considered before one engages them in such a big purchase. Owning a home can be great, but the decision to do so must be evaluated fully.

Real Estate Writing Project
02/20/2007

REFERENCE SUMMARIES:

The Scoop on Prequalified vs. Preapproves. (2007). *Rock Financial.* Retrieved February 16, 2007, from articles/mortgage-preapproval.html?lid=1130

The section of the article entitled *The Scoop on Pre-qualified vs. Pre-approved* explains what the difference is between a consumer being pre-qualified and pre-approved. Many consumers are confused as to what each of the terms mean.

Thinking About Buying your First Home. (2007). *Rock Financial.* Retrieved February 16, 2007, from buying-articles/first-home.html?lid=1945

The section entitled *Thinking About Buying Your First Home* explains many things that should be considered when a person is thinking about purchasing their first home. These considerations range from simply estimating the length of time a person plans to live there, to how much you can afford based on your income, and accounting for the future expenses associated with home ownership.

Home Construction Financing. (2004). *Service Magic.* Retrieved February 16, 2007, from http://ww.servicemagic.com/article.show.Home-Construction-Financing.12004.html

Real Estate Writing Project
02/20/2007
This article explains a financing option available for those who are building their own home. The article explains how consumers are able to pay workers in the phases the building is complete, while not having to state the exact cost of the project before construction begins.

Top Things To Consider before Applying for a Home Loan. (2007). *Web SEO.* Retrieved February 16, 2007, from http://www.mortage.webseo.com.au/articles/home_loan_considerations.php

This article states the ten most important things to consider when looking for a home loan. Some important things to know are the amount of down-payment one should expect to pay, the difference in fixed interest rates versus adjustable interest rates, what qualifications are generally needed, and fees associated with home loans.

Your Path To Home Ownership. (2004). *Ginnie Mae.* Retrieved February 16, 2007, From http://www.ginniemae.gov/2x_prequal/intro_results.asp

The article entitled *Your Path To Homeownership* included a calculator that estimated how much a person can obtain a home loan for based on the type of loan and the amount of the loan, annual gross income of the buyers, and other expenses of the buyers. The calculations also provided what may be required for a down payment based on the type of loan and an estimate of the closing costs associated with the home loan.

REDACTED

10

Finance 382 Writing Project

March 11th, 2009

The Housing Crisis: Whose Fault is It?

Throughout 2008 and early 2009, many Americans have watched as their home values decreased by ten, twenty, and even up to fifty percent—finally making many homes worth less than the loan amounts owed on them. The question on everyone's mind now is who is responsible for our recent housing crisis. To help answer this key question, this paper will demonstrate how much of the housing crisis was caused by the combined actions of three groups: borrowers, real estate agents, and lenders.

It should come as no surprise to the United States that borrowers have played a large role in the housing crisis. According to ~~the~~ a recent report done by the Federal Reserve Bank of Saint Louis, Americans' personal savings rate has steadily decreased since 1980 while total consumer outstanding credit has increased at an exponential rate. (Roth, 2008). For the last thirty years, America has been a nation that consistently does not save money and actually overspends its income. One of these places consumers (borrowers) overspent their income the most was through the purchase of a home. For starters, many Americans bought homes they could not afford and had to borrow large sums of money. In addition, during the loan application process, borrowers "...did not understand their loan terms, especially the potential for payments to spike when low teaser rates expired. Nor were all borrowers honest, with some studies estimating most subprime applicants lied or omitted key information" (Wiles, 2008). Because many American consumers bought expensive homes they could not afford and did not fully understand their loan conditions, they were unprepared to face the crisis of plummeting home values.

The second group at fault for the housing crisis is real estate agents and brokers. Many of these professionals believed that real estate would never fall, and led consumers to homes accordingly—a good example of this can be seen by the book titled *Why the Real Estate Boom Will Not Bust – and How You Can Profit From It*, which was published prior to the real estate slump by the National Association of Realtors. (Wiles, 2008). Because many brokers and agents work off of commission, it was to their financial advantage to close as many real estate deals as possible. Due to these practices and behavior, "...real estate marketers contributed to the hype and glossed over problems such as risky loans and minimal down payments" (Wiles, 2008). While getting many Americans into homes and receiving commissions for their work, real estate agents helped to contribute the housing crisis.

