



**>: Don't Sell Your Home!**

*Thursday, March 6, 2008 / Ethan Roberts*

Unless you've been in a coma or off on a desert island, you probably have a pretty good idea of what has been going on in the housing market within the past year. We have already endured the easy money, sub prime mortgage melt down, an explosion of foreclosures and bank short sales, and now we are entering a period in which mortgage lenders have gone to the other extreme of mortgage standards.

What I mean is that mortgage companies and banks have now tightened their lending standards, making it far more difficult for people to qualify for a loan than before. They have raised the minimum credit score requirement from 580 to 640 for zero down conventional loans, are requiring five per cent or more in down payments for people with scores that fall below the minimum, and have made it much tougher for self-employed workers and people who want to get stated income loans. To make matters worse for potential homeowners, they are hitting those who have lower FICO scores with punitively higher interest rates. In fact, the standards right now are as tough as they have been in at least two decades.

Today's tougher standards are simply the normal standards that previous generations were expected to follow between the 1950's to the 1970's. In those days, people made personal and financial sacrifices in order to save money for real estate down payments and closing costs. Concepts such as zero down loans and sellers paying for buyers' closing costs were unheard of back then. Of course, our parents paid for almost everything with cash or a check. Consumer credit cards, although first developed in the late 1940's, were still not widely used in those days.

Fast forward to 2008. Today the abuse of credit is rampant, and the average Joe and Mary are up to their eyeballs in credit card debt, student loans, car loans, and 'no interest until the next solar eclipse' type furniture loans. Drowning in debt as they are, it is almost impossible for them to save the money that is now being required by mortgage companies and banks for down payments. FHA loans do allow relatives to 'gift' the down payment to the prospective home buyer, but the relatives themselves are drowning in debt! So the new mortgage standards are an anachronism, great for 1968, but not likely to do much for an American culture which is now used to instant gratification, and unlikely to change their financial lifestyle any time soon.

We have also seen a drastic reduction in the number of real estate investors. The more experienced ones are sitting on the sidelines, patiently awaiting further price reductions or at least stabilization of the market. The newbie 'investors' who were the 'third on a match' of the housing bubble, burned their hands trying to flip homes at the peak of the market, and have now moved on. To stem the tide of television show inspired flipping, lenders have instituted new rules to make buying a flipped home from an investor much more difficult.

Next, we have the Bush administration's mandate of home ownership for all, which some suggest was the result of political pressure from community activists. Giving loans to people with low income and dubious credit became one of the catalysts for the Sub Prime Mortgage disaster, but even with the rise in recent foreclosures, we now have the largest percentage of homeowners in history.

So if the investor numbers have waned, most Americans already own a home, and a large percentage of the current renters can neither afford down payments nor qualify on FICO scores, who is left to still buy homes?

The answer is a deafening silence in the real estate and mortgage brokerage offices across the country, with phones not ringing with customers. The result is a record numbers of unsold home inventories, and builders who are practically offering up their first born child to sell one of their models. In my area of Florida, there are currently about 14,000 homes on the active market, yet we had only 600 closings in February, the eighth consecutive month of declining sales. That means only about 4% of the homes on the market sold this month.

Think about that for a moment, especially if you are trying to sell your home. If there are 100 homes for sale in your area, only four of you are going to sell your home this month. That is pretty dismal. Thus we see higher supply, lower demand, and of course lower prices, as home sellers cut their prices to compete to be one of the four lucky sellers.

So today I am going to offer one possible solution to stop the declining home prices. Since we can't change the demographics, and the mortgage companies are not likely to drop their standards again anytime soon, let's go a different route. Let's use the power of the internet to spread the following message:

## **?DON'T SELL YOUR HOME!?**

Unless you absolutely have to sell, take your house off the market as soon as possible. If you were planning to buy a 'move up' home, delay those plans, or perhaps you can rent your current home, assuming you have the down payment for the next home. I know there are people who must move due to job change, divorce, military transfer, caring for elderly, etc. Perhaps they are not able to rent their house for one reason or another. Be assured, this message is NOT for you. The '?DON'T SELL YOUR HOME?' message is strictly for those people who would like to, but really do not HAVE TO move.

To carry the message further, if you are not selling your home, but you know someone who is selling theirs, please send them this article. The Internet is the greatest source of influence in the 21st century! Talk to your neighbors. Convince them that although self-interest in selling their home is understandable, a collective movement across localities to reduce inventory levels will help all of the sellers in the longer run. And if you are a Realtor with a listing you just can not sell despite numerous price cuts, encourage your seller to at least temporarily withdraw their home from the market. My wife and I own a small real estate company ourselves, so I personally know how hard it is to ask you to do this. Listings are your bread and butter, but you aren't likely to see a commission on a stale listing anyway!

This past week, Federal Reserve Chairman Ben Bernanke called on lenders to help distressed owners by lowering not just the interest rate on their loans, but the principal amount as well! Bernanke's argument is that if we reduce the number of 'preventable foreclosures', it will promote economic stability for local areas and the nation as a whole. In addition, he said that restoring some equity for homeowners will help to avoid further delinquencies and foreclosures.

As a Libertarian, I have [previously written](#) in the Tycoon Report that the idea of rewarding people who do not pay their bills, perhaps even at the expense of the taxpayers, is difficult to swallow.

I further wonder if the banks will just cease making mortgages in the future if they are cajoled into taking a loss on principal. If I lent you \$100, and you told me you couldn't pay it back unless I cut the loan amount to \$75, I might agree to it as a hedge against a total default. But it wouldn't inspire me to loan money to the next guy who asks! And what if other people who are now paying their mortgage on time, decide to default on purpose, just so they can get a nice principal reduction on their loan? Furthermore, lenders point out that if they cut the principal, and homes still decline in value, they may have to do it again. These are all valid arguments.

On the other hand, when the Chairman of the Federal Reserve makes an appeal to banks to take a money loss so they can save our economic system, I have to sit up and take notice. Does Ben Bernanke know something else that he's not saying? Are we in so much trouble right now that desperate measures are needed to keep the ship from sinking? Given Bernanke's appeal, a Realtor might ethically have to advise his seller that holding off on listing their home might work to the seller's advantage if the banks do as Bernanke requests. What a paradoxical position to be in!

You may be wondering what this '?DON'T SELL?' message will accomplish. Well, the most important thing is that if enough people take their homes off the market, it will reduce the vast glut of unsold homes. The housing market will begin to change from an extreme buyer's market to a more equal market between buyers and sellers. This change of supply and demand should stop, or at least slow down the decline in home prices. Only after we have a stabilization of prices, can consumer confidence return to the market place.

Potential buyers who can still qualify for the tougher standards, and have the down payment money, will stop waiting for further price declines, and will re-enter the market.

Long term investors, as well as second home buyers, will soon follow, once they realize that prices have stabilized.

Reducing the current inventory levels is a safer alternative to the ongoing slashing of the Fed Funds, which devastates the dollar, and is far healthier than a return to lower mortgage standards, which simply enables more American financial irresponsibility.