Übunsgetxt: United States housing bubble

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The United States housing bubble is an economic bubble affecting 68
many parts of the United States housing market in over half of 133
American states. Housing prices peaked in early 2006, started to 200
decline in 2006 and 2007, and reached new lows in 2012. On 260
December 30, 2008 the Case-Shiller home price index reported its 328

largest price drop in its history.Increased foreclosure rates in 394
2006-2007 among U.S. homeowners led to a crisis in August 2008 460
for the subprime, Alt-A, collateralized debt obligation (CDO), 530
mortgage, credit, hedge fund, and foreign bank markets. In 590
October 2007, the U.S. Secretary of the Treasury called the 655

bursting housing bubble „the most significant risk to our 714
economy.“ Any collapse of the U.S. Housing Bubble has a direct 783
impact not only on home valuations, but the nation‘s mortgage 846
markets, home builders, real estate, home supply retail outlets, 911
Wall Street hedge funds held by large institutional investors, 976

and foreign banks, increasing the risk of a nationwide 1031
recession. Concerns about the impact of the collapsing housing 1095
and credit markets on the larger U.S. economy caused President 1161
George W. Bush and the Chairman of the Federal Reserve Ben 1227
Bernanke to announce a limited bailout of the U.S. housing 1289

market for homeowners who were unable to pay their mortgage 1349
debts.In 2008 alone, the United States government allocated over 1417
$900 billion to special loans and rescues related to the US 1480
housing bubble, with over half going to Fannie Mae and Freddie 1546
Mac (both of which are government-sponsored enterprises) as well 1614

as the Federal Housing Administration (which is a United States 1684
Government agency). On December 24, 2009 the Treasury Department 1755
made an unprecedented announcement that it would be providing 1817
Fannie Mae and Freddie Mac unlimited financial support for the 1884
next three years despite acknowledging losses in excess of $400 1949

billion so far. The Treasury has been criticized for encroaching 2016
on spending powers that are enumerated for Congress alone by the 2082
US constitution, and for violating limits imposed by the Housing 2150
and Economic Recovery Act of 2008.Land prices contributed much 2217
more to the price increases than did structures. This can be 2279

seen in the building cost index. An estimate of land value for a 2345
house can be derived by subtracting the replacement value of the 2410
structure, adjusted for depreciation, from the home price. Using 2476
this methodology, Davis and Palumbo calculated land values for 2541
46 U.S. metro areas, which can be found at the website for the 2606

Lincoln Institute for Land Policy.Housing bubbles may occur in 2674
local or global real estate markets. In their late stages, they 2739
are typically characterized by rapid increases in the valuations 2804
of real property until unsustainable levels are reached relative 2869
to incomes, price-to-rent ratios, and other economic indicators 2933

of affordability. This may be followed by decreases in home 2994
prices that result in many owners finding themselves in a 3052
position of negative equity—a mortgage debt higher than the 3111
value of the property. The underlying causes of the housing 3172
bubble are complex. Factors include tax policy (exemption of 3235

housing from capital gains), historically low interest rates, 3298
lax lending standards, failure of regulators to intervene, and 3361
speculative fever. This bubble may be related to the stock 3421
market or dot-com bubble of the 1990s. This bubble roughly 3481
coincides with the real estate bubbles of the United Kingdom, 3545

Hong Kong, Spain, Poland, Hungary and South Korea.While bubbles 3617
may be identifiable in progress, bubbles can be definitively 3678
measured only in hindsight after a market correction, which in 3741
the U.S. housing market began in 2005-2006. Former U.S. Federal 3811
Reserve Board Chairman Alan Greenspan said „We had a bubble in 3881

housing“, and also said in the wake of the subprime mortgage and 3947
credit crisis in 2007, „I really didn‘t get it until very late 4013
in 2005 and 2006.“ The mortgage and credit crisis was caused by 4079
the inability of a large number of home owners to pay their 4139
mortgages as their low introductory-rate mortgages reverted to 4202

