



Myth Versus Reality About Today's Housing Market - Part One

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Over the next two weeks this column will be dedicated to expelling some myths that seem to be prevalent throughout the Dayton residential real estate market. It seems there are some misperceptions by potential homebuyers and sellers because of the news in the national media. It has frozen the local Dayton market because the majority of us need to sell a home before we can purchase a new one. So here we go...

Myth: There doesn't seem to be an end in sight to the housing slump. By the time the market hits bottom, housing will be down and out for the count.

Reality: If the truth be told, housing has always been a very cyclical business. In the mid 1970s and the early 1980s and 1990s, housing production and sales dropped by more than 60 percent in a matter of months. During those cycles, we confronted and overcame many of the same problems we face today – large numbers of unsold homes, skeptical and reluctant consumers, tight credit markets and shortages of money for certain borrowers, declining home values, and prospective buyers who had difficulty selling their existing homes. The important thing to remember is that over time the market corrected and we rebounded to production and sales levels that beat or matched the records of the previous cycle. Remember, those who purchased homes in the early 1990s during the last big economic and housing downturn came out as big winners. The message here is that housing is a very tough and resilient industry. We will be back – stronger and better than before.

Myth: The sub prime crisis cut off the flow of mortgage money for qualified borrowers.

Reality: If you believed the headlines or the endless drum beat about sub prime lending on cable television news, you would think that the pot of mortgage money has dried up completely. Nonsense! The vast majority of homebuyers are seeking conventional, conforming mortgages at or below \$417,000. These loans are purchased by Fannie Mae and Freddie Mac, both federally chartered organizations. While underwriting standards may have been tightened for all loans, credit-worthy home buyers should have no problems in finding conventional, conforming mortgages at very attractive rates – in the range of 6 percent for fixed rate, 30-year loans.

And Congress recently passed a stimulus package that will allow Fannie Mae and Freddie Mac to purchase more mortgages in high-cost markets through the end of 2008. Plus, the Federal Reserve has moved aggressively in recent weeks to cut interest rates and inject more liquidity in the financial markets. These developments will increase the availability of money for jumbo loans, although rates on those loans are a bit above their usual premium over conforming loan rates and down payment requirements are higher. Nonetheless, these are the facts: Mortgage money is available at a very attractive rate for credit-worthy borrowers.

Myth: With the nation in a foreclosure crisis, I shouldn't be looking for a new home.

Reality: While foreclosure rates have increased in the past year, almost all American homeowners are making their mortgage payments on time. Nearly 97 percent of prime borrowers – the bulk of the mortgage market – are up-to-date on their payments. Yes, we are one of the eight states with the most foreclosures. Our reason is we are in need of a reinvention of our local economies not because we had a super-heated market like California, Florida, Arizona and Nevada.

There is a concern about the large wave of subprime loans that are due to reset over the next two years. That's a major problem that needs to be dealt with. But again, we need to put this problem into perspective. As noted above, California, Nevada, Arizona and Florida are at the epicenter of this problem, with California and Florida alone accounting for 30 percent of

all foreclosure starts in the U.S, according to the Mortgage Bankers Association. The two states also account for 36 percent of subprime ARM foreclosure starts nationwide. Nationally, 83 percent of subprime borrowers with ARMs are still paying on time every month.

It's also important to remember that 37 percent of all single-family homes are owned debt free —without any mortgage — and homeowners nationwide have built up more than \$11 trillion in equity that provides a good cushion against any decline in values. Also, a high number of defaults on loans to date have been among speculators or investors who were looking for quick profits and subsequently walked away from their investments when the housing market cooled.

Last August, the FHASecure Initiative was launched; it's an important new solution for sub prime homeowners. To date, FHASecure has helped more than 130,000 families refinance their mortgages and stay in their homes. That number is expected to reach 300,000 by yearend.

Next week, myths and reality about new home costs and housing prices...