

EXTEND AND PRETEND ABOUT TO BITE THE BANKSTERS IN THE BUTT

I would be laughing my ass off at this if I weren't about to put my home on the market for what the house next door sold as a foreclosure several years ago. (h/t CR)

By postponing the date at which they lock in losses, banks and other investors positioned themselves to benefit from the slow mending of the real estate market. But now industry executives are questioning whether delaying foreclosures – a strategy contrary to the industry adage that “the first loss is the best loss” – is about to backfire. With home prices expected to fall as much as 10% further, the refusal to foreclose quickly on and sell distressed homes at inventory-clearing prices may be contributing to the stall of the overall market seen in July sales data. It also may increase the likelihood of more strategic defaults.

[snip]

Some servicing executives acknowledged that stalling on foreclosures will cause worse pain in the future – and that the reckoning may be almost here.

“The industry as a whole got into a panic mode and was worried about all these loans going into foreclosure and driving prices down, so they got all these programs, started Hamp and internal mods and short sales,” said John Marecki, vice president of East Coast foreclosure operations for Prommis Solutions, an Atlanta company that provides foreclosure processing services. Until recently, he was senior vice president of default administration

at Flagstar Bank in Troy, Mich. "Now they're looking at this, how they held off and they're getting to the point where maybe they made a mistake in that realm."

Extend and pretend always assumed that at some point things would start turning around. But since that's not going to happen anytime soon, this is like death by a thousand cuts.

To both the banksters and homeowners.

What no one seems to be honestly accounting for is the degree to which this process contributes to weighing the economy down.

Take a look at this graphic. It's a version of a graphic that has gotten a lot of play over the last year showing the growth in unemployment rates over time across the country. But this one adds foreclosures and bankruptcy. While it still doesn't show what I think needs to be shown, it does at least show how foreclosures preceded unemployment in the housing bubble states (as opposed to the Mid-West, where unemployment led to foreclosures). Some of the foreclosure-driven unemployment came through the collapse of the building industry. But as more and more people get stuck in houses, particularly as foreclosures drive down the price of real estate and therefore strand even those who have kept up with their mortgages, it leads to a whole lot less mobility which in turn leads to extended unemployment.

It sucks to sell a house for foreclosure level prices. But I'm very, very grateful we can do even that, because it means we're able to move to a new job. But I'm acutely aware we're paying this price because of a failed policy, one which tried to make homeowners bear all the cost for the shared mistakes of the banksters and the creditors.

So, yeah, in the not too distant future banksters are going to have to unload their shadow inventory and they'll end up taking even

bigger hits on their balance sheets than if they had not been pretending to be solvent all this time. But unfortunately, all homeowners are going to feel the pain as well.

I suspect this looming problem might finally convince the MOTUs at Treasury that they have to implement a policy that works this time—for both banksters and the homeowners.