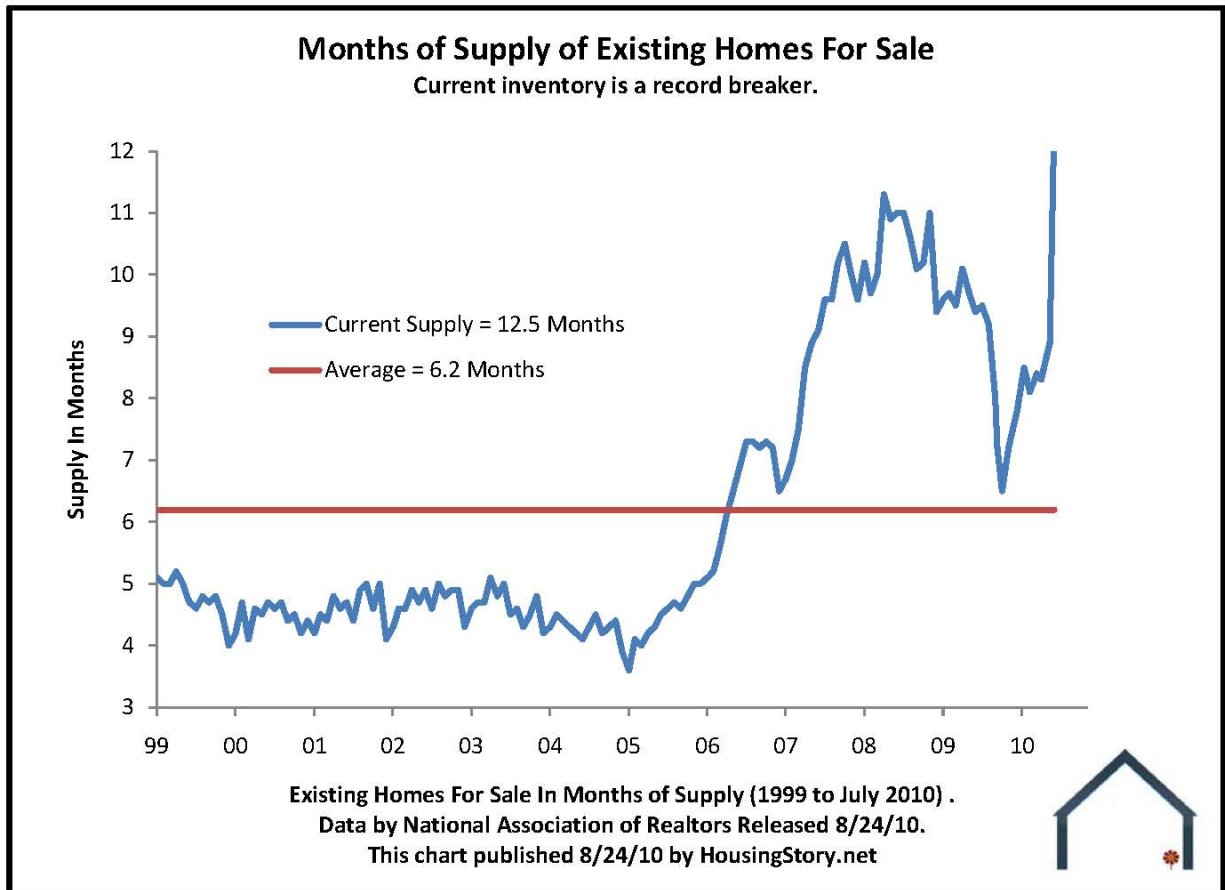
