Mortgage Madness: Financial Fraud in the Housing Market

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Housing has been going sideways for seven months now, mainly due to lax lending standards (at FHA), the Firsttime Homebuyers Credit, and the Fed's mortgage-backed securities (MBS) buyback program. But once the props are removed, the market will fall sharply.

So where's the real, organic demand for housing?

Here's a hint: There isn't any.

The market's in a shambles, decimated by years of fraud and perfidy. What was once a booming industry is now a shriveled, abscess-ridden corpse that buyers are avoiding like the plague. And who can blame them? A new home is no longer a symbol of status and upward mobility, but a millstone to be shed at the earliest possible opportunity. The industry is facing an insurmountable PR challenge; how to take a "sou's ear" and stitch it into a Gucci purse. Good luck with that. Low interest rates and federal subsidies alone won't do the trick.

Despite the media-hype and cheery forecasts, the downhill slide has already begun. Here's the lowdown from Realty Check which sums it up pretty well:

"The average number of days from when a borrower stops paying on his/her mortgage to when the bank sends out the first foreclosure notice is 417….And the final foreclosure can take up to a year more. The government's Home Affordable Modification Program, which today the Inspector General for the TARP wrote, "has made little progress in stemming the onslaught"…. is simply delaying the inevitable and in some cases kicking the can and the cost down the road for borrowers who will inevitably redefault and for taxpayers who will foot the bill." (Diana Olick Realty Check, CNBC)

Full-stop. So the banks are taking more than two years to roll-over a house…even when they KNOW the homeowner has no intention of paying? Think about that for a minute. The only reason the banks would hold-off that long is if they can't afford to writedown the losses. So, it's all a big accounting charade to keep the public from knowing that they're broke. That's the only logical explanation. Back to the article:

"Ivy Zelman did a simple exercise of adding shadow inventory to the seemingly improving inventory numbers. In DC for example, she cites a 5.1 month supply of homes for sale, well below the nation's 8 month supply. But add the shadow inventory of foreclosures, and you get a 13.2 month supply. She claims builders "underwriting ground are unaware of these headwinds." Just after she said that, a guy sitting behind me whispered an expletive under his breath." (Diana Olick Realty Check, CNBC)

It's all about supply and demand, and right now there's way too much supply (shadow inventory) and not-nearly enough demand. So, the banks are dragging their feet–keeping 5 or 6 months supply off-market–to keep prices artificiality high while they pray for a miracle. It's pathetic, and it's having a ripple-effect on the economy too, because the added pressure on bank capital makes it impossible for them to increase lending. That's why most bank's loan books have shrunk by 20 percent or more year-over-year. Back to Realty Check:

"On the low end of the market, that is homes priced below $150,000, investors comprise 2/3 of the purchasers, according to Zelman. Another study out today from Campbell Surveys also found that 50% of sales in March were of distressed properties (foreclosures or short sales) (Diana Olick Realty Check, CNBC)

Sure, the low end of the market is Jim-dandy. It's already hit rock bottom, so things are starting to look rosy. But what about the mid-range and high-end where folks are hanging on by their fingernails hoping the market will bounce back? Is anything moving in that market? Not really.

"The trouble of course is the higher end, over $400,000 where investors can't buy with all cash and the mortgage market is closed. Zelman cites a 45 month supply of homes between $400-600,000.

Unfortunately, the government is ignoring the higher end of the market, and ignoring higher end borrowers who may be in trouble due to unemployment. Jumbo loans are excluded from the federal mortgage bailout." (Diana Olick Realty Check, CNBC)

45 months? 4 years to sell a mid-priced home? That's a lifetime!

And how about this nugget about Bank of America via Housingwire:

"Bank of America is considering a special program for unemployed borrowers that would offer as many as nine months of no mortgage payments while they hunt for a new job."

Great. So, the same bank that borrows money from the Fed at zero-rates and dings you double-digits on your credit card if you're even a day late, wants to extend a helping hand in your hour of need? Right. There are no good Samaritan banksters, just tight-fisted scalawags who'd squeeze the blood from a turnip if they could figure out how. If B of A is giving folks a break, it's because their backs are against the wall and they have no other choice. It means they're underwater themselves.

And one final note. The Treasury Dept recently reported that the number of "permanent" mortgage mods under the Obama whizzbang program, have more than doubled since its kickoff just a few months ago.

According to economist Dean Baker, "This indicates that a very high percentage of the permanent modifications are likely to end in default."

But here's the shocker:

"The money that the government spends on a failed modification goes to banks, not homeowners. Typically, the government will have substituted an FHA insured mortgage for the original mortgage issued by a bank. This means that when a redefault takes place, the bank will have received most of the principle back on the loan, with the government incurring the loss on the redefault." (Dean Baker, CEPR, "Money for Failed Modifications Goes to Banks, Not Homeowners")

What does it mean? It means that the Obama mortgage flim-flam is another stealth bailout to shoehorn bankers into government-guaranteed loans so John Q. Public gets saddled with the bill again. Sound familiar?

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