

# DAILY BUSINESS REVIEW

**RESIDENTIAL** Patience, price flexibility required

## Housing bubbles have happened before, could again

by Adrian Sainz  
The Associated Press

The American dream of home ownership is still attainable. Buyers just have to deal with a new set of realities.

A year after the collapse of the housing market triggered the financial meltdown, lenders are demanding more money up front, high credit scores and proof of income. Paperwork must be in perfect order. Patience and persistence are required. And don't even bother asking about a subprime mortgage.

It's a vastly different set of rules from earlier this decade, when home prices soared and mortgages were easy to come by.

In some ways, it's a return to the standards that emerged as the World War II generation bought its first homes in the suburbs: Buy what you can afford. Stick to a 30-year, fixed-rate mortgage. View your home as a place to live, not as



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a piggy bank.

For people trying to sell their homes, the standards are different, too: Be patient and maybe even lower your asking price, because the balance of power has swung

strongly to buyers.

Housing bubbles have happened before and, experts warn, could happen again. Already, home sales and

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## BUYERS: A new set of home buying rules has caused a shift in attitude

prices are rising slowly, helped by tax breaks for first-time home buyers. But real estate agents, mortgage brokers, economists and home buyers across the country say they've noticed a shift in attitudes that they expect will last for years.

### SELLING A HOUSE

Real estate agent Scott Patterson hits the gas and weaves his black Mercedes-Benz across three lanes of Interstate 95 near Plantation, holding his iPhone with one hand and the steering wheel with the other.

He is rushing to meet with potential buyers of a condo with an ocean view. When he arrives, he turns on lights and opens doors in the four-bedroom place. The prospective buyers, a couple from Venezuela, walk around, ask a few questions — and leave.

Business may be up in South Florida, but the power has shifted to the buyer. And price is the key. "If you're not getting showings, you're overpriced," says Patterson, an agent with Esslinger Wooten Maxwell Realtors.

The record number of foreclosed homes on the market gives buyers even more leverage. "They can afford to wait," says David Baran, a broker with

Prudential Preferred Properties in Chicago.

Michael Davies and Nicole Anzia of Washington, D.C., got caught in their first bidding war when they bought their two-bedroom condo in 2003. The seller fielded eight bids within five days of listing. The couple waived an inspection to clinch the deal and paid \$372,000.

That was tame compared with what happened when they sold the condo two years later. They listed the property on a Thursday for \$479,000 and held two open houses. More than 100 people showed up, and 11 bids were waiting for them by Tuesday. The final price: \$605,000. The buyer waived the inspection, too.

When they tried to sell their home this May, things were different. They listed the house at the purchase price and received just one bid. The negotiation process took longer, and they sold at a \$21,000 loss. The buyer demanded an inspection.

"We don't feel like we went from boom to bust," Davies says. "We felt like we went from boom to reality."

### GETTING A MORTGAGE

Jim Sahnger, a mortgage broker in Jupiter, still chuckles over one borrower three years ago

who landed a mortgage with no down payment and two foreclosures and a bankruptcy in his past.

Now, lenders pore over bank statements, tax returns and job histories. The average mortgage application today starts three times thicker than what it was at the start of the housing boom, and often gets thicker as the process drags on.

Sometimes all the extra documentation still isn't enough. Sahnger recently had a customer with a good job and a 20 percent down payment who couldn't get a mortgage because the lender said there were too many delinquent mortgages in the neighborhood.

"Now, they want to know everything about the buyer," Sahnger says. "It's a true and full underwriting process on every particular loan."

It is common to require a down payment of 20 percent — sometimes more. And it is virtually impossible to get subprime mortgages, which were written for people with poor credit histories and helped cause the meltdown when the interest rates jumped and borrowers defaulted. In 2005, one in every five mortgages was considered subprime. This year, it's less than 1

percent.

Another category of risky loans, Alt-A mortgages, which required little or no documentation of the borrower's financial health, have plunged to \$3 billion this year from \$400 billion in 2005.

### CLOSING THE DEAL

Mike Delano thought everything was in order. He was set to buy a \$785,000 home in Washington, D.C., until he learned his lender now required a 20 percent down payment instead of 10 percent.

Unlike in years past, there was no wiggle room. He had to raise the extra money from his family. "It was a nightmare," he says.

It's not uncommon nowadays for closings to take 60 days. One big reason: Appraisers have become more strict — or, some would say, more accurate.

During the boom years, agents and brokers often pressured appraisers to "hit the number" that the buyer and seller had agreed on so the deal would close and everyone could collect fees.

Under new industry rules, mortgage brokers are barred from ordering appraisals themselves. Instead, lenders order appraisals in-house or hire inde-

pendent firms.

Some real estate agents and home builders say the rules are causing delays in closing sales, or undermining sales because appraisals are coming in too low.

### THE FUTURE

Nearly everyone in the real estate industry agrees on this much: Another dramatic boom-bust cycle isn't likely soon. Albert Saiz, assistant real estate professor at the University of Pennsylvania's Wharton School, expects that new regulations and a different consumer mindset will help real estate return to a more traditional cycle.

There will be some ups and downs, Saiz said, but in the long run, prices should move higher. "In the end, the United States is still growing," he says. "We're going to need more housing."

Pava Leyrer, president of Heritage National Mortgage in Michigan, notes that the majority of people are still paying their debts. She's confident the market will rebound once the unemployment rate begins to fall.

"I really can't imagine we would go back to the same situation because it took an exact wrong mix of everything for that to occur," she says. "If it ever did happen, I'll be long dead."