The last of our three groups that had a hand in the housing crisis was lenders. Basically, "lenders" describes mortgage brokers, bankers, and other lenders who disbursed funds to unqualified applicants to buy homes. Again, much like real estate agents, many of lenders collected commissions for each loan they made, and often did not do enough homework on applicants' credit-worthiness, income, and ability to repay their loan. In addition, many banks that made the loans bundled them together, and then sold them to a third-party—simply "passing the risk along" (Wiles, 2008). Because banks were simply making loans and selling them off to others, they had no incentive to make sure borrowers were credit-worthy since it was no longer their problem to make sure the borrower did not default.

To conclude, although it is important to note that borrowers, real estate agents, and lenders all helped to cause the housing crisis, it is not one particular group's or person's fault. Many Americans, in their hunt for someone to pin the blame on, have unfairly targeted all mortgage professionals. Steinunn Seay, a mortgage company operations manager who was interviewed by Newsweek in 2008, worried that "...a lot of us are being stereotyped as crooks, but some of us still wake up in the morning and truly enjoy helping people [buy their first home]" (McGinn, 2008). In 2009, even Alan Greenspan, former Chairman of the Federal Reserve, was quoted as saying he "did not fully understand the scope of the subprime mortgage market until well into 2005 and could not make sense of the complex derivative products created out of mortgages" (Sanati, 2009). If a Chairman of the Federal Reserve did not understand the complexities and consequences of subprime mortgages and bundled mortgage investments, how could borrowers, real estate agents, and even lenders be expected to understand the potential costs? Instead of the housing crisis being the responsibility of one person or group, it has actually resulted from the small, combined actions of many borrowers, real estate agents, and lenders—much like single drops of water that have created an unexpected and catastrophic flood. After the fact, we now know that the actions of these groups are what led us into the housing crisis, and can now take steps to protect ourselves from another bubble burst in the future.

Works Cited

Eurchuk, R. (2006, September 28). City Notes: Whose fault is the housing crisis? *The Republic of East Vancouver*.

This article is about housing concerns in Vancouver due to the reduction of affordable housing. It was an interesting article to read because it showed the other side of the housing story, about how home ownership is important for everyone. This is certainly important to many people, but the idea that home ownership is a "right" is part of how we got into a housing mess.

McGinn, D. (2008, January 29). *Whose Fault Is This? The mortgage industry defends itself.* Retrieved March 9, 2009, from Newsweek: http://www.newsweek.com/id/106019/page/1

This article is about how many professionals in the mortgage industry feel they are being solely unfairly blamed for the housing crisis. Much of these workers feel like they are helping others every day, were not engaged in dishonest practices, and could not and did not foresee the consequences of their combined actions.

Roth, J. D. (2008, March 20). *The Negative Savings Rate and the Age of Easy Credit.* Retrieved March 9, 2009, from Get Rich Slowly: http://www.getrichslowly.org/blog/2008/03/20/the-negative-saving-rate-and-the-age-of-easy-credit/

This article describes American spending, credit, and savings habits during the 20th and 21st century. It also talks about how each successive generation gets less and less "thrifty." With graphs and statistics, it shows how on average, Americans savings have decreases over time with spending and borrowing have increased exponentially over time.

Sanati, C. (2009, February 12). *Greenspan Says He Was Mystified by Subprime Market.* Retrieved March 9, 2009, from New York Times: http://dealbook.blogs.nytimes.com/2009/02/12/greenspan-says-he-was-mystified-by-subprime-market/

This article talks about Alan Greenspan's policies while he was the Chairman of the Federal Reserve, and if the Fed's actions caused our current housing crisis. Greenspan denies that it was the Fed's fault while also admitting they could have taken actions (that would not have popular since house ownership is so valued to Americans) to prevent the situation.

Wiles, R. (2008, September 16). *The Housing Crisis: how we got here.* Retrieved 9 2009, March, from AZ Central: http://www.azcentral.com/business/articles/2008/

This article is a detailed description of who's to blame for the current housing crisis and why, including what happened, the current situation, and how to fix it. Everyone possible is mentioned including real estate agents, home builders, lenders, borrowers, investors, the Federal Reserve, other regulators, rating agencies, the White House, Congress, and foreigners.

