

# Rim Country Life Style *Notes*



Annette Bashaw, Realtor®

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Annette

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## The Sub Prime Real Estate Debacle

By Ray Pugel, CRB, *Designated Broker*

Ray Pugel is Designated Broker for Coldwell Banker Bishop Realty with offices in Payson, Pine-Strawberry, Tonto Basin, and Snowflake.

I received an email from a financially astute friend who, in a cartoonish way, described the sub-prime fiasco. Let me relate it to you. You will probably know more than the politicians in Washington after you read this.

Once upon a time, a borrower went to a mortgage broker and said, "I need a loan, however, I need a low interest rate and my employer won't verify my employment. Oh, and I have marginal credit and do not have a down payment. Is that a problem?"

"No", said the lender, we have a liar's loan where you can verify your own income and employment, get a low interest rate now, and we will just increase it later. It is also known as a sub-prime loan."

The borrower said, "You guys are awesome." The lender responded, "It is no big deal, we do not really lend you the money, a bank does, and we get a commission."

A few weeks later, at the bank, the banker said, "Whoa, we have some really stinky mortgage loans. Thankfully, the really smart guys on Wall Street will buy them and perform their financial magic."

A few weeks later, the really smart guys on Wall Street said, "Uh-Oh, we better get rid of these stinky mortgages we bought, they are starting to attract flies." The underling asked, "But boss, who would buy this junk?" The boss said, "I've got it! We'll create a new security and use these stinky mortgages as collateral. We will call them CDO's or CMO's. We can sell them to investors and promise to pay them back as the mortgages are paid off. The underling responded, "But junk is junk. I don't get it." The boss replied, "Sure, individually they are junk, but we will pool them together and only some of them will go bad, certainly not all of them. And since housing prices always go up, we have little to worry about." The underling still did not get it so the boss explained further; "The new CDO will be made up of 3 pieces. We will call them The Good, The Not-So Good, and The Ugly loans. If and when some of the mortgages fail, we will promise to pay investors holding The Good first, the Not-So-Good second and the Ugly last." "I get it" said the underling. "The Good investors will get paid a lower interest rate, the Not-So-Good a better interest rate, and the Ugly, a big, fat, interest rate. "Exactly", said the boss, "and it gets better. We will buy bond insurance for the Good piece and that way we can get a AAA rating on the packages. On the Not-So-Good, we can get a BBB rating. We won't bother on the Ugly package. What we will have done, is managed to create AAA and BBB securities out of a pile of stinky, risky mortgages. "Boss, you're a genius" said the underling, "Now who are we going to sell the three pieces to?" "Well", the boss said, " those idiots at the SEC (Securities and Exchange Commission) won't let us sell this stuff to widows and orphans, so we will sell it to sophisticated institutional clients, like insurance companies, banks, small towns in Norway, and school boards in Kansas... in other words, anyone who is looking for a high-quality, safe, investment. And, the good part is, we will keep the Ugly piece and pay ourselves a handsome rate of interest. In addition, we can put the Ugly piece in an off shore account in the Cayman Islands, and it won't even show up on our books, We will call it an SPV which is short for Special Purpose Vehicle." The lip locked underling again restated, "Boss, you are a genius!"

Several months later, the administrator of the Norwegian Villagers Pension Fund (NVPF) called the boss at the Investment Bank and asked why they were not receiving their monthly payments. The boss told him that unfortunately, people were not paying their mortgages. The NVPF administrator said, "Wait a minute, we bought the AAA rated good piece. We were supposed to be paid first." The boss replied that the loans were worse than had been thought and he was disappointed also. The NVPF administrator replied, "But you told me housing prices always go up and your borrowers could refinance." The boss replied, "Sorry, we screwed up" The administrator replied, "But what about the AAA rating from the agencies?" The boss replied, "They screwed up too." The desperate administrator asked, "But this security was insured?" The boss replied, "Are you kidding? The insurers have no money set aside for this, they screwed up too." So, the administrator asked, "What am I to tell our villagers?" The boss casually replied, "Tell them you screwed up." Let's hope someday soon, we all live happily ever after and survive this fairytale nightmare.

