Existing Home Sales Fall Off a Cliff

August 24, 2010 - There is no good way to describe what happened to the sales of existing family homes in July. Overall sales fell by 27% over the previous month; one of the worst single monthly drops in history and the worst sales in the past 15 years. This is despite the fact that mortgage interest rates are at record lows. The news likely means that any talk of an economic recovery by members of congress and the White House are nothing more than wishful thinking and does not speak well for any hope of reducing unemployment numbers.

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New housing starts are a bellwether indicator of the health of the US economy because so many people make their living in the construction industry. While the numbers released today were not for new homes, they are a good indicator that builders will not be investing in new developments any time soon. The inventory of unsold homes - both new and existing - is currently approaching record levels. And many banks are holding what is referred to as shadow inventory - homes that they own but that have not been put on the market yet; largely so that there are never so many homes on the market that it collapses.

Most economists think that the drop off in home sales is due to the fact that government tax credits for new home buyers expired in May. These tax credits are largely credited for helping to increase home sales dramatically during the first half of this year. But most the people who took advantage of the credit actually planned on buying a home anyway. The tax credit just got them to accelerate their purchases; creating another housing market bubble which apparently burst in July. It could prove to be a classic example of the unintended consequences of government interference in the market.

The drop off in sales was not uniform around the country. The Midwest had a 35% decrease in sales in July, while the South saw only a 22% decrease.

This news is not just bad for those who are already having trouble with their mortgage payments. It could also prove to be an issue for anyone who currently has equity in their home and a job. If the trend continues, housing prices will begin falling again. This could place millions of additional households in the position of owing more on their homes than they are worth. It also means that consumers should continue to expect it to become even more difficult to qualify for a new mortgage as the market continues to adjust.

Some analysts expect that housing prices could dip another 15% this year. If that is the case, homeowner who are thinking about taking out a home equity line of credit need to be particularly careful. Once these lines of credit are used, lenders can call the loan back in if the value of the house exceeds the amount owed. This can force borrowers into selling or going through a foreclosure even if they are not otherwise in financial distress. This is not true however for anyone who uses a traditional mortgage to take money out of their house.

Given the state of the economy, ACCESS is warning anyone considering a new loan on their home to make sure that you understand the loan terms thoroughly .Taking out the wrong type of loan in a declining housing market could eventually cost you all of the equity in your home or leave you completely homeless.

byJim Malmberg

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