regular interest rates. Freddie Mac CEO Richard Syron concluded, 4274
„We had a bubble“, and concurred with Yale economist Robert 4339
Shiller‘s warning that home prices appear overvalued and that 4403
the correction could last years, with trillions of dollars of 4465
home value being lost. Greenspan warned of „large double digit 4530

declines“ in home values „larger than most people expect.“ 4592
Problems for home owners with good credit surfaced in mid-2007, 4657
causing the U.S.‘s largest mortgage lender, Countrywide 4717
Financial, to warn that a recovery in the housing sector was not 4783
expected to occur at least until 2009 because home prices were 4846

falling „almost like never before, with the exception of the 4908
Great Depression.“ The impact of booming home valuations on the 4976
U.S. economy since the 2001-2002 recession was an important 5038
factor in the recovery, because a large component of consumer 5100
spending was fueled by the related refinancing boom, which 5159

allowed people to both reduce their monthly mortgage payments 5221
with lower interest rates and withdraw equity from their homes 5284
as their value increased.Although an economic bubble is 5341
difficult to identify except in hindsight, numerous economic and 5406
cultural factors led several economists (especially in late 2004 5472

and early 2005) to argue that a housing bubble existed in the 5535
U.S. Dean Baker identified the bubble in August 2002, thereafter 5605
repeatedly warning of its nature and depth, and the political 5667
reasons it was being ignored. Prior to that, Robert Prechter 5731
wrote about it extensively as did Professor Shiller in his 5792

original publication of Irrational Exuberance in the year 5852
2000.The burst of the housing bubble was predicted by a handful 5917
of political and economic analysts, such as G. Edward Griffinin 5984
in his 1994 book, „The Creature from Jekyll Island,“ and Jeffery 6056
Robert Hunn in a March 3, 2003 editorial. Hunn wrote:“We can 6124

profit from the collapse of the credit bubble and the subsequent 6189
stock market divestment decline. However, real estate has not 6252
yet joined in a decline of prices fed by selling (and 6307
foreclosing). Unless you have a very specific reason to believe 6373
that real estate will outperform all other investments for 6432

several years, you may deem this prime time to liquidate 6489
investment property (for use in more lucrative markets).“ Many 6556
contested any suggestion that there could be a housing bubble, 6619
particularly at its peak from 2004 to 2006, with some rejecting 6683
the „house bubble“ label in 2008. Claims that there was no 6745

warning of the crisis were further repudiated in an August 2008 6810
article in The New York Times, which reported that in mid-2004 6877
Richard F. Syron, the CEO of Freddie Mac, received a memo from 6948
David Andrukonis, the company‘s former chief risk officer, 7010
warning him that Freddie Mac was financing risk-laden loans that 7077

threatened Freddie Mac‘s financial stability. In his memo, Mr. 7145
Andrukonis wrote that these loans „would likely pose an enormous 7212
financial and reputational risk to the company and the country.“ 7278
The article revealed that more than two-dozen high- ranking 7339
executives said that Mr. Syron had simply decided to ignore the 7405

warnings.Other cautions came as early as 2001, when the late 7467
Federal Reserve governor Edward Gramlich warned of the risks 7532
posed by subprime mortgages. In September 2003, at a hearing of 7598
the House Financial Services Committee, Republican Congressman 7667
Ron Paul identified the housing bubble and foretold the 7725

difficulties it would cause: „Like all artificially-created 7788
bubbles, the boom in housing prices cannot last forever. When 7851
housing prices fall, homeowners will experience difficulty as 7913
their equity is wiped out. Furthermore, the holders of the 7973
mortgage debt will also have a loss.“ Reuters reported in 8033

October 2007 that a Merrill Lynch analyst too had warned in 2006 8101
that companies could suffer from their subprime investments.The 8166
Economist magazine stated, „The worldwide rise in house prices 8232
is the biggest bubble in history,“ so any explanation needs to 8296
consider its global causes as well as those specific to the 8356

