

# THE PAIN IN FALLING LAND PRICES

by David Collyer

The US housing market is a living hell. Homeowners are being boiled alive. The price of land was bid up to staggering multiples of incomes, until it no longer made sense to buy a house. And then the trend turned, hard and fast.

One in five US mortgages is 'underwater': the property is worth less than the loan it supports. The homeowner finds they have no equity. They see similar homes selling for less than they paid, much less. Their mortgage repayments are many times larger than the cost of renting a similar property.

But they are stuck. They cannot sell because they owe more than they own and would be bankrupt. Meanwhile, mortgage repayments swallow their incomes, a financial commitment that no longer makes any sense.

The Case-Shiller index shows the US housing market is still only halfway back to its long term trend. Prices must fall further maybe to 100 on the graph.

With falling prices, the number of people in this dire predicament can only

grow. The pain of negative equity is shared by the banks. If the homeowner surrenders, the bank is left with a property worth less than the loan they extended. These losses are already huge.

If only their problems ended there! Financiers are finding it difficult to prove to the US courts exactly who has the right to foreclose on failed mortgages. Quite reasonably, courts require lenders to show 'chain of title': when, where and how they came to own the loan. After all, they are being asked to evict property owners.

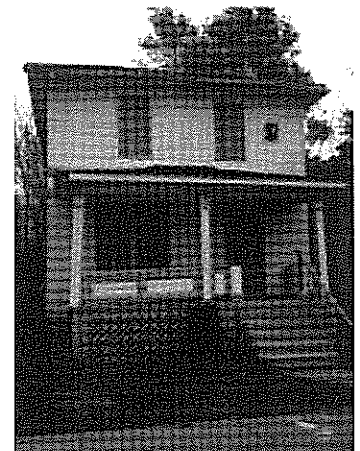
In the hyperactive years ahead of the bubble burst, documentation was poor. Brokers would leave critical parts of application forms blank; borrowers lied about their incomes and assets. The brokers didn't care - they were immediately selling the mortgage.

Linking papers were deliberately destroyed to prevent tracing back through the ownership chain to look for earlier fraud and to see what promises had been made about the quality of the loans.

The Massachusetts Supreme Court has just affirmed the decision of a lower court to void two mortgages and hand the properties to the borrowers because the banks could not prove they owned the loans.

Don't count on this as an escape clause in Australia. Our banks have watched this process with care. Their documents will be impeccable when they foreclose on your home.

## Homes in Detroit for \$500



Detroit Michigan:- the collapse of US manufacturing has shrunk the population of this former great city from 1.3 million to around 800,000 people. House prices have fallen dramatically. It is now possible to buy a home, a very modest dwelling, for under \$500. America's great westward migration was driven by the search for cheap land. Here lies a similar opportunity. It is easy to foresee Detroit being rejuvenated by businesses that can be located anywhere, like internet retailers. Land prices this low are an absolute magnet for enterprise.

