This issue will review the financing situation for Condominiums which create new challenges in this constrained lending environment. Let us look at the past, present and attempt to reasonably forecast the future.

Lenders had a desire to lend at the height of the market, specifically in 2004 and 2005. They looked for reasons to make mortgage loans. No documentation ("No Doc") and stated income ("Stated Income') mortgages allowed borrowers to purchase any property without regard to their ability to make the payments. The stories of cab drivers, landscapers and other lesser paid workers purchasing expensive homes were all too true. These non-existent underwriting standards brought many unqualified borrowers into lender portfolios. This error in judgment was compounded by Adjustable Rate Mortgages ("ARMS") where "teaser interest rates" later converted to market interest rates and even higher Sub Prime Interest Rates. The result of this imprudent lending was a foregone conclusion to anyone but the lenders. No Doc and Stated Income mortgages and ARMs brought down the house-of-cards.

We fast forward three (3) years to a totally different lending landscape. Lenders do not wish to make Condominium mortgage loans to anyone, not even qualified borrowers with large down payments. I have personally seen buyers with 800 credit scores, 50% down payments and no debt rejected.

There are many ways to reject a Condominium mortgage. Fannie Mae and Freddie Mac, the largest purchasers of mortgages in the secondary market, have created restrictive barriers. No more than 15% of Condominium owners can be 30 days or more delinquent on maintenance fees. No more than 25% of Condominiums may be investor owned or tenant occupied. Lenders also have "flexible" standards for units in foreclosure and reserves for repairs and replacements. Since lenders will only make mortgages that can be sold in the Secondary Market, these policies only make the situation worse for Fannie Mae, Freddie Mac and lenders as a collective group.

The foregoing factors have driven prices to their current level. The increased buying activity in our Clearwater Beach, Island Estates and Sand Key real estate market is largely from overqualified buyers, with most buyers either paying cash for their property or financing under extreme lender terms.

The good news is that we have seen recent loosening by lenders and quality deals are being financed. Enormous pent up buyer demand bodes very well for our market once the lending situation corrects itself. Prices can go up as fast as they went down. History always repeats itself.

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