United States. The then Federal Reserve Board Chairman Alan 8424
Greenspan said in mid-2005 that „at a minimum, there‘s a little 8491
‚froth‘ (in the U.S. housing market) … it‘s hard not to see that 8565
there are a lot of local bubbles“; Greenspan admitted in 2007 8630
that froth „was a euphemism for a bubble.“In 2003, the Bush 8694

administration proposed a new agency to oversee Fannie Mae and 8759
Freddie Mac as they knew the agencies had not properly hedged 8823
it‘s $1.5 trillion in debt holdings against interest rate 8883
increases. In response to this proposal, democrat Congressman 8947
Barney Frank said“ These two entities - Fannie Mae and Freddie 9017

Mac - are not facing any kind of financial crisis, said 9074
Representative Barney Frank of Massachusetts, the ranking 9136
Democrat on the Financial Services Committee. The more people 9203
exaggerate these problems, the more pressure there is on these 9266
companies, the less we will see in terms of affordable 9321

housing.“It was later learned that representative Frank 9380
personally benefitted from both agencies. In early 2006, 9438
President Bush said of the U.S. housing boom: „If houses get too 9510
expensive, people will stop buying them… Economies should 9571
cycle.“ Throughout the bubble period there was little if any 9634

mention of the fact that housing in many areas was (and still 9697
is) selling for well above replacement cost.On the basis of 2006 9764
market data that were indicating a marked decline, including 9825
lower sales, rising inventories, falling median prices and 9884
increased foreclosure rates, some economists have concluded that 9949

the correction in the U.S. housing market began in 2006. A May 10016
2006 Fortune magazine report on the US housing bubble states: 10082
„The great housing bubble has finally started to deflate … In 10149
many once-sizzling markets around the country, accounts of 10208
dropping list prices have replaced tales of waiting lists for 10270

unbuilt condos and bidding wars over humdrum three-bedroom 10329
colonials.“ The chief economist of Freddie Mac and the director 10397
of Joint Center for Housing Studies (JCHS) denied the existence 10471
of a national housing bubble and expressed doubt that any 10529
significant decline in home prices was possible, citing 10585

consistently rising prices since the Great Depression, an 10645
anticipated increased demand from the Baby Boom generation, and 10711
healthy levels of employment. However, some have suggested that 10776
the funding received by JCHS from the real estate industry may 10843
have affected their judgment. David Lereah, former chief 10902

economist of the National Association of Realtors (NAR), 10967
distributed „Anti-Bubble Reports“ in August 2005 to „respond to 11038
the irresponsible bubble accusations made by your local media 11100
and local academics.“Among other statements, the reports stated 11166
that people „should be concerned that home prices are rising 11228

faster than family income“, that „there is virtually no risk of 11294
a national housing price bubble based on the fundamental demand 11358
for housing and predictable economic factors“, and that „a 11419
general slowing in the rate of price growth can be expected, but 11484
in many areas inventory shortages will persist and home prices 11547

are likely to continue to rise above historic norms.“ Following 11613
reports of rapid sales declines and price depreciation in August 11679
2006, Lereah admitted that he expected „home prices to come down 11746
5% nationally, more in some markets, less in others. And a few 11811
cities in Florida and California, where home prices soared to 11875

nose-bleed heights, could have ‚hard landings‘.“ National home 11942
sales and prices both fell dramatically in March 2007 - the 12003
steepest plunge since the 1989 Savings and Loan crisis. 12061
According to NAR data, sales were down 13% to 482,000 from the 12129
peak of 554,000 in March 2006, and the national median price 12191

fell nearly 6% to $217,000 from a peak of $230,200 in July 12254
2006.John A. Kilpatrick, of Greenfield Advisors, was cited by 12321
Bloomberg News on June 14, 2007, on the linkage between 12380
increased foreclosures and localized housing price declines: 12442
„Living in an area with multiple foreclosures can result in a 10 12509

per cent to 20 per cent decrease in property values.“ He went on 12576
to say, „In some cases that can wipe out the equity of 12633
homeowners or leave them owing more on their mortgage than the 12696
house is worth. The innocent houses that just happen to be 12756
sitting next to those properties are going to take a hit.“ The 12821

