



A Different Approach to Revitalizing the Housing Market

Lyle Martin, co-founder and co-chief executive of Assist-2-Sell, shares his thoughts on what it will take to get the housing market back on track.

Reno, NV, February 28, 2008 --(PR.com)-- While U.S. Federal Reserve rate cuts and the economic stimulus package are helpful, they aren't enough to bring the economy back from the brink of recession. Some mortgage lenders' decision to temporarily suspend the foreclosure process through "Project Lifeline" is encouraging but more drastic steps need to be taken to help a housing market that is obviously in trouble.

Few would disagree that the explosive growth in the housing market (prices and inventory) over the past several years was stimulated by lenders providing easy financing. As is typical with most major purchases, as financing becomes more affordable, an increase in demand will follow.

While it is easy to blame "subprime" lenders, that serves no useful purpose. In essence, they were simply satisfying a demand. When a homeowner gets in over their head, shouldn't they be held responsible? Shouldn't they have taken the time to understand what they were signing?

In reality, they are no more to blame than those who got caught up in the "dot com" stock speculating. Who wasn't tempted to jump on board what appeared to be a never ending booming stock market? Watching home prices soar and the potential for homeownership start to escape the reach of the average consumer, who can blame people for jumping onboard before they were left behind?

Just like the stock market appeared to have no ceiling, the housing "bubble" appeared immune to bursting. Hindsight is 20/20 but just like the experts were unable to predict the crash of the housing market—and yes it is a crash—and no one is able to predict the recovery. Of course there will be a recovery. Will it be in six months, two years or 10 years? The United States' fragile economy cannot afford to wait for the market to self correct. The market was driven up by some creative artificial influences and it is going to take some of that same creativity to get it back on track.

-- Roll Back Home Prices

Today's artificially inflated home prices need to be adjusted back down to a value more in line with the value of the dollar, adjusted for inflation. This means rolling back prices to where they were at before "funny money" flooded the market. Since home appreciation is not consistent in every area of the country, roll back will not be consistent. In some markets, very little price appreciation was experienced. Those areas don't need to undergo a big adjustment. Other areas are even seeing normal appreciation. Some areas, like most of Florida, California, Arizona and Nevada, need major adjustments. They need to look at rolling back to pre-2003 prices, maybe even earlier.

Tough but necessary medicine. Lenders are already accepting this reality as they write off billions in loan losses and sell off foreclosed homes or negotiate short sales. Rather than have homeowners walk away from their homes, why not invite a compromise? Forgive a significant amount of the loan



balance—essentially re-setting the loan more in alignment with the new value of the home—and let them keep the home.

-- Promote Responsible Homeownership

Give people willing to take on the responsibilities associated with homeownership some extra help. Yes, the responsibilities of homeownership. Let's not make it so easy for first time homebuyers. Their first home may not be their dream home but whatever happened to delayed gratification? First time homebuyers need to be encouraged to start small and work their way up.

The government can play an important role by creating a new type of tax free savings account for first time homebuyers who want to save money for a down payment and closing costs. Money put into the account should be exempt from income tax. For example, if \$10,000 is set aside in the account over a period of time, then the \$10,000 (and all accrued interest) is not subject to income tax. Watch how fast people save up a down payment. Financial institutions will benefit from this influx of new savings, creating another source for mortgages besides Wall Street. Homebuyers will appreciate their investment more when some of their hard-earned dollars are put in as part of the purchase.

-- Extend Relief to Other Related Industries

The housing-related industries that are indirectly feeling the impact of the current housing market also need to be helped. Builders, landscapers, home improvement businesses, etc. Offer existing homeowners tax incentives for improving their homes. There is a lot of work that is needed on a lot of homes. New roofs; newer, more energy efficient heating and cooling systems; energy efficient windows; insulation, etc. This can help businesses as well as the environment.

-- Don't Forget Rentals

Investing in rental real estate helps provide housing for those not interested or perhaps unable to purchase their own home. Increase tax benefits for improving existing properties and eliminate passive income limitations. Reintroduce the tax saving incentive of accelerated depreciation. Shorten the depreciable lifetime on properties. Loosen up the 1031 exchange rules to allow more time to move between investments.

-- Emphasize Responsible Spending

In addition to not saving, many are struggling just to make minimum payments on their credit cards. Consumers need help getting a better handle on their debt. First, remove the temptation. Restrict the deductibility of home equity loans used for consumer debt. The deductibility of home equity loans was just too tempting for people. They borrowed against their hard earned equity to finance cars and home entertainment systems. Financing cars for 30 years has got to stop. Restore usury rates. The rates people are paying on consumer debt are unconscionable. When payday loan stores outnumber McDonald's, it is a sign a crisis is looming.

People need to be taught about more real world financial issues. Start in high school, maybe earlier. Kids need to understand that CDs don't just play music. To help people get unburied, restore for a limited time period, the tax deduction on existing consumer interest (such as credit card and auto loan interest).



-- Encourage True Savings

Motivate people to save. Look what happened in 1974 when Congress enacted the Employee Retirement Income Security Act (ERISA). This Act created the Individual Retirement Account (IRA). It started out simple and was overwhelmingly successful. For many, it resulted in their first savings account ever. Trillions of dollars in assets have been accumulated and IRAs represent the largest component of the U.S. retirement market. With private sector businesses unable to provide the retirement programs, along with the challenges faced by Social Security, more attention needs to be paid to improving this system. Boost contributions to IRAs by restoring tax deductible contributions to IRAs for everyone.

The consequences of continuing on the same course can only be the same results. One definition of insanity is doing the same thing and expecting different results. The Fed lowering interest rates time and again is not going to fix this problem. The Fed rate could be lowered to zero and people still would not be able to afford to buy a home or make payments on the home they already own. Sending small checks to millions of people failed before. Why would it work now? These challenging times demand real solutions. Not Band-Aids.

About Lyle Martin

Real estate veteran Lyle Martin is one of the original founders of Assist-2-Sell Inc., a full-service discount real estate company. Started in 1987, there are now more than 550 franchise offices throughout the United States and Canada. Assist-2-Sell provides home sellers and homebuyers with full brokerage services for less money. On the Net: www.assist2sell.com.

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