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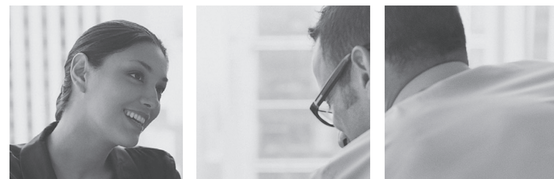

How the mortgage mess could affect your business, and relocation!

An advisory from RLRM

The media is awash with stories, interviews and analysis of the economic distress, much of it caused by the mortgage market meltdown. The tightening of credit and general uncertainty affects confidence; people naturally withdraw to a more cautious stance. Less consumption leads to more layoffs, leads to fewer buyers. A vicious cycle.

Intervention and the massive funds injected into the economy are already showing positive signs as of this writing in late March. Yet we need to be realistic about the home market and how it might affect how we do business. So here goes, one view for your consideration.

Home values "adjustments" historically last a while. Data going back to 1980 shows that in a regional downturn it usually takes about 3 years for home prices to recover back to their original levels. Of course the housing downturn varies widely by market, and downward trends in some places (Detroit, for example) began 2 years before the stunning reverse in the west and south Florida.

Ground zero for the worst recent experience is CA, AZ, NV - a 30% decline in home values in the past 18 months alone (Case/Shiller) in several metro areas. Some markets may never recover to the heights reached during the top of the boom (or bubble, if you prefer). Given all of this, loss on sale will be a key factor in any relocation decision by a transferee.

There are many theories on what happened and why. Many like to blame their political opposite's party luminaries for this or that bumbling. Believe me, there is plenty of blame to go around. In fact, as early as 2003, regulators fired a warning shot across the bow of lenders and Wall Street about their concerns on home values. By 2005, regulators had proposed new loan guidelines, including:

- exotic mortgages were not okay for borrowers with bad credit
- a cap on risky (subprime, mostly) mortgages a lender could make
- better disclosure and counseling to borrowers regarding payment adjustments
- increased effort to verify borrower income and job information

These proposals were all stripped out of the final regulations issued in late 2005, over the protests of many concerned. True to the tale, the upper Midwest markets began their downward trend just as these regs were issued.

By 2008, the home price bubble was bursting and the bailouts came hot and heavy. First Bear Stearns, then Freddie and Fannie, then AIG. Lehman Brothers and WAMU failed and both Morgan Stanley and Merrill Lynch experienced shotgun marriages with large commercial banks. Goldman was given a commercial bank charter as a lease on life.
In just a 90 day period, four of the five major investment banks either ceased to exist or were acquired.

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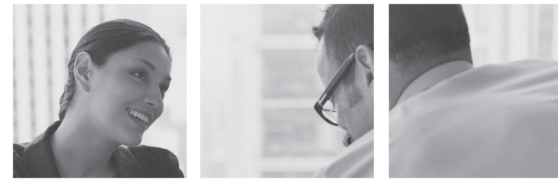

Concentration of the mortgage business was a major contributor to what happened. Only 3 lenders (out of thousands) originated more than 1/3rd of all new loans. Most big players used the same (flawed) model to value risk. Credit default swaps crumbled like confetti. And, the SEC allowed the big guys to opt-in or opt-out on self regulation. The adults weren't watching the playground.

After all the heated resistance to regulation in favor of the rational "free market", it is ironic that more regulation might have promoted more competition, instead of the extreme concentration in the mortgage market - so top heavy that it toppled quickly under stress.

Alan Blinder of Princeton, former Vice Chairman of the Federal Reserve, identified six blunders that led to the calamity:

- failure to increase regulation of derivatives
- SEC allowed a big increase in leverage used by investment banks
- much riskier subprime lending products surged in 2004-7 period
- lack of early action to deal with rising foreclosures
- Lehman Brothers' bankruptcy greatly heightened market jitters
- Uncertainty caused by 2 changes in direction on the TARP (Troubled Asset Relief Program)

So, now that we're here, with the storm blowing all around us, what does it mean for our business?

Bank lending will be tight for some time. Consumer credit is already being curtailed and underwriting standards have become tougher. Banks will be putting capital on balance sheets for a while rather than lend. However, it is important to note that the vast majority of banks are doing very well, especially community banks.

The most immediate and tangible effect may be disappearing home equity, value on which many have relied for years. Fewer elective purchases are already apparent as disposable income is likely to be diverted to necessities. Even with lower mortgage rates - good news for many - lack of equity may prevent refinancing.

Government impact is and will be significant. The bailouts will be funded by borrowing, printing money and, eventually, by higher taxes. Debate in Washington rages around the massive deficits that will occur - let's hope they can find the better angels of their nature in this crisis.

HR pros know these events put a crimp in recruiting, and in relocations. All of us need to adjust for the potential of loss on sale, short sales, increased carry cost and extended temp living. Property management will be a more common need as transferees keep homes - with the intent to wait out the market turn, or to hold until a later move instead of taking a hit in a depressed market.

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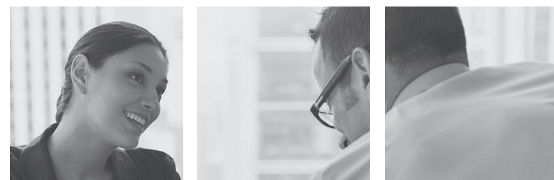

We all need to develop or acquire new tools to help transferees, and to handle the challenging market. Use data sources to plan for home sale moves, and to list homes properly for sale within policy. Be prepared to offer financial support to transferees, and revisit relocation policies to accommodate the current climate. Elevate oversight of suppliers, and use metrics to select and evaluate them. Insist on better reporting and analysis on program performance.

All is not dire, to be sure. There is good news, and some positive harbingers afoot. Savings rates have increased dramatically; this will provide additional funds for bank lending. The Fed will keep interest rates low and borrowing will become easier for those with equity. More homes are affordable now than just two years ago; thus, a transferee taking a hit on a departure sale may get a bargain at the destination!

We will adopt new tools that will improve home sale management - we have always adjusted in the past and we will do so now. The world may look different on the other side of this difficult period, so let's all pull together and reshape our industry where it is needed most.

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