US Senate Banking Committee held hearings on the housing bubble 12890
and related loan practices in 2006, titled „The Housing Bubble 12957
and its Implications for the Economy“ and „Calculated Risk: 13024
Assessing Non-Traditional Mortgage Products“. Following the 13091
collapse of the subprime mortgage industry in March 2007, 13150

Senator Chris Dodd, Chairman of the Banking Committee held 13215
hearings and asked executives from the top five subprime 13272
mortgage companies to testify and explain their lending 13328
practices. Dodd said that „predatory lending practices“ had 13391
endangered home ownership for millions of people. In addition, 13455

Democratic senators such as Senator Charles Schumer of New York 13525
were already proposing a federal government bailout of subprime 13589
borrowers in order to save homeowners from losing their 13645
residences.Home price appreciation has been non-uniform to such 13710
an extent that some economists, including former Fed Chairman 13774

Alan Greenspan, have argued that United States was not 13833
experiencing a nationwide housing bubble per se, but a number of 13898
local bubbles. However, in 2007 Greenspan admitted that there 13962
was in fact a bubble in the US housing market, and that „all the 14030
froth bubbles add up to an aggregate bubble.“ Despite greatly 14094

relaxed lending standards and low interest rates, many regions 14157
of the country saw very little growth during the „bubble 14215
period“. Out of 20 largest metropolitan areas tracked by the 14278
S&P/Case-Shiller house price index, six (Dallas, Cleveland, 14347
Detroit, Denver, Atlanta, and Charlotte) saw less than 10% price 14418

growth in inflation-adjusted terms in 2001-2006. During the same 14484
period, seven metropolitan areas (Tampa, Miami, San Diego, Los 14553
Angeles, Las Vegas, Phoenix, and Washington DC) appreciated by 14624
more than 80%. However, housing bubbles did not manifest 14683
themselves in each of these areas at the same time. San Diego 14747

and Los Angeles had maintained consistently high appreciation 14811
rates since late 1990s, whereas the Las Vegas and Phoenix 14872
bubbles did not develop until 2003 and 2004 14916
respectively.Somewhat paradoxically, as the housing bubble 14976
deflates some metropolitan areas (such as Denver and Atlanta) 15042

have been experiencing high foreclosure rates, even though they 15106
did not see much house appreciation in the first place and 15165
therefore did not appear to be contributing to the national 15225
bubble. This was also true of some cities in the Rust Belt such 15292
as Detroit and Cleveland, where weak local economies had 15351

produced little house price appreciation early in the decade but 15416
still saw declining values and increased foreclosures in 2007. 15479
As of January 2009 California, Michigan, Ohio and Florida were 15548
the states with the highest foreclosure rates.By July 2008 year- 15615
to-date prices had declined in 24 of 25 U.S. metropolitan areas, 15682

