

# MORTGAGE advisor™

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## Is Now the Time to Buy?

Housing Markets Go Up and Down, but Like a Good Boxer, they Never Stay Down

The housing market right now is like a boxer whose face is covered in blood. Underneath the mess, however, is a far less than life-threatening cut. Only the sweat of his efforts and the pounding from his opponent's gloves serve to spread the appearance of greater damage. The crowd's attention is zeroed in; the announcer is at full tilt and fanning the flames of perceived doom. The gasps and horrified looks are evident all around and precious few in the room sport the desire to step into the ring. They are, indeed, just there to watch.

appreciation. Quickly referred to as the "bubble" by just about any stock analyst or pundit trying to now seem prescient after failing to predict the crash of the NASDAQ index, which only after the fact was anointed as the "tech bubble." This buzz word soon found a new target in housing prices and caught on like iPods at a pajama party.

Not wanting to be left behind while the spoils of new found wealth by equity brought "Beemer's" to the driveways where once only Chevrolets dripped oil; thousands of first time buyers found access to easy financing and happily signed contracts to partake in their slice of the American pie. In some cases, these were folks whose credit ratings had gone a few rounds in the ring and bore the scars to prove it.

Meanwhile, the global thirst for yield and the inventions of Wall Street wizards drove an insatiable demand for more and more "paper." Higher and higher rates of return were asked for and lower and lower credit quality was delivered. Never mind the bruises; we've got a hungry crowd to feed.

So the investors demanded, Wall Street created, the bankers loosened the screws, the brokers complied, the buyers signed, values accelerated and the crowd roared with approval.

Alas, most commodity prices, including houses, are prone to cycles. Yet a boom is not a bubble. Most Internet stocks were proved to have little permanence. The "bubble" term is wholly applicable to paying ridiculous prices for a stock backed by a web site and a business plan concocted by some high school junior. Land, on the other hand, is not only permanent and limited, but permanently in demand. Anyone comparing tech stock bubbles to housing is only demonstrating



### Road to the Ring

How did we get to this point? Post 9/11, the housing market enjoyed a period of robust

their ignorance. We can live without stocks, yet as long as we're alive, we need a place to live.

Though the acceleration in housing prices was rapid, it came after a long period of slower-than-average growth. Accordingly, the market was simply catching up to its historical trend rather than creating a bubble. Of course, some areas grew faster and higher than others. Some areas saw an abundance of easy money enabling a multitude of formerly non-financeable buyers. Some areas saw not only first timers, but first time speculators, lining up to fill their pockets with the sparkling spoils of the real estate rush.

The sudden appearance of cable TV shows like "Flip This House" became all the rage. No money down, two weeks in, two weeks out and \$79,000 in the bank. These images propelled the notion that anyone with a tool belt and a cell phone can be the next Donald Trump (no camera crew required).

Well, to those that make sure their punches will be thrown in the right direction, the act of gleaning a little market insight before putting your nickel on the barrel is just good common sense. Ready, fire, aim is not the battle cry of those who live to fight another day.

Rapid rates of appreciation are great, but they're not perpetually sustainable. History proves this. Some will argue that the bubble is now made evident as there are areas with declining values. You'd have to have a consistent definition of a bubble to have a factually accurate argument here. In the absence of that, I don't think that a comparatively small giveback on values that rose a hundred percent in five years

is anything more than a correction back to sustainable and supportable valuation rather than a burst. Declines of any real magnitude are very limited and largely constrained to where foreclosures and short sales are the meat of the current market. Conversely, there are also plenty of areas right now that continue to appreciate at normal and healthy levels.

#### What Direction is Up?

Buy low, sell high. Everyone knows the words, precious few engage in the practice. Since we can't do too much to counter the prevalence of bad news, let's instead, use it



**"The secret of success is to know something nobody else knows." – Aristotle Onassis**

to our advantage. I, for one, prefer to do my buying when I'm the only one in the store. Not only does that give me all the attention and assistance I may need, it affords me the opportunity to bargain at my own pace rather than that of the otherwise hurried "no soup for you" counter clerk.

Right now, most are afraid to even peer through the window much less actually enter the store. Good! That's the best signal you can ever have that now may just be the best time to buy.

#### The Bottom Line

Let's strip all our fear from the equation and just look at the facts. Prices have fallen in many areas and mortgage rates are back near historic lows. Home sellers are abundant and begging for someone other than the sales agent to show up at their open house. Sounds like a pretty good time to me.

The foreclosure numbers we see plastered across our screens and mental chalk boards are predicated on subprime loan resets where the interest rate will rise precipitously. The worst predictions are for over a million homes to be lost this way. Currently, there are over 110 million homes in this country. So by my count, that's a million or so that might, and 109 million that won't. Fear and panic can drive a market. But are we being driven in the right direction?

The real deal here is that while most everyone on the news conveys the bleeding in the market with that practiced frown of worry and concern, I remind myself that there are two sides to every trade; one entity that is selling on the "cheap" and one entity that is buying cheap. I'll take the latter side of that trade any day.

So while many will avoid the market, a brave few will relish it. How many times have we thought to ourselves "if only I had bought back then?" Well, for those who study the boxer's face not in the ring but after the trainer has revealed the true extent of the damage by the simple splash of some water and the wipe of a towel, that time we will look longingly back on is now! ■

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To arrange a mortgage planning consultation on strategies discussed in this article, please give me a call.