



# nerej

## Have we learned anything yet about the market?

October 15, 2008 - Spotlights

Some lessons require learning over and over again before we truly "get it." Case in point is the current economic mess in which we find ourselves. It certainly doesn't take a rocket scientist to figure out that when the lending industry institutes unsound practices such as NINA loans (no income, no assets documentation) and subprime mortgage vehicles with the full knowledge that the consumer cannot financially handle the mortgage payment when rates jump, trouble is just around the corner.

This is not to say that the lending industry is the only culprit. Wall St., Fannie Mae, Freddie Mac, and yes, even some appraisers share in the blame. We are currently witnessing the impact of the perfect storm in the economic arena, and we will all be paying the price for a very long time.

Most crises, and this one is no exception, are not the outcome of one or even two colossal bad judgment calls, but the accumulation of many minor events that when added together create a devastating tsunami. In retrospect, the extent of the abuses was so outrageous, we have to ask ourselves, "How did the situation ever get past regulators?" and "How could we have been so naïve?" We seem to have lost all common sense. We were asleep at the wheel.

So, where do we go from here? What are the lessons we need to learn, again? Here is my list:

Lesson No. 1: Mortgage transactions need to be as transparent as possible so that the consumer is fully aware of his or her responsibilities during the entire length of the mortgage. If a mortgage has an adjustable rate, the consumer must be told what the payment will be not only today, but what it could potentially be if the rate is at the maximum allowable during the term of the mortgage. This will allow the consumer to make a fully informed decision.

Lesson No. 2: The most important lesson you can walk away with from this crisis is that the only person responsible for your economic well being is you. Too often, people become overwhelmed by the financial world and turn their assets over to someone they trust or they think they can trust to manage their nest egg. This is about the worst course a person can take. Everyone needs to educate himself or herself about the various financial vehicles available to him or her and be an informed consumer whether it is mutual funds, certificates of deposits, a 401k or the like. If an investment seems too good to be true, it probably is. To become educated about finances, check out adult education courses at the community level and learn from on-line research. Don't believe everything you hear or read about a particular investment vehicle especially from someone who would benefit from the sale of the vehicle. Be skeptical and do your research.

Lesson No. 3: A credit card, like fire, is a wonderful tool if used correctly, but can cause substantial damage if used inappropriately. Interest rates on credit cards can range from 0% on special limited time offers to as much as 39% annually. Add in late fees, and the interest rate can be even higher. Pay the balance off monthly and on time. If you cannot do that, don't use the credit card.

Lesson No. 4: If you can afford a mortgage payment but not a down payment, you probably cannot afford to be a home owner. You may inadvertently be setting yourself up for failure by creating a situation whereby you are totally living on the edge of your financial capabilities. What is to happen if you buy a home and the furnace breaks down and needs to be replaced? If you can afford a mortgage payment but not a down payment, the question needs to be asked if you can afford to be a home owner with all the responsibilities that home ownership implies. All too often the attitude is that you get into the American dream and then live happily ever after. This just is not the case. Once you own a home, you have not only mortgage payments but all maintenance issues as well - the furnace that goes on the fritz (always in the middle of cold weather), the water pipe that bursts, the foundation that springs a leak, the refrigerator that conks out, the water heater that stops heating water.Â

Lesson No. 5: We lost sight of the golden rule - treat others as you would have them treat you. If you are in an occupation just to make money with no other motivation, you may be in a position to cause damage. Business transactions must be a win-win situation. If someone gets taken advantage of, the business deal is not in the interest of both parties.

Let's pray that we have learned our lessons this time around!

Patricia Amidon, MAI, is principal at Amidon Appraisal Co., Portland, ME.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540