with California and the southwest experiencing the greatest price falls. According to the reports, only Milwaukee had seen an increase in house prices after July 2007. Basing their statements on historic U.S. housing valuation trends, many economists and business writers predicted market corrections ranging from a few percentage points to 50% or more from peak values in some markets, and although this cooling had yet not affected all areas of the U.S., some warned that it still could, and that the correction would be „nasty“ and „severe“. Chief economist Mark Zandi of the economic research firm Moody‘s Economy.com predicted a „crash“ of double-digit depreciation in some U.S. cities by 2007-2009. In a paper he presented to a Federal Reserve Board economic symposium in August 2007, Yale University economist Robert Shiller warned, „The examples we have of past cycles indicate that major declines in real home prices—even 50 per cent declines in some places—are entirely possible going forward from today or from the not-too-distant future.“ To better understand how the mortgage crisis played out, a 2012 report from the University of Michigan analyzed data from the Panel Study of Income Dynamics (PSID), which surveyed roughly 9,000 representative households in 2009 and 2011. The data seem to indicate that, while conditions are still difficult, in some ways the crisis is easing: Over the period studied, the percentage of families behind on mortgage payments fell from 2.2 to 1.9; homeowners who thought it was „very likely or somewhat likely“ that they would fall behind on payments fell from 6% to 4.6% of families. On the other hand, family‘s financial liquidity has decreased: “As of 2009, 18.5% of families had no liquid assets, and by 2011 this had grown to 23.4% of families.” In March 2007, the United States‘ subprime mortgage industry collapsed due to higher-than-expected home foreclosure rates (no verifying source), with more than 25 subprime lenders declaring bankruptcy, announcing significant losses, or putting themselves up for sale. The stock of the country‘s largest subprime lender, New Century Financial,

plunged 84% amid Justice Department investigations, before 17959
ultimately filing for Chapter 11 bankruptcy on April 2, 2007 18022
with liabilities exceeding $100 million.The manager of the 18083
world‘s largest bond fund, PIMCO, warned in June 2007 that the 18153
subprime mortgage crisis was not an isolated event and would 18214

eventually take a toll on the economy and ultimately have an 18275
impact in the form of impaired home prices. Bill Gross, a „most 18342
reputable financial guru“, sarcastically and ominously 18398
criticized the credit ratings of the mortgage-based CDOs now 18462
facing collapse:AAA? You were wooed, Mr. Moody‘s and Mr. Poor‘s, 18539

by the makeup, those six-inch hooker heels, and a „tramp stamp“. 18606
Many of these good-looking girls are not high-class assets worth 18672
100 cents on the dollar… The point is that there are hundreds of 18740
billions of dollars of this toxic waste… This problem ultimately 18808
resides in America‘s heartland, with millions and millions of 18872

overpriced homes“. Business Week has featured predictions by 18936
financial analysts that the subprime mortgage market meltdown 18998
would result in earnings reductions for large Wall Street 19058
investment banks trading in mortgage-backed securities, 19114
especially Bear Stearns, Lehman Brothers, Goldman Sachs, Merrill 19186

Lynch, and Morgan Stanley. The solvency of two troubled hedge 19252
funds managed by Bear Stearns was imperiled in June 2007 after 19318
Merrill Lynch sold off assets seized from the funds and three 19382
other banks closed out their positions with them. The Bear 19443
Stearns funds once had over $20 billion of assets, but lost 19505

billions of dollars on securities backed by subprime 19558
mortgages.H&R Block reported that it had made a quarterly loss 19625
of $677 million on discontinued operations, which included the 19689
subprime lender Option One, as well as writedowns, loss 19747
provisions for mortgage loans and the lower prices achievable 19809

for mortgages in the secondary market. The unit‘s net asset 19871
value had fallen 21% to $1.1 billion as of April 30, 2007. The 19938
head of the mortgage industry consulting firm Wakefield Co. 20000
warned, „This is going to be a meltdown of unparalleled 20058
proportions. Billions will be lost.“ Bear Stearns pledged up to 20126

U.S. $3.2 billion in loans on June 22, 2007 to bail out one of 20193
its hedge funds that was collapsing because of bad bets on 20252
subprime mortgages.Peter Schiff, president of Euro Pacific 20315
Capital, argued that if the bonds in the Bear Stearns funds were 20383
auctioned on the open market, much weaker values would be 20441

plainly revealed. Schiff added, „This would force other hedge 20506
funds to similarly mark down the value of their holdings. Is it 20571
any wonder that Wall street is pulling out the stops to avoid 20634
such a catastrophe?… Their true weakness will finally reveal the 20703
abyss into which the housing market is about to plummet.“ The 20767

