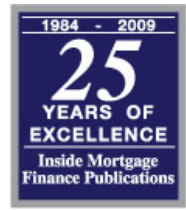




What the Mortgage Market Reads



INSIDE MORTGAGE FINANCE®

Mortgage-Related Problems Plague Home Sales This Year, New IMF-Sponsored Study Finds

More than half of failed home sale transactions this year have been the result of mortgage-related issues, according to preliminary results contained in a new study sponsored by *Inside Mortgage Finance* and slated to be released in early April.

Most of the mortgage-related problems relate to the sale of distressed properties, which accounted for a hefty 56 percent of all property transactions completed in the first few months of the year, the research found. About two thirds of the completed homes sales involving distressed properties were for real estate owned, while the balance were for short sales – or pre-foreclosure sales at less than the outstanding balance of the mortgage debt on the property.

Specifically, the study found that mortgage servicers are too slow in responding to both short sale and REO offers from borrowers, resulting in failed sales transactions. Another problem identified by the research was the fact that home purchasers are having a tough time qualifying for a mortgage in the current era of tighter underwriting standards.

The new study is based on a nationwide survey of real estate agents conducted during the last two weeks of February by Campbell Communications. The research, which covered home sale activity in the first part of 2009, is the third in a series that tracks real estate agents on home purchase and mortgage lending issues.

The upcoming report, “Survey of Real Estate Agents on Market Conditions – 2009,” found that the biggest cause of failed home sale transactions was mortgage servicers failing to respond to short sale offers in a timely fashion.

When asked to identify the “most significant problems” home buyers now face with mortgage lenders, real estate agent respondents rated downpayment requirements number one, followed by credit score requirements. Significantly, survey respondents identified first-time homebuyers/renters as the largest category of shoppers in the current housing market. Investors were the second largest.

Survey respondents also were asked to identify the major incentives driving first-time homebuyers/renters to shop for a home in the current economic climate. Lower mortgage rates and overall lower home prices were the most important factors. Interestingly, more than half of real estate agents surveyed viewed “FHA loan programs” as a major incentive for first-time homebuyers/renters, while only 15 percent considered “Fannie Mae/Freddie Mac loan programs” as a major incentive.

As part of the new study, real estate agents were asked to rate direct mortgage lenders on a variety of factors, including mortgage rates and terms. Wells Fargo received the highest average rating, followed closely by Bank of America. Among the major lenders, CitiMortgage received the lowest average rating.

For information on how to obtain the complete report, contact John Campbell at Campbell Communications at john@campbellsurveys.com or (202) 363-2069. ♦

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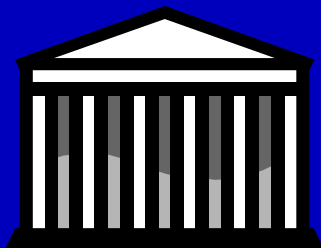
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and the Federal Home Loan Banks**

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Short Sale Resolutions at GSEs Growing Rapidly

Short sale resolutions at Fannie Mae and Freddie Mac for troubled borrowers grew by a factor of four over the course of 2008, while loan modifications doubled and completed foreclosures grew by 60 percent through October, according to statistics recently released by the Federal Housing Finance Agency. The GSEs processed 516 short sales in January 2008; by December 2008 short sales numbered 2,261.

Separately, a recent nationwide survey of more than 1,000 real estate agents sponsored by *Inside Mortgage Finance*, an affiliated newsletter, and conducted by Campbell Communications found that 19 percent of home sales during January and February 2009 were short sales, with foreclosed properties accounting for another 37 percent of sales. On average in the United States residential real estate market, there is one short sale for every two foreclosed property sales. For the GSEs, there is approximately one short sale for every 7.5 foreclosed property sales – but at current growth rates, the number of short sales for the GSEs might exceed the number of foreclosure sales sometime this year.

In recent months, Fannie Mae and Freddie Mac have attempted to forestall foreclosures as they search for alternatives that do not increase the inventory of vacant properties. Loan modifications numbered 4,228 in January 2008 and had grown to 8,688 by December. Completed foreclosure sales at the GSEs were 10,571 in January 2008; by October 2008, completed foreclosures numbered 17,008. In November and December, foreclosure sales dropped precipitously as Fannie Mae and Freddie Mac implemented temporary foreclosure moratoriums. In November 2008, the GSEs completed 14,408 foreclosure sales; in December this number dropped to only 3,430.

In many cases, a short sale is a more cost-effective resolution than a foreclosure, with the loss severity for a short sale typically being one-half the severity for a foreclosure. Short sales avoid the legal expense of the foreclosure process, maintenance expenses on foreclosed properties, and interest costs. Additionally, because a short sale can be completed several months earlier than remarketing of a foreclosed property, there is less exposure to rapidly declining prices in real estate markets.

While the number of short sales at the GSEs has been growing rapidly, a recent initiative at Fannie Mae could accelerate short sales even more. Fannie is currently operating a pilot program in the cities of Orlando and Phoenix to “pre-approve” short sales.

Surveys by Campbell Communications have found that short sales that lack approval in advance of the first offer often fail because frustrated homebuyers move on to other properties while waiting for a response to their offers. As a result, for every completed short sale, three transactions fail due to slow responses to offers, according to survey respondents.

“I worked with a buyer who placed an offer on a short sale listing — we

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never had a response to the offer in 5 months!” commented one real estate agent responding to the survey. “Buyer finally walked after months of waiting,” stated another agent.

Previous surveys of real estate agents conducted by Campbell Communications have found that frustrated homeowners often trash their houses when a short sale fails and they are forced into foreclosure. A November 2008 survey conducted by Campbell Communications found one-third of foreclosed properties are so damaged that they cannot qualify for standard mortgage financing; these properties sell for an average discount of 37 percent. In the current survey, a majority of respondents indicated that “cannot get financing for damaged REO (foreclosure) properties” is a major impediment to first-time homebuyers.

The increasing number of Fannie Mae and Freddie Mac short sales is in contrast to the overall real estate market. A March 2008 survey conducted by Campbell Communications found 18 percent of residential real estate transactions were short sales – the most recent Campbell survey in February 2009 found this proportion essentially unchanged at 19 percent.

Real estate agents responding to the survey complained vociferously about the performance of mortgage servicers on short sales, with chronic understaffing and disorganization being themes in the survey results. “The last servicer I had an opportunity to deal with told me he was responsible for 800 files, and he did not have time to talk to anyone,” reported a respondent. Other comments include, “On one sale, the lender promised a negotiator would be assigned in 5 to 7 business days. It took 60 days.” and “Talk to someone different every time. No one knows anything. Their computer records are inadequate.”

“The problem with long response times for short sale offers is longstanding and getting worse, not better,” said Thomas Popik, principal author of the Campbell Communications survey report. “Rising mortgage defaults are resulting in even longer delay times for homeowners seeking to sell their homes in short sales. This means more angry homeowners, more foreclosures, more damaged properties, and lower property values for the neighbors.”

The survey conducted in March 2008 by Campbell Communications found that the average time for a mortgage servicer to provide a “yes” or “no” response to an offer to buy a short sale property was 4.5 weeks. The most recent survey conducted in February 2009 found that the average response time for short sale offers is now 9 weeks, double the time of a year ago.

For information on how to obtain the Campbell survey reports, contact John Campbell at Campbell Communications by e-mail at john@campbellsurveys.com or by calling (202) 363-2069. ♦