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# Time is now on the homebuyer's side

By Neal Frankle  
[Neal@WealthResourcesGroup.com](mailto:Neal@WealthResourcesGroup.com)  
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I told my neighbor not to do it, but he wouldn't listen. Now, he's singing the blues.

Last year, Jim bought a bigger house without selling his current home (next to me). For the life of me, I never understood why he did it (I don't think I'm that bad a neighbor).

Even though he did not get a subprime loan, Jim is caught up in the housing mess. He now has two mortgages, a house he can't sell and a budget that is hemorrhaging cash.

You'd have to be living on the moon to be unaware of the current turmoil in the housing market. But you may not be clear on how this economic predicament might affect you.

Here is what's happening:

For the last several years, many people bought homes they really could not afford. This was fueled by low interest rates and rising property values. Many people were offered adjustable-rate loans with extremely low introductory interest rates. People could make the initial monthly payments but got stretched too far when the rates adjusted upward.

Some people stopped making their payments to the institutions that held the mortgages. Keep in mind that the company that arranged the mortgage really didn't loan its own money. Most mortgage companies make the loans and then sell them to investors on Wall Street. Experts have asserted that some mortgage companies did whatever they could to make these loans because of the fat fees they earned.

Ultimately, some investors who bought the loans found that many had no value. As a result, these investors stopped making what they considered "risky" loans.

My neighbor Jim's problem gets worse.

You see, most loans are either conforming (under \$417,000 in most states) or nonconforming (more than \$417,000). Conforming loans can be guaranteed by government-backed agencies such as Freddie Mac and Fannie Mae. Because investors are extremely gun-shy at the moment, they only want to make conforming loans. As a result, it's very difficult for borrowers to get loans for more than \$417,000. That might be a big problem in Ventura County, where the median sales price for an existing home was \$682,930 in July.

And forget about high-risk borrowers getting even the time of day. As a result, fewer people can qualify for a mortgage.

To make matters worse, foreclosures are flooding many markets. According to RealtyTrac Inc., July foreclosures were up 93 percent from a year ago.

When we add this up, we see a situation where more homes are available for purchase than there are buyers. Under such circumstances, home prices usually decline.

But it doesn't stop there.

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Real estate lending companies are laying off workers. Developers are pulling back from building more houses because there are fewer customers.

Lower home prices and higher unemployment affect just about everybody you know. Cities, counties and school districts will have reduced revenue. Businesses will see a similar ripple.

And when businesses suffer, the hurt might extend to employment and the stock market.

Having said all this, what can you expect and what should you do?

I think that it would be reasonable to expect lower interest rates and a soft real estate market in the future. If you are relocating, sell your existing home now but consider renting for awhile rather than rushing into a new home purchase. Time is on the buyer's side at this point.

Expect unemployment to increase. If you have a job — keep it. Cut out your Internet browsing at work and be nice to your boss. If you lose your job, it might not be easy to find the next one.

If you're an investor, pay extra careful attention to the stock market. I'm certain that the stock market will survive this turmoil, but it's impossible to know how or when the situation will rectify itself.

But don't be complacent. Remember, the Nasdaq is still about 50 percent below the level it was at seven years ago. Don't assume that the stock market will be terrible because of the current situation. Few imagined that the market was about to take off in March 2003. After all, the United States was about to invade Iraq, the stock market had been terrible for the previous three years, and the news was full of accounting fraud and scandals. But against all logic, 2003 was a banner year for stock market investors.

— Neal Frankle is the author of "Why Smart People Lose a Fortune: 5 Steps to Restoring Your Wealth and Sanity." E-mail him at [Neal@WealthResourcesGroup.com](mailto:Neal@WealthResourcesGroup.com).

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