

The Great Housing Crash of '07

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Mike Whitney ~ The housing bubble is a \$10 trillion equity balloon that will explode sometime in 2007 when more than \$1 trillion in no-interest, no down payment, adjustable-rate mortgages (ARMs) reset, setting the stage for massive home devaluation, foreclosures and unemployment.

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Mike Whitney

This month's figures prove that the so-called "housing bubble" is not only real, but that its cratering faster than anyone had realized. As the UK Guardian reported a couple of days ago, ?the orderly housing slowdown predicted by the Federal Reserve will (soon) become a full-blown crash.?

All the indicators are now pointing in the wrong direction. Consumer confidence is down, inventory is at a 10-year high, and the number of homes sold in July was 22% lower than last year. As Paul Ashworth, chief economist at Capital Economics said, ?Things do seem to be getting worse very quickly. Freefall is a strong word, but I think it's the right one to use here.? (The Guardian, August 27, 2006)

The housing bubble is a \$10 trillion equity balloon that will explode sometime in 2007 when more than \$1 trillion in no-interest, no down payment, adjustable-rate mortgages (ARMs) reset, setting the stage for massive home devaluation, foreclosures and unemployment. (?By some estimates all this housing activity has accounted for more than 40 per cent of all the jobs created in the US since 2001.? Times Online, August 29, 2006) July's plunging sales are just the first sign of a major slowdown. The worst is yet to come.

The blame for this rapidly approaching meltdown lies entirely with the Federal Reserve, the privately owned collection of 10 central banks who cooked up a way to shift wealth from one class to another through low interest rates.

Sound crazy?

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Well, just as high interest rates cause the economy to slow down, low interest rates have the exact opposite effect by stimulating the economy through increased spending. It's all pretty clear-cut.

When the stock market nosedived in 2000 the Fed lowered rates 17 times to an unbelievable 1% to keep the economy sputtering-along while the Bush administration dragged the country to war, gave away \$450 billion a year in tax cuts, and awarded zillions in no bid contracts to their friends in big business. All told, the Bush handouts amounted to roughly \$3 trillion dollars, the largest heist in history, and it was carried out under the nose of the snoozing American public.

At the same time, America's debts and deficits have continued to mushroom behind the smokescreen of low interest rates.

Rather than face the recession, which should have followed stock market crash, the Fed chose to increase the money supply (which doubled in the last seven years) and lower the qualifications for getting mortgages. (I read recently that 90% of first time home buyers not only lie on their mortgage applications, but that 50% of them say that they earn twice as much as they really do. The applications are not cross-checked with IRS statements) Now, tens of thousands of Americans live in \$400,000 and \$500,000 homes without a penny of equity in them and with loans that are timed to increase dramatically in 2007 (many of the monthly payments will double).

So, how can we blame the Fed for the reckless and irresponsible behavior of the average homeowner?

Well, because they knew the effects of their 'cheap money' policy every step of the way.

First of all, the Fed knew exactly where the money was going. Alan Greenspan endorsed the shabby new lending regime that put hundreds of billions of dollars in the hands of people who never should have qualified for mortgages. They were set up to fail just like the victims in the stock market scam who kept dumping their life savings in the NASDAQ when PE's were shooting through the stratosphere.

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Secondly, the Fed knew that wages had actually regressed (2.3%) since Bush took office, so they knew that the soaring value of real estate was entirely predicated on debt not real wealth. In other words, home values increased because of the availability of cheap money, which inevitably creates a buying frenzy. It had nothing to do with real demand or growth in wages.

And thirdly, according to the Fed's own figures, the total amount of residential housing wealth in the US just about doubled between 1999 and 2006, up from \$10.4 trillion to \$20.4 trillion.

UP \$10 TRILLION IN 7 YEARS! That is the very definition of a humongous, economy-killing equity monster. In other words, the Fed knew the actual size of the bubble and chose to steer it towards the nearest iceberg without warning the public.

This is what Greenspan called a little froth.

There is no real growth in the American economy. Figure it out. Last year Americans saved less than 0% of their net earnings while they borrowed a whopping \$600 billion from their home equity to piss away on a consumer spending spree. Once home prices begin to retreat, that \$600 billion will evaporate, real GDP will shrivel, and the economy will begin flat lining. (Consumer spending is 70% of GDP)

The Federal Reserve's plan is so simple; we shouldn't dignify it by calling it a conspiracy. It's merely a matter of hypnotizing the masses with low interest rates while trillions of dollars of real wealth is diverted to corporate bigwigs and American plutocrats.

It might not be rocket science, but it worked like a charm.

Now, the trap door has sprung, the country is dead broke, and all the levers are in place for a police state. As the housing balloon plunges toward earth, the new Halliburton detention centers are up and running, the National Guard is in Rummy's control, the Feds are able to listen in on every phone call we make.

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The noose is beginning to tighten.

New Orleans was just a dress rehearsal for the new world order -- 300 million Americans reduced to grinding poverty while the economy explodes into sheets of flames.

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