

What Should We Do About the Foreclosure Mess?

[CNN](#) reported last month that nearly 3 million American homeowners received a foreclosure filing in 2009, "setting a new record for the number of people falling behind on their mortgage payments". According to RealtyTrac, "one in 45 households or 2,824,674 properties nationwide were in default last year", which is "21% more than in 2008, and more than double 2007's total." As bad as 2009 was, there probably are plenty more foreclosures to come. The economy continues to falter (despite claims of "green shoots"), unemployment continues to rise, and the next mortgage crisis "the pay-option ARM bust" is just getting started. Many homeowners that purchased homes at the height of the housing boom "when homes were the most expensive" took out risky pay-option ARMs as a means to simply afford their homes. Now that they've been paying the minimum payment for several years, their loan balances have increased as the values of their homes have fallen, and many are now facing the dreaded recast that could result in the doubling or tripling of their payments. As much of a scourge as this foreclosure mess is, the best solution for the nation as a whole is to allow the chips to fall where they may. It doesn't make sense to try and prop up home prices if people can't afford them at the current price levels. The reason that the housing bubble went on for as long as it did was the fact that increasingly exotic and risky loans, such as pay-option ARMs, were pushed to make up for the fact that homes had become unaffordable. If banks had been prudent in their lending practices and stuck to historically normal forms of financing, there probably wouldn't have been much of a housing bubble to begin with. If we allow the crash to take its course unimpeded, home values will fall back to a level where people can afford homes with normal, prudent financing. If people can afford homes, they will start buying them again. And if they buy affordable homes with affordable payments, they will have the disposable income to spend, which will in turn boost the economy. I saw a news story recently about a homeowner in California that bought at the top of the boom and had a huge house payment that they could barely afford. They eventually decided it was no longer worth it to pay the high payment (which was around \$3000/month) and decided to let the house go into foreclosure. Now they are renting a nice house located nearby for \$1500/month and have the disposable income to spend on other things. How is this not better for the economy than trying to prop up home values and keep people trapped under high house payments? If people have to spend a greater percentage of their income on house payments, they have less to spend on home repairs and remodels, vacations, new cars, or sending their kids to private school. Again, we should allow the market to correct naturally to clean out all the bad debts. Certainly this will result in some pain, and many will lose their homes and have credit damaged with foreclosures, but this will happen anyway sooner or later. Government intervention cannot thwart the laws of economics, it can only delay the inevitable correction. And the longer the correction is delayed, the more painful and extreme it will be. The sooner we allow the correction to naturally happen, the sooner the economy will form a basis for new growth. Coast Home Buyers work with a network of prescreened [short sale](#) professionals that have a proven track record of short sale success. Contact us today for a free, no obligation consultation.

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