

Money: Ends and Trends

May 2004

A Warning That Hits Home

Amos, the prophet to the northern kingdom of Israel, prophesied, *“I will tear down the winter house along with the summer house; the houses adorned with ivory will be destroyed and the mansions will be demolished,” declares the LORD.*” (Amos 3:13-15)

Though God had declared a number of judgments through his prophets against Israel for its idolatries, the citizens soon returned to their ways. They continued to pursue rampant idolatries, worshipping foreign gods and were consumed with the emblems of the good life. According to Amos, its leaders were fixated upon materialism. Houses were ornate, gilded with ivory, and the elite led conspicuous lifestyles possessing both summer and winter houses. Its false prophets persisted in prophesying peace and prosperity.

A little later, another prophet to the northern kingdom of Israel, Hosea, prophesied, *“Israel has forgotten his Maker and built palaces; Judah has fortified many towns. But I will send fire upon their cities that will consume their fortresses.”* (Hosea 9: 14) Israel during this time had already started to crumble at its foundations. Tiglath Pileser III, the Assyrian King, invaded the north-eastern area of this nation, eventually deporting the Israelites from the Transjordan and other areas. Yet, it seems apparent that hedonistic conditions continued. They continued to revel in their palaces. Judah, meanwhile, placed their security in building strong, fortified cities. It wasn't very much later that God's prophesied judgments against Israel finally came to reality. Shalmaneser and then Sargon, successive Assyrian kings, captured Samaria, bringing to end the Kingdom of Israel.

The consequences that Israel faced for its fixation with false gods, conspicuous living and ornate houses may carry some messages for our day. In particular, I want to draw some parallels of possible prophetic significance to our modern-day housing conditions.

Readers may be wondering — perhaps even worrying — how any of the messages to Israel could find application to us today. After all it is a topic that hits home. The majority of us live in dwellings that we own and hold dear. How could our houses be linked with any endtime development? As we will see, circumstance surrounding present-day attitudes and policies related to housing are definitely part of an endtime money snare.

A Chicken in Every Pot

Politicians like to stomp the slogan, *“A chicken in every pot and every man to his home.”* So it should be. It is a good ideal that every family own their own home. But that basic desire to own one's own home, good as it is, has been distorted and preyed upon. I want to explain how the Devil has crept through our front doors and laid a trap for many people.

It came about this way. Politicians and leaders know that a contented populace is one that can afford homes. It wins votes. So they have created policies and organizations that encourage home ownership. So far, so good. Many nations now have a larger part of the population own their own homes than ever before. For example, in America 68% of all households own their home today as compared to only 64% just 10 years ago. This same general trend, more or less, is true in France, Britain, Canada and many other nations.

But some time ago home ownership began to be used as an instrument of ensnarement. Something that was good was taken to excess and directed to an evil end as materialism began to sweep the land. This development paralleled an idolatrous shift in society overall to the worship and pursuit of wealth. Institutions were put in place that eventually had the power to manipulate the value of real estate. Now, the objective of national policies changed. Yes, leaders and politicians still gave lip service to the ideal of home ownership for all — including the disadvantaged — but the emphasis had changed to emphasize the wealth itself that housing represented rather shelter and hearth. Owning a house was good; even better if it continued to rise in price. After all, that makes people feel wealthy ... and, generally, stimulates them to spend. Housing had become the prime vehicle of what became known as the “wealth effect.” This wealth effect is much larger than is possible through rising stock and bond markets.ⁱ

Woe to the leaders that allow housing prices to fall. They get voted out of office. Better to endorse policies that promote behavior that contributes to rising house prices. And, if necessary, manipulate financial conditions so as to give people confidence in the value of their homes. Unfortunately, in doing so, many people are being lured into a false sense of security ... not to mentioned high mortgage payments and a risky state of affairs.

This may all sound unlikely and contrived. But is it? One only has to look at facts and the conditions developing today.

As mentioned, leaders have long ago recognized that the surest way to make people feel happy and prosperous is to have the perceived wealth of their homes and other assets rise. This new demagoguery became brazen in the early 1990s, openly endorsed in intellectual circles. A quote reflecting this thinking states that *“now many societies, and indeed the entire world, have learned how to create wealth directly. The new approach requires that a state find ways to increase the market value of its productive assets.”* Such an economic policy that *“aims to achieve growth by wealth creation therefore does not attempt to increase the production of goods and services, except as a secondary objective.”ⁱⁱ* Many other intellectuals could be quoted that advocate a similar approach. Here the point is clearly made that the apparition of rising wealth — by hook or crook — is to be focused on, not the real aspects of human labor, financial conditions or anything else. Wealth — even if is only an imitation — has become the focus of worship.

