

## **When Will Lenders Discount 2008 Properties and Should You Take 2008 Capital Gains Profits?** **by John V. Kamin**

Okay, so there are lots of foreclosures. Many have been listed for sale – but at full ticket prices.

When is a Bargain a Genuine Bargain?

There are auctions of properties, priced at 25% less than 2006 prices; but not priced at 25% off 2008 prices, which are substantially lower!

If house prices in your area are off 15% to 25% in the last two years, since 2006; then property auctions at 25% of 2006 prices are not a bargain.

What you're seeking instead, are properties that are discounted way below existing prices for 2008, right? When will that occur?

Right now, lenders are not pricing properties or listing them well below 2008 markets. Perhaps they lent too much money on them in 2006 or didn't get enough in down payments originally. Maybe their 2006 appraisals were inflated. Should you wait for eventual resale at lower prices?

**FDIC May Determine Outcome**

The Federal Reserve Board audits banks. Then, when troubled banks can go no further or can't borrow their way out of problems any longer, the Federal Deposit Insurance Corporation steps in to protect insured depositors up to \$100,000 each. The FDIC then tries to get some other bank to take over the failed bank. Lately, we know the number of troubled banks under close scrutiny watched by the FDIC, has risen from 90 to 117.

When the banks' auditors come in and start screaming, "You've got too much foreclosed real estate on the books", that's when those troubled banks "get religion". Then, they start selling off properties for whatever they will bring, to the public. From 1988 to 1992, the Resolution Trust Corporation was set up to dispose of troubled properties – repos and foreclosures. RTC was run by William Seidman, a noted accountant. When the smoke cleared, several things had happened.

1. The Federal Savings and Loan Insurance Corporation had to be taken over by the FDIC, absorbed.
2. Many auctions were conducted. Among the hardest hit states were California, Florida, Oklahoma, Arizona, Ohio and a number of others. I recall that in Texas sales, you could buy a dozen modern houses for \$100,000 ... for all 12 houses in the package!

**Money-Making Opportunities**

By the time the RTC folded its tent, prices realized on homes and buildings had averaged 59% of low appraisal. On vacant land sold at auction by the RTC, those sales realized an

average of 41% of the low appraised values. In Dallas, Houston and several other Texas cities, you had “see-through high rises” where one could look in the windows of one side of the building and see completely through out the windows of the other side of the building. Entire floors were vacant in office buildings.

The RTC got the mess cleaned up by blowing off those repossessed properties at whatever the market would pay, what people were willing to pay on distressed properties – many new properties and building developments among them! In the USA, the RTC got the job done.

No Sales Equals Long Recession – 15 Years

“Pretend” Payments

But in Japan, where investors had been buying up trophy properties and accumulated many, many bad loans, no such disposal methods were used. Japan had a lingering 15 year recession due to their inability and reluctance to get rid of their bad loans and foreclosed properties. Many of the Japanese lenders kept their bad loans on their books as though they were still being paid as promised, even though the borrowers had long since stopped making payments.

Summary

It’s still too soon. The USA lenders in the current crisis have not yet “got religion”. They aren’t really discounting properties in 2008 to the attractive levels that took place comparably in 1988 to 1992 under the RTC.

I have the feeling that a lot of bad loans are still being swept under the rug, unacknowledged. And you and I both know that lenders with bad loans, no-doc (no documentation loans) or inflated appraisals are just not pushing very hard to get those properties disposed of in the marketplace at whatever the free market will pay.

Back in 1988 to 1992, I bid on a number of properties at an RTC auction myself, though I was usually “frozen out” for bidding too low. But I’d recommended RTC auctions to Forecaster clients time and again and a number of them were successful bidders and made big money when property prices finally rose. Therefore, I think you need not rush to buy the 2008 “bargain” auctioned or listed property at a modest discount to 2006 (boom year) appraisal. That 2006 appraisal might or might not be inflated beyond current market. For example, houses in the new Gold Coast area of Oxnard, California – three bedroom, two bath homes that were listed at \$525,000 in 2006 are now listed at \$340,000 in 2008 and still haven’t “hit bottom”. I’m sure if you tried, you could come up with a few examples in your own area where you live. Be careful. Continue building cash-form resources.

**FORECAST:** You’ll get your opportunity to make a six or seven figure bargain buy for profit soon ... just not yet. Don’t rush the process. Let the marketplace make you rich with your Contrarian Forecaster approach.

Should You Take Capital Gains Profits 2008?

How confident are you that Barack will be our new President come 2009? More than 20%? More than 50%? 100% certain? If your level of certainty is high, then you should really strategize and think about taking profits during 2008. Translation - that means selling properties and other assets. Why? Because Barack has promised to raise long term capital gains federal taxes from the current 15% level.

How high would the boost be? Perhaps to 28%, nearly double or even higher if budgets are really blasted after he takes office, 35%. Therefore, if you think this is what will happen, then maybe you should sell some of those items that you bought so cheaply years ago, pre-recent inflation and just pay up the 15% tax.

#### 1031 Exchanges Could Mean Higher Tax Bill!

More thoughts - why 1031 exchanges don't make sense. If you were deferring long-term capital gains taxes on properties you own, by trading them for other properties in a 1031 exchange, you may end up paying substantially higher profit taxes when you eventually resell! You may pay higher than the current 15%, maybe even 28% or higher.

In recent years, I have advised clients not to do 1031 exchanges and not to get involved in Tenant-in-Common exchanges for this very reason. Why defer current low capital gains taxes (15% maximum) to pay nearly double some years down the road? It makes no sense. Furthermore, on TIC exchanges, you lose control of your property and your money. You get treated like a tenant, that's why they call you a Tenant-in-Common, you're just a small fractional owner.

There are other moves you should make if you believe that the Bush tax cuts will be allowed to expire in 2010. Among these are 2008 large estate money give-aways, to avoid Death Taxes in 2011 and later. Here's another idea. If you think taxes are going to rise on corporations (instead of fall from 35% to 25% as McCain has outlined) then you will want to defer buying equipment and other purchases. Why? You'll want to defray higher tax rates after the tax hikers get in office! If you buy depreciable equipment and pay tax-deductible expenses now, in 2008, and then they hike taxes in 2009, 2010 and beyond, the more tax-deductible expenses you can "park" into those later high-tax years, the more "mileage" you'll get out of those later tax deductions, slightly postponed! OK, admittedly it sounds a little complex. But tax deductions are worth more in high tax years than in low tax years, that's the principle.

That's just one more reason for funneling optional income into a lower tax year such as 2008, rather than waiting until the big tax-ers get into office 2009 and beyond. Bluntly, show yourself the money, get the money and funnel the taxable income where you can into 2008 rather than into 2009.

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