

Of Myths and Dreams: Homeownership Can Become a Nightmare

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In an effort to provide means through which apartment residents can be recruited and retained, the National Multi Housing Council (NMHC) has created an easy-to-read brochure to help consumers understand the "true costs of homeownership." NMHC will also undertake a media campaign to "create a more balanced playing field for rental housing," a call for people to think twice before jumping into homeownership, many times for the wrong reasons.

The publication, titled "Don't Buy the Myths: Renting Can Be a Smart Investment," provides reality checks for those who place great emphasis on homeownership, or what NMHC calls the myth of the American Dream. Just as it is nearly impossible for a great number of Americans to own that big home with a large yard that they dream of, so is it risky for some to own their own homes, no matter what its size or cost.

The Bush Administration has seized on rising homeownership rates as a major contributor to the country's economic revival and social stability, noting that homeownership in America is at its highest rate ever — a whopping 68.6 percent of the country's residents own their own homes.

However, some maintain it is historically low interest rates, not federal housing policy, that explains this bright spot in the national economy. That's the opinion of Henry Cisneros, former U.S. Department of Housing and Urban Development (HUD) Secretary, and Bruce Katz, of the Brookings Institution and former chief of staff at HUD, writing in the Pasadena, Calif. *Star-News* on June 5.

During the past decade a combination of factors — some good, like the lowest mortgage rates in four decades, and some bad, like the growth of personal credit problems — have produced record foreclosures, according to a story in the June 7 Pittsburgh, Pa. *Post-Gazette*. This has, for many, caused the dream to become a nightmare of mortgage payment defaults, tax liens, court filings, appeals and, finally, evictions.

The *Post-Gazette* reports that the rates of foreclosure of all residential loans increased during the last quarter of 2003 but notes that there is no industry-wide repository of residential foreclosure numbers, and no govern-

ment agency requires such reporting. It also notes that the National Consumer Law Center, a Boston-based not-for-profit consumer organization, estimates the number of residential foreclosures pending nationally at the end of 2002 at 677,000, a conservative number roughly equivalent to the population of Baltimore.

Will the trend continue? There are many reasons to think it will.

The Mortgage Bankers Association in June 2003 estimated that the 40-year lows in interest rates would lead to a \$3.3 trillion in mortgage originations for that year — far exceeding the origination record of \$2.5 trillion set in 2002. Lower interest rates caused consumers to take out larger loans with their concomitant bigger monthly mortgage payments. In some cases, consumers' credit was poor, forcing these homeowners with poor credit to agree to non-conventional, or subprime, loans. This allowed the refinancing of their debt but at the cost of higher fees and interest rates. Given these circumstances and the fact that the peak time for loan defaults is three to five years after origination, there could be more foreclosures looming on the horizon as strapped homeowners face unforeseen maintenance and increased taxes.

Subprime loans are aimed at borrowers with limited incomes or with poor or no credit histories — HUD found that a disproportionate percentage of subprime loans are made in low-income neighborhoods. They comprise 10 percent of all residential mortgages, although the majority of them - 61 percent - are undertaken to refinance debt. While all subprime loans are not predatory loans, all predatory loans are subprime loans, giving some insight into why one in 12 subprime loans ends in foreclosure while only one in 100 conventional loans does.

Some responsibility for bankruptcies and foreclosures can be blamed on unscrupulous lenders, but those who borrow more than they can or should, clearly must shoulder a lot of the blame. NMHC's brochure is a good resource for those who work in the affordable housing industry. It is full of helpful information and examples that illustrate why, in some cases and despite the advice of well-meaning people encouraging everyone to buy a house, renting may not be "throwing away money," but actually saving it. ❖