

MORTGAGE LENDING UPDATE

By David Griffin

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Still The American Dream, Part 2

Now that we all know that government policies to compel mortgage lenders to make loans to people they wouldn't ordinarily make mortgage loans to is not really a good idea, here's some information from the National Association of Realtors' website (realtor.org) to help explain why owning a home, whose value, payments and upkeep is in reasonable proportion to your dependable income, should still be part of your American dream.

(I say that we all learned this, but apparently, the current administration still doesn't get it. More on that next week. And if you've not yet read Thomas Sowell's, 2009 book entitled, "The Housing Boom and Bust", stop what you're doing and go buy a copy. A quote from Mr. Sowell: "The current economic crisis itself grew out of politicians intervening in businesses and markets, making decisions for which they have neither experience nor expertise, much less a stake. To extend the same principle to other sectors of the economy is to invite a wider disaster, rather than an end to the current crisis.")

Now, back to our regularly scheduled program. "Homeownership offers immediate benefits and long-term value. Homeowners accumulate wealth for the future while enjoying the benefits of a shelter that they can use, improve and sell. Their home is a safe haven for investment. Buying a home should be approached as a good long-term investment, providing both equity accumulation and tax benefits over time. Homeownership is how many American families begin to accumulate wealth. According to data from the Federal Reserve Board, a homeowner's net worth is 46 times that of a renter's."

"Homeownership provides shelter and security to families, and fosters involvement in community life as well as participation in democratic institutions. Homeownership also provides important social and economic benefits. It is the cornerstone of a healthy community and the basis for positive community involvement. Homeowners are motivated to stay abreast of local issues to protect their investment. Research reported in the NAR study, Social Benefits of Homeownership and Stable Housing, shows that homeowners are more likely to vote and that they volunteer time for political and charitable causes more frequently than renters."

"Despite recent slowdowns, housing remains a good long-term investment, and demographic demand favors housing over the long term. Local housing markets may experience temporary price declines as well as rapid price increases in the short term, but over a typical six-year period of homeownership, home values usually rise at a normal, gradual pace. Exceptions to this general trend almost always result from prolonged localized economic downturns, often driven by job and population losses."

"Dollar for dollar, the rate of return on an individual's cash downpayment on a house is substantial. Buyers typically use their own money to cover only a small portion of the purchase price, but the home appreciation they realize is based on the total value of the property. Homeowners benefit from the power of leverage. Over 10 years, a \$10,000 investment in the stock market at a normal 10 percent market rate of return would yield \$23,600. The same investment as a down payment on a \$200,000 home at a normal appreciation rate of 5 percent would return nearly 5 times the stock market return, at \$110,300."

"Housing is not a quick-in, quick-out investment. When purchased for the long term, housing is one of the safest investments consumers can make. In addition to the savings accumulated through a buildup of equity and tax advantages, a home provides shelter. No paper investment provides this benefit. According to the 2007 NAR Profile of Home Buyers and Sellers, first-time home buyers made a median downpayment of 2 percent, while repeat buyers who financed their purchase put 16 percent down, indicating the wealth-building effect of homeownership. In areas across the country, conditions are favorable for home buyers, allowing many to achieve the American dream of homeownership."

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