Housing Bubble Smackdown: Bigger Crash Ahead

Huge "shadow inventory"

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Due to the lifting of the foreclosure moratorium at the end of March, the downward slide in housing prices is gaining speed. The moratorium was initiated in January to give Obama's anti-foreclosure program—which is a combination of mortgage modifications and refinancing—a chance to succeed. The goal of the plan was to keep up to 9 million struggling homeowners in their homes, but it's clear now that the program will fall well-short of its objective.

In March, housing prices accelerated on the downside indicating bigger adjustments dead-ahead. Trend-lines are steeper now than ever before–nearly perpendicular. Housing prices are not falling, they're crashing and crashing hard. Now that the foreclosure moratorium has ended, Notices of Default (NOD) have spiked to an all-time high. These Notices will turn into foreclosures in 4 to 5 months time creating another cascade of foreclosures. Market analysts predict there will be 5 MILLION MORE FORECLOSURES BETWEEN NOW AND 2011. It's a disaster bigger than Katrina. Soaring unemployment and rising foreclosures ensure that hundreds of banks and financial institutions will be forced into bankruptcy. 40 percent of delinquent homeowners have already vacated their homes. There's nothing Obama can do to make them stay. Worse still, only 30 percent of foreclosures have been relisted for sale suggesting more hanky-panky at the banks. Where have the houses gone? Have they simply vanished?

600,000 "DISAPPEARED HOMES?"

Here's a excerpt from the SF Gate explaining the mystery:

"Lenders nationwide are sitting on hundreds of thousands of foreclosed homes that they have not resold or listed for sale, according to numerous data sources. And foreclosures, which banks unload at fire-sale prices, are a major factor driving home values down.

"We believe there are in the neighborhood of 600,000 properties nationwide that banks have repossessed but not put on the market," said Rick Sharga, vice president of RealtyTrac, which compiles nationwide statistics on foreclosures. "California probably represents 80,000 of those homes. It could be disastrous if the banks suddenly flooded the market with those distressed properties. You'd have further depreciation and carnage."

In a recent study, RealtyTrac compared its database of bank-repossessed homes to MLS listings of for-sale homes in four states, including California. It found a significant disparity – only 30 percent of the foreclosures were listed for sale in the Multiple Listing Service. The remainder is known in the industry as "shadow inventory." ("Banks aren't Selling Many

Foreclosed Homes" SF Gate)

If regulators were deployed to the banks that are keeping foreclosed homes off the market, they would probably find that the banks are actually servicing the mortgages on a monthly basis to conceal the extent of their losses. They'd also find that the banks are trying to keep housing prices artificially high to avoid heftier losses that would put them out of business. One thing is certain, 600,000 "disappeared" homes means that housing prices have a lot farther to fall and that an even larger segment of the banking system is underwater.

Here is more on the story from Mr. Mortgage "California Foreclosures About to Soar…Again"

"Are you ready to see the future? Ten's of thousands of foreclosures are only 1-5 months away from hitting that will take total foreclosure counts back to all-time highs. This will flood an already beaten-bloody real estate market with even more supply just in time for the Spring/Summer home selling season…Foreclosure start (NOD) and Trustee Sale (NTS) notices are going out at levels not seen since mid 2008. Once an NTS goes out, the property is taken to the courthouse and auctioned within 21-45 days.…The bottom line is that there is a massive wave of actual foreclosures that will hit beginning in April that can't be stopped without a national moratorium."

JP Morgan Chase, Wells Fargo and Fannie Mae have all stepped up their foreclosure activity in recent weeks. Delinquencies have skyrocketed foreshadowing more price-slashing into the foreseeable future. According to the Wall Street Journal:

"Ronald Temple, co-director of research at Lazard Asset Management, expects home prices to fall 22% to 27% from their January levels. More than 2.1 million homes will be lost this year because borrowers can't meet their loan payments, up from about 1.7 million in 2008." (Ruth Simon, "The housing crisis is about to take center stage once again" Wall Street Journal)

Another 20 percent carved off the aggregate value of US housing means another $4 trillion loss to homeowners. That means smaller retirement savings, less discretionary spending, and lower living standards. The next leg down in housing will be excruciating; every sector will feel the pain. Obama's $75 billion mortgage rescue plan is a mere pittance; it won't reduce the principle on mortgages and it won't stop the bleeding. Policymakers have decided they've done enough and are refusing to help. They don't see the tsunami looming in front of them plain as day. The housing market is going under and it's going to drag a good part of the broader economy along with it. Stocks, too.