

Bankruptcy in America

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Global Research, April 20, 2011

[International Forecaster](#) 20 April 2011

Region: [USA](#)

Theme: [Global Economy](#)

Many banks are insolvent, yet are allowed to stay in business. Being allowed to keep two sets of books is obscuring their real estate loan problems. This is the shadow inventory you sometimes hear about. Those millions of homes “that exist, but they don’t.” They presently admit to owning some 1 million homes they cannot sell, which is almost 25% higher than last year. If you put everything together you could be looking at an 8-year supply. Making matters worse lenders are holding homes on the books at values 40% higher than what they are worth. This is very similar to what is going on in Spain presently. We’ll say this one more time. Most major banks and some middle tier and small institutions are broke and you are being lied to regarding their condition.

Distressed home sales make up about 50% of all sales and they are sold at rock bottom prices, which drives down the value of all homes. This condition could last another ten years. In California and Nevada such sales are some 70% of sales. This inventory will continue to suppress prices for some time to come, so do not even think about buying a home. Those lower foreclosure figures are a mirage caused by legal action against lenders. Those foreclosure numbers will grow higher soon, because these criminals are cutting a deal to pay fines, so no one goes to jail. Only in America. That foreclosure activity could come back slowly due to major changes in the industry.

As foreclosures pick up following a deal with the government the shadow inventory will build, banks will sell more homes, prices will fall further, losses to the banks will grow and the banks inadequate loan loss reserves will become evident. Then there are the ongoing lawsuits against the banks and their creation known as MERS, which has no further legal standing. We could see millions of mortgages being cancelled that is unless the crooks in Congress pass a forgiveness bill to relieve the banks of their fraud. The bottom line is many more banks are going under and some will be major banks.

As we predicted in June of 2005 that the housing market would crash we also predicted a 10 to 40 year fall and consolidation in housing. Most people can reflect on these past six years, but cannot perceive the future for housing. Market activity has fallen by almost 1/3rd, as housing prices fell ever lower. Although we do not see an increase in official interest rates we can easily see mortgages at 5-5/8% by the end of the year and 6-1/2% at the end of 2012. Lenders are going to have to demand 10% to 20% down. That will not only further decrease sales volume, but it will further depress prices. These rates may seem high, but inflation will be between 14% and 30% over that 1-1/2 to 2 year span.

Since 2006 house prices are down 32% and over the next year they will probably fall close to 40% from their highs. The Fed may have temporarily saved banking and Wall Street, but little has been done to solve the unemployment problem. If you have no job you cannot buy a house, not with real unemployment at 22%. As a result new home sales fell 28% in February, as their inventories rose to 8.9-month's sales. Our question is with such a tremendous home inventory overhang, why are builders building more homes, some 550,000 a year. They have to be dumber than rocks. Existing houses for sale rise every day plus there are more than a million in the foreclosure crisis. House prices still have to hit bottom and that is probably 30% lower and probably 3 years away. It is hard to get real estate going with unemployment at 20% and forced part-time employment at 10 million workers. Deceptive government statistics can only hold back reality for so long. People are finally seeing the truth of what unemployment and under-employment really are. Labor deterioration is accompanied by gas and food inflation. People at work paying steeply higher prices are in no position to buy a home. Feeding the family comes first. As a result of forced Fed policies we also have a falling dollar that increases prices for imported goods.

If all this wasn't bad enough municipalities and states are in serious financial trouble.

Their working force makes up 15% of overall employment and 70% of costs. That means to cut costs you lay people off first. That increases unemployment and disqualifies future homebuyers and puts more underwater homes into foreclosure, which compounds lenders' losses. Do not underestimate these layoffs, because they will have a strong negative affect on the overall economy. This year was really the beginning of these municipal and state layoffs. Looming in the shadows is the possibility of hundreds of municipal bankruptcies; 35 states are in the same position with no end in sight. Very few people really understand how serious the overall situation really is. These events take a terrible toll on consumer confidence. These were supposed to be lifetime jobs. What happens when pension checks stop due to bankruptcy? That has to slow the economy. 90% of state and local costs are for education. That means more layoffs and doubling class sizes to 40 children. Children are learning very little in school and their success is held down by the quality of students. It will be pandemonium with giant class sizes and many of the best teachers will resign.

The government supplies 35% of wages. Food stamps are helping to feed 44 million Americans. Government wants to cut Social Security, which people have paid into, but is erroneously allowing thousands in under disability. Medicare is a shamble, and Medicare is worse. In spite of the current problems 75% of Americans do not support cuts to Medicare and Social Security. In spite of that, if Wall Street and banking want less benefits, that is what Americans will get. America is accelerating to a welfare state.

Corporate America is in a dilemma. They are facing higher costs for petroleum products and food. This affects profits, if not passed on, business will eventually have to pass these costs on. In that environment there can be little hiring and little if any job growth. If they hold back price increases when increases do come they'll be very large.

Each day statements from the Fed get more bizarre. One of the latest ones is the Fed has to be accommodative because the central bank remains blow its targets for inflation and employment. Inflation is somewhat high and employment is dreadful.

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