The core of this rotten ideology is found in high places. The lure of financial wealth — more, exactly, the perception of wealth — has become a deliberate policy tool. Wealth goes before all. Make most people think that they are becoming wealthier, that more wealth gains are probable, and national prosperity and economic growth will follow. This “hoodwink” ensnarement is leading North America and other nations astray and is bound to result in hardship in the not-too-distant future.

And, it is that type of thinking that has been hitting your home. How so? For that explanation, a little of history is first helpful.

Unsafe Dwellings

It wasn't that long ago that developed mortgage markets were created ... at least, not long ago viewed in terms of the human history. As recently as 70 to 80 years ago, this type of debt was frowned upon and few financial institutions in North American offered them. Most people would borrow privately in those days ... if at all. Even today, banks in some countries still do not offer mortgages, considering them too risky.

Today, mortgage markets have become enormous and real estate-related debt has boomed. Most people have become comfortable and conditioned to the idea of having large mortgages. In fact, the bigger the better. Many people no longer buy a home on the basis of need, but rather by the measure of the maximum mortgage payment that can be afforded. Others, even though they are not buying another home, often refinance their existing house in order to “cash-out” their equity. As house prices rise, interest rates fall and mortgage lenders become increasingly aggressive, people are attracted to this easy money. They refinance, take out some cash and spend it. In the end, they have more debt and are poorer for it. This all may sound illogical and leave one thinking that few would actually take such action. The fact is that many are ... in droves. Last year, mortgage borrowers cashed out hundreds of billions of their home equity.ⁱⁱⁱ Various estimates suggest that as much as 40% and more of all mortgage refinancings involve a cash out. The same trend is observed in other countries, as well. In Britain, cash outs are currently near the \$100 billion mark.^{iv}

This behavior is so rampant that a remarkable phenomenon has occurred in America. Even while house prices have been rising rapidly — caught in a bubble, so to speak — the average home-owner is becoming poorer. In other words, the average household has been borrowing against their house faster than housing price have been rising. Most aren't worried, however. Interest rates are at 50-year lows and they feel rich and secure because they have been led to think that housing prices will rise forever. The consequence of this false confidence is that the average household today pays the same or more in interest costs as a proportion of their income than was the case when interest rates were three to four times higher just twenty years ago. The reality is that there is little security to be found in this situation ... certainly not in America which is also heavily dependent on foreign borrowing.

These trends in recent years have crescendoed to maniacal and dangerous levels. The two government sponsored mortgage insurers, Fannie Mae^v (*whose slogan is “Our business is the American Dream”*) and Freddie Mac, are issuing so many loans that they have become the world's largest “hedge funds”, perched on a mountain of debt and precarious financial engineering. In fact, they have become so large and aggressive, their activities are impacting global financial markets.

Events are on fast forward for a disaster. Apparently, not only do people think that home prices will rise forever, they also must be assuming that interest rate levels will never rise again. It will indeed by a new world if that were to remain the norm ... particularly, when interest rates are already at 45 to 50-year lows. The Mortgage Bankers Association reports that the share of new mortgages application to be financed by adjustable rates, jumped from 13.5% in January 2003 to 30% by year-end. That fact, combined with the realization that more than 40% of all consumer debt (*also at record highs*) is based on floating interest rates, suggests that many households are highly vulnerable to rising interest rate levels. What would occur if this should happen?

Biblical Warnings and Foreshadowings

The world is today is experiencing probably one of its biggest housing booms in history. If not the largest on record, it certainly is the most dangerous one of all time.

This boom could not have come at a more convenient time. The Economist Magazine says *“that it is the factor which has saved the world economy from a deep recession.”*^{vi}

Conditions in housing markets, as explained, are building towards precarious levels. Imagine what will happen when the day arrives that real estate prices begin to fall ...

when perhaps rising interest rates cause mortgage payments to rise to where some homeowners will begin to default on their mortgage obligations. Will this happen? Yes ... most certainly at some point. We don't need another prophet to confirm this answer. The messages of history and the Bible confirm it. Economic scholarship alone leads to the conclusion that such an outcome is highly likely.

Last year the International Monetary Fund released a report^{vii} that sounded grave warnings on the prospect of a housing bust. Another important study conducted by the University of Cambridge last year^{viii}, inferred similarly chilling conclusions.

What and when will happen? Some are so caught up in the magic carpet ride of apparent easy wealth, that they are blind to its dangers. Others simply guffaw the thought that troubles may lie ahead. Yet, facts speak of an impending disaster sometime ahead. Even while reputable scholarship exists on the dangers of housing booms, policymakers have knowingly chosen to allow a housing bubble to inflate. Why? They want to counteract the negative effects of difficult economic conditions and a shaky financial edifice. In doing so, they are digging a much deeper hole. Suffer the day when we will finally fall into that hole when no more safety nets are possible.

