

Wealth building and the accumulation of assets plays a major role in the quality of life and the economic empowerment of our communities. While creating one's own financial security has long been considered part of achieving the American Dream, so has the prospect of owning one's own home.

In light of this and recent news of the housing market, the definition of homeownership should be re-examined.

A lot of the creative financing has gone far beyond prudence and reality.

Recently, I counseled a cousin of mine who had just finessed himself and his wife into a million dollar home off their modest salaries.

I explained to him that the \$50 thousand equity in the home was his actual net worth.

The \$950 thousand home value and everything else was being off set by the mortgage and the ridiculous terms.

A pink slip from one of their jobs; unforeseen illness, etc. could quickly bring them to disaster.

Be careful because you are "rolling the dice".

They weren't playing by the rules and bad things do happen.

In light of recent news regarding impending doom in the housing market due to the failure of dozens of subprime lenders over the past several months, it will be important to keep in mind who are the real victims of this crisis. Have borrowers that knowingly took out mortgages above their means truly been victimized? While owning one's own home has long been considered the American Dream, the definition of homeownership should be re-examined.

Does taking out a loan with no equity and artificially low mortgage payments for the first two years make a borrower a homeowner? Not after those payments balloon soon after, potentially adding hundreds of dollars each month in principal. We are likely to see the number of foreclosures rise over the coming months as more and more of these loans re-adjust to market interest rates, especially once you consider the fact that 13% of outstanding mortgage debt is in subprime loans, according to the Consumer Federation of America.

Who will end up getting burned by these exotic mortgages and exploitative loans? Several answers could be offered to this question, but the correct choice may not be readily apparent. Borrowers who took out loans well above their means to purchase houses they knowingly could not afford will be forced to move out of their houses. This is unfortunate; however their negligent borrowing affects the real victims in this tragedy: responsible, hardworking people who continue to rent while saving any extra income to make an adequate down payment that will earn them a more manageable 30 year fixed rate mortgage.

The amount of money these responsible renters must save continues to be driven up. As the number of defaults on the subprime side continue to rise lenders will be more hesitant to approve loans to first time or other potentially high risk borrowers. One way to assuage the

lenders' risk aversion is to require more money up front, forcing would-be home buyers to save for additional months and years.

What can be done to prevent a potential crisis? State and federal legislators and regulators must intervene on behalf of the renters, the savers, the aspiring homeowners. Intervention in this case means enforcing the laws already on the books preventing fraud, exploitative and predatory lending. Artificially stifling interest rates in exotic mortgages has led to an abrupt correction in the housing market once the teaser rates expire. The large volume of subprime loans over the past two years has put lenders and borrowers, as well as the housing market in a precarious position. However, legislators and regulators risk causing further damage by imposing legislation with short term consequences on a problem that has already begun a self-correction.

Bailing out borrowers—who attempted to purchase more house than they could afford, or subsidizing lenders—who irresponsibly made loans to risky borrowers, is not the answer. Both of these solutions will continue to drive up home prices and allow, and even encourage lenders to offer exotic loan packages. Neither of the solutions addresses the true victims of this crisis. State and federal legislators should focus on facilitating the American Dream, which means making affordable housing available to responsible borrowers. Consumers being victimized by predatory subprime lending practices will benefit in the long run if legislators and regulators keep an eye on lenders and enforce the legislation that already exists. Legislating to address events that have already transpired is not the correct approach. Rather, responsible oversight will help home prices to return to reasonable levels allowing the true victims, those that continue to rent while saving for a down payment on a home, to purchase a house of their own.