New York Times report connects the hedge fund crisis with lax 20832
lending standards: „The crisis this week from the near collapse 20899
of two hedge funds managed by Bear Stearns stems directly from 20964
the slumping housing market and the fallout from loose lending 21027
practices that showered money on people with weak, or subprime, 21091

credit, leaving many of them struggling to stay in their homes.“ 21157
On August 9, 2007, BNP Paribas announced that it could not 21222
fairly value the underlying assets in three funds because of its 21287
exposure to U.S. subprime mortgage lending markets. Faced with 21353
potentially massive (though unquantifiable) exposure, the 21413

European Central Bank (ECB) immediately stepped in to ease 21480
market worries by opening lines of € 96.8 billion (U.S. $130 21546
billion) of low-interest credit. One day after the financial 21609
panic about a credit crunch had swept through Europe, the U.S. 21675
Federal Reserve Bank conducted an „open market operation“ to 21741

inject U.S. $38 billion in temporary reserves into the system to 21809
help overcome the ill effects of a spreading credit crunch, on 21872
top of a similar move the previous day. In order to further ease 21938
the credit crunch in the U.S. credit market, at 8:15 a.m. on 22002
August 17, 2007 the chairman of the Federal Reserve Bank Ben 22068

Bernanke decided to lower the discount window rate, which is the 22134
lending rate between banks and the Federal Reserve Bank, by 50 22200
basis points to 5.75% from 6.25%. The Federal Reserve Bank 22265
stated that the recent turmoil in the U.S. financial markets had 22332
raised the risk of an economic downturn.In the wake of the 22392

mortgage industry meltdown, Senator Chris Dodd, Chairman of the 22460
Banking Committee held hearings in March 2007 in which he asked 22527
executives from the top five subprime mortgage companies to 22587
testify and explain their lending practices. Dodd said that 22648
„predatory lending practices“ were endangering home ownership 22712

for millions of people. In addition, Democratic senators such as 22779
Senator Charles Schumer of New York were already proposing a 22845
federal government bailout of subprime borrowers like the 22903
bailout made in the Savings and Loan crisis, in order to save 22967
homeowners from losing their residences. Opponents of such a 23029

proposal asserted that a government bailout of subprime 23085
borrowers is not in the best interests of the U.S. economy 23146
because it would simply set a bad precedent, create a moral 23206
hazard, and worsen the speculation problem in the housing 23264
market.Lou Ranieri of Salomon Brothers, creator of the mortgage- 23333

backed securities market in the 1970s, warned of the future 23393
impact of mortgage defaults: „This is the leading edge of the 23458
storm. … If you think this is bad, imagine what it‘s going to be 23527
like in the middle of the crisis.“ In his opinion, more than 23590
$100 billion of home loans are likely to default when the 23649

problems seen in the subprime industry also emerge in the prime 23713
mortgage markets.Former Federal Reserve Chairman Alan Greenspan 23783
had praised the rise of the subprime mortgage industry and the 23846
tools which it uses to assess credit-worthiness in an April 2005 23912
speech. Because of these remarks, as well as his encouragement 23976

of the use of adjustable-rate mortgages, Greenspan has been 24037
criticized for his role in the rise of the housing bubble and 24099
the subsequent problems in the mortgage industry that triggered 24163
the economic crisis of 2008. Concerning the subprime mortgage 24226
mess, Greenspan later admitted that „I really didn‘t get it 24290

until very late in 2005 and 2006.“ On September 13, 2007, the 24355
British bank Northern Rock applied to the Bank of England for 24422
emergency funds because of liquidity problems related to the 24483
subprime crisis. This precipitated a bank run at Northern Rock 24549
branches across the UK by concerned customers who took out „an 24615

estimated GBP 2bn withdrawn in just three days“. 24667

(Quelle: Wikipedia: Auszug aus http://en.wikipedia.org/wiki/United_States_housing_bubble)