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## **The Great American Debt Dilemma**

Nationwide, we have near-record numbers of foreclosures, but it doesn't surprise me. Americans have been on a decade-long spending spree, accumulating mortgage and credit-card debt with wild abandon.

As a percentage of disposable income, household debt payments reached a record 13.3% in 2002 and 13.1% last year. The previous peak was 12.3% in the summer of 1987, just months before the steepest stock market crash of the century.

Meanwhile, personal bankruptcies and credit card delinquencies are also at or near record highs.

### **WORSE THAN A JOBLESS RECOVERY**

In spite of the recent buzz surrounding March's employment report (non-farm payroll increased by 308,000), Wall Street and Washington know this has been a "jobless recovery." What they seem to be forgetting is that the people WITH jobs are also falling behind.

This is worse than a jobless recovery. It implies that the underpinnings of the housing boom, and the entire economy for that matter, are a lot weaker than almost everyone previously realized..

### **LENDERS ON A LIMB**

Banks are only making things worse. They're relaxing their lending requirements. They're accepting lower down payments. And they're going berserk with aggressive mortgage options such as graduated payments, teaser introductory rates, and interest-only payments.

The goal: To keep payments as low as possible. The result: To entice Americans to buy more home than they can afford.

Is this a key reason President Bush has been able to brag about a record-high home ownership rate of 68%? I'm afraid so.

### **RAMPANT OVERBUYING**

In Alexandria, Virginia, home buyers were so eager to buy luxury townhouses they camped out for seven days for yet-to-be-built units. In fact, the line grew so long that the city shut it down.

Prices started at \$560,000 and reached \$1.1 million.

And recently, the San Francisco Chronicle ran a story, “*Anatomy of a Frenzy*,” about just how nuts the real estate market has become.

With the Bay Area real estate market hopping, agents and home shoppers have seen an increase in:

- Multiple offers of 10 or more, with most above asking prices.
- Purchase offers waiving contingencies for inspections or appraisals.
- Pre-emptive offers or those handed in before the seller officially accepts bids.
- Interest-only and adjustable rate mortgages, which let buyers carry bigger loans.
- Buyers allowing sellers to live in the home for free for weeks after the sale.

#### BUILDERS ON A BINGE

All this is following a very familiar pattern. Just as the stockbrokers were the last to accept the reality of the tech bubble, it looks like realtors, mortgage brokers, and builders will be the last to recognize the real estate bubble.

Not long ago a front-page article appeared in the American Statesman, my Austin, Texas newspaper: “*Builders Wager On New Homes: Spec Houses Are On The Rise, Even With Job Slump.*”

What this shows is that you should listen with a very skeptical ear to your friends in the real estate business when they tell you how wonderful things are. The so-called “professionals” inside the industry can't see the forest through the trees.

#### HOW THIS WILL IMPACT YOU...

Even if you are not overexposed to real estate yourself, you may need to take a hard, fresh look at your portfolio, debt situation, and financial goals.

Why? Because when the real estate bubble pops, it will take the economy down harder than the bursting of the tech bubble.

Remember, there are still many Americans who couldn't care less about the stock market because they have little or no money invested in it. But you can't say that about real estate. The majority of adults past 40 years of age own a home. Pay down your debt. Don't borrow a penny more than you have to. Don't stretch your budget too thin.

Sources: Washington Post, New York Times, Washington Times, San Francisco Chronicle, cnn.money.com, Department of Labor-Bureau of Labor Statistics

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