



[Print](#) | [Close this window](#)

More Rough Times are Ahead for the U.S. Economy, Despite Recent Improvements in Durable...

Thu Sep 24, 2009 7:30am EDT

More Rough Times are Ahead for the U.S. Economy, Despite Recent Improvements in Durable Goods Orders, Exports, Auto and Real Estate Sales

YORBA LINDA, Calif., Sept. 24 /PRNewswire/ -- Despite signs of improvement, more rough times are ahead for U.S. economy, according to several prominent experts in real estate and the economy who attended a recent forum at the Nixon Presidential Library.

"You look at the numbers and everything points to the fact that we not only have bottomed, but things seem to be improving," said Christopher Thornberg of Beacon Economics, citing increases in durable goods orders, exports and auto sales.

He added, "When you think about the problems we've been through and what government has done, in many ways, they have, in fact, stabilized the economy. But you know what? They haven't actually solved the underlying problems in the economy."

Thornberg cited real estate as a case in point. While home sales are up in some areas of the country, 6 to 7 percent of home mortgages nationally are 60 to 90 days delinquent. In California alone, 250,000 mortgages are 60 to 90 days late. And there's more economic trouble on the horizon, he said, with rising unemployment and additional waves of foreclosures.

"The second half of 2010 will be very weak," he said, adding, "2011 will be very grim."

Thornberg was one of several nationally known experts in real estate and the economy who shared their perspectives during a Sept. 11 forum and charity event for the Orange County affiliate of Susan G. Komen for the Cure, the world's largest grassroots organization dedicated to finding a cure for breast cancer.

Real estate analyst and investor Bruce Norris of The Norris Group in Riverside organized and moderated the event, which included experts from the California Building Industry Association, the National Association of Realtors, the Mortgage Bankers Association, RealtyTrac, The Appraisal Institute and the National Auctioneers Association.

While all of the panelists agreed that the economy will rebound in another two or three years, several pointed to tough economic conditions in the interim.

John Young, vice president of the California Building Industry Association, said new housing starts are at their lowest levels since the early 1950s. He added that new home sales are often stymied by appraisals coming in lower than contracted home sale amounts.

Meanwhile, foreclosures continue to mount.

Rick Sharga, senior vice president of RealtyTrac, the leading online marketplace for foreclosure properties, said the nation has had 43 consecutive months of foreclosures. "We're dealing with foreclosure activity that is six times what it would be in a normal market," he said.

Sharga added that legal and legislative efforts aimed at helping consumers

modify the terms of their loans "merely delay the inevitable." After all, he said, modified loan terms are not going to help someone who loses their job.

Sharga also sees another big wave of foreclosures hitting the market next year, which will reflect rising unemployment rates, which are expected to peak during the first quarter, as well as the resetting of adjustable rate mortgages to higher rates.

The real estate market is also negatively affected by a "shadow inventory" of perhaps 400,000 to 500,000 homes, which have been taken back by banks, but haven't been put back on the market for resale, Sharga said.

Home sales are also being frustrated by appraisals that underestimate true market value of properties being sold, said Joseph Magdziarz, vice president of The Appraisal Institute, the Chicago-based trade association that promotes the highest standards of professionalism and ethics in the appraisal business. Many problematic appraisals are coming from appraisal management companies that use unqualified appraisers who lack geographic competency in the markets where they are accepting assignments.

Banks, for their part, won't lend money on appraisals they can't trust, Sharga said.

Despite these negative assessments, the panelists said there are many things that Congress, consumers and the real estate industry can do to facilitate our nation's economic recovery.

Magdziarz, for his part, said The Appraisal Institute has been trying to warn Congress for years to take action to better regulate the appraisal business. One pending bill, HR 1728, includes many of the Appraisal Institute's recommendations, has passed the House and is currently in a Senate committee with bipartisan support. The Appraisal Institute has also alerted its 26,000 members that it will take aggressive enforcement action against any members who accept assignments they are not qualified for.