Name Goes Here
FINA382
Written Project

Housing and Poverty

The correlation between housing and poverty will be discussed at length in this paper. The goal of the research is to discover a link between the concentration of poverty and available, affordable housing. Efforts will be made to help determine how, why, and where poverty is concentrated in housing. After diagnosing the problem of poverty concentration in housing, issues will be addressed in an effort to help alleviate the problem.

In the first study, performed by Steven Mulherin (2000), an attempt was made to explain white poverty concentration in metropolitan areas. Mulherin (2000) found that most often, affordable housing was primarily located near the center of the metropolitan area. The fringes of metropolitan areas were where housing was least affordable to those below the poverty level, because homes there were newer and expected to sell for higher rates due to the market they attracted. Mulherin (2000) also described the type of housing available on the fringes of the metropolitan area as single-family, for purchase homes. Multi-family, for-rent homes or apartments would be much more feasible for those below the poverty line, and those types of housing were more readily available in the center of metro areas. In other words, those in poverty were often relegated to the older, less nice, central part of town, because they simply could not afford to live anywhere else. The study of the Minneapolis metro area by Edward Goetz (2000) had similar findings, with the addition of the lack of jobs to be had in the inner city areas. As a metropolitan area spreads, so do jobs, and those who struggle to afford housing most often struggle to afford transportation as well. Goetz (2000) also discussed the effects of public housing on poverty concentration, stating that public housing is only available in poor areas, thereby further contributing to the concentration of poverty. Because these poor areas do not contribute financially to the community, talks of demolition occur in order to pave the way for buildings like condominiums, which will bring money to the area. The next study by Kirk McClure (2008) discussed the use of housing programs to deconcentrate poverty. According to McClure (2008), more attention should be paid to the use of housing programs. In theory, housing programs should deconcentrate poverty by providing the means to relocate to a neighborhood that was previously unaffordable to an individual, however they are most often not used in this manner.

This topic became of interest to me after discovering the location of the North Bottoms neighborhood. The North Bottoms is located within the Antelope Valley Flood Plane, and if ever there was enough rain or snow melt to cause extreme flooding, the neighborhood would most likely cease to exist. The North Bottoms fits the criteria of inner city, based upon its physical location and the income levels of its inhabitants. Although some of the properties are owned by their inhabitants, many are not, and are available for rent. The North Bottoms draws a lot of college students, because of its affordability and location near campus, but it also draws a lot of low-income community members. Some of the homes within the North Bottoms are dilapidated at best and require more work to fix up than they are worth. That is part of the reason why they are still around. If a neighborhood like the North Bottoms existed in the area that is now Wilderness Ridge, it would most certainly be torn down to make room for a newer and better development. However, this is not likely to happen in the North Bottom's current location. Most developers would not be willing to take the risk that the Antelope Valley Flood Plane incurs. Similarly, most professional flippers don't see potential in homes in the North Bottoms because of the neighborhood's association with poverty and the sheer amount of work required to fix up most of the homes. Housing programs may provide some low-income families with the means to get out of the North Bottoms, but their replacements will most likely be other low-income families or students. Because of the North Bottoms' location in the flood plane, it is simply undesirable for those who can afford otherwise. And without new development or updating of some sort, the neighborhood won't be around forever. When the North Bottoms neighborhood ceases to exist, the concentration of poverty will most likely relocate to another area of Lincoln, where a similar situation will occur. This is why it's so important for land developers and urban planners to understand the process behind poverty concentration so they can stop the cycle and avoid the negative outcomes associated with it. According to the text, urban planners are responsible for appropriating land use through work with local government and civic groups. Although their line of work is more often used in reference to things like streets, water, school, and parks, they would most likely work with or be in contact with those developing land. Land developers often build homes that they eventually sell to buyers and investors. It would be important for them to consult an urban planner in order to obtain knowledge about other ways to develop the land in order to make it more desirable to buyers and investors. These desirability factors are things like nearness to a school, adequate water access, and nearness to parks. Because of an urban planner's work with the local government, they would have access to community statistics and knowledge of government housing programs, which would benefit a land developer. With land developers working with urban planners in conjuncture with the local government, the concentration of poverty in housing could be largely avoided, and would ultimately result in a much more steady and successful community.

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Goetz, E. (2000). The Politics of Poverty Deconcentration and Housing Demolition. *Journal of Urban Affairs*, *22*(2), 157.

