

We Could be Looking at Debt in the Wrong Way

BY PETER MILLER, CTW FEATURES

If it seems as though your income doesn't go as far as it once did, you may be right. Despite soaring stock prices and little unemployment, a lot of households feel squeezed, including those who own a home or would like to buy one.

The issue is not one cost in particular, but rather a bunch of cost increases all at once. New research from former Treasury Secretary Lawrence H. Summers and several co-authors spells out the problem.

"Home prices are up almost 50% since the start of the pandemic, while the 30-year mortgage rate has tripled since the historic lows of 2021," said the report.

"Given that home prices remain at historic highs despite higher interest rates, the interest payment on a new 30-year mortgage for the average house has increased more than threefold since 2021. The interest payment on a new car loan has increased by more than 80% since the start of the pandemic. It is not surprising that this would affect how consumers feel about the economy."

The report, entitled *The Cost of Money is Part of the Cost of Living*, raises an interesting idea: we might be looking at debt in the wrong way.

Consider mortgage financing. In the fourth quarter of 2019,

outstanding mortgage debt amounted to \$9.95 trillion, a sum that increased to \$12.61 trillion at the end of last year. So yes, mortgage debt has increased, no surprise given increased housing costs — that 50% mentioned above.

The problem is that we're not comparing apples to apples. Yes, the amount of mortgage debt is up, but for many recent borrowers monthly costs have increased far more than the dollar amounts might suggest. For example, mortgage interest reached a record low — 2.65% — in January 2021. By late March, the same loan was priced at roughly 6.9%.

It may well be that two borrowers have the same amount of mortgage debt, say \$250,000, but that doesn't tell the whole story. The borrower paying 2.75% for a \$250,000 mortgage has a monthly cost for principal and interest of \$1,021. The borrower with the same debt but a 6.9% interest rate has a \$1,646 monthly expense.

The higher monthly expense is a big hurdle for many home buyers, but that's not the end of the story. They will also have to pay property taxes and property insurance, both of which have been increasing.

Is homeownership so expensive that it's effectively out of reach for traditional borrowers? You can find no shortage of people who believe that view is true,

and with some reason: According to the National Association of Home Builders, the latest data shows "that 64.8 million households out of a total of 132.5 million are unable to afford a \$250,000 home."

It might seem as though we have an impossible problem, but maybe not. There are some things we can do.

First, we may see more states getting into the home insurance business to a greater extent than in the past. This will happen not because state governments want to become the insurer of last resort, but because with soaring home prices and insurance costs, real estate sales might fall. Fewer sales will mean less money from property transfer taxes, and that's something states will want to avoid.

Second, homeowners can do a lot to reduce insurance risk. For instance, in areas with fierce storms, owners can remove trees that threaten homes. Flood maps can be used to identify properties with less flood potential.

Third, there's a need to reduce risk. For example, a 2020 study by the Pew Charitable Trusts found that repetitive loss properties (RLPs) — properties that have had multiple claims — represented just 1% of the properties covered by the National Flood Insurance Program (NFIP) but 30% of the claims it paid out.

Utah's Luxury Listings: Presented by The Secrist Team

2023 #1 SELLING TEAM

SERVING CLIENTS FROM SALT LAKE TO ST. GEORGE



2222 E Walker Lane, Holladay
9 BD | 10 BA | 9,275 SF | 1 AC | \$7,495,000

Introducing the pinnacle of contemporary luxury in the affluent Salt Lake City corridor, a never-lived-in, 9,275 square foot mansion on a full acre of opulence. Featuring nine bedroom suites, each with arresting views and walk-in closets, along with a total of 10 baths, this estate is tailored for the elite.



3162 E Eagle View, Sandy
8 BD | 12 BA | 16,150 SF | \$5,990,000

Discover an unparalleled mountain retreat in Sandy. This expansive 16,150 square foot estate luxuriously spreads over 2.42 acres, offering seven bedrooms, 12 bathrooms, and a bevy of exquisite amenities.



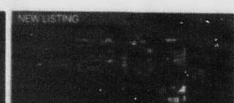
8178 Newbury Grove Ln, Cottonwood HTS
5 BD | 5 BA | 5,218 SF | \$1,749,000
Exquisite near-new Craftsman style home upgraded for quality with all main floor living



587 E Mash Farm Circle, Murray
4 BD | 5 BA | 5,308 SF | \$1,569,000
Exquisite (new build) custom home, boasting unspoiled mountain vistas.



7258 W Summit Top Lane, Herriman
4 BD | 3 BA | 4,137 SF | \$1,175,000
Embrace modern sophistication on 0.24 acres of serenity.



850 S Donner Way #102, Salt Lake City
4 BD | 3 BA | 2,505 SF | \$999,995
Enjoy glorious sunsets and sparkling city lights from this stunning condo.



1892 E Ashley Mesa Lane, Sandy
5 BD | 4 BA | 3,240 SF | 0.22 AC | \$825,000
Immaculate two-story in a quiet and highly desirable Sandy neighborhood.



9118 S Meadow Lily Lane, West Jordan
5 BD | 3 BA | 2,981 SF | 0.33 AC | \$799,000
Welcome home to suburban living in this immaculate West Jordan Rambler.



51 & 93 W Ryker Ln (Units 7, 8), Midvale
3 BD | 3 BA | 1,684 SF | \$474,900 & \$479,900
New C Street townhome boasts premium architectural elements in a great location.



1789 Wide River Drive, St. George
2 BD | 2 BA | 1,090 SF | 0.06 AC | \$348,000
Escape to St. George with this incredibly clean and charming Sun River 55+ community home.



BERKSHIRE
HATHAWAY
HOMESERVICES

UTAH
PROPERTIES

THE
SECRIST TEAM

Linda (801) 455-9999 • Beth (801) 304-6435 • Lisa (801) 455-9900 • @THESECRISTTEAM • LINDASECRIST.COM

POOR COPY