"We cannot sit back and allow bad appraisals to prevent deals from going forward," Magdziarz said, adding that investors should work only with appraisers that belong to professional appraisal associations. He also encouraged consumers and investors to report incidents of substandard or incomplete appraisal work to state authorities as well as to The Appraisal Institute.

While Congress considers HR 1728 to improve appraisal industry, another pending bill, Senate Bill 1230, would nearly double home purchase tax credit to \$15,000.

For his part, David Kittle, chairman of the Mortgage Bankers Association, said it is up to consumers, investors and mortgage industry itself to weed out bad apples and not to count on Congress to solve the problem.

"The people in Congress making laws don't understand our business," he said, adding, "When somebody's doing something wrong, call them out and get them out of our business."

Pat Vredevoogd Combs, 2007 president of the National Association of Realtors, also recommended that Congress make tax credits available to all homebuyers and not just first timers.

Tommy Williams, 2008 president of the National Auctioneers Association, said professional auctioneers could also help market recovery by selling real estate at real market values. He added that auction participants already have their financing in place before they bid on properties.

Norris, for his part, recommended that Congress do several things to boost the real estate market. These include:

- Increase the number of loans made available to well capitalized investors: Expand Fannie and Freddie loan programs from a maximum of

loans per investor to an unlimited number of loans for qualified investors.

-- Make the 203K FHA loan program available to investors: A 203K loan allows a property needing work to be purchased "as is," but included in the loan amount is money for repairs. The loan funds both the purchase and rehab of the property. Investors need this loan now, but this loan is currently only available to owner occupants. FHA previously made this loan available to investors, but stopped the practice in 1996 when HUD ran out of lender owned, fix uppers. Banks could solve the vacant house problem by giving investors back the 203K loan program.

-- Eliminate the 90-day waiting period before a repaired property can be sold to a buyer using an FHA loan: Investors who purchase fixer uppers can often completely repair the property in a matter of weeks. But the current law prohibits investors from reselling the property within 90 days. The assumption is that fraud must be taking place if a property

is

resold within 90 days. It's ridiculous to assume that every investor who purchases a property, improves and resells it is

committing

fraud. All this policy does is increase investors' costs of purchasing and rehabbing vacant homes.

-- Allow loans to be taken over by credit-qualified new buyers with no down payment. Through this process, which was successfully used in the 1980s,

new buyers simply step in and take over the loan payments. The only stipulation is that the loan has to be made current at the close of escrow. The U.S. currently has about one million owners who will not be

capable of keeping their homes without a huge discount on the principle

balance. Many of these properties have fixed rates at very favorable rates. Allowing willing and capable buyers to come in and take over these loans would help contain the spread of foreclosures across the country.

Thornberg, for his part, said it's not realistic to assume that our nation's economic problems will be solved by increased regulation or by presidential action. The economy simply needs some time to heal itself, he said. But despite the near term trouble, Thornberg remains optimistic about the future.

"I have tremendous faith in the U.S. economy rebounding again in the future," he said. "And when we come out of this in two or three years, we're going to have cheap housing and a weak dollar, which will be good for exports."

Norris said California housing affordability levels are already at their highest levels in history.

To view the complete panel discussion on video, visit www.isurvived2009.com. To schedule interviews with Norris and other experts quoted in this release, please contact Aaron Norris at (646) 418-4437. Also, be sure to visit www.thenorrisgroup.com for the latest press releases and recordings of Bruce Norris's interviews with prominent economists, lenders and real estate experts across the country. His weekly real estate radio talk show airs at 6 p.m. Saturdays on KTIE 590 AM in the Inland Empire.

SOURCE The Norris Group

Aaron Norris, +1-646-418-4437, aaron@thenorrisgroup.com

© Thomson Reuters 2009. All rights reserved. Users may download and print extracts of content from this website for their own personal and non-commercial use only. Republication or redistribution of Thomson Reuters content, including by framing or similar means, is expressly prohibited without the prior written consent of Thomson Reuters. Thomson Reuters and its logo are registered

trademarks or trademarks of the Thomson Reuters group of companies around the world.

Thomson Reuters journalists are subject to an Editorial Handbook which requires fair presentation and disclosure of relevant interests.