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Fast turnaround isn't expected for home prices

Bailout's help for lenders won't instantly lift housing market, analysts say.

By Alan Zibel
Associated Press
Posted: Saturday, Oct. 04, 2008

WASHINGTON The \$700 billion bailout of the financial industry could help homebuilders and mortgage lenders, but is unlikely to bring fast relief to anybody trying to buy or sell a house anytime soon.

The Treasury Department's future purchases of sour mortgages and other securities from banks are designed to inject cash into the credit markets and restore confidence among shaken investors and consumers.

But that may have only a slow and gradual impact on home prices, record foreclosures and the 10-plus-month supply of unsold homes.

"What the bailout does is keeps a bunch of really bad future events from happening," said Scott Shane, an economics professor at Case Western Reserve University. "It doesn't make ... what's going on today much better."

Many analysts say U.S. home prices – down 20 percent from their peak in July 2006 – still have further to fall, and must hit bottom before demand picks up. The bottom could be a year or more away.

"This is a step... to put the grease back into the machinery," said Gerard Cassidy, an analyst with RBC Capital Markets. "This is not the panacea."

In the meantime, sellers like Michael Venum, a corporate lawyer from Robinson Township, Pa., are in a bind. Venum and his wife want to move out of their 1,000-square foot, three-bedroom home because they are expecting their second child in February. Unable to sell, they have put their search for a new home on hold.

"I don't want to overextend myself by having two mortgages," he said. "We need to sell."

The pair put the house on the market four months ago for \$155,000, but haven't received any offers, even after slashing \$10,000 from the asking price last month.

Don Hubble, president of Hubble Homes in Meridian, Idaho, called the rescue "just imperative" because construction loans are harder to get.

Jerry Howard, chief executive of the National Association of Home Builders, also praised the plan, but said lawmakers need to do more.

The bailout “does not address the root problem of housing prices in its totality, and Congress is going to have to look at doing something to help establish a floor in the housing market,” Howard said.



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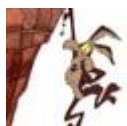


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They should have left it alone. This is how affordable housing is suppose to work.

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Why would we expect this to help the housing market? If anything this is going to make it worse. This bill is for the mega-conglomerates and the fatcats on Wall Street, not the middle class.

<http://thehickoryhound.blogspot.com/>

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Despite the attempts by Treasury Secretary Paulson to establish an immediate housing price floor, housing prices will continue to drift lower until the historical average ratio of incomes to house prices is reached. Schiller says that housing