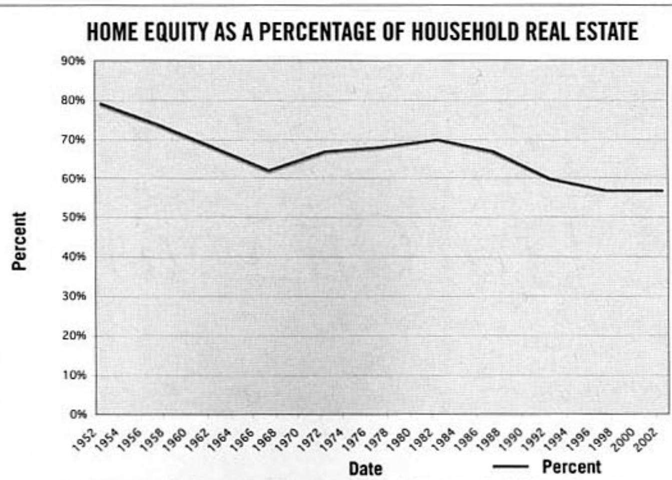


Source: Calculations based on data from the Board of Governors of the Federal Reserve System, Release Z. 1 Flow of Funds Statistics of the United States, Washington, D.C.: BOG.

CURRENTLY, HOMEOWNERS IN THE UNITED STATES OWE MORE AND OWN LESS OF THEIR HOUSE.[3]

LOAN AMOUNT	INTEREST RATE	TERM (YEARS)	TOTAL PAID
100,000	5%	15yrs	142,342
	10%	15yrs	193,430
	5%	25yrs	175,377
	10%	25yrs	272,610
200,000	5%	15yrs	284,686
	10%	15yrs	386,858
	5%	25yrs	350,754
	10%	25yrs	545,220

A MORTGAGE, DEPENDING ON THE TERM, DOUBLES OR TRIPLES THE COST OF THE HOUSE. THE LONG-TERM SAVINGS IS SIGNIFICANT IF YOU PREPAY A PROPORTION.[4]

Eighty years ago, it was common for families, especially in small towns, where most people lived, to build their own homes, spending their own savings to pay cash for materials and using volunteer labor. Others saved up until they could buy, free and clear.

As urban America grew home ownership dropped: in 1940 only 44% of homes were owner occupied. Since the creation of government-insured mortgage financing that number has grown: up to 62% in 1960 and to 66% in 2000. But under 30% of U.S. homeowners currently own their house outright, and of the 70% that have mortgages, 23% have more than one mortgage on that house. The percentage of house that homeowners hold—that is, the equity they have, compared to the appraised value of their home—has gone down from 80% in 1952 to about 56% currently, even as appraised value goes up.[5]

The median price of a new house—adjusted for inflation—is almost 4 times what it was in 1940.[6] Houses are so expensive now that almost no one expects to own one without taking less than a twenty-year mortgage. And that mortgage means that buyers typically pay two to three times the stated cost of the house: If you buy a $200,000 house, and invest $20,000 as a down payment, at 8.5% interest you'll pay about $250,000 in interest, or $450,000 total, before you own the house outright, twenty-five years later.

Better Homes and Gardens, in 1929, suggested that the "extreme limit" of expenditure on mortgages should be one-third of household income, and one-fifth or one-forth was suggested. They calculated their figures based on a single salary. Currently, even two-income households commonly pay over half their income toward their mortgage.

Why Do Houses Cost So Much?

One reason is that houses have become big and fancy. Sixty years ago, closets had just recently become a standard feature in new homes, but now people expect, or at least accept, multiple bathrooms, bedroom suites, built-in appliances, and more. Most builders complain that a primary reason for high house prices is government regulations. A variety of studies[7] show that codes, zoning, licensing, and insurance costs do impact housing prices. One consolation is that in places with high regulation, wages tend to be higher, but not usually high enough to compensate for the higher housing cost. Chapter 10 discusses ways to mitigate the effect of codes and zoning locally.

