

Foreclosures

By David Stone

When is the last time you read about GOOD real estate news? Do you recall the last headline that read “Real Estate Values on the Rise, Again!”? When was the last bright outlook for general real estate trends? If you are like me, you can hardly recall those times. Did they actually ever exist? It seems as though Nevada went from #1 in all respects, growth, housing, jobs, and income to consistently being ranked at the bottom of the nationwide heap.

As of 2nd quarter 2007, Nevada reported an impressive one foreclosure filing for every 150 households. With just under 7,000 foreclosure filings in November, this represents an increase of 170% in the last 12 months. However, with this statistic in mind, it must remain clear that most people are NOT losing their homes to bank foreclosures. Most people are making their monthly mortgage payments. And home prices, while there has been a noticeable decrease in median prices, have not plummeted. What we will not see for the next couples of years, at least, is the rapid, consistent and impressive increases in home prices. Without the increase in home prices, so too are gone the days of instant home equity. By most estimates, a soft real estate market will continue and most likely worsen through 2008. In years past, homes would sell within 2 weeks of being placed on the market. Now, those same homes are taking 180+ days to sell. In fact, the pool of properties for sale has increased to the highest rate in over 4 years. In fact, by some estimates, 65% of all properties listed for sale are either vacant or in foreclosure by the lender.

An increase in foreclosure effects more than just the delinquent homeowners and lenders. The ills of a poor real estate market effect those neighbors living near those properties in, or near, foreclosure. An often unforeseen and unintended consequence of foreclosure is the seemingly overnight loss of “pride of home ownership.” Statistics indicate that neighborhoods with higher foreclosure rates often see an increase in crime and graffiti. Bank owned property, also referred to as REO properties, do not address the immediate needs of neighborhoods, which include proper home maintenance and attentiveness. With a casual drive through any Nevada neighborhood, one can often immediately determine which homes are occupied by proud owners and tenants and which are owned by seemingly insensitive and uncaring lenders. Those homes are often distinguishable with dying grass, chipped paint, broken windows and often...graffiti.

As mentioned, 2008 does not promise to see a rebound in the real estate market. Most experts expect the market to get worse in 2008 with a possible rebound in mid to late 2009. It is expected that 15% of adjustable rate loans will adjust in 2008. This fear has prompted congress to consider legislation to freeze these loans for 3 to 5 years. The intent is to provide borrowers, who are currently or soon on the verge of foreclosure, a little break. Opponents of this proposal argue and question what a “cooling off” period will actually accomplish and insist that it only delays the inevitable.

Opponents of this proposed federal legislation point out the secondary mortgage market. It is seldom that lenders hold onto residential home loans. Most lenders make money in the origination (creation) of the loan, by charging points and other fees. In order to keep money in the pipeline, available for more loans, lenders will usually sell the loans to investors. Those investors purchase the loans based on the loans' specific traits. Those traits include length of loan, interest rate and quality of loan. Any action by government that could unilaterally change one of the traits of a loan, instantly changes the value and attractiveness of the loan. Such proposed actions by the congress could put a freeze on the secondary market thereby making it unattractive to investors. A departure of investors from the secondary mortgage market could have a devastating effect on the economy by largely drying up the loan pool. Such an action would then call for additional government involvement.

There is no clear cut answer to this complex issue. Pro and cons overwhelm the experts involved in "solving" an "unsolvable problem." Who does win this real estate game? Well, those people with cash on hand and who can afford adjustments in the real estate market. If someone is waiting for the perfect time to buy a house to live in, 2008 may be that time. And the best thing is that you will have a line of real estate agents waiting to serve your every need.

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Nevada Association Services, Inc. is a licensed Nevada collection agency.*