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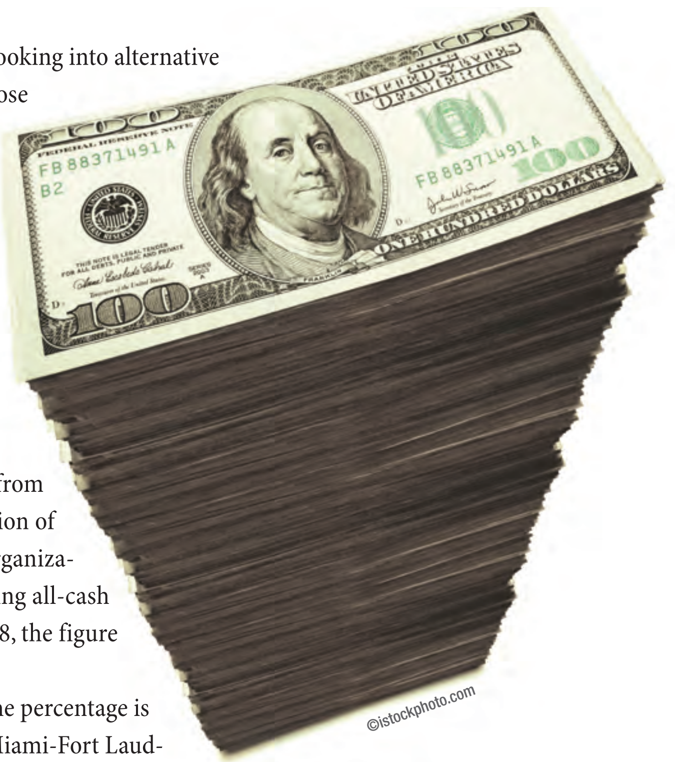
Cash is now king in real estate sales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Cash is playing a more significant role in residential real estate sales right now than at any time in recent memory.

Consider the following:

The median down payment on houses was 22% last year.

That's according to a study by Zillow.com of sales involving conventional mortgages in nine major U.S. cities. It's the highest figure ever since the data started being kept back in 1997.

By comparison, just three years ago the figure was 11%. And back in late 2006, it was only 4%.

The main reason for the change: Banks are tightening their standards and demanding larger down payments to qualify for mortgages. Banks are figuring that borrowers who can afford a larger down payment are less likely to default, and less likely to end up in a situation where they are "underwater" – meaning the value of their house falls to the point where they owe more than the house is worth.

Many people who don't have a large enough down payment to qualify for a conventional bank mortgage have been looking into alternative mortgages, such as those backed by the Federal Housing Administration or the U.S. Department of Agriculture.

28% of home sales last year were all-cash transactions.

That figure comes from the National Association of Realtors. When the organization first began tracking all-cash sales, back in late 2008, the figure was only 14%.

In some markets, the percentage is much higher. In the Miami-Fort Lauderdale area, more than half of all home sales last year were all-cash deals, according to Zillow.com. In Phoenix, the figure was 42%.

Those are extremely high numbers. They suggest that a growing proportion of homes are

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Can landlords limit the number of people in an apartment?

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Do landlords have a right to limit the number of people who can occupy an apartment?

The answer, as often happens in the law, is, "It depends."

In general, landlords own the property and they can decide how many people can live there. However, a landlord is not allowed to discriminate against tenants based on their "familial status." (This rule was added to the federal Fair Housing Act back in 1988.)

What does "familial status" mean? It means that a landlord can't refuse to rent to a family with children. So if a family with seven children wants to rent an apartment, the landlord can't say "no" based on that fact alone.

On the other hand, a landlord doesn't have to

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being purchased not by families but by investors and speculators who believe the housing market has hit bottom and is poised for a rebound.

The numbers also reflect the fact that banks have tightened their lending standards: The proportion of all-cash deals is higher because the number of people who can qualify for a typical mortgage is lower.

Buyers who can make an all-cash offer are often able to negotiate a lower price. Sellers usually prefer an all-cash offer to one with a mortgage contingency, because with a contingency, the deal could fall through if the buyer loses a job or if the bank simply changes its mind.

Many homes are now being purchased not by families but by investors and speculators who believe the housing market has hit bottom and is poised for a rebound.

New federal rules could mean higher costs for mortgages with low down payments.

One of the causes of the 2008 financial collapse was that many lenders made questionable loans and then packaged those loans and sold them off to others. In response, Congress passed a law last year that requires banks that sell their loans to keep at least 5% of the risk of default. The idea was that banks would be less likely to make bad loans if they had some "skin in the game" and could lose money if the borrowers defaulted.

However, there's an exception to the 5% rule if a loan meets certain standards. So in the future, banks will have a big incentive to encourage loans that meet those standards.

Congress didn't specify those standards; instead, it ordered officials from various agencies to come up with them. The officials recently released a preliminary version of the standards. They include:

- Borrowers must put up at least a 20% down payment.
- Only standard 30-year mortgages qualify. No interest-only loans or balloon-payment loans.
- The borrower must live in the home.
- Borrowers must never have defaulted on a loan or filed bankruptcy, and cannot have missed two consecutive payments on a consumer debt in the last two years.
- Mortgage payments can be no more than 28% of a borrower's income, and total debt can't exceed 36% of income.

