

# Large economic forces affect a tiny space

**B**y now you know that Tom purchased an old house at a foreclosure sale with the intention of fixing it up and flipping it for a profit. What



**Chesser**

you don't know, and what Tom may not have even thought about, is that he is being

affected by large economic forces, larger, hopefully, than we will ever experience again.

In the years running up to 2010, big U.S. banks financed every residential property that could be referred to them, without serious appraisal or concern for value. We know now that their purpose was to package those loans for sale in large blocks, to create outsized commissions for the banks and their agents. The goal was to run up profits far



faster than the ordinary long-term recognition of interest on repayment of these loans. As a result, each home loan was treated like grass in a large field, being cut and bailed like hay, with no concern for individual

value. In economics, each loan and each home was a "fungible" item, caught in a machine.

Around 2010, we all learned that those banks could not realistically ignore the value of each stick in the bundle. By

then it was too late; too much had been loaned on too many homes, and vast tracts of speculative properties had mortgages far bigger than their owners could repay.

So then we simply

turned the looking glass around. The same banks sold off large blocks of assets at a fraction of their value and refinanced those sales. The same lenders and agents of lenders made large profits selling off and

reinvesting in the same assets.

Tom is affected because he bought one of those outliers – a property that fell out of a package of loans, as many did.

Consider the effect on society of having countless houses like the one Tom owns. Each investor must buy low, put as little as possible back in, and sell or rent the product for the highest possible return.

Multiply that across America. There is an invitation for abuse on the same scale as the crises we've just seen. Local governments, building codes, and inspection departments have been called on to act as policemen to assure that people aren't again being hurt by an inability to be sure of what they're buying.

Tom and everyone in his position has to know

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that good people on the ground level of the real estate business are trying to make sure the fraud invented on a national scale is not spread again among an unsuspecting public, locally.

Tom's house will be inspected by someone who knows what to look for. However, that does not mean that your home is protected.

There are four major systems in the house Tom owns: structural,

electrical, plumbing, and mechanical. The law requires a permit to be issued for major work on any one of these systems. Windows and doors, for instance, are part of the house's structure, for purposes of the building code. The specifications for exterior doors and windows are spelled out in the building codes. Suppliers will sell any product Tom can buy. But, unless he buys and installs products that meet the Code, his house will not pass an inspection. If his house doesn't pass inspection it won't likely be insured and a lender can't make a

loan on the house.

Tom, as an owner, can get his own permit. But he will have to sign an affidavit that he intends to live in the house for at least a year. And a permitted change to a building must be inspected before the permit is closed.

Okaloosa County and each city has a whole department of inspectors who know the building codes and know what to look for when they inspect. Purchasers and realtors when they list, purchase, or sell a house, need to inquire how long the owner has held title and whether the closing

is a flip, whether work was done that required a permit, whether one was issued, and whether the house was inspected. An affidavit signed by the seller attesting to those facts should be required at closing.

Tom can be an absolutely sincere and hard-working businessman, and still get in trouble if he does not understand the effect of the building codes and the government's duty to inspect.

The painful message from this article is that even though big national lenders gambled with the mortgage market by

taking big, dumb risks, Tom can't do that, and we can't allow the willingness of big business to cut corners to creep into the way we all do business locally.

Finally, I have to caution all purchasers. There is no inspection greater than your own good sense and your own eyes. The inspectors care and are good, but don't expect the government, inspectors, or anyone else to protect you. Get your own inspection and read it carefully. If it suggests a problem, test it. You have every protection you need, as long as your own money

is still in your pocket. After that, you may have none.

Inspectors, elected officials, and courts all have a role critical to real estate if its credibility is to be returned. To all honest lenders, realtors, and closers, thank you for the discipline you bring to the market.

To all of you to whom this subject matters, have a great holiday, and thank you for understanding the seriousness of what you do.

*Mike Chesser with the law office of Chesser & Barr can be reached at 850-610-7471.*