

## >: A One-Two Punch That is Frightening!

*Friday, February 8, 2008 / Ethan Roberts*

Two stories I saw on television in the past few days have left me feeling quite nervous. The first was an unusually somber and serious Jim Cramer saying that the stock market will not bottom until the housing market bottoms first.

The second was a group of people in California, pitching tents in a parking lot to protest losing their homes to foreclosure, and demanding that the government do something to help them.

I am a Libertarian by philosophy (although not a Ron Paul supporter), and a strong advocate of self-reliance and self-responsibility. Now when people read this, they might assume that I am either mean or not charitable in spirit to those who are suffering. Believe me, this is not the case. I strongly believe that taxpayers should help those who can not help themselves, such as people who are genuinely sick, disabled, and physically or mentally impaired.

But that does not include people who are looking for a bail out because they signed up for a bad home loan! I understand that many people are not financially savvy, and may have relied on the word of some less than ethical mortgage companies, but we all have a responsibility to understand the legal documents we are signing, or to ask the necessary questions until we do.

Let me address some tough questions to those who demand government bail outs:

When you were in high school, did you study hard, or did you cut classes, get high, or spend hours talking on the phone? Did you graduate High School, or did you drop out of school to have a baby at age 16? Did you take the time to apply for financial aid so you could go to college, or was it too much bother? Did you hop from job to job, or stick to a career path? Did you ever go on welfare or unemployment, rather than work because you figured the money was similar either way? When you go home, do you watch soap operas or do you read a book, website, or magazine about finances, to learn something useful?

What I am trying to say is that every day of our lives we make decisions that affect us in both the short term and the long term. It is true that many people come from disadvantaged backgrounds, but why do some people rise above that to garner success, while others spend their lives in poverty or just over the poverty line?

As a realtor, I have seen first hand the home buyers who demanded from the mortgage industry no money down loans, AS WELL AS the lowest possible monthly payment! If you know anything about mortgages, then you know that these two conditions are incompatible. You can not lower your monthly payment unless you put money down. That is, unless you agree to a loan that has a teaser low interest rate for one or two years, followed by a huge re-casted increase after that.

**Question one:** Why did these people want a no money down loan?

**Answer:** Usually because most of them had no money in savings or investments.

**Question two:** Why did they have no money saved?

**Answer:** Because of bad lifestyle decisions they made every single day over a long period of time. Instead of saving even \$100 a month, they wasted their money on cigarettes, beer, lotto tickets, five dollar coffees, expensive cell phones, the weekly hair and nail salon fix, big screen TV's, credit card interest, etc, etc.

Then, after bad decision making puts one into a disadvantageous position (no money, bad credit score), it begets further bad decisions, such as demanding no money down, ARM, or interest only loans. With little foresight or care, two years later the higher payments can not be made. And then the government (ie. taxpayer) is called on to bail them out from their mess!

So now, due to our tacit approval and national enabling of individual irresponsibility, we have created a slew of foreclosures in every town from Maine to California. But too late, we also find out that this threatens to bring down our economy and the U.S. stock market, as well as stock markets around the world.

The government has already extended the low interest teaser rates for five years to those who are current (aka responsible) on their payments, and the FED has lowered the discount and FED funds rates. Now it is up to each one of us, on a daily basis, to make responsible decisions that improve our economic futures and reduce our dependency on government or on others.

Will giving in to the demands for a government bail out open the door to even more irresponsible behavior and more demands for dependency?

Imagine a few of these scenarios:

1) Joe buys a bad stock the other day and loses a lot of money. He says his "evil" stock broker should have told him not to buy it. Time for the government to bail Joe out!

2) Sally can't make her car payment because she really couldn't afford the terms for which she signed, but the car dealer never warned her about that possibility. Now Sally says, "Bail me out, President Bush (or Clinton, Obama, or McCain)!"

This financial irresponsibility, coupled with the domino effect it has on the world economy, is a one-two punch that is absolutely frightening. If we don't stop it now, how long before we drive this once great country into insolvency and/or socialism!

Ethan Roberts