

Advice for Home Owners: Do Your Best to Wait Out the Storm

Mary Rowland Personal Finance Column – February 2009

For homeowners, it seems the news couldn't get worse: Housing prices have fallen every month since January 2007. Prices fell a record 18 percent from October 2007 to October 2008 in twenty large U.S. cities measured by the Standard & Poor's/Case Shiller Home Price Index. Six of them posted record one-month declines from September 2008 to October 2008: Tampa, Atlanta, Detroit, Minneapolis, Washington, DC, and Charlotte, NC. Prices in Miami fell by 29 percent in that one-month period.

Many economists expect housing prices to continue to fall throughout 2009. And consumer confidence fell to its lowest levels on record in December, with most Americans saying the business and employment conditions at the end of the year were bad to terrible. Consumer confidence is an important indicator for the housing market as consumers purchase little when their confidence is low – and they rarely buy houses if they fear they may lose their jobs.

So what is an American homeowner to do if the price of his or her home has plummeted over the last year? Two pieces of advice that apply no matter what your age: If you don't have to move, if you can keep up with your mortgage payments, don't do anything. Sit tight. Second, don't give in to fear and depression because if you do and I do and everyone else does, the recession will be prolonged. We must start doing something, moving forward, rather than hiding.

Don't listen to the "experts" who say real estate will never recapture its old values. No one knows what will happen. What we can expect is that when the smoke clears, you will be better off owning a piece of property than if you had no assets. Instead of following the gloomy prognosticators, keep a journal of lessons you are learning in the financial chaos of 2008, and don't let yourself forget them when the economy turns around again. It will.

If you are **JUST STARTING OUT** and have purchased a home and watched the value sink, you will never forget this lesson. Hang on and see it through. If you took out an adjustable rate mortgage (ARM), find out when your interest rate will be reset. Many people bought houses with ARMs over the last decade because the low teaser rates made the homes more affordable. But when the rates are reset, they go up and so does your monthly payment. If you're already stretched to the limit, go in to see the mortgage lender before the reset date and seek concessions. Explain that you won't be able to pay the higher interest rate and ask what kind of arrangements might be made. Millions of people are in this position and banks would rather adjust rates than foreclose on your home. The market is already glutted with foreclosures.

Suppose you are **IN YOUR MIDDLE YEARS** and you believe your financial situation couldn't get worse, what with paying for college and saving for retirement and helping elderly parents. Keep your hat on. If you have owned your home for many years and you have a fixed rate mortgage, you can wait it out.

In many parts of the country, recent property tax assessments have substantially raised taxes. Over the past year as housing prices have dropped, the tax assessments may be too high. If you can prove the value of your house is much lower than the tax assessment, apply to have the tax assessment reduced. No guarantees here.

If you must move, you might be able to negotiate with the lender. Also, if you are moving at the request of your employer, let your supervisor know that you need to be made whole on your mortgage deal.

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Are you **NEWLY RETIRED OR ABOUT TO RETIRE?** Hold on to your home for now. If your retirement plans include a move to a smaller home in a different part of the country, put it off until the market improves. Ditto if you are planning to use a reverse mortgage to help finance your retirement. A reverse mortgage, in which the lender pays you to stay in your home and then sells your house and keeps the money to pay off the loan depends on the value of your home. If your home's value has plummeted, don't take out a reverse mortgage now.

No matter what your age, if you are in the housing market to buy, congratulations! Real estate agents say that in many parts of the country, homes are not selling unless they are priced as low as foreclosures. Get a fixed rate mortgage. Put down as much as you can. Avoid any gimmicky mortgages such as those where you do not start paying down your principal right away.

Mary Rowland is a nationally known business and finance writer. The former personal finance columnist for The New York Times and former co-host of a nationally syndicated radio show, Ms. Rowland is the author of several investment books and speaks regularly to consumers and financial planners about investing and personal finance.