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US Housing Crash Continues

It's A Terrible Time To Buy

Why?

1. Prices still disconnected from [fundamentals](#). House prices are still far beyond any historically known relationship to rents or salaries. Yearly rents are 3% of purchase price. Mortgage rates are 6.5%, so it costs more than twice as much to borrow money to buy a house than it does simply to rent an equivalent house. Worse, total owner costs including taxes, maintenance, and insurance are about 9%, which is three times the

Real Estate "Dating Service"

[Patrick.net Seeks Venture Funding](#)

Housing Crash News

Mon Oct 22 2007

[Want a life of leisure? Be a renter](#) (sfgate.com)

[Vultures Are Circling Over Distressed Properties](#) (washingtonpost.com)

[Crushing ARMs squeeze homeowners](#) (denverpost.com)

[Greenspan "didn't get it until very late in 2005"](#) (morgan-florida.org)

[Time for the Banks to Face the Hangman](#) (counterpunch.org)

[Curing SIV](#) (economist.com)

[Lessons from the credit crunch](#) (economist.com)

[Mortgage Bondholders Face Cutoff of Interest Payments](#) (nytimes.com)

[People Still Asking for Nothing Down Loans](#) (doctorhousingbubble.com)

[Why FHA is a Terrible Solution to the Foreclosure Crisis](#) (efinancedirectory.com)

[Land-value drop good news for preservation](#) (orlandosentinel.com)

[Central Valley house prices continue to plummet](#) (modbee.com)

[Levitt and Sons halts work on houses](#) (tcpalm.com)

[Condo developer sues lender over loan](#) (denverpost.com)

[Which projects will survive the condo shakeout?](#) (startribune.com)

[Housing Declines: Don't Forget About Inflation](#) (Charles Hugh Smith)

[Anti-trust: Competition and Real Estate](#) (usdoj.gov)

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cost of renting. Salaries cannot cover mortgages. Anyone who buys now will suffer losses immediately, and for the next several years at least.

2. Buyers borrowed too much money and cannot pay the interest. Now there are [mass foreclosures](#), and senators are talking about [taking your money](#) to pay for your neighbor's McMansion.

Banks happily loaned whatever amount borrowers wanted as long as the banks could then sell the loan, pushing the risk onto Fannie Mae (ultimately taxpayers) or onto buyers of mortgage backed securities. Now that it has become clear that a trillion dollars in mortgage loans will not be repaid, Fannie Mae is under pressure not to

[Price Declines Shake Buyer Confidence](#)

([realtownblogs.com](#))

[Hold an auction, then reject all offers, even above minimum?](#) ([youtube.com](#))

[Easier to get out of marriage than mortgage](#) ([youtube.com](#))

Fri Oct 19 2007

[Honolulu House Prices](#) ([patrick.net](#))

[So. California Prices](#) ([blogger.com](#))

[Excellent image of bubble as circular](#) ([insee.fr](#))

[House prices: A hole in the roof](#) ([economist.com](#))

[Dream House or Nightmare?](#) ([newsweek.com](#))

[Protecting Paulson's Pals](#) ([newsweek.com](#))

[The blame, the bailout and the ball](#) ([marketwatch.com](#))

[Housing Even Hairier](#) ([fool.com](#))

[ARM Mortgage Holders are Clueless](#)

([efinancedirectory.com](#))

[Mortgage Insurer Falls on Loss, Outlook Bleak](#)

([seekingalpha.com](#))

[Taxable value protests on rise](#) ([denverpost.com](#))

[More desperate developers selling houses through auctions](#) ([sfgate.com](#))

["I'll Just Rent It Out" -- Don't Be Too Sure](#) (Charles Hugh Smith)

[Housing Downturn Takes Toll on Cities' Revenue](#)

([nytimes.com](#))

[Burbank: \\$626,000 Short Sale](#) ([doctorhousingbubble.com](#))

[Buying Your Own Debt](#) ([patrick.net](#))

Thu Oct 18 2007

[Jumbo loan problems, jumbo price drops](#)

([themessthatgreenspanmade.blogspot.com](#))

[Before You Talk to a Real Estate Agent](#)

([consumermaven.wordpress.com](#))

[Money woes halt construction](#) ([newmedia.gainesvilletimes.com](#))

([gainesvilletimes.com](#))

[For Every \\$100,000 Appreciated...](#) ([financialsense.com](#))

[More Housing Hanky-Panky](#) ([fool.com](#))

[Stockton agent offering foreclosure bus tours](#)

buy risky loans and investors do not want mortgage backed securities. This means that the money available for mortgages is falling, and house prices will keep falling, probably for 5 years or more. This is not just a subprime problem. All mortgages will be harder to get.

