THE Neal Spelce AUSTIN LETTER
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Dear Client:

The national economic mess is generally regarded as starting with housing. Other regions were impacted much more heavily than the Austin area. But the broad-brush "solutions" are imposed on all lenders, homeowners, buyers and sellers alike. And some are dramatic.

Unless you are involved in the Austin area housing business or lending day-to-day, you may not be aware how stringent – and costly – the changes have become. This is in spite of the fact that many home prices may be dropping during this uncertain time. But the fact is that **down-payment rules, mandatory fees and toughening credit score requirements have ratcheted up and continue to do so as we speak.**

Most major lenders are installing higher fees and effectively raising costs to borrowers. Fannie Mae and Freddie Mac have announced new fees, requirement and rules that they plan to implement 4/1/09. **Many lenders are already adopting high add-on fees – unless the borrower can come up with a down payment of 30% or more.** What are the fees?

Let's get down to the nitty-gritty. Take your FICO credit scores. Even if a borrower has a 739 FICO credit score – bear in mind, this level used to be considered the gold standard for a borrower – a quarter-point add-on fee is being charged. **Those with lesser scores get hit harder.** A buyer with a score between 700 and 720 will pay an extra three-quarters of a point.

What about buyers with a score of less than 700? A borrower with a 699 FICO score, who is even making a sizable down payment of about 25%, will be **saddled with a 1.5% "delivery fee" at closing.** And, if you are a condominium buyer, hang on. Condo buyers who cannot come up with a downie of 25% will be hit with a three-quarter point add-on penalty, no matter how high their credit score – simply because they are not buying a traditional stand-alone house.

Buyers of duplexes, where one unit is owner-occupied and the other is rented, will be charged a flat 1% add-on from Fannie – even if they have FICOs above 800 and make 50% down payments. **And re-financers, who take cash out at settlement, could be forced to pay as much as three points if they have low credit scores and a modest equity.** Needless to say these requirements have generated criticism. We'll look into that in the next item.

Even though the president announced a massive plan to address the housing crisis this week, federally-controlled Fannie Mae and Freddie Mac were imposing major fees on borrowers. Does the right hand know what the left hand is doing?

Both Fannie and Freddie say they are tacking on these extra fees referenced in the previous item, to **counter higher risks and losses** associated with certain loan products, buyer equity stakes and credit scores. As they put it, the fees are being instituted to **price various mortgage products based on the probability of higher losses**.

But this action has triggered howls of protest. Real estate agents, mortgage bankers and brokers say they are incensed at these new fees – calling them **counterproductive**. **They say that, in this environment, housing needs help, not new impediments to home ownership**.

In fact, the president of the National Association of Realtors, in a letter to the agency that regulates Fannie and Freddie, complained that the individual fee increases were not justified and that they could **seriously deter home purchases**.

A mortgage loan officer is quoted as saying "**They're shooting themselves in the foot**." A former president of the National Association of Mortgage Brokers said that "when consumers with 720 credit scores are being adjusted, **there is something seriously wrong with the system**."

As recently as two years ago, FICO scores in the upper 600s were enough to qualify any applicant for prime financing. **Now, scores of 720 to 740 are the bare minimum if you're going to escape add-on fees. And they are still not good enough if you choose to buy a condo or a duplex.**

Bring this home. **The downtown Austin condominium market was already showing signs of distress**. Sales have dropped significantly. Yet many condo buildings are still under construction in and near downtown Austin. In addition to the current difficulty a condo buyer is facing trying to get a mortgage, **condo buyers are being penalized even more with these add-on fees** mentioned in the previous story. This is just one example.

The federal government is throwing around billions of dollars here and there, the financial institutions are in a state of flux, homebuilders (especially *national* builders) have dramatically showed the pace of building new homes, **home sellers and homebuyers are baffled about what will happen next** – especially when they are surprised with these new fees.

This means the term "uncertain" appears to be an understatement. And it means today's conditions are likely to fluxuate for a while longer. **Obviously it's difficult to predict what will happen to your home**. But it goes without saying it bears watching very closely.

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The financial finagling spills over into other arenas beyond housing and, as a result, *construction jobs* in the Austin metro's nonresidential sectors have seen a decline.

