What challenges face housing markets in 2010?

Ethan Nobles | January 21st, 2010 | Jan 2010, The Arkansas Realtor - print edition |

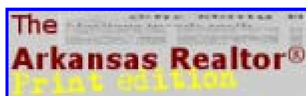
While housing markets remained volatile through 2009, a first-time home buyer tax credit, low mortgage rates and downward pressure on list prices combined to help convince some buyers that the time had come to purchase a home.

Kathy Deck, an economist and director of the University of Arkansas Center for Business and Economic Research, said she believes housing markets will "approach stability" in 2010.

"Obviously, the big story in unemployment," she said. "If that stabilizes, that will help the housing market stabilize. Right now when you look at the major stress on the market – in terms of foreclosures – it's coming from folks unable to make their payments because they're unemployed."

According to the state Department of Workforce Services, the unemployment rate in Arkansas in November was 7.4 percent, up from 5.5 percent during the same month in 2008. The national unemployment rate was 10 percent in November.

Deck also pointed out that the tax credit for home buyers is set to expire at the end of April. The first-time home buyer tax credit in place in 2008 and 2009 was extended and expanded to cover all home buyers purchasing a home by April 30, 2010.



Under the terms of the new credit, eligible first-time buyers can receive a credit of up to $8,000 while other buyers – people who own a home but are purchasing a primary residence – are eligible to receive a credit up to $6,500. The buyer must get the home under contract by the end of April and close on it within 60 days.

Deck said it remains to be seen whether the current tax credit will be as well received as the previous one. A lot of first-time homebuyers purchased homes this year in case the credit wasn't extended and the time period for the current tax credit is substantially different – it's only good for six months and half of those fall during the winter, an historically slow time for real estate.

"The housing market will have to get buy without those kinds of crutches that were meant to get it through

the recession," Deck said.

She pointed out that there has been some trouble with lending, too. The federal government has spent a lot of money bailing out financial institutions around the nation, but those banks have not responded by easing lending requirements.

Deck pointed out that it makes sense that banks are more reluctant to let go of money than they were a few years ago – liberal lending policies turned out badly for a good number of financial institutions around the nation as evidenced by record numbers of foreclosures and defaults. Also, there are regulatory issues to consider – even the Federal Housing Administration (FHA) is considering tightening lending requirements. The FHA was set up to make it easier for people with lower incomes or checkered credit histories to take out mortgages.

Because of tight lending requirements, Deck said it's clear that construction levels will remain low in 2010. Banks will continue to be likely to lend money sparingly to builders putting up new houses.

Again, Deck said banks may be cautious on their loans or regulators may require them to raise lending standards.

Also, Deck said that the days of extremely low mortgage rates may be coming to a close. Throughout 2009, taking out a 30-year mortgage with a fixed interest rate below 5 percent was a relatively easy task.

One of the reasons for that is the Federal Reserve started buying up mortgage-backed securities in November 2008. That activity lowered the risk of those securities and when the risk is lowered, the yield drops, too. Drops in yields effectively pull down interest rates on mortgages.

However, Fed officials have announced that policy may end at the end of the first quarter in 2010. The question, then, is will private investors pick up the slack?

Deck said that remains to be seen, but one thing is clear – mortgage interest rates will probably rise.

"Here's the deal – they can't go lower," she said.

Deck said the Fed will spend a good part of 2010 of going through an "orderly unwinding" of its fiscal policies established in 2008 and 2009. As a result, interest rates will probably rise.

Deck said, then, 2010 will be a year in which the federal government will seek stabilization in the housing market. The question is whether a "new normal" can be established – a baseline from which sustainable growth is possible.

That "new normal" may well include an economy in which consumers spend 95 percent of their income rather than 105 percent so as to avoid taking on too much debt.

"That a major change in thinking," Deck said, adding such a switch could ultimately be a positive step toward a stronger economy.

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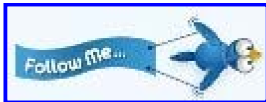

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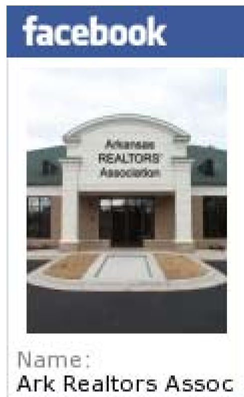

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