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## A Few Words from Annette

What a difference three months makes! My comments in the July newsletter **were all about the fire which completely destroyed my neighbor's home. This newsletter is about the ashes on Wall Street from which we expect our 401K's**

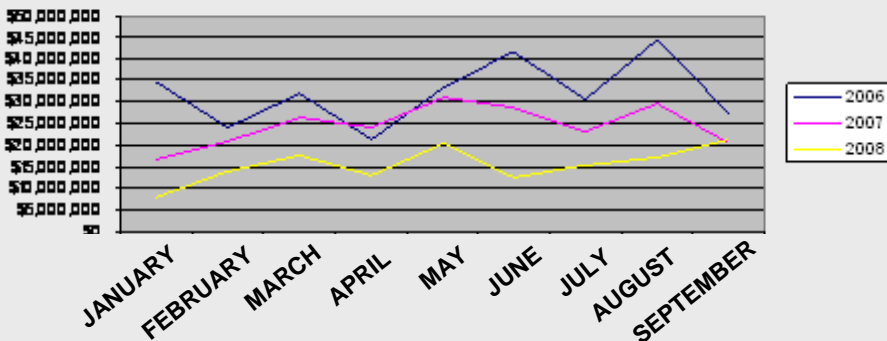
to rise like the Phoenix bird. Rise they will, because we are survivors. History proves this. But first, we will learn from this financial crisis to expect the unexpected, and to persevere. While we are grumbling over our monetary losses, there are many folks who work hard every day just to put food on the table and keep a roof over their heads—regardless if they own the roof or rent it. The cost of living rises, and their income remains the same. Their struggle is year round, which brings me to my point. We are entering a time of year where added heating, food, and clothing costs further compound these struggles. No matter where you live, there are organizations of volunteers working to help stock food shelves, build homes, contribute toward energy bills, etc. Do me a favor, when you grocery shop, pick up an extra canned item and add it to the collection bin at the store, or take it to the Rim Country Food Bank at St. Vincent DePaul, located at 511 South St. Phillips St. in Payson. Or, contribute to Payson Area Habitat for Humanity, PO Box 1131, Payson, AZ 85547. Someone will be most thankful and you will feel great because you helped!

Annette

### Rim Country Market Analysis: Something is UP?

by Emmie Derise, Business Communications Consultant

**CABR TOTAL SALES COMPARISON — 9 MONTHS**



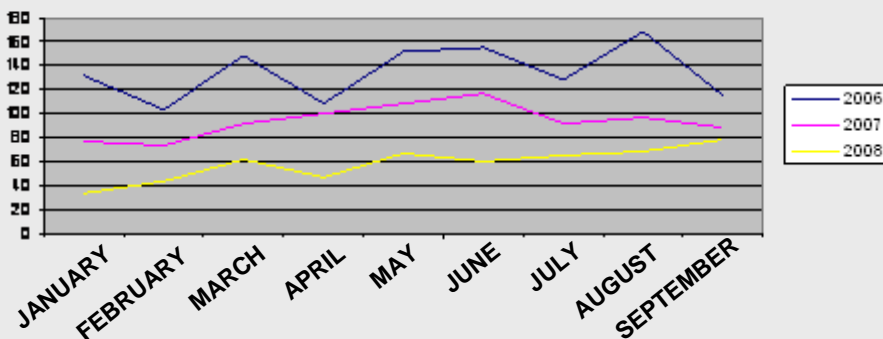
Active listings in the Rim Country jumped in September to a total of 2,302, up from 1,971 this time last year. While the real estate sales slump continues, September showed a modest increase in total sales and units sold.

September, 2008 sales included 78 properties with a total value of \$21.5 million, whereas August, 2008 sales of 69 properties totaled \$17.3 million; July, 2008 sales of 65 properties totaled \$15.2 million. A year ago, September, 2007 sales totaled 89 properties and \$20.4 million. This is noteworthy because September sales have trailed August sales in 2005, 2006, and 2007, due to the normal seasonal fluctuation in this market.

Median value declined in September, 2008 to \$200,000, which is still well above the \$149,000 median value for 2005 at the market peak.

