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HOME GUIDE

A personal Real Estate Newsletter published for our friends & clients.

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Now Is the Time For Caution!

by Jim Price

Last week, a report from the Commerce Department told us what we already knew - that Americans are saving money at a lower rate than at any time in the last 73 years. Yes, dear reader, the last time Americans stored away so little of their earnings was back in the deepest depths of the deepest depression the country ever had. That was when a quarter of the workforce was unemployed...and when most women weren't even counted in the workforce. In other words, the last time savings rates were this low it was because of a major, major financial setback. People couldn't save back then; they had no money. Now, they could save...they just don't want to.

But, atlas the availability of easy credit and the banks willingness to allow us to suck out all the equity in our homes (and then more,..) grants Americans ***free*** passage to all the materialistic trappings of 'Wally World.'

.. issues of money - and the envy it causes - [are] creating more financial and psychological distress than we can imagine. We overspend to keep up with neighbors and friends; take jobs we're not happy at to keep up a lifestyle we think we should have; and compulsively watch television shows that flaunt multimillion-dollar homes and exotic vacations.

One of the results of the credit explosion is that it makes it hard to tell who is rich and who is not. People can live as though they had money, even when they have none. Which puts a strain on the whole system of envy. A man tries to keep up with the Joneses...who may be only trying to keep up with him. Neither may realize that the other has no money. Both go into debt chasing a mirage.

All this readily available, credit gives the illusion of living the American dream. 'Economists report that middle-class families are now carrying record levels of credit card debt, going without health insurance and filing for bankruptcy at several times the rate of the early 1980s.'

Turns out those McMansions and shiny S.U.V.'s have most people mortgaged up to their eyeballs, but until the wolf is truly at their front door, you won't find many admitting it."

We are at the tail end of the biggest boom in American history, financed by the biggest, most irresponsible explosion of excess money and credit!

So much is happening so fast — and so few pundits grasp its true significance.

Folks who refinanced a year or two ago are finding out their homes are worth less than the appraised value! All over the country, appraisals have been inflated by lenders eager to make loans and real estate agents eager to close the deal whatever it takes.

Fannie Mae and Freddie Mac are the giant mortgage lenders behind $4 trillion of housing loans. These institutions are guilty of manipulations that make the folks at Enron look like a bunch of Girl Scouts. They've cooked their books, concealed huge losses, paid off politicians, & lied to investors every which way from Sunday.

Now, these giant lenders are in no position to weather even a small down-turn. But the downturn has already started, and it's NOT going to be pretty.

When these big companies and banks fail, it will rock financial markets. Interest rates will soar. Money will be much tighter and harder to borrow.

Maybe you remember, when the Savings & Loan crisis came to a head in 1989. Over 1,000 small banks made big, bad loans that nearly put them out of business forever. George Bush Sr., engineered a $125 billion bailout. *Wall Street seized up like a Plymouth in January... the U.S. deficits soared... and the U.S. economy slipped into a two-year recession.*

Here's the thing... In the 1989 crisis, fewer people owned real estate. In the 2000 Tech Bust, not everybody owned tech stocks. But in both cases, the impact

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Are You Using Your Home As an ATM Machine?

by Ralph Roberts

Multiple factors have contributed to the current slump in the housing market -- a slump that has been proclaimed the worst in decades. One of the major causes of the current slump, however, can be attributed to the fact that more and more people have been using their homes as ATM machines. Whenever they want or need something that they cannot afford, instead of saving for it or denying themselves the luxury, they've simply borrowed against the equity in their homes -- either by refinancing or taking out a home equity loan or line of credit.

Our Buy Now,.. Pay Later Society

Of course, some of this borrowing has come from necessity. If a major bread-winner of a family becomes seriously ill and does not have sufficient medical and disability insurance, they may have no choice but to cash out the equity in their home. However, much of this borrowing does not arise from necessity. Many homeowners borrow money to pay for non-essential items, including vacations, home renovations, new furniture, fancy new cars, and so on.

When the housing market is booming and prices for homes are soaring, equity seems like a never-ending river of gold. You can borrow and borrow and borrow, because a couple years down the road, your home will be worth tens of thousands of dollars more than it's worth now, and you will still have plenty of equity to protect you. At least that's what the booming market of the past lulled homeowners into believing.

Now that real estate prices are on the decline in many areas of the country, homeowners who have cashed out all of the equity in their homes are facing a harsh reality -- negative equity. They owe more on their homes than their homes are worth.

If you are wondering why the housing market is slow right now, that is one of the reasons -- many homeowners simply cannot afford to move. As soon as they sell their homes, (Continued on page 3 column 1)

Credit Cards Can Bury Consumers

Few Americans can seem to do without at least one credit card, and the majority of U.S. consumers often have wallets full of plastic. Many obtain these cards with little knowledge of how they work or the way interest on purchases is calculated, and those least able to repay appear to be the ones getting into the deepest end of financial hot water.

