

Schniepps' Real Estate and Mortgage News

Vol: 1

Issue: 7

October 2006

Real Estate Bubble Update: Soft or Hard Landing

by Mark Schniepp

If sales volume is a leading indicator of the market, then the decline in the number of transactions this year would have us believe that a material price correction will follow, perhaps in 6 months or less. The previous loud debate over the existence of a bubble in real estate is now replaced by how hard a landing the sector will incur. And the current debate focuses on price appreciation and whether values will actually decline. Currently they have not, much. Consequently, the critical question now asked is how much and when.

The manifestation of a popping bubble is therefore consummated with the decline in the asset price, rather than a slowdown in the number of transactions.

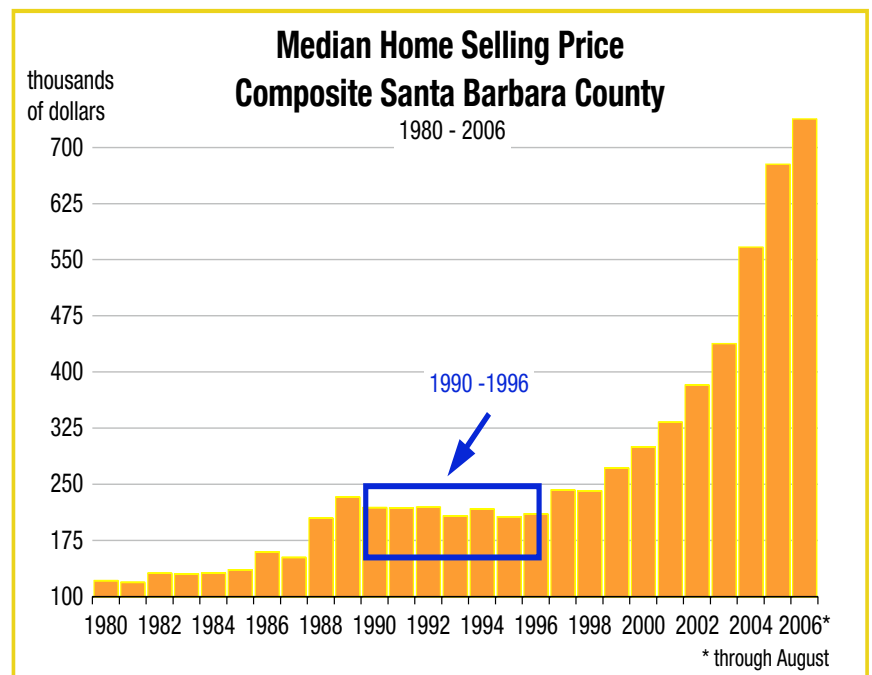
While the direct sectors involved—real estate brokers, title companies, mortgage companies, and home builders—are feeling a significant decline in activity and their livelihoods, home owners have not yet been materially impaired nor distressed. The economy, other than residential real estate, appears to be in pretty good shape.

Will the weak housing sector ultimately drag the rest of the economy into recession? And as a result, will the demand for homes evaporate causing housing values to drop like a rock?

We have a tendency to overemphasize the influence of the housing market on the general economy,

especially in coastal areas where the new home market is a much smaller part of the economy. In Santa Barbara, the emphasis is limited entirely to the existing home market.

rising again. During the 6 year period, the median selling value declined 11.3 percent, from \$233,300 to \$207,000. During this period, the regional economy was also characterized by widespread job loss,



Until distress becomes a more pervasive symptom in the local economy and among home sellers, it is unlikely that asset values (selling prices of homes) will significantly decline. Historically, even with distress, the decline in nominal selling values was not devastating, in California or Santa Barbara County.

During the weakest years of the California economy, nominal home prices did not fall much in Santa Barbara County. The composite selling value for all existing homes in the Santa Maria/Lompoc Valleys and the South Coast fell between 1990 and 1996 before it started

falling real wages, and declining household incomes. These general economic indicators are currently rising in Santa Barbara County and a recession is nowhere in site.

Consequently, unless we detect more pervasive economic distress in the California and the Santa Barbara County economies, we do not foresee material price declines in nominal real estate prices.

Debt Consolidation & Credit Scores

by Susan Schniepp

Are you, a friend, or family member paying off debt on multiple credit cards or making minimum payments on cards with balances? Consolidating credit card and other debts is one of the easiest and most effective ways to reduce monthly financial burdens.

There are basically four ways to reduce credit card debt:

- 1) Apply for a credit counseling program to manage debt.
- 2) Negotiate a debt settlement with creditors.
- 3) Balance transfer credit card debt to a card with a lower interest rate.
- 4) Refinance your home to pay off credit card debt.

The first three choices may adversely affect your credit score. Although credit counseling can be effective in reducing debt, you should know that many lenders view credit counseling as unfavorable when making decisions about whether to approve you for a

home loan. So if you are currently a home owner or aspire to buy your first home, credit counseling may not be your best choice.

If you negotiate with your creditors, be sure to ask how the settlement will be recorded on your credit report. It can impact both your history and your score. In making balance transfers, be aware that your credit is partially scored on the ratio of your outstanding balance to your credit limit for each card. Opening new accounts in order to jump from one card to another to get the lowest rate will adversely affect your score because of the number of new credit inquiries made to your account. If you are considering one of these options, feel free to call for a referral to a credit bureau professional.

Homeowners have several options which may actually improve their credit score. They

can either obtain a home equity loan or refinance their current mortgage. There are two types of home equity loans, lines of credit and fixed rate loans. If your first mortgage is fixed at a low rate, a home equity loan is likely your best choice. They are often offered at no cost! Lines of credit base their rate on the prime rate and require interest only payments for the first ten years. Fixed rate loans are fully amortized, requiring both principal and interest payments but are available at lower rates than the prime.

On the other hand, if the fixed rate period on your mortgage is soon to expire or is above prevailing rates, you might also consider a "cash out" refinance of your first mortgage. For help calculating which type of home loan suits your particular situation, feel free to call.



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