Other primary reasons for the high cost of housing are rising construction material and labor costs, land costs, and bank interest. Let's look at interest first, since its impact is staggering.

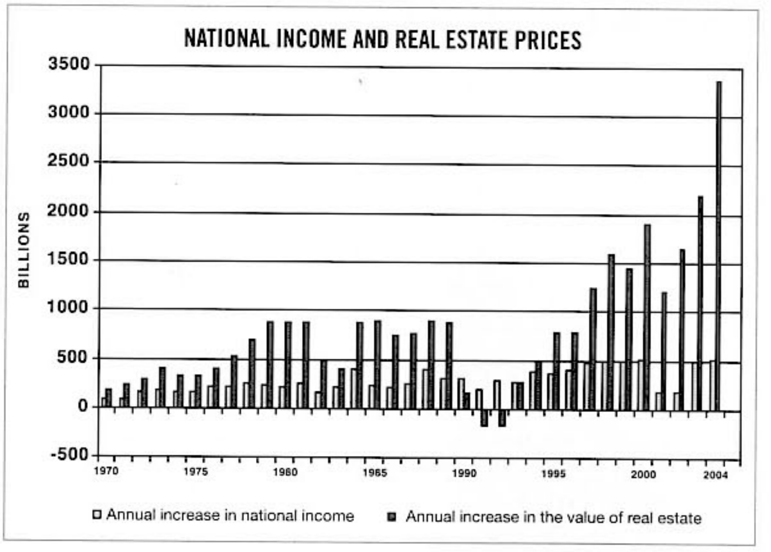
REASON #1: INTEREST

Here's a reason the rich get richer and the poor get poorer: *bank interest.*

Interest is the "rent" the bank or lender charges us to use our national currency. Most of us charge "rent" on our working hours—that's our income. The difference between our rent and the banks' rent is that your work hours are restricted by your humanity. Money never gets sick or tired, nor dies, so it can earn interest as long as interest is an acceptable social reality.

Plato, the Magna Carta, and even Adam Smith (who developed the philosophy of free-trade capitalism) warned of the negative effect interest has on human economies, yet the lending of money and the charging of interest continues to multiply and mutate. Albert Einstein was amazed to discover how compound interest works, and is said to have called it "the eighth wonder of the world," or "the greatest invention of the twentieth century," although it arguably dates back more than two thousand years.[8]

Compound interest is an exponential celebration of interest. It is charged by calculating interest at regular intervals before the loan is paid off, adding that interest to the loan, and then charging interest on the new sum.



THE VALUE PLACED ON REAL ESTATE HAS OUTPACED U.S. NATIONAL INCOME[9]

Home mortgages are considered an example of simple interest; because borrowers usually pay the full interest each month, no interest is charged on the interest. However, since a mortgage term lasts for so very long, and the amount of money is so very high, the effect is similar to that of compound interest: modern borrowers pay two to three times as much interest to the lender than they owe in original debt.

The Bible and the Koran specifically limit this kind of human interaction. The Koran forbids all interest, and the Bible is typically interpreted to allow no more than 2% annually, and to require no loan to last past the next "sabbatical year" a celebration that happens each seven years, when loans are forgiven and fields are left fallow.

What we call the "business cycle"—the rise and fall of the economy— in a sense forces a kind of sabbatical on us eventually: once too many high-interest loans are in the economy, and everyone is spending their money paying back their debt, too little money is left for other economic activities, and the economy shrinks. If the

When Teresa Quiroz was twenty-one she worked as a waitress. Every morning a customer came in for breakfast, and every morning he left her one quarter as a tip. One morning he told her, "I'm not going to tip you a quarter today. I'm going to give you something much more valuable." And she sat down and he explained compound interest. "If it weren't for him," she says, twenty years later, "I wouldn't be about to burn my mortgage in four years, after a ten-year term.