“What Will You Do When Your House Goes Under Water?”

In September 2005, Hurricane Katrina hit New Orleans, and the related floods placed thousands of homes under water. Now the word is coming forth that many homes across the nation will likely go under water in the near-term. This time, however, homes will be placed under water in financial terms. Here, “under water” means that the value of a home, based on the price that it fetches in the market, will be less than the value of the remaining payments due on the mortgage for the home.

Like former homeowners who experienced foreclosures that were precipitated by upward adjustments to interest rates on subprime loans, many current homeowners must ask themselves, “Is it logical to permit foreclosure or to continue making payments on a mortgage that has a value greater than the market value of the home?”

No question about it, shelter is an essential requirement. Therefore, it is usually logical to undertake the purchase of a home. However, if a house “goes under water,” it may be practical to make an adjustment in shelter requirements. If home ownership is absorbing too much income, if the home is under water, and if there are lower-valued homes in the area that meet shelter requirements, it may be wise to trade-down or out; i.e., sell a high-valued home and purchase a low-valued home or rent, respectively.

Some economists will argue that declining home values are likely to be a short-term (five years or less) phenomenon, and that the prudent action is to sit tight with the home that one has—it will regain its value in time. These economists may be correct. However, a range of financial concerns face the nation today, and it may take longer than most suspect for there to be a full recovery in home values. Moreover, the declining dollar and the nation’s dependence on imports could force many Americans to spend increasing proportions of their income on other essentials—food, medicine, transportation, etc.

Of course, one should consider many factors carefully when entertaining a decision to trade down or out: e.g., educational expenses for children, prospects for relocations due to career changes, retirement plans, etc. In other words, one should respond to a house going under water within the context of a long-term plan. If you don’t have such a plan, it may be time that you develop one.

About one thing we can be certain, news spreading about homes going underwater and about related foreclosures, could ignite a panic as homeowners attempt to cash out (trade down or out) before home values fall even further. Such a panic could be devastating. Therefore, homeowners in Black communities should develop a strategy for attempting to hold home values up.

In addition, we know for certain that economies have cycles. Therefore, homes going under water creates an opportunity for great benefit for those poised to purchase these homes at a deep discount and resell them later when the home market recovers.

Consequently, Black Americans may benefit from homes going under water by pooling resources to create funds to purchase these homes when mortgage companies put them on the resale market. I would suspect that certain Black families, churches, and businesses may be in a position to purchase such homes and reap the benefits. Of course, purchasing such homes may present a risk because housing values in certain areas may never recover.

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