Real Life

ECONOMY

Banks Must Get Back to Business

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EXISTING-HOME SALES 'REBENCHMARKING'

Learn how NAR plans to ensure the continued accuracy of its existing-home sales calculation in the years ahead.

http://tinyurl.com/5tz9ofw

You already know from real-world experience that banks are not lending. But now your experience is backed by hard data from the FDIC. The agency found that in the year ending March 2011, bank deposits rose by $300 billion, assets grew by $80 billion, and profits were up by $12 billion. Yet loan volumes fell $260 billion to $7.24 trillion.

The banking industry's old "3-6-3 rule" says that bankers pay 3 percent interest to depositors, make loans to depositors at 6 percent, and be out on the golf course by 3 p.m. That rule now seems to be replaced with a new 0-0-3 rule: Offer nothing to depositors and nothing to those who want to borrow, and earn 3 percent by buying tradable assets like government bonds.

To be sure, profit is not a bad thing. But when banks accumulate profit at the expense of doing what they're in business to do—make loans—they put brakes on the economy.

We might already be seeing the consequences of that, with the economic recovery showing signs of sputtering. So it's of little surprise that pending home sales in April took a tumble, falling 11 percent. Rising gas prices and unusually wet weather contributed to the slowdown. Whether home sales in the months ahead will also fall, we'll have to wait and see. But if these overly tight lending conditions worsen, then a price decline in the double-digit range is clearly possible. Strategic defaults and foreclosures will rise, and bank balance sheets will deteriorate. A second recession is possible.

But this is a worst-case scenario. What's more likely is that any additional price contractions will be modest. Home values have already fallen considerably, to historically justifiable levels. And in areas where jobs are strong, prices are solid or heading up. But the lesson is clear: A return to banking the old-fashioned way can speed the housing recovery. ■

EXISTING-HOME SALES RATE FOR MAY

4.8 million

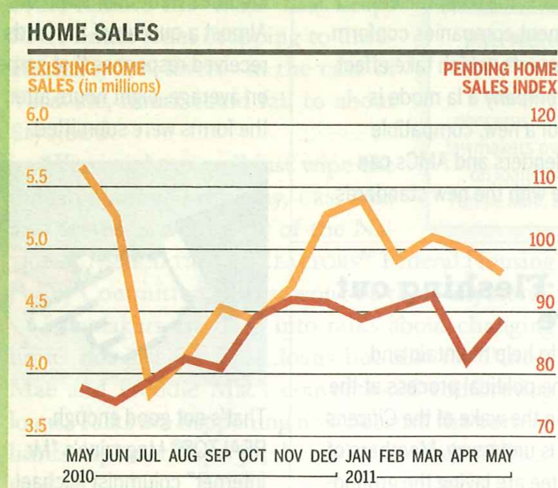
This is a seasonally adjusted annual rate, which is the actual rate of sales for the month, multiplied by 12 and adjusted for seasonal sales differences.

PENDING HOME SALES INDEX FOR MAY

88.8

This index measures housing contract activity. An index of 100 is equal to the level of activity during 2001, the benchmark year.

Source: NAR Research



Market Constraints Hold Back Sales

Tornadoes and other extreme weather events, along with continuing hurdles in buyers' ability to get financing and close deals, are curbing home sales. Existing-home sales were down 3.8 percent in May from the previous month. Looking ahead, NAR's pending home sales index for April is down, while May's pending sales indicated an increase of 8.2 percent over April's dip.

*Revised from figure published in the previous issue.

Confidence Stabilizes

Despite continuing market hurdles, practitioners' confidence in home sales is holding steady, although the six-month outlook is down marginally. For current conditions, confidence is up slightly, suggesting optimism about near-term sales.

Results are based on 2,512 responses to 6,000 surveys sent to large and small real estate offices. The survey asks practitioners to indicate whether conditions are strong (100 points), moderate (50), or weak (0). Responses are averaged to derive results.