A return to traditional lending standards means a return to traditional prices, which are far below current prices.

3. Interest rates increases. When rates go from 5% to 7%, that's a 40% increase in the amount of interest a buyer has to pay. House prices must drop proportionately to compensate. The housing bust still has a very long way to go.

For example, if interest rates are 5%, then \$1000 per month

(recordnet.com)

[Paulson and Bush Comment on Housing Market Risk](#)

(efinancedirectory.com)

[Super Conduit to the rescue!](#) (salon.com)

[Orange County Sees Record Decline in House Prices](#)

(ocbj.com)

[Bottom-Fishing Fallacies](#) (Charles Hugh Smith)

[The Title Insurance Racket](#) (forbes.com)

[Economist predicts more gloom for housing market](#)

(biztimes.com)

[Congress - Repair Our Financial System!](#)

(financialpetition.org)

[Wholesale lending is quietly being eliminated by the largest banks](#) (blownmortgage.com)

[No more \\$250k/\\$500k exclusion for investors in second homes](#) (fatwallet.com)

[Japan and China lead flight from the dollar](#) (telegraph.co.uk)

[Treasury Rally Most in Five Weeks on Housing, Credit Weakness](#) (bloomberg.com)

[Morbo on the Housing Bubble](#) (youtube.com)

[More news links from the past \(a lot more\)](#)

Some housing calculators:

- [beautiful rent-vs-buy calculator](#) from NY Times
- [rent-vs-buy calculator](#) using historical price trends
- [sell or hold](#) from landlord's point of view

Essential reading:

[Other housing crash blogs](#)

[Sites linking to patrick.net](#)

[Reported Prices Rise While Asking Prices Fall, But How?](#)

[Bay Area asking prices falling fast](#)

[Mainstream Press Ignores Housing Sales Fall of 11% Compared to April 2006](#)

[What should you pay for a house?](#)

[No Bailout!](#)

(\$12,000 per year) pays for an interest-only loan of \$240,000. If interest rates rise to 7%, then that same \$1000 per month pays for an interest-only loan of only \$171,428.

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Even if the Fed does not raise rates any more, all those adjustable mortgages will go up anyway, because they will adjust upward from the low initial rate to the current rate.

4. Extreme use of leverage.
Leverage means using debt to amplify gain. Most people forget that losses get amplified as well. If a buyer puts 10% down and the house goes down 10%, he has lost 100% of his money on paper. If he has to sell due to job loss or an interest rate hike, he's bankrupt in the real world.

It's worse than that. House prices do not even have to fall to cause big losses. The cost of selling a house is 6%. On a \$300,000 house, that's \$18,000 lost even if prices just stay flat. So a 4% decline in housing prices bankrupts all those with 10% equity or less.

5. Shortage of first-time buyers. The percentage of San Francisco Bay Area households who could afford a median-price house in the region plunged from 20 percent in July 2003 to under 10 percent in 2006.
6. Surplus of speculators. Nationally, 25% of houses bought in 2005 were pure speculation, not houses to live in, and the speculators are going into foreclosure in large numbers now. Even the National

Association of
House Builders
admits that
"Investor-driven
price
appreciation
looms over some
housing
markets."

7. Fraud. It has become common for speculators take out a loan for up to 50% more than the price of the house he intends to buy. The appraiser goes along with the inflated price, or he does not ever get called back to do another appraisal. The speculator then pays the seller his asking price (much less than the loan amount), and uses the extra money to make mortgage payments on the unreasonably large mortgage until he can find a buyer to take the house off his hands for more than he paid. Worked great during the boom. Now it doesn't work at all,

unless the
speculator simply
skips town with
the extra money.

8. Baby boomers
retiring. There
are 77 million
Americans born
between 1946-
1964. One-third
have zero
retirement
savings. The
oldest are 61. The
only money they
have is equity in
a house, so they
must sell.

9. Huge glut of
empty housing.
Builders are
being forced to
drop prices even
faster than
owners. Builders
have huge excess
inventory that
they cannot sell,
and more houses
are completed
each day, making
the housing
slump worse.

10. The best
summary
explanation, from
Business Week:
"Today's housing
prices are
predicated on an
impossible
combination: the
strong growth in

income and asset values of a strong economy, plus the ultra-low interest rates of a weak economy. Either the economy's long-term prospects will get worse or rates will rise. In either scenario, housing will weaken."

Next Page: Who disagrees that house prices will continue to fall?