THE Neal Spelce AUSTIN LETTER

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Dear Client:

Qualified buyers and sellers of high-end homes in Austin are running into roadblocks at the very end of the deal, at the closing table: some lenders are not immediately funding the deal.

The Austin residential real estate market is tough enough already, especially for sellers of luxury homes in this tight economy. Imagine the frustration, for both the seller and the buyer, when a million-dollar deal finally comes together – **only to be delayed due to the lender**.

The sales price has been finally negotiated, an appraisal has confirmed the value, the buyer has been qualified for a jumbo loan, etc. — **in other words, all the i's have been dotted and the t's have been crossed**. The seller has committed to move out, the buyers have their ducks in a row to move in.

Then, whammo!, while sitting at the Title Company closing table, the lender says, "**Uh, we don't have the funds right now to finish the transaction**." "What do you mean, you don't have the funds?" "Well, it may be several weeks before we can fund this deal." This is happening in Austin today.

Because large loans cannot be sold to government-backed Fannie Mae and Freddie Mac, some lenders that make jumbo loans maintain what they call "warehouse lines" until they can sell the loans to others. Recently, in Austin, **several million-dollar residential deals have occurred at roughly the same time and lender warehouse lines were quickly drained**. Until lenders can replenish their warehouse lines, they are unable to fund the loans they had approved earlier.

In two Austin examples of which we are aware, **one deal was delayed for three weeks**, and in the other, the participants **told the lender to take a hike and switched to another lender**. In these types of cases, the disruption can be almost disastrous. Tempers fray, family plans are in upheaval, costs are incurred beyond what was anticipated and deals could crater.

The problem is logistically a bit more difficult if a mortgage *broker* is in the middle of the deal because the broker is dependent upon a lender that will be selling the loans to fund the deals. **All in all, this overall situation – while not likely to reach untenable levels — adds a layer of complication in an already difficult market**. But there are some helpful steps that are being taken by savvy buyers and sellers. Let's look at those in the next item.

What can be done when a lender has approved all the loan docs on the sale of a luxury Austin home, **but fails to fund the deal just at the moment the seller is ready to hand the keys to the buyer**?

As mentioned in the previous examples, the participants can just swallow hard and wait for the lender's warehouse line to be replenished – however long that takes — or tell the lender adios and take the loan elsewhere. **Neither of those options is optimal**.

One suggestion to *prevent* such a situation, is to **qualify the lender just as the lender qualifies those seeking a loan**. And it is in the best interest of the *seller* to do this, as much as it is for the *buyer* who has qualified for the loan. How is this done?

> **Both sides of the deal should question the lender on the size of its warehouse line but**, **more importantly**, **what percentage of its warehouse line has been utilized**. And of the remaining amount, how big a chunk of that line does the loan represent? For example, one local lender carries a $100 million warehouse line and never draws below 70% of that.
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> Another trend that is being implemented by some Austin Realtors as a bit of "insurance:" **Listing agents are advising their sellers to request a** "**Seller's Temporary Residential Lease**" **from buyers as part of the contract negotiation**. This lease-back of a few days allows the seller to hold off incurring the inconvenience and expense of moving-out until the sale is complete and proceeds are in the seller's account. The seller pays the buyer an agreed-upon daily rate and refundable deposit for a few days occupancy in order to move out and clean up the home after closing.

With the volatility and unpredictability of the home lending business these days, **it is more important than ever to communicate openly with the lender** in residential transactions, especially in the high-end market where big bucks are involved.

For 2009, **residential construction contracts are down in the Austin area**. **While it negatively impacts employment**, **it will help in the long run to keep the residential housing market stable**.

Residential construction contracts have **dropped 50**% in the first eight months of this year, compared to the same period in 2008, according to McGraw Hill Construction.

The Austin area never did get caught up in the overheated, overbuilding residential real estate splurge that contributed mightily to the national recession. As a result, it helped keep this portion of the local economy stable during a turbulent time nationally. Now, with this local construction slowdown, the **possibility of Austin residential real estate becoming overbuilt anytime soon is quite remote**, thereby enhancing price stability.

