

The Housing Situation is *not* Improving

May 2010

Note from Pastor Kevin Lea: Many have asked me what I think about recent news segments reporting about the beginning signs of economic recovery. The answer is found in this article; It is all a mirage – total financial collapse (some time in the near future) seems certain. If it does come, everyone will be affected. Those who have a love for Jesus and a hope in His coming kingdom need to prepare their hearts. Otherwise, the pace and severity of coming hard times could cause us to act with fear, as the disciples did in the Garden of Gethsemane. Jesus begged His disciples to watch and pray but they did not.

Matt 26:40-41 Then He came to the disciples and found them asleep, and said to Peter, "What? Could you not watch with Me one hour? 41 "Watch and pray, lest you enter into temptation. The spirit indeed is willing, but the flesh is weak." (NKJ)

Jesus also commanded us to watch and pray. Will we listen and obey?

1Thes 5:4-11 But you, brethren, are not in darkness, so that this Day should overtake you as a thief. You are all sons of light and sons of the day. We are not of the night nor of darkness. Therefore let us not sleep, as others do, but let us watch and be sober. For those who sleep, sleep at night, and those who get drunk are drunk at night. But let us who are of the day be sober, putting on the breastplate of faith and love, and as a helmet the hope of salvation. For God did not appoint us to wrath, but to obtain salvation through our Lord Jesus Christ, who died for us, that whether we wake or sleep, we should live together with Him. Therefore comfort each other and edify one another, just as you also are doing. (NKJ)

[Housing never really improved – 10 charts showing the United States housing market is entering the second wave of problems. 1 out of 4 people with no mortgage payment in the last year are still not in the foreclosure process.](http://www.doctorhousingbubble.com/housing-market-non-payments-foreclosures-10-financial-charts-united-states-housing-problems/)

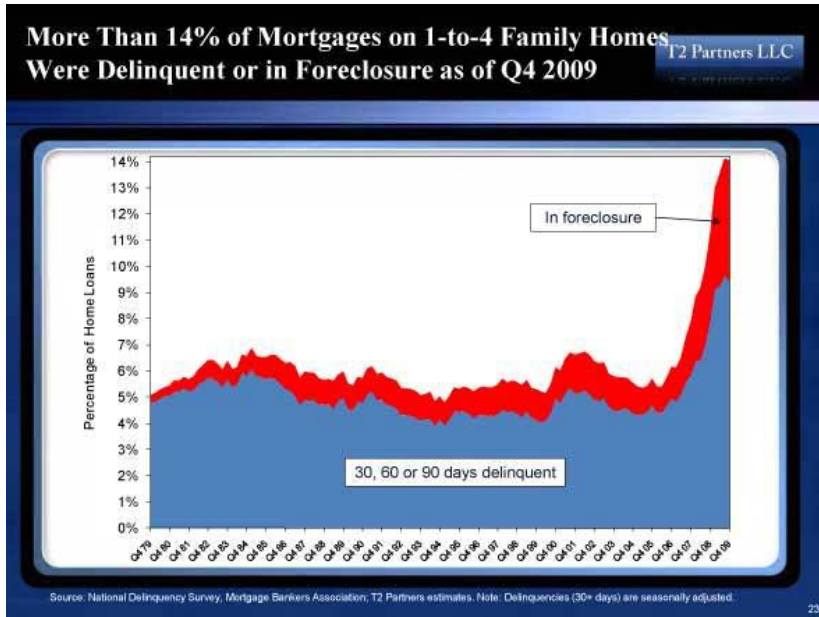
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To put it bluntly, the U.S. housing market today is in deep water. Nothing exemplifies the transfer of risk to the public from the private investment banks more than the deep losses at [Fannie Mae and Freddie Mac](#). Fannie Mae announced a stunning first quarter loss of \$13.1 billion while Freddie Mac lost \$8 billion. At the same time, toxic mortgage superstar JP Morgan Chase announced a \$3.3 billion profit for Q1. This reversal of fortunes has been orchestrated perfectly by Wall Street. Since the toxic assets were never marked to market, the big losses have been funneled to the big GSEs (and as we will show in this article, now makes up 96.5 percent of the entire mortgage market). In other words, banks are making profits gambling on Wall Street while pushing out mortgages that are completely backed by the government. We are letting the folks that clearly had no system of underwriting mortgages correctly or any financial prudence lend out government backed money and the losses are piling up but only in the nationalized [Fannie Mae and Freddie Mac](#). What a sweet deal. Stick the junk in a taxpayer silo.

