Navigating the Turbulent Mortgage Marketplace

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How long will the turmoil last, and is this still a good time to buy a home?

How long will the turmoil in the housing markets last?

This is the first time in our country's history where home values have declined nationally without a corresponding large rise in unemployment. During the Great Depression, the unemployment rate was around 25% compared to approximately 5.5% today! Therefore, the challenges being faced today are different than the challenges that were faced in the 1930s.

Today, states like Michigan and Ohio have high rates of unemployment, and this is causing many people in those markets to default on their loans and go into foreclosure. Those markets will not likely rebound until the employment situation improves. On the other hand, states like Florida, Arizona and California have stronger employment. Home prices in those states have declined largely due to unsustainable speculation on the part of investors who over-extended themselves by betting that housing prices would always rise. Those markets have a large glut of investor-owned properties that are going through foreclosure. The downward pressure on housing values due to foreclosures will likely last in most markets across the country throughout 2009, and in some markets, perhaps even through 2010. This does not necessarily mean that home prices will decline for another 12-24 months. This simply means that home values are not likely to recover very quickly due to the downward pressure on home prices.

How long will the turmoil in the mortgage markets last?

The sub-prime market has virtually evaporated and lending guidelines have tightened significantly. Interest rates on jumbo mortgages and loans for borrowers with unique situations are considerably higher than loans for borrowers who have smaller mortgage balances, high credit scores, large down payments, and long, steady job histories. There are two factors necessary for lending guidelines to loosen back up:

- Housing market recovery - lending guidelines are likely to remain very tight until housing prices at least find a bottom. This is because lenders, mortgage insurance companies and Wall Street investors don't want to assume the risk that homeowners will walk away from their mortgage if the home declines in value.
- Clear rules and regulations - lenders and Wall Street investors today are very hesitant to be flexible in their guidelines as long as the rules of the game are still undefined. There is a very large fear in the marketplace among lenders that they will be faced with large legal liability if they extend loans to people who may not be able to afford the payments at some point in the future. On July 14, 2008, the Federal Reserve issued new guidelines that clarify the rules that lenders must follow when evaluating a borrower's ability to repay. This was the first time since the credit crisis began in July 2007 that lenders have clear guidance on the rules of the game. This should give lenders a larger comfort level in creating new loan programs and becoming more flexible in their guidelines. Obviously, "flexible" guidelines in the coming months will be defined differently than the reckless "flexible" of the past. Regulators are also considering new rules for Wall Street financial institutions and investors, and these rules should also help in jumpstarting the mortgage lending industry once again. Therefore, lending guidelines will likely become more flexible sometime in 2009. As a participant in the CMPS Institute, I have been very active in helping to shape some of the new rules by commenting on various government proposals and participating in dialogue with Congress, the Fed, HUD and other government agencies.

Please ask me about other articles in this series:

- **What exactly is the problem today with banks, financial institutions and the financial markets?**
- **What exactly is going on with Fannie Mae and Freddie Mac?**
- **What are the options if I owe more on my mortgage than the value of my home?**

Is this a good time to buy a home?

This is definitely a buyer's market! Your negotiating power in this market is greater than at any point in the last several years. If you are interested in buying a home for the long-term, this is a great time to do so. However, if you are a novice looking to speculate in the real estate markets, now is the worst time to do so because this market is more dangerous than ever. Only the truly savvy investors will be able to navigate the market today, but they need to act quickly. There is so much panic selling in the marketplace right now that the deals that are available today will not likely be around in the future. Of course, there will always be deals available, but the types of deals available today are not going to last forever. Everyone talks about buying low and selling high, but hardly anyone actually does it! Once the market stabilizes, everyone will want to jump in again and the best deals will have disappeared.

As long as your timeframe is greater than two years, now is probably the best real estate buying opportunity in over two decades.

The best thing for you to do is work with a team of professionals to help you structure your home purchase transaction in ways where you could save the most money. Strategies for you to consider include seller-paid closing costs, maximizing acquisition indebtedness to create tax benefits, structuring the down payment in the proper way and other useful strategies.

Conclusion:

It is always advisable to consult with a Certified Mortgage Planning Specialist ™ (CMPS®) when navigating today's turbulent mortgage and real estate marketplace. As a CMPS® professional, I am committed, qualified and equipped to help you evaluate your options!

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