



The Bulletin

Philadelphia's Family Newspaper
"Nearly Everybody Reads The Bulletin"

Home Delivery Today!!!

Subscribe to The Bulletin

Tuesday, September 23, 2008

Vol. V No. 184
The Bulletin

INSIDE TODAY'S BULLETIN

CONTACT THE PUBLISHER

NEWS: LOCAL | NATIONAL | WORLD

COLUMNISTS & COMMENTARY

LETTERS TO THE EDITOR

SPORTS

ARTS AND CULTURE

SOCIETY

LIFE LINES

MONKEYBRAINS

BOOKS

SPECIAL SECTIONS

WEATHER

BULLETIN BOARD: BUY OR SELL

EVENTS CALENDAR

COMMUNITY WEBSITES

YELLOW PAGES

ADVERTISING WITH THE BULLETIN

WHERE TO BUY THE BULLETIN

SUBSCRIPTION PAGE

PHOTOGRAPHY

INSIDE TODAY'S BULLETIN The Hows And Whys Of The Housing Crisis

By Chris Freund, The Bulletin
09/23/2008

[Email to a friend](#) [Post a Comment](#) [Printer-friendly](#)

Danny Cachuela leads a real estate team at Prudential Fox and Roach in Newtown Square. With a background in finance, government affairs, marketing and economics, and as a former CEO of an international corporation, Mr. Cachuela offered The Bulletin his unique insight into the state of the housing crisis, and his outlook for its rebound.

The Bulletin: Why did the real estate market collapse?

Danny Cachuela: The primary reason for the collapse was the lenient credit practices by the lending industry, specifically that lenders stopped following the old 28/36 guideline. This guideline stipulated that a borrower's total housing payment should not exceed 28 percent of his monthly gross income, and total monthly debt payments (housing payment plus other debt payments) must not exceed 36 percent. Lenders loosened this guideline to the point that it wasn't being followed, as long as you had an acceptable credit score. Even worse, lenders came out with "stated income" and "no-doc" loans, where borrowers didn't have to document their income or assets. And certain mortgage brokers/lenders engaged in fraudulent transactions, resulting in more people qualifying for homeownership, which artificially inflated the market.

With the collapse of the lending industry, these "qualified" buyers disappeared, thereby reducing the pool of buyers. Demand diminished and inventory of unsold homes increased. This resulted in homes selling with reduced appreciation, and in some areas, a decline in value.

TB: Did constant media exposure about the downward market contribute to the collapse?

DC: Yes, and it affected buyers in our region. Although there was a severe market decline in areas such as Florida, Arizona, Michigan, Nevada and California, consumers perceived the news to apply to Pennsylvania. But the decline in these regions, unlike Pennsylvania, was due to artificially high appreciation they enjoyed during the "good" market. But perception of the downturn as a whole became reality. So, many homebuyers stopped looking for homes, and many of those still looking gave "lowball" offers. This caused a lot of homes to remain unsold, resulting in market slowdown. Some recent statistics for our region are telling. As of Aug. 2008, the 12-month average sales volume of residential sales declined 22 percent in Berks, Delaware, Chester, Montgomery and Philadelphia counties, while average prices had zero appreciation, unlike the other states (mentioned above) that experienced significant price erosion. In comparison, there was a 5-percent annual increase in volume, and 11 percent increase in price in Aug., 2005.

TB: We hear the term "sub-prime" quite a bit. What does that mean?

DC: Sub-prime loans are those made to borrowers with less-than-perfect credit, and who don't qualify for the lowest market interest rates due to credit issues or other underwriting deficiencies. The interest charged on sub-prime loans is higher than those that could be obtained by those with good credit rating. With the present credit crisis, it is now more difficult to obtain a loan - unless you have excellent credit. For buyers with good credit, now is the best time to buy, with plenty of houses to choose from and with low interest rates.

TB: How should people adapt to the current market situation?

DC: Buyers and sellers must understand the real market situation and adjust their expectations to a reasonable level. Some buyers are making offers at 10 percent to 20 percent below the asking price. The "discount" these buyers expect is causing the market to freeze since sellers obviously won't accept unreasonably low offers. Buyers should set their offer price based on recently sold homes, and not discount too much off the asking price. Sellers should no longer expect the above-average appreciation rates that were enjoyed in the past, and their asking price should be based on comparable homes that actually sold, not on the asking price of homes that are currently on the market. This market will start moving in the right direction once both buyer and seller expectations are in line with reality.

TB: What is a short sale, and how is it being utilized in today's market?

DC: Some unfortunate homeowners need to sell their home for various reasons: be it layoff, divorce, relocation, illness or even those with adjustable rate mortgages whose rates are scheduled to adjust. However, because of the slow market, they can't sell their homes at a price that is sufficient to pay off their loan balance and cover selling expenses. So they engage in a short sale. This is when homeowners write a check at settlement to cover the deficiency in net proceeds. If they can demonstrate financial hardship, the lender may approve a short payoff of their loan, and they may go to settlement without having to write that check. People looking to refinance instead of selling their house could also be



SITE SEARCH

Search input field with a 'GO' button and a link to 'Advanced search'.

Daily Provocation

"Much learning does not teach understanding."
Heraclitus

trapped because getting a new loan is not as easy anymore. So they too may be forced to sell. Handling the negotiation with the lender, for the borrower to be approved for a short payoff, is a challenge. This is an entirely different business requiring different skills and is not part of a typical realtor's work. In some cases, borrowers use an attorney, but employing a realtor knowledgeable in short sales lender negotiation can be very effective due to their experience in real estate. In short sale work, the negotiator analyzes a homeowner's financials to see if they would qualify for loan modification. If a homeowner qualifies, steps can be taken so that they can continue to own their home and avoid foreclosure. Otherwise, short sale will be the next course of action, and followed by a Deed in Lieu of Foreclosure, which is a process of voluntarily turning over the possession of, and the deed to, the property to avoid foreclosure.

TB: What is the anticipated effect of the government bailout of the mortgage industry?

DC: The government bailout is necessary - although not without high costs - to avoid the economy from going under. The benefits of the bailout far outweigh the costs associated with the bailout.

I believe the economic impact depends principally on consumer perception and, consequently, consumer confidence - or lack thereof. With the bailout, I think investor confidence will be restored and money will become available again, which will then increase the pool of homebuyers. This will have a positive impact in the real estate industry and the U.S. economy.

The plan is for the government to buy out "bad" loans from lenders. The details of how exactly this will be implemented is not known, and what government will do with these bad loans will determine what will happen to homeowners who are under the threat of foreclosure. This still remains to be defined.

TB: What is the outlook for the market's recovery?

DC: Just like the good years in real estate couldn't last forever, the downturn has to reverse itself as well. Buyers didn't disappear. They are just staying on the sidelines waiting for the signal that everything will be all right. This consumer confidence will be affected by factors such as inflation, unemployment, interest rates, and availability of funds for mortgages and other loans. For the government not to do anything to reverse the current negative economic trend would be catastrophic. So I believe the resolution of this crisis will fall into the hands of our next President, who also needs to instill confidence in the eyes of the consumers. I am optimistic that our economy will recover - although not quickly.

Chris Friend can be reached at cf@thebulletin.us

© The Evening Bulletin 2008

[Email to a friend](#) [Post a Comment](#) [Printer-friendly](#) [↑ Top](#)

Send us your community news, events, letters to the editor and other suggestions. Now, you can submit birth, wedding and engagement announcements online too!