The message to heed foremost, however, is what the Bible says. When a nation forsakes its trust in God, and instead places its security in possessions and prosperity, and runs after its emblems in an idolatrous craze, He has always eventually brought judgment.

Thoughts to Ponder

We all must live somewhere. Our houses can be large or small, ornate or utilitarian. What matters is the heart. Has our dwelling become an idol? Are we placing our faith and security in the rising value of our home? Are we running after the image of prosperity, building larger homes, sacrificing our duty to stewardship and other obligations? If the answer is yes to any one of these questions, then we may be vulnerable to a trap.

As we have seen, the corrupt modern-day world of globalized humanity has deliberately turned people's desire to have a home into a trap for those that are unwary. It is another mechanism that will kick in to cause great economic calamity sometime in the future ... certainly so in the Great Tribulation. Then, the vast majority of people will be caught in a difficult financial situation and crying out for a leader to solve this difficult problem of the day. However, dangers of this type exist even now. Housing busts do happen this side of the Great Tribulation. Here, America is highly vulnerable.

It is a fact that most North Americans are "house poor." The lure to possess a large house inhabits them, rather than these people inhabiting their houses. Their mortgage payment and ownership obligations have been placed first in priority, sometimes squeezing out our ability to provide for other important needs ... even the first of our obligations — giving to the Lord. Many cannot do so even if they wanted, given large mortgage payment for a home that they really cannot afford.

Is now the time to get entrapped in the lures of the housing boom? One prophet decried this fixation with houses at another very important time. *"Then the word of the LORD came through the prophet Haggai: 'Is it a time for you yourselves to be living in your paneled houses, while this house remains a ruin?'" (Haggai 1:3-4)* That admonishment could well also apply to our day, another very important time — an age where the enemy is rapidly setting an endtime trap. Many people are caught up hoping to make fortunes in a speculative real estate market or enslaving themselves to enormous bills in order to

live in palatial homes. What about the Lord's house, the temple? Today, following the sacrificial death and following resurrection of Christ, we are the temple in which Spirit resides. Is it in ruin?

King David modeled a good attitude in this respect. After he had settled in his new palace, he said to Nathan the prophet, *"Here I am, living in a palace of cedar, while the ark of the covenant of the LORD is under a tent."* **(1 Chronicles 17: 1)** He clearly put his emphasis and desires of his heart elsewhere. The Bible holds him up as the king that most had his heart upon the Lord.

Besides taking practical precautions to ensure that our financial houses are in order, we still have one better promise. Christ said, *"Do not let your hearts be troubled. Trust in God; trust also in me. In my Father's house are many rooms; if it were not so, I would have told you. I am going there to prepare a place for you. And if I go and prepare a place for you, I will come back and take you to be with me that you also may be where I am. You know the way to the place where I am going."* John 14:1-4

If we build on solid ground, our houses will be secure ... both on heaven and earth.

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ⁱ According to US Federal Reserve statistics, the average American household has four times as much wealth in housing than in stock markets.

ⁱⁱ Foreign Policy magazine, Fall 1996. Securities: The New World Wealth Machine, John C. Edmunds.

ⁱⁱⁱ Freddie Mac reports that as of the fourth quarter of 2003, 45% of the mortgage loans that were refinanced resulted in new mortgages at least five per cent higher than the original mortgage. The difference was cashed out. Freddie Mac (only one of a number of government-sponsored mortgage companies) estimates that its home borrowers cashed out a total of \$139 billion in 2003.

^{iv} Source: Bank of England. It reports that mortgage cash-outs reached \$24.7 billion in the third quarter of 2003.

^v Both Fannie Mae and Freddie Mac (short for Federal Home Loan Mortgage Corporation) are government-chartered companies that specifically exist to facilitate mortgage lending. Together, they account for the facilitation of over \$4 trillion in mortgages.

^{vi} The Economist, March 30th, 2002. Going through the roof, pg. 59-61.

^{vii} International Monetary Fund, 2003. In a report entitled When Bubbles Bust, the first of its kind, it studied the effects of 20 housing busts around the world since the early 1970s. This agency's economists concluded that in comparison to stock market routs, *"housing price busts [...] were nearly twice as long with output losses that were nearly twice as large, reflecting greater effects on consumption and banking systems."*

^{viii} University of Cambridge, 2003. Coasting on the Lending Bubble Both in the UK and in the US,