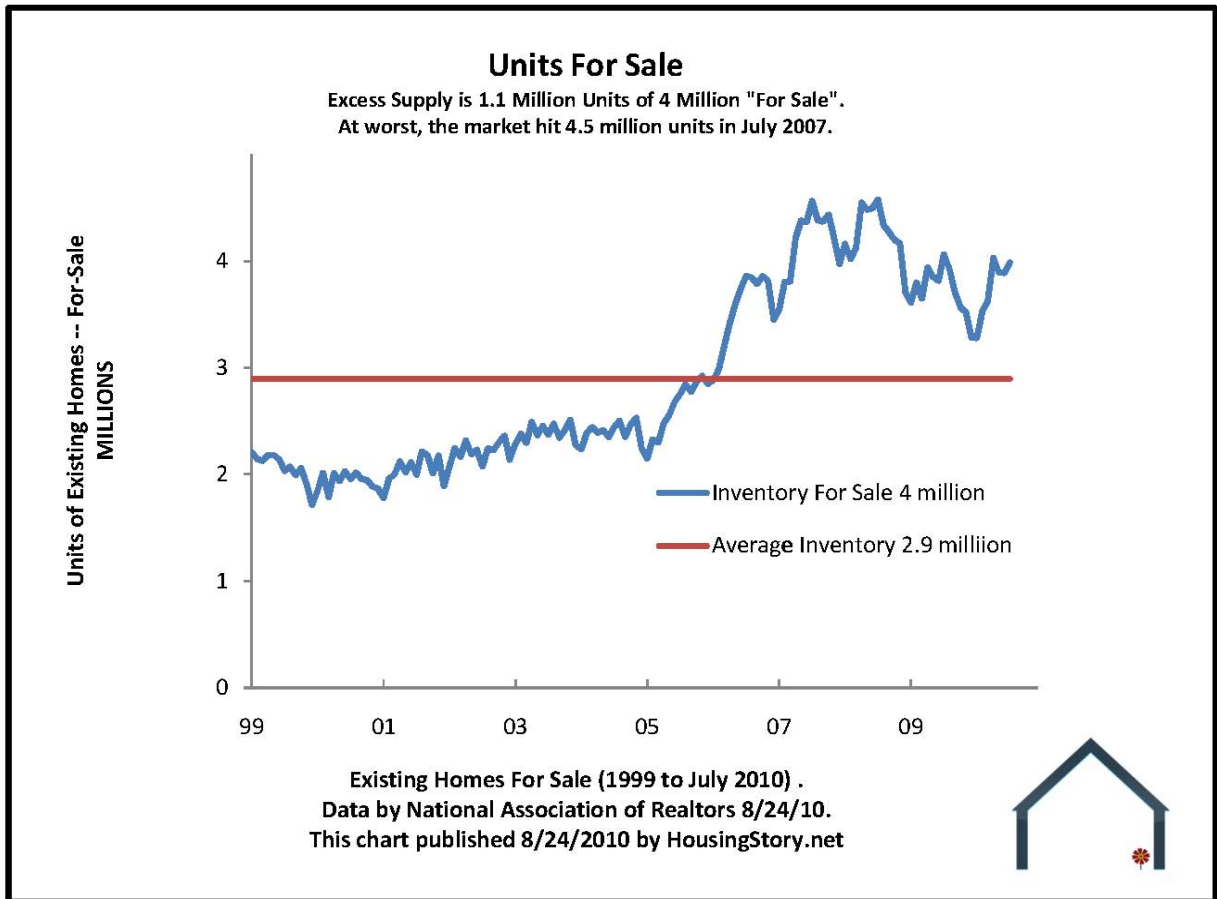