Mirror, mirror, on the wall, who's the *richest* of them all? In this economic downturn, has relative personal wealth changed? In Austin? And in Texas?

Each year, *Forbes* magazine publishes its estimate of the 400 Richest Americans and tries to peg the worth of each of these individuals. The list seems to contain many of the same names year after year, but the relative position on the ranking changes somewhat. And, in this economic downturn, **many of the 400 Richest Americans have seen their wealth decline – in fact nearly 24% on average compared to last year**.

Here in Austin **Michael Dell**, still the 2nd wealthiest Texan behind Walmart heir **Alice Walton**, is now reportedly worth $14.5 billion, down from $17.3 billion in 2008. Walton, by the way, saw her estimated wealth drop from $23.2 billion to only $19.3 billion.

The second wealthiest Austinite is **John Paul DeJoria**, **who actually *increased* his wealth** to $4 billion, up from $3.5 billion last year. DeJoria's gamble paid off when he went counter to the economy at the beginning of the year and launched a high-end ($40 a bottle) vodka product. (Go to the top of this page, click on the "Archives" button, and go to the Volume 30, Number 45 February 20, 2009 edition where we profiled DeJoria, his successes and his plans.)

Other Texans on the *Forbes* list include Houston oilman **Dan Duncan** ($8 billion), H-E-B's **Charles Butt** of San Antonio ($4 billion) and Dallas' **Ross Perot** ($3.5 billion). Of course the two wealthiest Americans remain **Bill Gates** ($50 billion) and **Warren Buffett** ($40 billion).

While on the subject of big companies, which company do more Americans think best symbolizes America today? Microsoft? Google? Nope.

Vanity Fair magazine and the venerable TV program *60 Minutes* jointly conducted a national poll and one small part of the poll asked Americans which **company they thought best symbolizes America today**. **An impressive 48% said Walmart**, way ahead of the 15% who named Google. Microsoft was 3rd at 13%.

A couple of other interesting responses: The **National Football League** garnered 6% of the responses and **Goldman Sachs** pulled down a total of 3% mentions. Go figure.

Do you text message? If not, someone is using your quota. During the first half of 2009 VeriSign Inc. delivered the equivalent of 26 mobile messages for each person on earth. To save you doing the math, that's 178.8 billion text messages. Mind boggling!

While it may not be immediate, it appears inevitable that Saturday delivery of mail will become a thing of the past. If so, it will alter the way much business is conducted.

The best information we can get is that, if Saturday mail delivery is curtailed, **it likely will not occur until after the 2010 elections – possibly around 2011**. Congress apparently has no appetite to wade into this hot button issue now because they face the voters next year.

If you want to know why it seems Saturday service will be cut, all you have to do is to look at the math. **Higher postal rates – even much higher postal rates – are not enough to bail the US Postal Service out of the red. In fact, increased prices could have the opposite effect** – by speeding up the erosion of usage already taking place. The increasing use of e-mail and e-commerce for banking, bill paying, invoicing, etc. has sharply curtailed postal business.

If this occurs, it could **heavily impact car dealers**, **retailers and similar businesses** that count on delivery of ads on Saturday to stimulate weekend sales. And what about publishers who rely on mail being processed and moved on Saturday for Monday delivery?

Also, think about the **businesses that receive weekend payments or orders for immediate processing**. Businesses will have to adjust and should probably begin planning now if they heavily rely on weekend mail processing and delivery.

Knowing how Congress works, a **total disruption of service could be modified** by allowing only certain service to be available on Saturday – such as Saturday morning hours at certain postal stations. And another modification could be to go to full mail service on Saturdays during the still-heavy year-end holiday season. But as the world keeps changing the way information is disseminated, the US Postal Service needs to change, or lose even more money.

Speaking of things governmental, **Dr. Louis Overholster** says he doesn't approve of political jokes. As he put it: "I've seen too many of them get elected!"

Sincerely

Neal Spelce

Editor/Publisher