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[Health](#)  
[Food](#)  
[Personal Finance](#)  
[Cartoon](#)  
[Frame Games](#)  
[Stickdoku](#)  
[Trickledowns](#)  
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### In this article:

- ▶ [Reality 1](#): Subprime and adjustable-rate mortgages hurt.
- ▶ [Reality 2](#): Americans have overdosed on home equity borrowing.
- ▶ [Reality 3](#): Buying a foreclosed home may not be such a big bargain.
- ▶ [Reality 4](#): First-time buyers finally have their day!
- ▶ [Reality 5](#): The trade-up you've dreamed of now may be within reach.

## Good news in a bad housing market

**It's tough out there. But there are still some bright spots for real estate buyers and sellers. Here are five of today's brutal realities - and what you can do about them.**

*By [MoneySmart](#) Contributing Editor Walecia Konrad*

### When Aaron and Jen May

bought a home in Wales, a Milwaukee suburb, for \$267,000 in 2005, they figured they would live there for years. The couple didn't think twice about the fact that their adjustable-rate mortgage ultimately would adjust. And they saw the \$60,000 home equity loan they took out partly to update the kitchen as a way to increase the home's value.

Then Aaron took a job in Denver, and the Mays suddenly needed to sell their house much sooner than they expected. Up went the "for-sale" sign, with an asking price of \$324,000. The couple waited patiently, but no buyers bit. They lowered the price to \$314,000, but still no nibbles. "I couldn't go any lower than that without losing money," Aaron says.

The Mays moved last November, but as of press time, their Milwaukee house still hasn't sold, and that adjustable-rate mortgage adjusted earlier this year, meaning \$400 more each month in payments.

"Could this situation get any worse?" Aaron asks in frustration.

### Storm clouds linger

There's no doubt: It's bad out there. Median home prices are flat nationwide and typically down 4% to 6% in the hardest hit markets, like the upper Midwest and parts of Florida, according to the National



**Whatever your reality, this is the time to reassess how your home fits into your total financial picture.**

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Association of Realtors. At the same time, the number of houses on the market has exploded, and the time they stay for sale has grown.

A good dose of perspective can ward off panic and avoid costly mistakes. To help you negotiate the rocky real estate world, we've detailed five real estate realities and how to deal with them.

### **Reality 1: Subprime and adjustable-rate mortgages hurt.**

Part of what fueled the record housing boom was the widespread availability of easy money. Subprime lenders made lots of exotic, risky loans -- 0% down, adjustable-rate loans with extremely low initial interest rates, etc. -- to consumers with less-than-stellar credit scores. In the best-case scenarios, this helped responsible buyers get into a house they otherwise wouldn't have qualified for and are now able to afford and maintain. In the worst cases, which are happening a lot right now, interest rates on these loans adjusted upward and/or principal came due, and owners now find themselves unable to make their newly inflated monthly payments.

For many of those stuck with these mortgages, refinancing is out of the question because -- in the face of the subprime mess -- lenders have tightened up their qualifying standards. And selling may be slow-going or impossible, depending on the market. The result? About 5.1% of all subprime loans were in foreclosure in the first quarter of 2007, a 45.7% jump from the same quarter a year earlier, according to the Mortgage Bankers Association.

What you can do: Talk to your lender immediately. Financial institutions have become more willing to renegotiate with borrowers rather than getting stuck with foreclosures. Also, call 888-995-4673, a hotline set up by the Homeownership Preservation Foundation. A counselor will work with you to come up with solutions on the phone or refer you to a local advocacy group that can help you renegotiate your loan.

Other help may be on the way: In April, Fannie Mae and Freddie Mac, the largest U.S. home lenders, pledged to help delinquent subprime borrowers refinance into more affordable loans.

### **Reality 2: Americans have overdosed on home equity borrowing.**

Homeowners have taken a record number of home equity loans and lines of credit to pay credit card bills, finance renovations and pony up for college tuition, using their home as an easy source of credit. Combine that excess borrowing with falling home prices and you have some messy situations when it comes time to sell. "We're seeing an awful lot of sellers come to the table owing money on their loans," says Tim Fennell, a real estate broker at Century 21 Atkins Realty in Jacksonville.

What you can do: If you have to move and can't sell, you will have to consider renting out your old home. (One real estate agent coined a name for folks in this situation: sell-lords.)