McClure, K. (2008). Deconcentrating Poverty With Housing Programs. *Journal of the American Planning Association*, *74*(1), 90-99.

Mulherin, S. (2000). Affordable Housing and White Poverty Concentration. *Journal of Urban Affairs*, *22*(2), 139. .

MIXED-USE DEVELOPMENTS

FIRST NAME GOES HERE – March 10, 2010

OVERVIEW

This paper explores the concept of mixed-use developments and speculates as to their future success. The recent projects studied are Midtown Crossing in Omaha, Nebraska, which is an upscale residential, entertainment, and lifestyle district and Living Springs in Delanco, New Jersey, which is a housing development for low-income seniors connected to a medical center.

REFERENCE SUMMARIES

Hotel News Resource, "Opening in 2010, Element Omaha Midtown Crossing Starwood's First Omaha Property". Hotel News Resource. Retrieved March 8, 2010 from <http://www.hotelnewsresource.com/article34747.html>.

Starwood Hotels and Resorts Worldwide, Inc. is opening Element in Omaha's Midtown Crossing. Element is the first hotel brand to mandate that all buildings meet the U. S. Green Building Council's LEED Certification.

Jordon, Steve. "Midtown Crossing Picks Up Steam". Omaha World Herald. Retrieved March 9, 2010 from <http://www.omaha.com/article/20100211/MONEY/100219953>.

This article describes the amount of retail and residential space taken or still available at Midtown Crossing and explains why Omaha real estate developers are interested in the development's leasing of apartments and sale of condos.

Midtown Crossing Apartments. Retrieved March 9, 2010 from <http://midtowncrossingapartments.com/>.

This website provides price and availability information on the Midtown apartments.

MultifamilyBiz Staff, "Michaels Develops Seniors Housing". Multifamilybiz.com. Retrieved March 8, 2010 from <http://www.multifamilybiz.com/article.aspx?id=2129>.

Abundant Life Fellowship, a church in New Jersey, partnered with Michaels Development Company to create a mixed-use community of apartments for low-income seniors and a regional medical center.

Mutual of Omaha, "Mutual of Omaha Unveils Midtown Crossing at Turner Park Development". Mutualofomaha.com. Retrieved March 8, 2010 from <http://www.mutualofomaha.com/about/press/community/20061020.html>.

This article explains the Midtown Crossing project and relates one economic professor's predictions concerning the development's effects on the Omaha economy.

Rabianski, Joseph S., Karen M. Gibler, O. Alan Tidwell, and J. Sherwood Clements III. "Mixed Use Development: A Call for Research." ***Journal of Real Estate Literature*** **17.2 (2009): 205-30.** ***Business Source Premier*****. Retrieved March 7, 2010 from <http://0-search.ebscohost.com.library.unl.edu/login.aspx?direct=true&db=buh&AN=45021105&site=ehost-live&scope=site>.**

This essay defines what a mixed-use development is and explains current thought and research on the topic. Sections explore regulation, financing, demand, and design and style.

ANALYSIS

Two things—the green movement and the economy—have been dramatically changing the way Americans think and live in the 21st century. While real estate has multiple roles in the economy, one interesting movement is expected to create jobs, revitalize neighborhoods, and lead in eco-friendliness. The movement is mixed-use development, and it has been a recent popular topic for development conferences and urban planning conventions (Rabianski).

Mixed-use developments are a resurfacing idea, rather than a brand new concept. They existed in ancient and Middle-age civilizations, as well as throughout American history. Their function and popularity declined as methods of transportation increased and as it became possible for people to work, enjoy entertainment, and have a home in different areas (Rabianski). But as the world continues to change, mixed-use developments are once again an appealing real estate option. Today, they are defined as "a real estate project with planned integration of some combination of retail, office, residential, hotel, recreation or other functions that is pedestrian-oriented. It maximizes space usage, has amenities and architectural expression, and mitigates traffic and sprawl" (Rabianski). Benefits of a mixed-use development include sustainability, reduced traffic and pollution, community-building, preservation of space, and achieved housing and employment goals.

