

## **The Sky is Not Falling**

By Dan Hendricks

**If mainstream news media is your only information source, you may believe that today's housing market is a "sky is falling" proposition. While today's market is certainly challenging, a little history and wider information net provides some unmistakably positive signs.**

**The housing market is very cyclical. In the mid-1970s and in the early-1980s and 1990s, housing production and sales dropped by more than 60 percent in a matter of months. In all cases, the market bounced back to post record gains. The median price of a new home in 1991 was \$120,000. In August, the median price was \$225,700-up 88 percent!**

**History's lesson is that down housing markets invariably turn upward. And the "down" of this market is nowhere near the down of previous markets**

**Without question, a substantial number of Americans face the pain of foreclosure; a disproportionately high number of them are sub-prime borrowers with adjustable rate mortgages (ARMS).**

### **FOUR STATES TO BLAME**

**A closer look at the credit crunch, though, is instructive. According to the Mortgage Bankers Association (MBA), California, Florida, Arizona and Nevada account for more than one-third of the nation's sub-prime ARMs.**

**Nationally, more than 85 percent of sub-prime borrowers with ARMs are paying on time every month. In fact, according to the MBA, if not for the increase in foreclosures in these four states, we would have seen a nationwide drop in foreclosures in September.**

**More than 97 percent of prime borrowers- the bulk of the mortgage market- are up to date on their payments.**

**37 percent of all single-family homes are owned debt free-without any mortgage-and homeowners nationwide have built up more than \$11 trillion in equity.**

**For most existing homeowners, the fact is their homes will be worth significantly more than they paid for them once the market begins to recover - a process that is expected to begin in 2008.**

**"Nationwide credit crunch" is also a misnomer that needs to be addressed. Outside the sub-prime arena, mortgage markets are functioning normally. While underwriting standards may have been tightened, credit-worthy home buyers should have no problem in finding a conventional, conforming mortgage.**

**Mortgage financing for borrowers with solid credit remains available for a conventional loan limited to \$417,000, and rates remain near historic lows at just above 6 percent.**

**The current housing price correction is helping to restore affordability. Prices have leveled off, or even declined in some areas, making this the best time to buy.**

### **ECONOMY'S BRIGHT SIDE**

**Past down markets in the housing industry have largely been mirrored by a struggling national economy. By most accounts, though, today's economic outlook is much more positive.**

**The U.S. economy expanded at a 3.9 percent annual growth rate in the 3<sup>rd</sup> quarter, which was greater than the 3.8 percent growth rate in the second quarter and above economists' forecast of 3.1 percent.**

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