

Title:

Buying at the top - Wachovia's mistake

Word Count:

547

Summary:

The real estate market greatly exploded over the last five years with the biggest shift happening in the past three years. All good things must come to an end, and unfortunately this real estate boom is over. People who have bought in the past six months have been buying at the top, and even large companies have made this mistake. One company in particular is Wachovia Bank. Its recent purchase of Golden West Financial for \$26 billion is a prime example of a 'buying past the peak' investment.

Keywords:

real estate,real estate bubble,real estate crash,real estate protection,real estate eBook,mortgage,recession

Article Body:

The real estate market greatly exploded over the last five years with the biggest shift happening in the past three years. All good things must come to an end, and unfortunately this real estate boom is over. People who have bought in the past six months have been buying at the top, and even large companies have made this mistake. One company in particular is Wachovia Bank. Its recent purchase of Golden West Financial for \$26 billion is a prime example of a 'buying past the peak' investment.

Two of the primary drivers of this real estate market mania have been people's belief that they must own real estate coupled with a second factor of low interest rate mortgages.

The first driver is people's fervent belief that they must buy real estate, but this 'herd mentality' is beginning to change. Speculators buy homes as investments and these investors have been a large source of the demand for real estate in the past few years. Now, not only have speculators stopped buying but they are also selling the properties they own. As a result, inventory of homes for sale are at astronomical levels.

The second driver of the real estate market has been low interest rate mortgages. Interest rates bottomed out in June of 2003 and have been rising ever

since. As a result interest rates are substantially higher than they were only 12 months ago and they only have one way to go - up. Higher interest rates are needed to help slow down inflation. Inflation has recently caused consumers to really begin feeling a pinch in their wallets.

In order to cope with higher interest rates and high real estate prices, banks have thrust adjustable rate mortgages onto the American public. Since March 2004, there has been a 59% increase in one-year adjustable rate mortgages. These mortgages start out with a low interest rate, but quickly rise after the one-year introductory period is over. Moody's has reported that an astounding \$2 trillion of adjustable mortgages will reset between 2006 and 2007 and this will really cause foreclosures to rise like never before.

Rise they have as mortgage foreclosures nationwide increased 38% as reported by RealtyTrac Inc. Mortgage defaults will only worsen with higher interest rates and more adjustable mortgage rate resets. What bank is infamous for specializing in adjustable mortgage loans? The answer is Golden West Financial bank.

Adjustable mortgages will be the primary cause of the coming mortgage meltdown and ground zero for this will be overpriced areas such as California, Florida, and New York. Golden West Financial concentrated their adjustable mortgages in California, one of the most overpriced real estate areas in the country. Wachovia was so absorbed by the real estate bubble it paid the highest price ever per share for Golden West.

So what happens when many of Golden West's clients foreclose on their properties because they cannot afford a 50% jump in monthly mortgage payments? Wachovia will feel the pain as they are forced to sell these mortgages to investors for pennies on the dollar. Do not make the same mistake; learn all about the markets and economy. It is important to know there is still time to prepare yourself for the real estate bubble bursting and the coming recession. Go to www.MyRealEstateBubble.com for more information.