The Midtown Crossing project in Omaha, Nebraska is an excellent example of many of these benefits. The project is turning 15 acres of previously underutilized property into seven buildings and an underground parking lot. Approximately 600 apartment and condominium units will be available atop 200,000 square feet of commercial space. The development is located next to the recently improved Turner Park, which will be used as a venue for concerts, open-air markets, and other events (Mutualofomaha.com). A study by Creighton University Professor of Economics Dr. Ernie Goss predicted that “the 2006-2009 construction phase of the project will add approximately $420 million to the Omaha economy, support 1,003 full-and part-time jobs annually and generate $16.5 million in state and local tax revenue” (Mutualofomaha.com).

Mutual of Omaha, the company behind Midtown Crossing, made their decision to revamp the area after conducting a feasibility study that returned positive results (Mutualofomaha.com). Yet in general, theoretically-based research on the success or failure of mixed-use developments is limited. One important key to the mixed-use concept, however, is that it “extends beyond use into planning, design, and lifestyle” (Rabianski).

Midtown Crossing is designed to attract a certain crowd of young to middle-aged singles and couples who are interested in arts, entertainment, nightlife, and dining out. Living Springs, on the other hand, is a mixed-use development created to fit an entirely different population. This project contains 120 cottage-style apartments for seniors, a regional medical center, and commercial space. Twenty of the apartments are specifically designed for seniors with disabilities (Multifamilybiz.com). Despite the opposite markets of these developments, the theme they have in common is that they are meeting the needs and wants of particular lifestyles.

In the United States, 77% of developers estimate that at least 10% of the households in their market are interested in some version of mixed-use developments. The other 37% feel that 25% or more are interested (Rabianski). Some cities require that low- or moderate-cost housing be included before approval is granted for higher density in a mixed-use development.

Prices for Midtown Crossing apartments fall between $800 and $1500 (Midtowncrossingapartments.com). Currently, 136 of 196 apartments are leased and they are halfway to the 2010 sales goal officials set for condominiums. Some Omaha real estate observers have sought apartment leasing rates and exact condo sales numbers because they believe such figures are an indicator of the area's overall housing market (Jordon). So far, Midtown Crossing appears a success, but it opened only a few months ago. In 10 or 20 years, will it still be a success or will it have failed?

CONCLUSION

I feel that the future of mixed-use developments is vibrant. One reason for this positive outlook is the focus government, builders, and consumers have on sustainability and preservation. Another reason is the importance of lifestyle among all groups and ages. Other reasons include the economy, convenience, and practicality.

As long as projects are examined and undertaken carefully, I believe mixed-use developments will thrive in the more populated cities of the United States over the coming years. The mixed-use concept is reemerging at a crucial time. People are motivated to make changes in their lifestyles, embrace their local community, and learn about the global community. Mixed-use developments will meet even more specific needs, which is why I think they will be successful. People today want to be catered to, and they want desires, not just needs, fulfilled.

NAME GOES HERE
Real Estate Fin 382
Writing Project

Buying a home in Sweden

One of the largest steps you will take in life is to buy a home and that is why you have to plan this experience very carefully. Since I am from Sweden I thought it would be interesting to do the research of buying a home from a Swedish perspective. I will in my analysis go through the approving process, house loan, interest, inspection, and entry in to the land register and other costs that a Swedish home buyer should be aware of.

References

Kopa forsta huset-rad och tips. (2010). Retrieved March 9, 2010, from

http://taz.vv.sebank.se/cgi-bin/pts3/mc1/MB/mblib.nsf/a-w/02D8C70667122E55C125762A0048A76F/$FILE/forsta_huset.pdf

This article gives advice and tips when you are deciding on buying a property. You need to understand that you cannot always afford your dream home. It explains how you pick the right house and the different costs that are related to property buying.

Lagfart och pantbrev. (2009). *Kapitalnet*. Retrieved March 9, 2010, from

http://www.kapitalnet.se/lana/lagfartpantbrev.aspx

This article explains the entry in to the land register and related costs.

Lana till Villa. (2010). *SBAB*. Retrieved March 8, 2010, from

http://www.sbab.se

This article does a very good job explaining how you get approved for a loan and what you need to fulfill to do so. It also explains how much you can loan and describes how some of the payments of the loan works.

Besikning. (2010). ***Kopa-hus.*** **Retrieved March 9, 2010, from**

http://www.kopa-hus.se

This article talks about the inspection of the house. Explains what you should think about before finding the person who will inspect the property. The article also mentions that there is a law of how the buyer has to inspect the property before buying it.