I wanted to go into the details on the current U.S. housing market and the data is not pleasant. In fact, it is downright disturbing. For background information, the U.S. has roughly 51 million active

mortgages. As we go through the next 10 charts, it is important to keep this in mind. Whitney Tilson's [T2 Partners](#) came out with some riveting charts regarding the current state of the housing market. Let us go through 10 of the most crucial charts.

Chart 1 – Homes in foreclosure

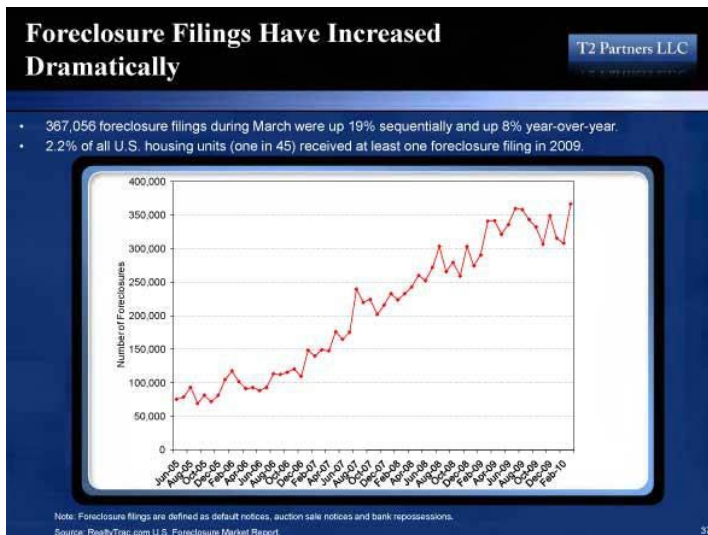


The ultimate sign of housing distress is foreclosure. This should be obvious. So for all the talk of a housing recovery I point to the above chart. Today, as in right now, we are in record territory for the number of homes in foreclosure. 14 percent of all U.S. mortgages are in some form of foreclosure. If you do the rough math, this equates to:

$$51 \text{ million} \times 0.14 = 7,140,000 \text{ mortgages in default or 30+ days late}$$

I always get this question about how folks arrive at the figure of 7 million. The above equation should give you an idea. This by the way is not a good situation. And with many toxic loans including [option ARMs and Alt-As](#) still lingering in the market, we have a few more years of problems baked in unfortunately.

Chart 2 – Foreclosure filings

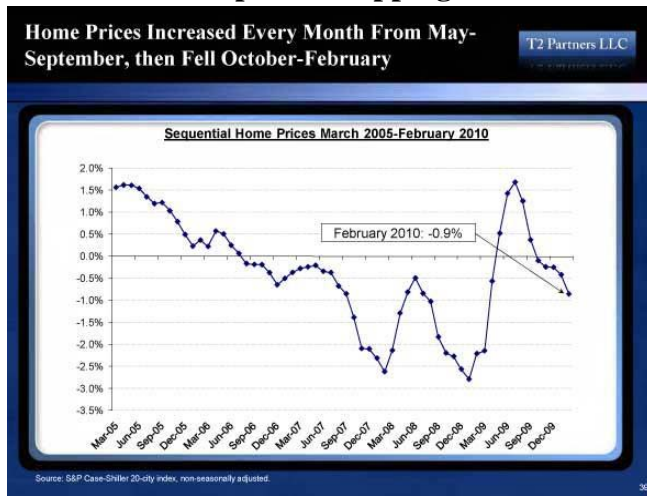


Building off chart one, foreclosure filings are still at record levels. In fact we are heading to a 3.5 to 4 million foreclosure year in 2010! This is somehow a positive thing for the market? People forget that foreclosures happen because of underlying economic issues. If everyone was making big bucks and homes were going up in value then we wouldn't have this problem. Just look at the number of foreclosure filings back in 2005. Roughly 60,000 to 70,000 per month. Last month we hit 367,000+ which was an all time record. When foreclosure filings get back down to more normal levels, then we can say the housing market is improving.