The nonpartisan research center Demos contends that credit-card deregulation fall most heavily on those who are the least able to bear the burden: low-income families, African Americans, Latinos and single women.

Credit-card companies often offer tempting incentives like low or zero percent APRs, frequent-flier miles or cash back on purchases. Someone has to bear the cost of these promotions, and they are often the families already in financial dire straits.

Missing a payment by even an hour has the potential to send a cardholders' interest rate soaring not only on that card, but on other credit cards, too.

According to the Federal Trade Commission, the APR or annual percentage rate the credit card company will charge is a measure of the cost of credit, expressed as a yearly rate. It must be disclosed before you become obligated on the account and on your account statements.

The card issuer also must disclose the "periodic rate" -- the rate applied to your outstanding balance to figure the finance charge for each billing period. Some credit card plans allow the issuer to change your APR when interest rates or other economic indicators -- called indexes -- change. Because the rate change is linked to the index's performance, these plans are called "variable rate" programs.

Rate changes raise or lower the finance charge on your account, according to the FTC. If you're considering a variable rate card, the issuer must also provide various information that discloses to you that the rate may change; and how the rate is determined -- which index is used and what additional amount, the "margin," is added to determine your new rate.

Unfortunately, according to Demos, many cardholders purchase goods based on one set of conditions, such an APR of 16%, but end up repaying them back on another set, with the new interest rate being charged as high as 40%. ☞

It is a standard credit-card industry practice to changing the conditions of the original card agreement at any time and for any reason, experts say.

Those changes are typically spelled out in bills to consumers in the advance of changes, but cardholders rarely look at additional material inserted in their bills, and are often too much in debt to pay off the cards and cancel them in response to those changes.

Deregulation of the industry began in the late 1970s, when the Supreme Court decided that banks could charge the highest interest rate allowed in the state in which the bank was incorporated, not where the customers lived.

As a result, regional and national banks moved their operations to states where there were no usury ceilings on credit card interest rates, such as Delaware. In the mid-1990s, another Supreme Court ruling further enabled deregulation by defining fees as "interest," and thus subjected them to the courts interest-rate decision in the 1970s.

A recent study by Demos found the following that one-third of cardholders are paying interest rates in excess of 20 percent. In 1990, the lowest APR reported was 11.88 percent, and the highest 22 percent. By 2004, the lowest was 0 percent while the highest jumped to 41 percent. About a third of credit card accounts with balances pay little or no interest each month, which essentially amounts to a free or very low-cost loan.

More than a third (36%) of accounts pay the regular interest rate. The final third of accounts pay interest rates that range from more than 20 percent to as high as 41%. Cardholders with balances and household incomes below $25,000 are more than twice as likely as households earning $50,000, and over five times more likely than households earning $100,000, to pay interest rates higher than 20%.

The FTC also warns that as the nation's consumer debt levels reach all-time highs, the number of scam artists promising to help you out of debt is rising with it. While many of these ads promise help, most are just offering to help you with costly bankruptcy procedures, which will also damage credit. The FTC recommends people in financial distress consider the following options:

Talk with your creditors. They may be willing to work out a modified payment plan.

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was far reaching. What does that mean now, *when most Americans own property AND a mortgage, alongside their stock portfolios?* What does it mean when so many of the new jobs in America -- as much as 43%, remember -- came from the housing industry?

Americans now have less equity and the banks own a higher percentage of the nation's houses than ever before in history. Urged on by the credit junkies, they refinanced and borrowed all the equity out of their homes or bought new homes way beyond their means.

Americans owe $7 trillion on their homes - **twice as much as 10 years ago**. But our incomes - our ability to pay - have gone up by a small fraction of that amount.

It's painfully clear a lot of that $7 trillion will never be paid back. And the biggest lenders on the planet are going down.

How could this happen? Government regulators were like the three monkeys - see no evil, hear no evil, speak no evil - because Bush and Greenspan were dealing with the aftermath of the stock market bubble. They were staring at a potential Great Depression, so they kept the money pump going. They decided to create another bubble and worry about the consequences later...

Housing Bubble: Meet the Chinese guy who owns your house

You're probably 10 years out of date. The rules for owning a home have radically changed. There's been a basic long-term shift in the housing market. Very few people know about it. Now most of them will find out the hard way.

Thirty years ago, if you wanted to buy a house, you borrowed the money from a local bank or savings and loan. The loan officer probably had a home of his own in your community. The money he/she loaned you was probably the savings of people in your hometown.

No more. **The mortgage business is now like the stock market.** Your bank's home office is probably on the other side of the country. The money you borrow probably came from China, India, Japan or Europe - because Americans don't save anymore. They borrow and buy, buy, buy.

Your mortgage is bundled up with hundreds of other mortgages into a bond, and it trades like one. It may change hands several times a year. Whom do you owe the money to this week? Good question.

Wake up America before it's too late! ★

The End