

# Opin Partners, LLC

September 18, 2009

## CONSUMERS' NET WORTH, HOUSING, RECESSION & RECOVERY

It is widely accepted that there can be no strong and permanent recovery from the present recession until the housing market is "fixed". The numerous actions by the Federal Government to date to resuscitate the housing market have certainly been helpful, however, it would appear that they will not be sufficient to resuscitate the market to a point where it could be considered healthy.

The Government's \$8000 tax credit for first time home buyers is nice, but looking at the total cash required and the magnitude of the decision to buy a home, (let alone a first home), cannot be credited with too many sales.

The Fed announced yesterday that consumers' net worth had increased by \$2 trillion, a very good piece of news. However, looking a bit deeper, consumers' net worth is still \$11 trillion less than it was before the recession.

Prospective home buyers have lost as much as 40% of their net worth through the stock market and home equity loans are no longer available to home buyers. At the same time, first mortgage lenders have tightened criteria, requiring more income, better credit and more cash reserves by borrowers post-closing.

Why hasn't the Federal Government, through any number of possible mechanisms, provided first time buyers with home equity loans to reduce the cash they would need at closing? This would greatly increase the number of potential capable buyers for SFH and condos and would help stem the continuing fall in housing prices, currently in a vicious cycle, wiping out individuals' and lenders' net worths, reducing consumers' ability to spend and lenders' ability to lend, prolonging any move to a strong recovery.