What about strategic defaults? At most, 1 out of 5 foreclosures is probably a strategic default. But that means 4 out of 5 are losing their home because they can't pay. This is why we absolutely need bigger down payment requirements. If you get a government backed loan (aka the 96.5 percent of the

market) then you should at the very minimum put down 10 percent from actual cash sources (no using tax credit nonsense).

Chart 3 – Home prices dropping



I think some people have a hard time understanding why home prices have fallen lately. Well, when a large part of home sales are distress properties prices usually shoot to the downside. We had a nice little bump from the alphabet soup of government programs including [HAMP](#), tax credits, and other gimmicks but the trend is back to lower prices. Why? Because the underlying economy is still not healthy. Now that people have to at least show some proof of income, it turns out that many cannot afford high priced houses. Is this a surprise to anyone? What do you expect when your strategy involves

kicking the can down the road? The above chart basically shows one World Cup kick to the can.

Chart 4 – Nationalized housing market



Congratulations, you are the housing market. 96.5% of all originated loans are now government backed. Remember [Fannie Mae](#) and [Freddie Mac](#) and their epic continuing losses? Apparently banks have no problem originating loans as long as they can use the government money to gamble in the stock market.

Wall Street enjoys handing your money out. They like to beat on their chest about the free market but have no intention of lending out their own money (i.e., your bailout funds). In fact, Wall Street has convinced itself that your money is basically their hard earned cash. For the risky housing market, they'll be the middleman in lending out mortgages that are defaulting in mass. What do they care if the economy is on stable footing? They don't care if you lose your job and can't pay the mortgage in one or two years. By then, the banks will be gambling in another bubble putting another sector of the economy at risk.

Chart 5 – Housing overhang



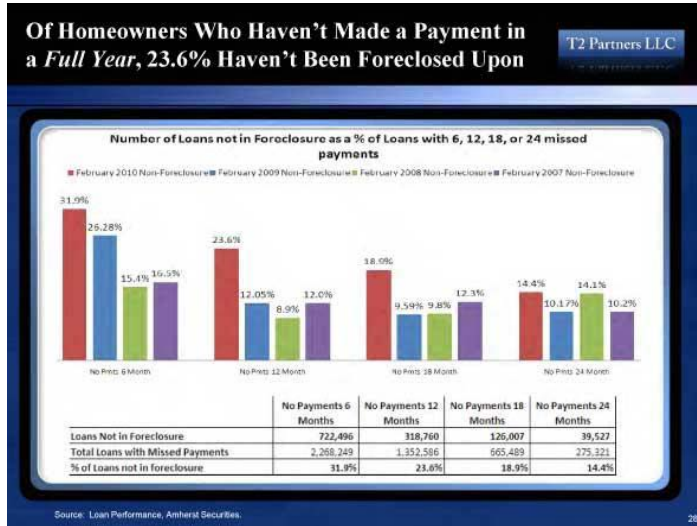
Remember that 7 million figure? Well there it is. Keep in mind that we keep adding to this pile because foreclosure filings are running at 300,000+ per month. So the market is actually saturated with inventory. You may not always see this in the actual data but we've gone through multiple case studies of [shadow inventory](#). This large amount of overhang will add additional pressure to housing prices in the next few years. In fact, with this amount of housing we have anywhere from 7 to 9 years of inventory to clean out!

