

# Course of U.S. Recovery Uncertain, Professor Says

*By Carol Hazzard*

*Richmond Times-Dispatch, October 2*

The recession that has gripped the nation since 2007 may have ended. But the damage is not over and solutions are needed to prevent another crisis, a finance and real estate expert said yesterday at a Virginia Commonwealth University real estate event at the Willow Oaks Country Club.

"We're still missing the new financial architecture," Susan M. Wachter, a professor at The Wharton School at the University of Pennsylvania, told about 150 VCU students, faculty and alumni.

The crisis started with the housing bubble and spread to the financial markets.

The recovery could take any form -- L for flat, U for gradual, V for sharp or W for another recession -- but much will depend on the decisions the U.S. makes in the next six to 12 months, Wachter said. "The rest of the world is looking to us."

Better lending standards and ways to track risk are needed, she said. Also, more private investment money will help unlock the credit markets. "I don't believe liquidity will return until we have private equity."

She said the government's injection of capital is unsustainable. The government is supposed to back off its financial life support. "The unwinding will take a year," she said.

"We could get out of this if we don't raise taxes too quickly. That would be a very bad idea."

Signs that the recovery has taken hold include a peak in the unemployment rate, inflation that remains under control and a return of private equity, Wachter said.

Wachter said housing prices likely have bottomed out -- provided unemployment continues to slow and interest rates remain low.

While inching up recently on monthly basis, housing prices are still down 30 percent from a peak and not ready to bounce back, she said. "They are likely to remain low."

Wachter said foreclosures would continue to rise and not subside until 2011.

Reckless lending led to the financial meltdown: 50 percent of all mortgage originations in 2006 were for unconventional loans. Negative amortization loans, where borrowers pay less and add to their mortgage debts, did not exist until 2004, she said.

The infusion of risky credit pushed housing prices artificially high, Wachter said.

The inventory of homes for sale rose to an 11-month supply last year, meaning it would take that much time to sell all the houses for sale. It has fallen to 8.5 months, which is a good sign. However, a normal level is six months.

The markets with the most affordable housing were least affected by the crisis, she said. The most expensive markets, such as Florida, Nevada and California, were hit the hardest.