Rorlig och/ eller fast ranta. (2009). ***Kopabostadguiden*****. Retrieved March 8, 2010, from**

http://www.kopabostadguiden.se/tips/rorlig-och-eller-fast-ranta/

This article explains the difference between fixed and movable interest. Fixed interest does not move up and down like the movable. There is no right and wrong, but movable interest can be more risky.

Analysis

When buying a home you should first decide what kind of house you are looking for. You should choose a house that you want to live in, that is a reasonable size for you and in a place or area where you want to live. If you had all the money in the world, this would not be very hard, but you have to make sure your budget and the house will be a good compromise.

To buy a house can cost a lot of money. There are many costs outside of the price tag, like interest and payments on the house loans, insurance, local property fee and costs to maintain the property (Kopaforstahuset, 2010). That is why you should not buy the most expensive house you can afford. An additional cost to buy a home in Sweden is the entry in to the land register (kapitalnet, 2009). The cost is 1.5% of the price of the property plus $100 in a fixed cost.

Most people take out loans when are at the point to buy a house. In Sweden SBAB is a company that works with property financials and loans (SBAB, 2010). Since Sweden does not have a credit score system like the United States their requirements to get approved for a loan is a little different. First, you should have a secured full time job and not have any remarks on old payments. Then you should also have a document with cost estimates, where your income and family situation is compared to the property costs and other expenses. It is a good idea to be approved before you start finding your house.

Once you get approved you have to decide how much money you will loan. There is a loan minimum of 200,000 kr ($25,000) and a maximum of 6,000,000 kr ($800,000) (SBAB, 2010). The loans can be 75% of the price of the property, if you are a SBAB member you can loan up to 95% of the property value. To take a loan of 85% or over the value of the property there are specific mortgage rules that have to be followed. The amount over the 85% has to be paid back in 15 years with at least 500 kr ($65) a month.

There are two different interests you can have for a home loan, fixed or movable (Kopabostadguiden, 2009). A fixed interest can for example be 5% for 3 years. This means that you will have 5% interest for those three years. If you instead decide to have movable interest, then the interest will move up and down and rarely be the same month to month. There is no right or wrong in deciding interest, but there is a greater risk with movable interest.

Inspection is one of the most important things when you buy a home (Kopa-hus, 2010). There is a law in Sweden that says that buyer have to inspect the house carefully. The inspection occurs when you have decided and got approved to buy the property and agreed on the price. Finding the right guy to inspect the property can be hard but important, and you should always check for their references and insurance.

Buying a house is a big project and you need to consider many parts before buying. It is more to it than find a house and pay for it. Most important is plan the process before taking any actions that you might regret in the future. I thought it was really interesting to learn all the different parts of buying a house, especially in Sweden. I might buy a house in Sweden in the future, if I do not decide to stay in the U.S., and then it is good to be more aware of the real estate process.

REDACTED

FINA 382 Written Project

The Effect of Student Loan Debt on Obtaining and Financing a Mortgage

Introduction

Today, the cost of a secondary education can be overwhelming. All around the country, students are graduating with an average of $26,000 in debt and, in many cases, significantly higher than that. This debt can prevent young people from obtaining a financing a mortgage, which is a goal of most people that drives them to get a college education in the first place. In the coming analysis, we will look at how rising student loan costs are affecting mortgage applications, mortgage rates, and ways to protect yourself from missing out on the ability to obtain a financially feasible mortgage.

Works Cited

Fowles, Deborah. "Don't Let Student Loans Prevent You From Qualifying For A Mortgage." *About.com*. N.p., 2013. Web. 17 Oct. 2013. <http://financialplan.about.com/od/creditanddebt/a/StudentLoansMor.htm>.

This is an article giving advice on how to financially prepare for home ownership while still getting the college education you need.

Lerner, Michele. "Student Loans Haunt Home Shoppers." *MSN Money*. N.p., 2012. Web. 17 Oct. 2013. <http://money.msn.com/debt-management/student-loans-haunt-home-shoppers>.

This article looks at the decrease in first time home buyers ages 25 to 34 and how student loans are impacting the homebuyer market.