That's the route Aaron and Jen May ultimately decided to go. The rent they earn from their new tenants doesn't cover the entire cost of the mortgage and home equity loan, "but it goes a long way toward helping us stay solvent until things turn around," Aaron says. And, as landlords, the Mays can deduct rental-related expenses like advertising and

maintenance.

If you have to become a "sell-lord," find a tenant who won't get in the way of showing and selling the house when the market improves. Maureen Francis, a real estate agent with SKBK Sotheby's in Birmingham, Mich., recalls showing a pricey house occupied by renters. She and the potential buyers were met at the door by a Great Dane that had made a big mess in the front hall. "That house wasn't going to sell anytime soon," Francis says. "There's too much competition out there for a buyer to overlook something like that."

### **Reality 3: Buying a foreclosed home may not be such a big bargain.**

With all the distress in the market, it may seem like a great time to pick up something on the cheap that has fallen into foreclosure. Tread carefully: If you are looking at a house in foreclosure, chances are, other properties on the block or in a nearby neighborhood are in default, too. James Gaines, research economist with Texas A&M University's Real Estate Center, has seen some subdivisions with as many as 10% of the homes in default. Buying in an area like that means you'll have to wait much longer for your neighborhood -- and your property -- to recover.

Additionally, some banks and other financial institutions are keeping foreclosed houses on the market as long as necessary to get as much of their loan back as possible. As a result, you may not get a rock-bottom price on these sales.

What you can do: Instead of shopping foreclosures, scout out homes being sold by owners in the midst of a corporate relocation. Many companies are offering cash subsidies to help make up for declining home values when an employee is forced to move. This strategy works best in bedroom communities that cater to big national corporate executives. Look for news reports of big company branch and/or plant closings in your area. And always ask your real estate agent where the hot spots might be. Although these subsidized sellers must pay taxes on the extra cash, most price their homes very competitively because they know, for the most part, they're not going to lose money on the deal, real estate agent Francis notes.

### **Reality 4: First-time buyers finally have their day!**

It's a buyer's market. That means first-time buyers who have been sidelined by huge price increases are finally getting a break. Take Rafael and Melissa Axen. After having a baby, the couple wanted to move back east from San Francisco to be near family. As prices dropped during their house hunt, the couple found they could afford more and more home. They chose a four-bedroom house overlooking Fox Hill Lake in Ridgefield, Conn. They paid \$560,000, more than \$150,000 off the asking price. "We weren't in a hurry, and there were no other buyers. We kept coming back, and eventually they took our offer," Rafael says. The lower price let them fund repairs, renovations and an addition.

What you can do: Before bargain-hunting, make sure you have at least a 10% down payment saved up. Get your credit reports from Equifax, TransUnion and Experian, and fix any problems immediately. Lenders are scrutinizing first-time buyers more closely than ever. Finally, avoid too-good-to-be-true financing deals.

### **Reality 5: The trade-up you've dreamed of now may be**

### within reach.

Your dream home finally may be affordable. That's what happened to Donna and Alex Crowther of Bloomfield Hills, Mich. They were boating with friends on Cass Lake last year when they spotted a "for-sale" sign on a gorgeous three-bedroom home overlooking the water. "We went to look at it, even though we knew we could never afford the \$850,000 asking price," Donna says. Several months later, when the sellers were about ready to move to the West Coast, the Crowthers nailed the sale for \$775,000.

Faced with the new mortgage, the couple suddenly had a new worry: selling their current home in a neighborhood that had almost 50 competing properties for sale. They priced it aggressively at \$530,000 -- about \$50,000 less than a similar home already for sale across the street. The strategy worked: They had a buyer in just six days. "We lost money on the sale, but we were making it up on the other end because we got such a great deal," Donna says. "I never dreamed we'd live in a house like this. Every day looking at the lake is like being on vacation."

What you can do: Be a shrewd bargainer. Put pressure on the seller by scouting similar homes in the neighborhood at lower prices. And carefully check the time a house has been on the market. It may look like a home just came up on the multiple listing service, but the sellers may have listed it earlier and pulled it off when no one bit. The longer a house is on the market, the more likely the sellers will be to negotiate.

Even if you aren't buying or selling right now, you might be looking at your net worth and feeling a bit less flush these days. This is the time to reassess how your home fits into your total financial picture. "A home was never meant to be a speculative investment or a way to finance the rest of your expenses," says Robert J. Shiller, an economics and finance professor at Yale University. "It should primarily be, quite simply, the place you want to live."

*Cover photo illustration by C.J. Burton for USA WEEKEND*

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