

Housing Market Blues - The Bleeding Continues

By [Mike Whitney](#)

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The collapse in housing prices is gaining pace proving that the Fed's bond purchasing program (QE2) has been an utter failure. While liquidity sloshes around in the equities markets, the distress on Main Street is more excruciating than ever. The release of the Case-Shiller index of property values on Tuesday, confirmed analysts worst fears, that the decline in prices is accelerating on the downside further weakening household balance sheets, wiping out precious home equity, and thrusting working class families back into the red.

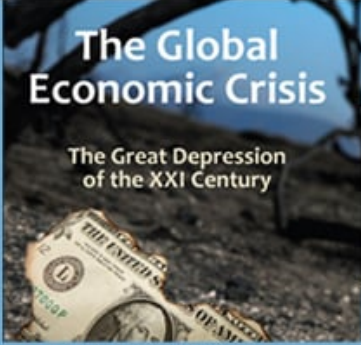
According to Bloomberg :

“Residential real estate prices dropped in January by the most in more than a year, raising the risk that U.S. home sales will keep slowing. The S&P/Case-Shiller index of property values in 20 cities fell 3.1 percent from January 2010, the biggest year-over-year decrease since December 2009....

Rising foreclosures are swelling the number of houses on the market, which may put additional pressure on prices in coming months. At the same time, a further decline in home values may keep potential buyers on the sidelines as they foresee better deals, hurting construction and consumer spending as owners' equity evaporates.” (Bloomberg)

Who will buy a house in this market knowing that the same house might be cheaper tomorrow by tens of thousands of dollars? So, why has Fed chairman Ben Bernanke focused all his energy on the financial markets? Indeed, \$600 billion in monetary stimulus has sent stocks into the stratosphere rising nearly 15 percent in just 3 months, but what about the underlying economy where wages are frozen, 14 million people are out of work, food stamp usage is at record highs, and the housing market is crashing? Bernanke is like the man who tries to fix his car by digging a hole in the back yard. It can't be done, because the two things are entirely unrelated. QE2 has been a bust for everyone excluding the bank Mafia that torched the financial system with their pernicious flimflam.

Read the chapter by Mike Whitney in *The Global Economic Crisis*



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So now prices will likely overshoot their historic trend due to growing pessimism and uncertainty about the overall health of the economy. Does Bernanke really believe that the financial markets can detach themselves from the real economy and float freely on a wave of overleveraged paper assets traded between charlatans?

Be serious. Housing needs a lifeline, pronto. Every downtick in prices means more lost equity, more foreclosures, more backlog, more red ink for the banks, and more years of scraping the bottom. Owning a home is no longer a vital part of the American dream; it's a sinkhole that devours everything and leaves its owner drowning in debt.

More from Bloomberg : “Foreclosure filings may climb about 20 percent in 2011, reaching a peak for the housing crisis, according to RealtyTrac Inc....”

The median price of existing homes, which make up more than 95 percent of the market, slid 5.2 percent from a year earlier, erasing all gains made after February 2002, according to the National Association of Realtors.”

So, we're back to 2002 and counting. How much carnage can Bernanke and Obama endure before they lend a hand?

Prices are tumbling, inventory is mushrooming, and foreclosures are off-the-chart. Yes, the market can fix this problem by adjusting prices according to supply and demand, but that wasn't the standard Bernanke used with the banks. Oh, no. Bernanke purchased \$1.7 trillion in garbage mortgage backed securities (MBS) to keep his shifty buddies from taking the hit. (And that was AFTER the \$700 billion TARP) It just goes to show that “free market” solutions are always jettisoned when they don't meet the needs of the rich and powerful. The free market is just a stick that's used to beat up on little guys.

According to Case-Schiller, housing prices are now off by 31.4% from their peak, a measly 2.2% above May 2009 the post-bubble bottom. So, when do we hit bottom; 35%, 40%, 50%?

Bank of America has already seen the light and started a pilot-program for making principal reductions on existing mortgages, in other words, lowering the face-value of the loan. This is a step in the right direction and could help eliminate negative equity leading to additional “walk aways” and foreclosures. According to Housingwire:

“The program will be funded from the \$699.6 million the California Housing Finance Agency received from Treasury Department's Hardest Hit Fund last year. A spokesperson for the CalHFA said there is no set amount of loans BofA is targeting, but the bank will be soliciting eligible homeowners soon.”

(Housingwire)

The Obama administration should abandon its limp-wristed attempts at mortgage modification (HAMP) and establish Federal guidelines for “forced” cramdowns (mortgage reductions) as soon as possible. That will keep millions of people in their homes and quickly stabilize the market. There’s been enough devastation and bloodletting already. Housing needs government support and a policy that’s crafted in Washington not Wall Street.

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