Scarbrough, Michele R. "The Effect Of Rising Student Loan Debt on Mortgage Interest Rates and Debt." Diss. Georgetown University, 2012. *Georgetown University Institutional Repository*. Web. 17 Oct. 2013. <http://repository.library.georgetown.edu/pdfpreview/bitstream/handle/10822/557814/Scarbrough_georgetown_0076M_11673.pdf?sequence=1>.

The dissertation proves, by means of regression analysis, that student loan debt holders pay a premium on their mortgage interest rates and tend to obtain smaller mortgage loans.

Sheldon, Scott. "How Student Loans Can Hurt Your Mortgage Application." *Yahoo Finance*. N.p., 2013. Web. 17 Oct. 2013. <http://finance.yahoo.com/news/student-loans-hurt-mortgage-application-110051579.html>.

Scott Sheldon discusses the process of a student loan borrower trying to buy a house, and how their loans affect that process.

Analysis

In recent years, first time home buyers have had to wait longer to purchase that new home they have always dreamed of. According to MSN Money, in 2011, of all the first time home buyers – about 52% were ages 25 to 34. That number accounted for roughly 50% of the overall housing market. However, today only about 37% of first time home buyers are ages 25 to 34, which now accounts for only 27% of the total market. Why is this you might ask? The answer has a lot to do with the rise in student load debt for recent college graduates. In 2012, student loan debt topped $1 trillion. Real estate experts fear that rising levels of student loan debt are drastically affecting the first-time home buyer market.

Mortgage companies treat student loan debt exactly the same as credit cards and car loans. Just like these other forms of debt, student loans erode income and can reduce the ability to borrow for a mortgage. When lenders are looking at your credit report, it is not only the monthly payments they have to worry about, but how many monthly payments have to be made to multiple student loan companies. Yahoo Finance gives this example: “A consumer’s credit report might show six separate student loans totaling $50,000, each with a payment of $80 per month. That translates to a $480 per month obligation, which can reduce borrowing power by upwards of $60,000!”

In addition to reducing your borrowing power, student loan debt has a significant impact on the premium paid to obtain a mortgage. Michele Scarbrough in his Georgetown University dissertation, ran several regression analysis comparing student loan debt and mortgage rates. He says, “I assumed that as student loan debt increased, the corresponding additional interest rate would increase.” He concluded, however, that even though there is a positive association between student loan debt and percentage increase in mortgage interest rates, it is, surprisingly, at a decreasing rate. This means that as student loan debt goes up, so does the interest rate you will pay on your mortgage; however the percentage increase actually decreases as debt goes up.

With all of this being said you might be reconsidering getting a college education. That is not, however, the right path to take. A college education, in the long run, will provide you with financial stability and a more well-rounded life. The appropriate action to take is simply manage your finances and loans in a way that lessens the blow when you first graduate. The following are strategies to prepare financially for home ownership, according to Deborah Fowles of About.com:

> If you have $10,000 or more in student loans, you may be able to consolidate at a lower rate to lower your payments and use the savings to put away for a downpayment on a house.
>
> Avoid credit card debt. Have one or two major credit cards and pay the balances off every month. If you must carry credit card balances, transfer them to cards with lower rates whenever possible.
>
> Establish a record of paying your bills on time so you don't damage your credit score, which is key in getting the best interest rates on mortgages, car loans, and other loans.
>
> Check your credit report annually for any inaccuracies and resolve them if there are any. If you're planning to buy a home, start reviewing your FICO score at least six months before you start house hunting, and take steps to improve your score.
>
> Avoid taking out any new loans or applying for any new credit cards in the months before you start looking for a house.

Pay off as much debt as you can before starting to house hunt, to help you qualify for the mortgage.

Prepare a realistic budget and make sure you can really handle the mortgage payments on top of your other debt.

Save all "found" money: income tax refunds, bonuses, overtime pay, and cash gifts, to go towards your down payment or closing costs.

Consider a less expensive car and apply the difference in payments to paying down credit card debt or saving for your downpayment.

Conclusion

The rising cost of a college education has its inherent disadvantages. It can increase the cost of your mortgage and reduce your borrowing power. However, there are ways to plan for this and ultimately come out on top. Being a near college graduate myself, I can attest to the struggles of considering a mortgage or continuing to rent until I pay off all or part of my student loans. There are advantages to both and knowing the facts can make the decision easier.