Thursday, June 9, 2011

Boom or Bust?

COMMENTARY

Jonathan Foxx

President and Managing Director

There is an astonishing contrast regarding the condition of the housing market as depicted by the FRB, the Obama Administration, the ratings agencies, and many real estate and mortgage industry resources.

If you feel a sense of confusion, perhaps it is because the differing views are like a patchwork quilt of political posturings, actual financial data, and too many opinions.

Housing Finance

Today, June 9, 2011, Standard & Poor's will hold a meeting in New York City, entitled *Housing Summit 2011: Boom, Bust, & Beyond*. It is all sold out.

The meeting will cover affordable housing, housing finance reform, limiting the government's role, government-sponsored programs, and insurance enhancements. The principal speaker will be Valerie White, S&P's Senior Director and Analytical Manager, who is an expert in the financing issues involving the U.S. affordable housing market in the aftermath of the 2008 housing bust. If you will not be attending, here is her view.

Essentially, Ms. White believes that interest rates, among other factors, are the most significant challenge still facing low to moderate income borrowers, because lower rates put credit pressure on bond programs.

What is Affordable?

While I think S&P's view is worth considering, I'm not so sure the housing market's sorry condition results from merely an interest rate issue. I realize that affordable housing is only one bell weather, but it is important and, in many ways, S&P's observation may be generalized to many aspects of the housing finance market.

Upside Down

It is one thing to have a large supply of foreclosed-on houses, or rate arbitrage issues, but it is quite another when millions of mortgaged houses are underwater. Negative equity - or, now its new sibling, "near-negative equity" (for less than 5% equity remaining in the property) - are riotously rampant, like a forest fire out of control with no fire fighters in sight.

Who does not know that negative equity occurs because of a decline in value, an increase in mortgage debt, or some combination of both?

CoreLogic issued a report for the first quarter 2011, released yesterday, in its ongoing series about negative equity. The report shows that 10.9 million (22.7%) of all residential mortgaged properties were in negative equity at the end of the first quarter of 2011, and an additional 2.4 million borrowers had near-negative equity.

Together, negative equity and near-negative equity accounted for 27.7% of all residential mortgaged properties!

By the way, that statistic has gone down infinitesimally: in the fourth quarter 2010, these two categories stood at 27.9%.

The Real Picture

I'll let CoreLogic's chart tell it like it is:

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New Analysis Highlights The Role Of Home Equity Extraction In Negative Equity Risk
Page 4, 6/7/11, CoreLogic

Praising Limited Progress

Yet we continue to hear glowing reports from the Obama Administration, especially regarding the HAMP program, such as:

- "The Administration's efforts have helped millions of families deal with the worst economic crisis since the Great Depression."
- "Tens of thousands of new homeowners continue to receive real payment relief from HAMP every month."
- "Mortgage delinquencies continued a downward trend compared to early 2010 and foreclosure starts and completions remain below peak."

I have written extensively about the failure of HAMP, so I will not revisit my concerns.

Please visit the Commentary section of our Archive to read my comments.

Positive Economic Growth or Negative Equity Growth

Negative equity is a critical indicator. Borrowers in negative equity positions may be willing and able to pay their monthly mortgage payments, but they are probably also enduring income shock, whether it be caused by loss of a job, divorce, or death - and, these borrowers continually are on the precipice of foreclosure and short sale.

High rates or low rates, the negative equity condition is not improving much at all. In fact, it has yet to crest.

If you want to believe the FRB, economic growth may be temporarily stalled, but will soon turn around. Economic recovery is just around the corner, or maybe the next corner. Obviously, a sustained growth in the economy will mitigate risk and bring down the negative equity condition as well as offer strengthening to borrowers' incomes.

But for the mortgage industry, negative equity and near-negative equity should be considered leading indicators, foretelling the presence or absence of any possible recovery to a robust housing finance market. Their very existence depresses sales and debilitates refinances.

If rates were the issue, the mortgage market would have long since revived!

What do you think?

I would welcome your comments.

Please feel free to email me at any time.

Labels: Affordable Housing, Financial Reform, Foreclosure Crisis, Foreclosures, HAMP, Home Equity, Mortgage Compliance, Near-Negative Equity, Negative Equity, Short Sales, Standard and Poor's

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RECOMMENDED WEBSITES

- ABA Banking Journal
- Bank Law Prof Blog
- Bank Lawyer's Blog
- Bank Rate
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COMMENTS & DISCUSSIONS

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