Chart 6 – Distress inventory as sales



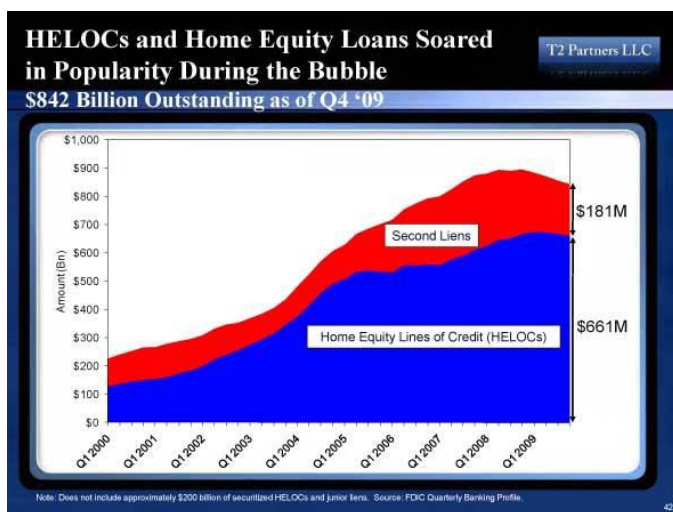
The dip you see in 2009 was basically the failed efforts of HAMP and other bank stalling efforts. Now that banks have basically nationalized the housing market and have made Fannie Mae and Freddie Mac their dumping ground, they really don't care. They can use the taxpayer money they get under the guise of helping homeowners to speculate on [Wall Street](#) while funneling GSE debt to the public. An absolute win for them. The biggest and most risky of debt gets pushed to taxpayers while the lion share of profits stays in house as bonuses. The system couldn't be more corrupt or broken.

Chart 7 – Not paying and living with no foreclosure

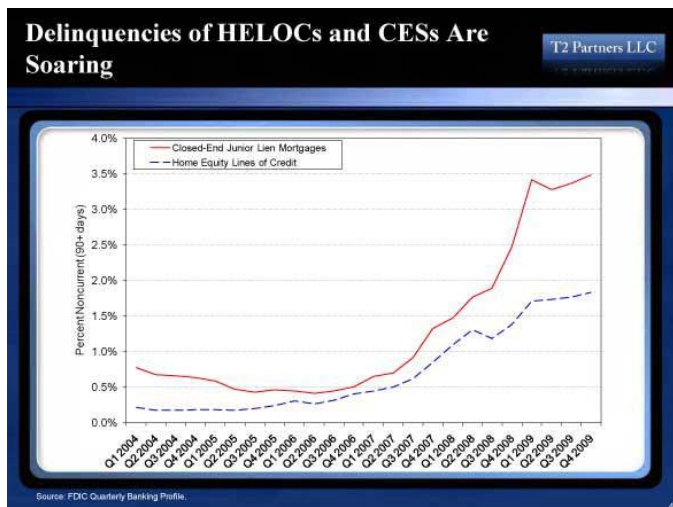


This is a stunning chart. 24% of those that have made no payment in the last year are still not in foreclosure! In other words, you have tens of thousands of people living rent free while banks pretend everything is fine and claim billions of dollars in profits. What a sham! Just look at the 24 months with no payment column. 39,000 people have not made a payment in 2 years and no foreclosure has been filed!

