

Housing Bubble Is 'Dead Man Walking'

by L. Wolfe

According to a very depressed realtor in Loudoun County, Virginia, the Washington, D.C. suburb that was the poster-child for the so-called national housing boom, and now is what Lyndon LaRouche calls "Ground Zero" for the coming collapse of that bubble, the residential real estate market is a "dead man walking." Some people are still buying homes, but not enough to absorb the growing inventory of unsold properties, which, according to the latest figures, is now up by more than 500% over last year. This translates to sharp collapse of prices in the not-distant future.

Realtors and bankers here and in other extremely troubled sectors of the bubble, such as in the New York-New Jersey metropolitan area and Southern California, are alarmed by rapidly rising inventory trends and declining home sales contracts. In Loudoun, for example, contracts for the normally busy month of April were down nearly 50% from a year ago, while settlements were down over 40%.

Even more alarming are the signs that a significant portion of the rise in inventory is coming from the panicked dumping onto the market of recently purchased homes, which had been bought more with consideration of making speculative profits than for a dwelling; in Loudoun, these same sources report more than one in every three home purchases was made to gain profits on rapidly appreciating markets, either by speculators or by homeowners behaving as speculators.

Jumping Contracts

Another alarming trend, now amply documented by developments in Loudoun and in the Washington-Metropolitan area, is the rise in people who "jump contracts"—i.e., withdraw before settlement—even with loss of sizeable deposits. The *Washington Post* reported on May 6 that cancellation rates are up significantly, especially on new homes, with some builders reporting that they are as high as 25%. In Fairfax County, Virginia, a Washington suburb east of Loudoun, such rates are now more than 30%; half of all condominium buyers cancel contracts. Driving this, the *Post* reports, is the fear that people will be caught in a down market, with rising interest rates, in a home that they cannot afford; such buyers are often willing to lose tens of thousands of dollars in deposits rather, than be stuck with soaring mortgage payments.

The only thing still holding the market up, is that sellers



EIRNS/Stuart Lewis

A common scene in Northern Virginia's Loudoun County, where overpriced properties are languishing on the market, and Federal regulators reportedly have put the area on a "watch list" for trouble.

have not started to dramatically slash prices; in part this is because they are still deluded that they can reap "profits" off the recent years of price run-ups; increasingly, it is because their properties are so heavily encumbered by mortgages, that they cannot afford to cut prices.

The Credit Shutdown

The Loudoun and other housing bubbles were created by a deliberate money-credit pumping operation, engineered by former Fed Chairman Alan Greenspan, through the use of Federal Reserve "open market" operations. The banks then took this cash provided by the Fed, lent out to all comers as mortgages, at relatively low interest rates, and then packaged or bundled their mortgages, selling them to the Federally chartered Fannie Mae and Freddie Mac, thus multiplying the credit available to feed the bubble.

Since especially the collapse of another bubble, the so-called IT or "dot-com" bubble in 2000, and in the aftermath of the so-called Asia crisis and Long Term Capital Management collapse in 1998, Greenspan moved, through these operations, to hyperinflate an already inflated U.S. real estate and housing bubble, making that bubble the effective destination of choice for various hot-money speculative funds, as well as with historically low (and artificially depressed) long-term interest rates and relaxed lending requirements, to draw into the game the masses of greedy American consumers, who dove head first into the mess, seeking to gain their share of the "booty."

The key to keeping the mortgage rates low was the agreement by especially the dollar-choked Asian central banks, especially the Chinese and Japanese, to continue to fund the ballooning Bush-driven U.S. budget deficits by purchasing U.S. Treasury bonds, and keeping the benchmark interest rates much lower than the market would otherwise demand,

while limiting the amount of direct Fed purchases of those securities, thus freeing more funds for Greenspan's money-pumping to the banks. This kept rates relatively low, even as Greenspan, and then his successor, Ben "Helicopter Money" Bernanke, raised the Fed funds rate, to tighten short-term credit. Meanwhile, with especially Japanese interest rates hovering around zero, U.S. banks pumped up with Fed money, could borrow even more money in the so-called "yen carry trade" and then re-lend into the housing bubble, making easy profits and keeping their interest rates low.

Sometime earlier this year, with the real estate market here in Loudoun and elsewhere already starting to show the signs of "softening," Greenspan, Bernanke, and their fellow central bankers decided to try to rein in their already-out-of-control housing bubble. The Japanese central bank indicated in early March that it was going to start raising interest rates with the ultimate intention of shutting down the yen carry trade. Now, there are indications that the "other shoe" has dropped as well. U.S. government figures on Treasury bond sales for March (the latest available month) indicate that both the Japanese and Chinese have "bailed out" of the Treasury markets, with foreign sales down to almost nothing compared to huge participations in February. During this period, interest rates have steadily risen.

Back in 'Bubble Land'

If these trends continue, and rates continue to rise, they will only speed the collapse of the Loudoun and other bubbles, which need massive credit infusions to prevent a full-scale blowout.

Rising rates have already put the large number of homeowners who have financed by such dubious and dangerous means as "interest only" loans (which have time-bomb-like triggers for much higher rates) and ARMs (adjustable rate mortgages), in jeopardy of defaults. Lenders report that the numbers of defaults—including in Loudoun—are rising dramatically. If mortgages collapse, the whole daisy-chain of financing that has flooded the financial system with otherwise worthless dollars, will implode.

As LaRouche has warned, the collapse in Loudoun creates a similar kind of blowback potential to wipe out the Greenspan bubble. Loudoun's mortgages were considered "golden" bets, and were bundled with weaker mortgages as securities, as part of the Greenspan Fannie Mae-Freddie Mac money-pumping machine. If they now go bad, then those bundles go bad.

According to sources in Loudoun, Federal regulators have become alarmed at the danger signs. Word has gone out to lenders to "tighten up," and the local commercial market has reportedly been put on a "watch list." But, as less deluded realtors and others realize, any credit tightening only more rapidly turns market gloom into doom.

"It's done," said the formerly buoyant local realtor. "It is truly a 'dead man walking.'"