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THE MAUI NEWS – Saturday, August 22, 2009
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The economy: Are we turning the corner?

By **TRICIA MORRIS**

President, Premiere Mortgage

In a humorous but telling anecdote it is said that President Harry Truman was once quoted as demanding that his aides only send him one-armed economists. When questioned, he is reported to have said that he was tired of advice that always ended with the phrase, "But on the other hand."



Tricia Morris

Mr. Truman never got his wish. The fact is that economics remains as much an art as a science and it can be an inexact science indeed. Today, we are hearing economic news that can seem contradictory if viewed only from the perspective of the headlines. But, there is another story that has been emerging for several months that is beginning to be explored in more hopeful detail.

For example, the Federal Reserve, after two days of policy meetings ended their deliberations by agreeing to leave interest rates unchanged. The Fed's benchmark interest rate remains at 0 to 0.25 percent, indicating the Fed will continue its policy of supporting a period of exceptionally low rates for the foreseeable future.

According to the Fed, "Information received since the Federal Open Market Committee met in June suggests that economic activity is leveling out. Conditions in financial markets have improved further in recent weeks."

The Central Bank did not change its plan to buy as much as \$1.25 trillion of agency mortgage-backed securities and up to \$200 billion of agency debt by the end of the year, a key part of its efforts to improve conditions in private credit markets.

While foreclosures and short sales are at higher levels than in previous years that may not have the tremendous downward pressure on prices that might be assumed. Maui has a limited inventory and this can help slow a downward drift or make it less steep. In addition, increased affordability should stimulate sales if homes are priced realistically.

Refinancing is continuing at a strong pace and many homeowners with Adjustable Rate Mortgages (ARMs) are moving into 30-year fixed mortgages while interest rates hover at historically low levels.

Other aspects contributing to the stabilization of the market include efforts by the Federal Government to increase lender participation in loan modifications for households that owe more than their home is now worth, or households who may be struggling to make their monthly payment and could slip into foreclosure without a helping hand. Called the "Making Home Affordable Loan Modification Program" it has now been extended to include FHA borrowers.

These are not exuberant borrowers, but people who have been making their payments and have been caught in a market decline and cannot refinance into a more reasonable mortgage. Recently, the Treasury announced it is taking additional oversight steps to encourage increased banking participation in the program.

Another program that is demonstrating success — and which the Realtors Association of Maui (RAM) is currently promoting on its website, in local newspapers and radio — is the \$8,000 tax credit for first time homebuyers. This tax credit ends on December 1, 2009 and transactions must close by November 30, 2009. With 60-75 days as an average closing time, it's clear that if you can take advantage of this opportunity, now is the time to

do it. Don't get caught missing the deadline. Make an offer as soon as possible.

There are also alternatives to traditional lending. One that is experiencing renewed popularity is the Agreement of Sale. This can be helpful for people who are unable to enjoy the current low rates because they don't quite qualify or don't have enough for down payment. Your local professional mortgage professional can provide you with additional information.

Existing-home sales rose for the third consecutive month with inventory easing and home prices declining less sharply in June, according to the National Association of Realtors®. Lawrence Yun, NAR chief economist, is hopeful about the gain. "The increase in existing-home sales occurred in all major regions of the country," he said. "We expect a gradual uptrend in sales to continue due to tax credit incentives and historically high affordability conditions."

Are we turning a corner? The last question in a discussion such as this is, "What about interest rates?" The answer is that the Federal Reserve has determined that this is not a short-term problem. On the other hand, long-term there may be the need for interest rate increases to attract the international capital necessary to finance our national debt. Yet, in the face of a strong real estate market this might not be inhibiting as evidenced also by past recoveries.

Premiere Mortgage, with offices on Maui and Kaua'i, is an FHA approved lender and offers extensive loan options through both broker and banking services. Tricia Morris may be reached on Maui, in Kihei, at 874-8800, Wailea, at 891-8900, West Maui at 665-8800, on Kaua'i at 808-822-2300, or toll free at (800)-813-7711.