



In the Loop Realty Newsletter

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Amerival

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Real Estate
Businesses
Personality

IRRATIONAL EXUBERANCE!!

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**GREENSPAN'S INTER-
PRETATION!!**- Greenspan has been and likely still is one of the most revered prognosticators in American history. Rejected for military service in 1944 for a spot on his lung. A Julliard graduate who focused on playing the clarinet began his music career as a clarinetist in the travelling band of Henry Jerome. But business was his pursuit but not operationally but via formulas and interpretation. Yes, the economic genius who virtually drew the financial path of the United States came closest to being a "business man" by running a consulting firm that forecast the economy until 1968 when he was enticed into the political maze beginning with Nixon. His record is quite good but not perfect and sometimes in a big way. He termed the present credit and housing crisis as "irrational exuberance". Where was he when it was growing at leaps and bounds? He recently stated that the housing prices will still drop significantly and for a good period of time whatever

that may be. I believe I've finally figured out how these economists are always right. It's the simple law of physics, *whatever goes up must come down* therefore, wherever the economy is at any given time it's time to start talking about the up or downturn that is inevitable..... and we pay these soothsayers!

SO! RELAX! I predict that the housing market will come back very strong and the economy will grow, and there will be a great demand for the workforce at all levels. Well, I'm not wrong. The problem is the timing. Will it happen fast enough to save more jobs and to create a need for greater employment which is crucial to the recovery we need?

In the 1950's the US was experiencing a non-growth economy. Nothing was happening. Returning servicemen were not readily employed because there was no demand for products and some services. Eisenhower was elected president in 1952. He gave what I believe to be one of

greatest executive statements to the general public. Paraphrased it was... *buy something, anything, but buy*. It takes all of us to create demand. An economic principle and one that is also a real estate principle is "Supply and Demand". Basically, it sets forth that the greater the supply, the lower the price of a commodity; and, conversely the greater the demand for a commodity the higher the price. One must embrace the school of microeconomics which focuses on the actions and interactions of corporations and consumers and the aggregate impact their behavior and reactions have on pricing and quantities.

Simply, listen to ol' Ike and "*buy something, anything, jut buy*". Sounds too simple doesn't it, but it's the starting point of recovery.

Greenspan's "*irrational exuberance*" is a disparagement of the American public who reacted to the economics he and some many others took credit.

After leading the sheep, they have the audacity to condemn the flock as being too ignorant to know the way.

FANNIE MAE TO THE RESCUE- On the surface but for real?? This past week Fannie announced that they are offering a mortgage plan for what they term "underwater" property owners. A more recognized term is "upside down". Both refer to those who owe more on their property than the value of the property now. They will provide mortgages up to 120% of the value of the property at lower rates or extended periods or at a fixed rate instead of a roll-over. Allegedly there are about 150,000 homeowners who could benefit. Unfortunately, this is not requiring lenders to "write-down" their mortgages.

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However, this really is just postponing the debt with hopes that the new mortgage will be paid by the property owner and eventually the value will catch up. This is very likely a self serving tactic as it is pushing losses they are about to incur to a much later date. This will help their very weak financial picture now.

Appraisers are well aware of the less than benevolent decisions Fannie Mae forced on their profession. For all the changes on Fannie Mae reporting forms in March of 2005 not one was “truly” value oriented. The sole intent of the changes was to have appraisers report underwriting data which all lenders already would have in their possession. However, should an appraiser fail to report or mis-report in error, they could be liable if there is a problem with that loan in the future. Right, then the appraiser’s liability insurance is within reach of a lender.

5 INCENTIVES FOR HOUSE SELLERS-

1. “Carry Back Loans” best done when bifurcated into a 1st and a 2nd which make it difficult for a borrower to borrow again thus placing the house value in jeopardy. This type note should also have a “due on sale” clause so the loan can’t be transferred. Very risky with marginal buyers.
2. *Cash-Back Offers* are somewhat reasonable. It’s the seller offering to pay (as example) one years mortgage payments or allocate an assigned amount to be paid back to the purchaser at closing to be used for decorating, repairs, etc. However, if the lender is aware of this arrangement and legally should be the mortgage amount can be lowered to compensate for the “not equity” amount.

3. *Special Incentives* are fairly common. They can be vacations, season tickets, gas gift cards, etc. Hard to believe that people would make a decision as important as their new home based on baseball tickets. But I guess some would.
4. *Lease Option* has been around for decades. Some tentative buyers who can’t decide between renting and buying would find this option very motivating. Usually, a purchase price is set at the lease option signing and must be enacted within a set period. Often it is tied to a 20% equity factor over the purchase price which assists greatly in obtaining a bank mortgage.
5. *Mr. Big* of incentives is simply offering the house at a reasonable price reflecting the current market conditions. As I suggested in my last newsletter a property should be offered within 5% of market value.

APRIL JOB LOSSES- It is reported that 20,000 job losses occurred in April which is also the fourth consecutive month of decline. This prompted many economists to scream “recession”, however, it was less than what was expected and the employment rate actually dropped to 5%. Yes, we know by now that it is a false indicator anyhow. It only counts those who are collecting unemployment and not those who no longer can collect. There is no job training funding available now and may be available in July at the earliest. Well, here we go again. The “underground” economy. People have to do something to earn a living. There truly are mouths to feed and roofs to keep over our

families heads. Two parties benefit from this entrepreneurial forced undertaking. First the person offering the service can earn needed funds and those availing themselves of the service are saving hard earned and limited money. Get past the “their cheating Uncle Sam”.

They’re spending that money and with those expenditures they are paying local, state and federal taxes. Those monies are going back into the economic system.

SOVEREIGN BANK- On May 12th Sovereign Bank said it is making a public offering of \$1 Billion in shares of common stock. It is needed for general corporate purposes (salaries, rent to Jay Saydu, former founder and CEO). The next stock notice to shareholders will likely be a bill to send them money.

AIG- American International Group, the world’s largest insurance company is in serious trouble losing \$7.81 billion o4 \$30.09 per share the first quarter of 2008. It must raise over \$12 billion to cover expenses for the coming months. And, yet it raised its dividends by 22 cents per share. Go figure!!!

WHAT IS A \$BILLION?- My last newsletter gave dimension to a “billion”. Here’s a follow-up. A Louisiana senator is requesting \$250 Billion for New Orleans. Here’s what it really means. Each of the 484,674 living people in the city would receive \$516,528. Or if it’s divided by the number of houses, 188,251, each house would receive \$1,329,787. Or, if you are a family of four, your family would receive \$2,066,012.

Please don’t respond to this newsletter. I’m leaving for New Orleans.

HAVE A GREAT WEEK!!!