

Good Reading

RESOURCES FOR EVERY STEP IN REAL ESTATE

Fear factors for buyers

Experts separate panic from logic

By **Heather Boerner**, Cyberhomes Contributor

Published: September 03, 2008



Are homebuying fears based on emotion or reality? (Illustration: Steven Salerno)

David Eigen is worried. A potential homebuyer after a few years out of the market, Eigen suspects the 24-hour news channels predicting real estate Armageddon could turn what seems like a great time to get a lower-cost home into a disaster.

“I’m concerned that a home I’d buy now might drop substantially in value if people don’t stop panicking,” said the 56-year-old Boca Raton, Fla., resident. “We can make the economy go to hell with our fears if we want to.”

There’s a reason so many people are panicked. The mortgage meltdown, foreclosure crisis and gas prices are a few real-world reasons. But is your fear based on your financial situation, or is the news getting to you?

It’s hard to tell the difference when we’re afraid, says Holly Gillian-Kindel, director of financial planning at San Francisco-based **Mosaic Finance**, because we retreat to thinking with the amygdala, a part of the brain responsible for fight-or-flight instincts. “When you’re in the primal brain, you aren’t using the new brain — the thoughtful, reasoning part of the brain,” she said. “You can’t make high-level, complex decisions.”

To help you move forward either way, we took homebuyers’ biggest fears to the economists, financial planners and psychologists who can parse reality from nightmares.

Fear #1: The market hasn’t bottomed out.

If you’re worried that buying now means your new home won’t be worth what you paid for it in three months, you’re

not alone. The number one fear of homebuyers right now is that they'll lose equity.

This fear may be valid. Jeannine Cataldi, senior economist for **Global Insight**, said her group expects the market to bottom out at the end of this year or beginning of next, with home prices remaining flat for most of the country. Areas like Las Vegas, South Florida and Arizona, all of which have deep inventories, likely will continue to see falling prices.

But remember: This drop is a natural and healthy part of the financial cycle, said **Edward Charlesworth**, a psychologist and author of *Mind Over Money*. It's unlikely this is a market collapse.

"If you just listen to what the media says, you start to get the feeling that doomsday really does loom in the next month or year," he said. "The market does go through cycles and corrections — and just using those terms can be very therapeutic. It gives you a more realistic sense of what's going on right now."

The key, said Tom Davidoff, assistant professor of economics for the **Haas Real Estate Group** at the UC Berkeley Haas School of Business, is to think long term. "If you're going to be in your house for 20 years, it makes sense to buy now," he said. "If your goal is to fix and flip, now is not a great time to do that."

Fear #2: I'll lose my job and won't be able to afford my mortgage.

Layoffs, bankruptcies and soaring gas prices make it seem like a dangerous time to take on a new mortgage. But is that true for you?

"The thing to do is make sure your ducks are in a row so you're prepared for any changes in employment or health," said Gillian-Kindel. "It's the idea of expecting the best and planning for the worst."

Instead of worrying, assess:

- How much is in your emergency fund? Don't have one? Put the money you would spend on a new or larger mortgage into a rainy-day fund instead. Don't proceed with a purchase until you have several months' income saved.
- How's your insurance? Even with a rainy-day fund, you risk financial disaster if you have insufficient health insurance or have to leave work on a disability. Invest in these before a new house.
- How much do you spend every month? Record your spending for several months to see how much goes to must-haves — food, shelter and health care — and how much is discretionary — entertainment, shopping or mani/pedis. Make any necessary changes.

Fear #3: I'll lose money when I sell my old home.

It's a fact: in most parts of this country, your home will sell for less today than it would have a year and a half ago.

The question is: Are you willing to take that loss on your old home and make it up on a new one? For many people, the answer to that question isn't logical; it's emotional. After watching your equity skyrocket during the bubble it can feel unbearable to sell for less today. As home prices keep dropping, that feeling of injustice grows.

"If you didn't want to sell \$10,000 ago, you probably won't want to sell now," Davidoff said.

An alternative, said Laura Milkowski, Realtor at **Corcoran Real Estate** in New York City, is to rent your old home and wait to sell till the market rebounds. "You don't have to be a victim to the market," she said. "You'll make a profit, it just might not be right now."

Fear #4: I won't qualify for a mortgage.

Gone are the days of the no-income-no-job-no-assets loan. But that doesn't mean mortgages are now reserved for

people with perfect credit or massive down payments, said Victor Benoun, president of [The Mortgage Source](#) in Studio City, Calif.

While in some areas you need to have a 20 percent or even 25 percent down payment, in most areas you can still find loans that allow you to put down less. And to get a mortgage with Fannie Mae, you need a credit score above 660, which is about average.

But watch out, said Gillian-Kindel. “A mortgage broker will give you a loan for however much you’re willing to pay,” she said. “Until you strip away the emotional charge, you’re likely to do irrational things, like look to other people to give you permission to take on a mortgage you’re not sure you can afford.”

Read More on: [market forces](#), [housing market bubble](#), [economic downturn](#)

Comments  **Add yours** | **Share**

Comments

[Main Good Reading Page](#)