

Surge in Housing Supply Will Drive Down Prices

By [Mike Whitney](#)

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Home ownership has become an albatross. Prices are falling, demand is weak, foreclosures have skyrocketed, and inventory is backed up to the moon. If there's an upside, it's hard to see.

Everyone who bought a house in the last 6 or 7 years knows that he was fleeced by bankers who were pushing "fishwrap" mortgage paper to line their own pockets. Prices did not reflect the underlying supply/demand fundamentals as much as they exposed the massive mortgage laundering operation that was taking place in the shadow banking system. Hedge fund sharpies and other speculators walked away with billions while credulous homeowners were lashed to an anvil and tossed in the East River.

Now there are signs that the Fed teamed-up with the banks to get another pound of homeowners' flesh by keeping inventory off the market while they were exchanging \$1.25 trillion in reserves for the banks non performing loans and mortgage-backed securities. Here's how it works: While the Fed was executing its "quantitative easing" (QE) program, the banks began to stockpile foreclosed homes to reduce supply and, thus, stabilize prices. It was all a hoax to conceal the transfer of reserves for garbage assets. Now that the banks are loaded with fresh reserves, they don't need to play-along anymore, which is why they've started dumping their massive backlog on the market. As inventory floods the market, housing prices will tumble and homeowners will take another pounding. Here's an excerpt from an article in the Wall Street Journal that helps to explain what's going on:

"The speed at which house prices fall over the next few months could depend less on mortgage rates and Americans' appetite for home buying than on how banks decide to manage the huge number of foreclosed homes they own or may take from delinquent borrowers in the near future.

Unlike home owners, banks often are much quicker to slash prices to unload properties quickly." ("Banks' Plans for Foreclosed Homes will drive the Market", Nick Timiraos, Wall Street Journal)

In truth, the only reason prices have stayed high is because of foot-dragging at the banks. If they released all of their inventory now, prices would plunge below their historic trend. As it stands, the deluge of foreclosed homes on the market are certain to put more pressure on today's prices. There's a good chance the market will overshoot to the downside leaving more homeowners drowning in red ink.

So, what are the banks really up to?

It looks to me like the banks have shored up their equity and capital enough that they feel

they can clean up their books without going belly-up. And that means that you, dear homeowner, will be left in your two bedroom rambler in Riverside, watching the sunset on your retirement nest-egg.

Here's more from the WSJ:

"The Home Affordable Modification Program has fallen short of its goals. So far, fewer than 500,000 loans have been modified, below the target of three million to four million. Yet the program served as a "closet moratorium" on foreclosures that stanching the flow of bank-owned homes to the market, said Ronald Temple, portfolio manager at Lazard Asset Management."

Of course, the HAMP modification program failed. It was designed to fail. It was a stalling device like the other foreclosure moratoria. All of the subsidies, incentives and tax credits were designed to "run out the clock" while the banks offloaded their garbage onto the Fed's balance sheet. As soon as the stealth bailout ended, there was no longer any reason to continue the "prices have stabilized" charade. So, now the great housing inventory purge can resume with gusto.

Servicers have already picked up the pace of foreclosures which will swell inventory and weaken demand.

More from the WSJ:

"We see the perfect storm brewing with rising supply and falling demand," said Ivy Zelman, chief executive of research firm Zelman & Associates and one of the first to warn of trouble five years ago. She estimated that distressed sales could account for half of the market by year-end if traditional sales didn't rebound.....

Analysts at Barclays Capital estimate that some four million loans are in some stage of foreclosure or are at least 90 days past due, down slightly from a January peak."

Homeowners have already seen prices plunge 30% from their bubble-highs in 2006. Now they stand to get clobbered again by an unexpected surge in supply. This is going to ruin a lot people's retirement plans. We're all a lot poorer than we thought, and the banks are determined to make us poorer still.

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