Inventory Explodes Past the Worst of the Housing Crash

Soft demand for existing homes pushed up inventory to a record 12.5 months of sales and easily broke the previous high of 11.3 months scored in April 2008. By this basic measure, the price of homes may reasonably be expected to fall at the most torrential pace seen during our four-year-old crash.

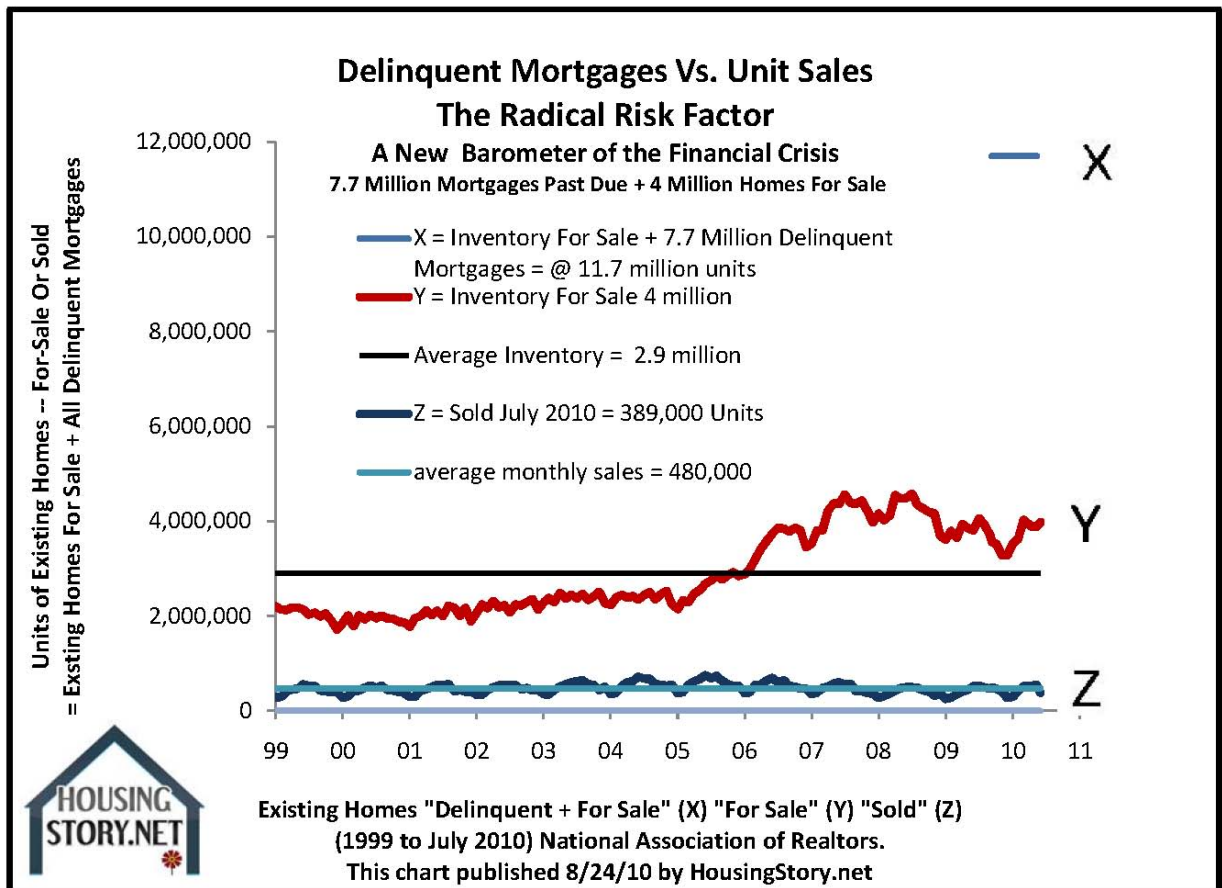


Yet you will see only the most tepid warnings of this risk as described by the mainstream media. Please review the chart (above) and note that it is in record territory for the history of months-of-inventory for sale.



Today's stats are the first release of existing-home-sales data that gives us a view of buyer demand without the hugely popular down-payment prop from the federal government. Please note that inventory in units was comparatively benign with little change from June (Please see units for sale above.). We estimate the excess of units on the market as 1.1 million of the 4 million for sale.

Prices for residential real estate have been flat since August 2009, but they have fallen 34% from their peak in the summer of 2006 (based upon the 120-year series by Case Shiller). Not one commentator I reviewed on today's stats explained that the perils of the American housing market have deepened dramatically since the killer crash let up and paused a year ago.