This summer, sales were especially depressed by tight credit and hesitant buyers. Is this uptick in September sales

**CABR UNITS SOLD COMPARISON — 9 MONTHS**



Data based on Multiple Listing Service provided by Central Arizona Board of Realtors® (CABR) which serves Northern Gila County, AZ

meaningful? Given the worldwide economic crisis of late, there can be little comfort here. All that is certain is that regardless of what happens in the economy, the election, or the credit markets, the Rim Country will always be a beautiful place to be, and worthy of the effort it takes to bring buyers and sellers together here.



## Photographer's Corner by EmmieDerise

Arizona countryside is a lesson in abundance. Throughout the year, wildflowers parade in vivid procession: poppies, then lupines, verbena and mallow, then cactus and palo verde, then marigolds, yucca and blackeyed susans. At last, the harvest. Generous rain has fallen this year, but even in years past when there has been less precipitation, this desert has bloomed in amazing diversity and endurance.

I am often struck by the tenacity of fragile-looking plants that grow out of hard, hot rocky soil, without wilting. This place is changing me. I now know that I, too, am strong and that abundance prevails, not just where life is easy, but also where life is hard.

**If you enjoy the photography in this newsletter, on Annette's web site and in her advertising, you may also enjoy my web site, [www.EstrellaFineArt.com](http://www.EstrellaFineArt.com) where you can subscribe to my free weekly inspirational email, Art Moments.**

## More on Upcoming Propositions that affect Real Estate



We have been telling you about Proposition 100, an initiative to prevent real estate transfer taxes in Arizona. A real estate transfer tax is imposed when you transfer ownership of your home, land, or commercial real estate. Currently 36 states have transfer real estate taxes from .1% to 2% of the property value. Proposition 100 will not let that happen here. This tax is an additional burden on the real estate market and unless prevented, can become abusive over time as state, county, and local entities increase the burden. Moreover, our property taxes already pay for government and educational services. A transfer tax represents double taxation. The passage of Proposition 100 will result in an amendment to the Arizona constitution to prohibit real estate transfer taxes and eliminate that as a potential source of revenue

Proposition 201, known to its supporters as the Homeowners' Bill of Rights, seeks to help new homeowners to deal with construction deficiencies and deceptive sales practices on the part of builders. Opponents argue that existing laws, including a recent new law, the "Notice to Cure" law already contains a fair and effective process for dealing with construction flaws. The most widely publicized provision concerns the requirement for a ten year new home warranty, which opponents say is too long, with the existing 1-2 year warranties proven to be sufficient. While the focus of this proposition is to give NEW HOME BUYERS additional protection against BUILDERS, it is unclear how this will impact the sale of existing homes in the future. The Arizona Republic has an excellent presentation of arguments about this initiative at <http://www.azcentral.com/news/election/ballot/articles/2008/09/30/20080930prop201.html>

## What's Happening in Payson

Friday, Oct. 31, Truck or Treat, a free event for families to receive candy from costumed volunteers at decorated booths, north of Rumsey Park from 6 to 9 pm.

Saturday, November 8, Marine Corps Birthday Ball, Mazatzal Casino. For information, go to <http://www.inpayson.com/11-08-2008-Marine-Corps-Birthday-Ball.htm> or call Marine Bill Sahno at (928) 472-6617

Saturday, November 8, Turkey Trot 5K, a 3.1 mile fitness run. Pre-register from Oct. 13 through Nov. 3 \$20. Contact Parks & Rec.

Saturday, December 6, Electric Light Parade on Main Street, ending at Green Valley Park. 6-7 p.m.

**Saturday, December 13, Santa's Workshop & Hayrides.** Green Valley Park 5: 30—7: 30 p.m.

Saturday, December 20, Holiday Lights Bus Tour

For more information and events go to [www.InPayson.com](http://www.InPayson.com)

For a complete calendar of events, visit the Payson Parks and Recreation web site at

<http://www.egovlink.com/payson/events/calendar.asp>

Call Parks & Rec. for info at 474-5242 x 260



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[www.RimCountryLifeStyles.com](http://www.RimCountryLifeStyles.com)

# Featured Home Cottage Chic!



A charming place for weekend escapes or full time living, this 2 bedroom, 2 bath features recent upgrades including hardwood floors, carpet, fresh paint, refurbished deck, new washer/dryer, and new 12 x 12 storage building. Relax & unwind on the covered porch or the decks while the breeze rustles in the trees. Interior furniture included. **\$219,500 MLS 56698**