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CELEBRATING 55 YEARS

Connecting unemployment and the declining market

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A thought occurred to me when I was in Boston the other day. I saw the same guy (let's call him Joe)Â who has been at the same corner for the past 10 years holding a sign asking for money. He looks 30 something and was dressed neatly. I also noticed some help wanted signs up the street at some fast food restaurants.

Now, according to the U.S. Department of Labor, Mass. had a 4.4% unemployment rate as of March 2008. Of course this does not factor in some of the labor force who might be bilking the system and not aggressively seeking out an income stream from employment. Nor might it consider "under the table" employment. Historically, Mass. had a record high unemployment rate of 10.9% in 1976. In 2000 it had a record low of 2.7%. We are still seeing a near record low unemployment rate in the commonwealth. Does it mean that we are working at the jobs that we really want? Getting the pay grade that we think we deserve? Maybe not. But it does show that the majority of us are working. Jobs might not be the "career" type and might just be entryÂ to minimum wage level but most people in the state are going to work every day. Store this information away for a bit.

Now let's jump topics and examine this issue of declining values. We appraisers are faced with declining values in many cities and towns throughout Mass. It is up to us to determine what exactly is going on and cite the historic trend. Historically, our homes are worth much more as a whole than they were 20 years ago. How about 10 years back? Five years? Did we go back to that 1988 value or haveÂ we finally reached theÂ adjustment period we knew was approaching? The bad news is a large number of people refinanced during this adjustment period. Many will bear the brunt of foreclosures and high interest rates. Those arm loans are going to adjust into a terrible monster with little hope of getting into a fixed rate.Â Not to mention the many sub-prime loan programs and suspect income verification that served as food for theÂ monster to grow stronger.Â A bailout strategy is a constant topic of discussion in the media these days.

Appraisers examine data andÂ trends to determine any increase, stability, or decline in values.Â The declining market segment is not only delineated by the appraiser, no matter what box is checkedÂ or written in the report, but also by the DU (desktop underwriting software). This is the standard for Freddie Mac and Fannie Mae. The investment company itself also has a list of counties considered to be affected by declining values. They claim their list comes from PMI (private mortgage insurance companies). If the borrower's countyÂ is on the list of declining values, 5% of the maximum funding available for that particular loan program is reduced. This makes the holeÂ a bit deeper for the owner looking to climb out of declining value pit.Â This does not apply to FHA loans, resulting in their increasing popularity.Â Fortunately lenders are now removing counties from their list and we now appear to have approached a period of stability. Families are working as a whole to keep up with their mortgage payment. Their jobs might not beÂ what they were looking for. It is just "a job" but it may beÂ one of a few one has to bring in the funds needed.Â

Now back to Joe our sign holder. With jobs offered in proximity to him, why is he still holding that sign for money? Did he "crunch" the numbers and figure out the system? Joe might have realized that his form of "work" has no netÂ costs to deduct. It is all gross income and cash at that. I am sure a lot of us ran these numbers through our head at one time or another if we saw Joe or one of his friends. Now if we could get Joe to tell us the truth about what he collected during each year he was on the corner we might have unlocked theÂ secret toÂ the issue of Â unemployment and declining values. Did he collect the same amount during each year of our "declining values" and "unemployment scare"? He might be the Rosetta Stone we need to decipher the real economy!

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