Chart 8 – Home equity lines



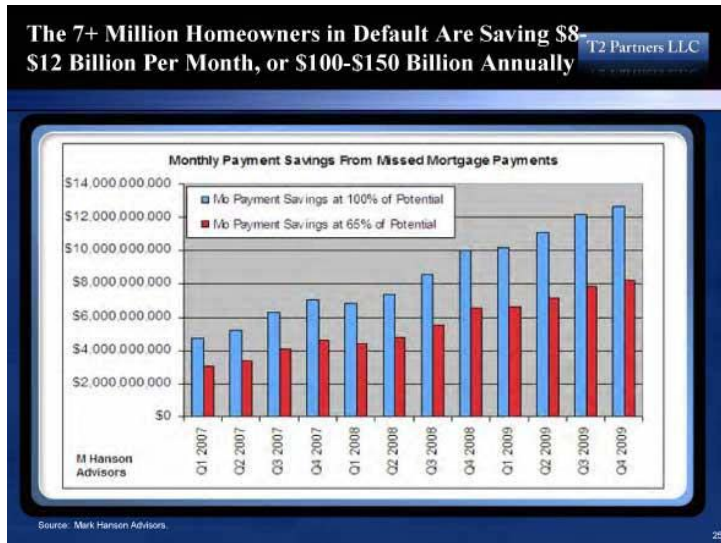
With so many homes underwater, the second mortgage market has virtually disappeared. But we still have \$842 billion in loans made during the peak of the bubble outstanding. Most of these are actually held by the big four banks and that is probably another reason why banks are moving aggressively against some while letting others stay in their home without payment. In fact, if you look at the above chart it seems that if you leveraged yourself with multiple mortgages banks might wait to move on you while if you only had one mortgage backed by a GSE, you're out. [Fannie Mae and Freddie Mac](#) defaults on standard mortgages are spiking to record levels.



HELOC defaults are soaring:

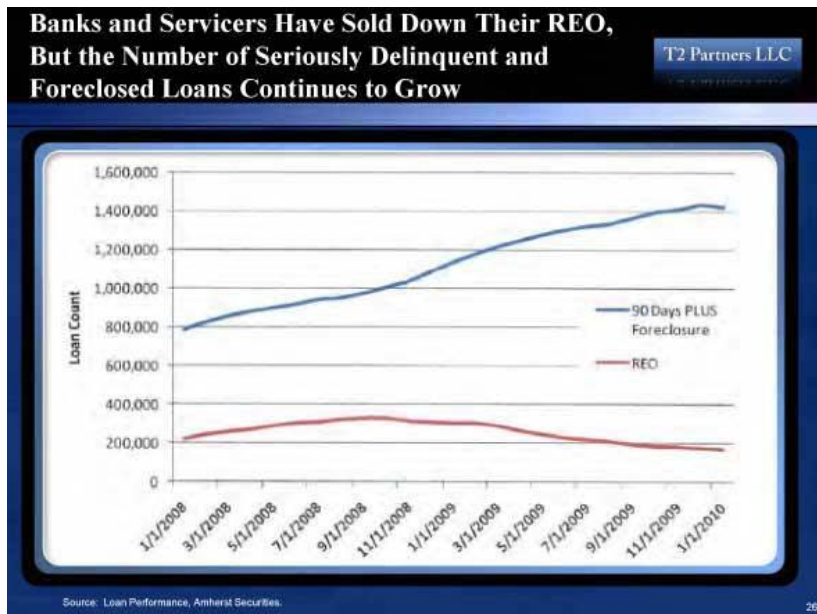
This means further bank losses but can Wall Street gambling outpace the losses from the housing market?

Chart 9 – Nonpayment Savings



There is an upside to not paying on your mortgage. More money to spend! Ironically some of the recent increase in consumer spending hasn't come from job gains or actual employment improvement. It has come from people not paying their mortgage, downsizing (or getting a similar house for half off), and using the freed up income to spend. The estimate is that \$8 to \$12 billion per month is freed up from people not paying on their mortgage. You must have some uncanny self delusion to spin that as good news.

Chart 10 – REO vs distress



This chart pretty much sums it up. Banks are moving on current REOs (the small batch that they have) and pumping this up as good news but the 90 days plus foreclosure number is still trending up. How is this magic done? We've talked about it above. You simply don't move on delinquent homeowners. You ignore actual losses. You mark your assets to fantasy valuations.

In total the housing market is in worse shape today than it was a few years ago. If the stock market was tied to housing we probably have a

Dow 20,000 with 14 million foreclosures. The bailouts have been one large transfer of wealth to the banking sector. Remember that the bailouts were brought about under the guise of helping the housing market and keeping people in their homes. None of that has happened. Ironically the only thing that seems to keep people in their home is when they stop paying their mortgage! If that is the strategy we have arrived at after [\\$13 trillion in bailouts](#) and backstops to Wall Street we are in for a world of problems.