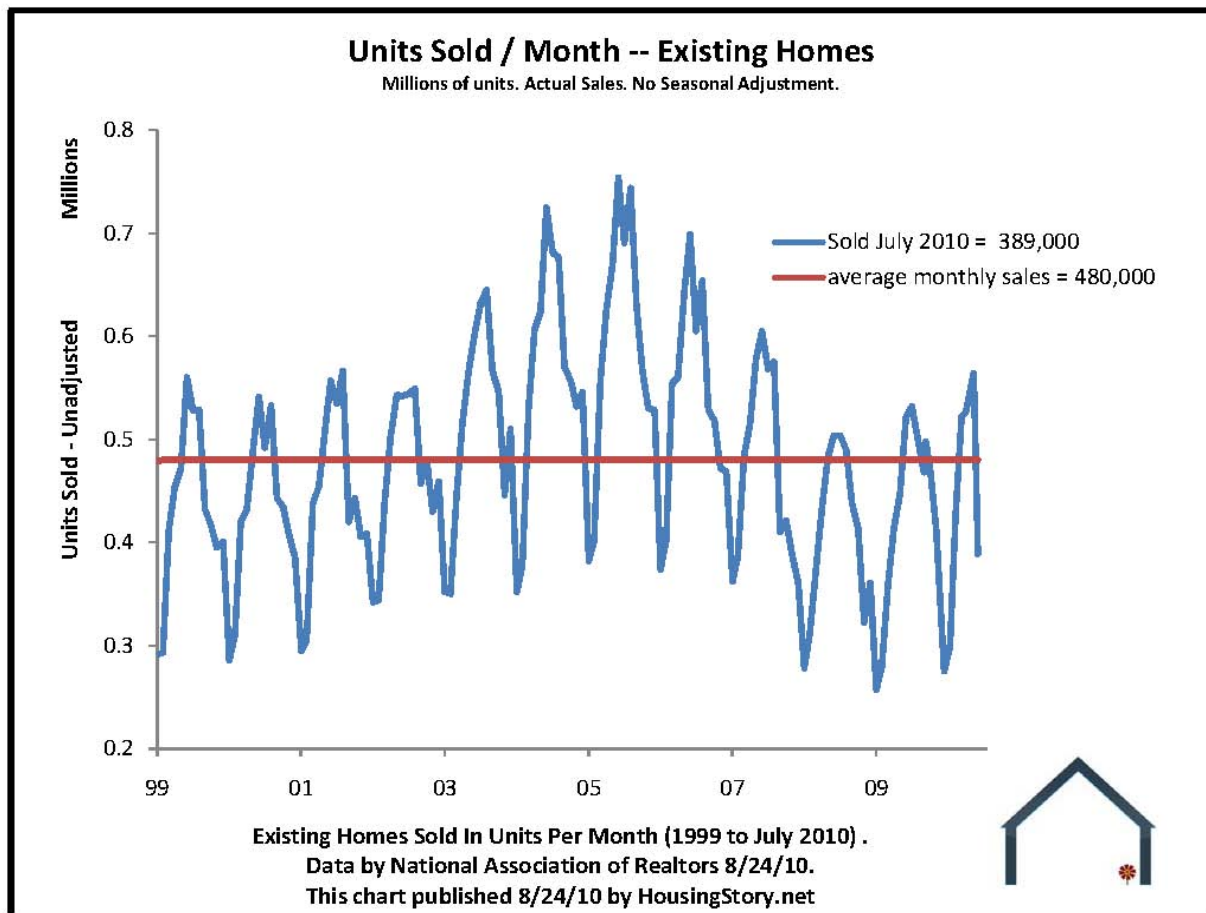


New risk factors now include a flood of negative equity. Foreclosures in progress are at a record level. Fourteen percent of mortgages are behind on payments — about 7.7 million borrowers or, more starkly, one in seven. Please note that inventory for-sale plus the 7.7 million delinquent borrowers is a number which is massively larger than the average unit sales of 480,000 a month (Please see “X” in the chart above towering over “Z” – monthly sales).

The risk doesn’t stop at one-of-seven behind on payments. The cure rate on delinquent mortgages is effectively zero once the loan goes to 60-days late. A record 4.63 percent of borrowers are in foreclosure. Intermingled among this mayhem are approximately 13 million homeowners who have no equity or negative equity. They would make nothing from the sale of their house if they could sell it. Or they would have to write a big check to sell. They are prime candidates for strategic default. One occasionally sees whispered warnings of a tipping point with default achieving a cache as was once given to hula hoops or pet rocks or station wagons.

Other risks I have written about include massive imbalances between the exaggerated value of debt assets (mortgages) used to buy homes and the current huge fall in the value of property. Property values have fallen FIFTEEN TIMES further than the balances of mortgages. A recent report also called attention to the fact that even after a 34% fall, property values today are higher than they have ever been in any prior bubble excepting for the current one that we are in.

The huge number of late payers proves that home prices remain too high with our current unemployment of 9.5% even if affordability has skyrocketed and interest rates have plummeted.



Units sold:

Demand has held up surprisingly well given the awful scary facts just recounted (See chart above for actual unit sales released today.).

We are in a battle to the death and only fools rush in to this market. Wise men run for the hills. My suggestion? Rent. Don't Buy. If you own, sell. Then wait out the storm. We live in interesting times. Don't make yourself a statistic of them.

Michael David White is a mortgage originator in 50 states.