Highway, street and bridge construction employment in the Austin metro area peaked at 9,497 in August 2006 and had dropped to 8,399 by September 2008. But this isn't all bad. To keep this in perspective, four years ago employment in this sector was averaging about 6,100.

So, what happened in the intervening years to drive up the highway, street and bridge construction job count to its peak in 2006? **Ground was broken in late 2003 and construction on the massive north-south SH130 tollway east of IH35 began.** Infrastructure projects such as SH130 *do* have an impact.

This raises the next logical question. **What is likely to happen to jobs in this sector of the Austin economy when/if the federal stimulus dollars flow this direction**? According to the Austin Chamber's VP/Research, **Beverly Kerr**, the Capital Area Metropolitan Planning Organization has identified about $2.2 billion in regional transportation projects currently being proposed for funding under the federal economic stimulus/recovery initiative.

The $2.2 billion is an amount approaching the budget for the Central Texas Turnpike System. But, Kerr says "**it is unlikely that all of the projects could be funded**, given the total dollars Texas will see from the Act." The reason, she says, is the Texas Department of Transportation (TxDOT) is weighing competing statewide projects and they all total about $15 billion in connection with the stimulus funding. And TxDOT says Texas' share of the federal funds roadway construction is expected to be between $2.4 and $2.7 billion.

So, if $2.2 billion for the Austin metro is *unlikely*, what is *likely*? To hazard a guess, Kerr looked at all the statewide highway construction jobs in Texas and found **the Austin metro share of those dollars since 2004 was about 12%**.

Applying that historical precedent to divvying up Texas share of the federal stimulus bucks, Kerr said "**there would be a potential for 8,000 to 9,000 jobs being added here**." Take a breath. If this comes true, it would **almost double the historical high** in number of jobs in the highway, street and bridge portion of construction in the Austin metropolitan area.

These are the first *jobs* projections we have seen for this sector of the Austin economy. And, due to the fact this is early in the process, she, reasonably, hedges her prediction saying: "**these back-of-the-napkin calculations may be premature** based on the difficulty locating specific comment on the job creation numbers associated with the Act at this time." Not knowing which Austin projects may make the final cut, she opines that these projections "may be something to return to down the road when measurable variables begin to appear."

Those who are serious about seeking the top two political positions in Texas during the 2010 election cycle must be doing the spade work now. And several are plowing political furrows.

It starts with a highly-coveted, 6-year USSenate seat. Without making a formal announcement, Republican **Kay Bailey Hutchison** appears to be "all in" to leave Washington and run for Governor. She transferred millions from her federal campaign fund to an account that can be used to run for governor and is raising more money as we speak. GOP Governor **Rick Perry** says he is seeking re-election and is sniping at Hutchison. GOP Lt Gov **David Dewhurst** may use his wealth and name ID to run for the Senate. If so, he'll face former Texas Secretary of State **Roger Williams** (a wealthy Dallas car dealer) in the GOP primary.

Even though the Democrats have failed miserably in recent years when they sought statewide office, the USSenate seat is too important a political plum to bypass. Already you have heavyweights, former State Comptroller **John Sharp** and Houston Mayor **Bill White**, who look as if they will face-off in the Democratic Primary for the USSenate.

As for Democrats who may run for governor, an interesting name is surfacing – Fort Worth's **Tom Schieffer** (the brother of CBS-TV's **Bob Schieffer**). Tom has impressive credentials, starting with his service as a Democratic State Rep back in the 1970s. However, some Dems may question the fact that GOP President **George W. Bush** named him as US Ambassador to both Australia and Japan.

Emboldened by the strong showing of Democrat comedian **Al Franken**'s run for the USSenate in Minnesota, former Independent candidate for Governor, comedian **Kinky Friedman** is making noises about a serious run for Governor – this time, as a Democrat. And if Dewhurst gives up his post as Lt Gov, the floodgates will open for those who want to move up the political ladder. At this stage, the 2010 election cycle shows signs of being quite vigorous.

Referencing the new housing fees, **Dr. Louis Overholster** calls it "cashtration" — the act of buying a house, which renders the subject financially impotent for an indefinite period of time!

Sincerely

Neal Spelce

Editor/Publisher