In addition, refinances would require the borrower to have 25% equity in the home, and "cash-out" refinances would require 30% equity in the home.

These standards are quite strict: Only about 20% of the mortgages backed by Fannie Mae and Freddie Mac from 1997 to 2009 would have met them, the government says.

Once the standards are finalized, banks will likely reward borrowers who meet them with lower rates, and "punish" other borrowers with higher rates – making it even harder for them to get a mortgage.

We'll see what happens. Politics makes strange bedfellows, and an unusual coalition of banks, real estate agents and consumer advocates are all lobbying to change the standards so that more people can afford a home.

allow a family with seven children to occupy a tiny studio apartment. Refusing to allow such an arrangement wouldn't be discrimination; it would be common sense.

So where do you draw the line between a legal occupancy requirement and illegal discrimination?

It's not always easy, but in general, the federal Department of Housing and Urban Development says that it's okay to limit occupancy to two people per bedroom. Thus, a family of four could live in a two-bedroom apartment, but not in a one-bedroom apartment.

However, many cities and towns have different rules, and some require landlords to allow "two plus one" occupancy. That means two people per bedroom, plus one extra person in the unit. This is more common in areas where apartments typically have large rooms, or extra rooms such as a den.

Also, "senior living" communities designed for people age 55 or older can have their own rules.

What to do if your land is taken by 'eminent domain'

If a government entity wants to take all or part of your property by eminent domain, it's required to pay you the land's fair market value. Typically the government will send you a notice telling you what it thinks the land is worth, and offering to pay that amount. Its valuation will usually be based on an appraisal that it has commissioned.

Some property owners who get an eminent domain notice rush out and get their own appraisal, but this is often a mistake. It's almost always better to talk with an attorney first before hiring an appraiser.

Appraisals for eminent domain purposes require special care. A "quick-and-dirty" or "off-the-cuff" appraisal that comes in too low can definitely hurt you, because it is admissible in court and can be used against you by the government.

If the government wants to take your entire property, the "fair" value it has to pay isn't just its current value, but its value at its "highest and best use," which could involve rezoning and redevelopment. Making such a determination might involve not just an appraiser, but also a civil engineer, a surveyor, a land-use attorney, and so on.

It's even more complicated if the government wants to take just *part* of your land. Suppose, for instance, that the government wants to take 20% of your property to widen an intersection. Many people will assume that the "fair" value is the market value of that 20% parcel, or that it's one-fifth of the market value of their entire parcel. Neither of these is correct.

Rather, the value of the "taking" is (1) the value of your current property minus (2) the value of the 80% that will remain after the taking. And in deciding the value of the remaining 80%, you're allowed to take into account the effect of the taking itself. For instance, the fact that the remaining 80% will be located next to a larger intersection might make it less desirable for later residential development, because of increased noise and traffic.

In other cases, a partial taking might reduce the value of the remaining parcel by removing access to a road or otherwise making the property less desirable for various uses.

Another good reason to talk to a lawyer first is that there might be ways to fight the taking if you'd rather not sell. For instance, you might be able to offer alternative ways that the government can accomplish its objective without using your land, or as much of your land.

Many states have recently passed laws that make it more difficult for the government to take land for certain uses, such as creating an economic redevelopment zone.


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'Secrets' of maintaining your credit score revealed

Most of the damage to a credit score is already done by the time a payment is 30 days late.

The Fair Isaac Corporation, creator of the FICO credit score, usually doesn't reveal many details about how missing a mortgage payment will affect people's scores. But the company recently issued a commentary to lenders that contained some unusually specific information.

FICO scores range from 300 to 850. Scores of 750 or higher generally qualify for the best credit terms.

Here are some of the newly released details:

- Being 30 days late on a mortgage payment – even if it was an accident – can lower a 780 score by 100 points. That's a huge drop.
- Being 30 days late on a mortgage payment won't cost you as many points if you started out at 680 or 720, but the effect can be just as bad in terms of where you end up.
- If you go on to be 90 days late, or if you default, your score will go down even further, but not a whole lot further. It appears that FICO thinks the first 30-day miss is a huge red flag, and it's not all that surprised if people who miss a payment by 30 days never make it up.
- A foreclosure or a short sale can reduce a good credit score by 150 points. Interestingly, a "deed in lieu of foreclosure" – where the owner simply transfers ownership of the property to the lender – results in less of a credit score reduction.

FICO apparently wanted to release the information to counter advice that some homeowners were being given, such that they should stop making mortgage payments in order to negotiate with their lender.

A good credit score is important for all sorts of reasons. A person with a 780 score would typically pay about $4,000 less over the life of a four-year, $25,000 car loan than a person with a 620 score. A person with a 780 score would also probably pay about $3,000 per year less on a 30-year, $250,000 fixed-rate mortgage.

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