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Flashback: US Housing Quotes From 2005-2007

- *Well, unquestionably housing prices are going up quite a bit, but I would note that the fundamentals are very strong – a growing economy, jobs, incomes . . . much of what has happened [with home prices] was supported by the strength of the economy.*

  --Ben Bernanke, CNBC, July 2005

- *The view of most economists, including Fed Chairman Alan Greenspan, is that a national home-price bust is highly unlikely.*

  --BusinessWeek, "Entering The New Year With A Head Of Steam," December 26, 2005

- *The steady improvement in [home] sales will support price appreciation… [despite]… all the wild projections by academics, Wall Street analysts, and others in the media.*

  --David Lereah, Chief Economist, National Association of Realtors, BusinessWeek, January 10, 2007

- *The delinquency rate of federally insured mortgage loans "is the lowest in the 22 years that these data have been put together."*

  --Federal Deposit Insurance Corporation Chief Economist Richard Brown, 2005

Bernanke In 2005: No Bubble

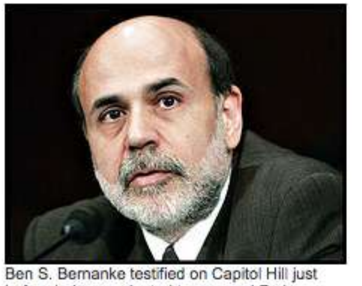
BUSINESS The Washington Post *with* Bloomberg

washingtonpost.com > Business > Special Reports > Federal Reserve » FO

Latest News: Portugal edges toward bailout after govt quits

Bernanke: There's No Housing Bubble to Go Bust

By Nell Henderson
Washington Post Staff Writer
Thursday, October 27, 2005



Ben S. Bernanke testified on Capitol Hill just before being nominated to succeed Fed Chairman Alan Greenspan. (By Ron Edmonds -- Associated Press)

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Ben S. Bernanke does not think the national housing boom is a bubble that is about to burst, he indicated to Congress last week, just a few days before President Bush nominated him to become the next chairman of the Federal Reserve.

U.S. house prices have risen by nearly 25 percent over the past two years, noted Bernanke, currently chairman of the president's Council of Economic Advisers, in testimony to Congress's Joint Economic Committee. But these increases, he said, "largely reflect strong economic fundamentals," such as strong growth in jobs, incomes and the number of new households.

Bernanke's thinking on the housing market did not attract much attention before Bush tapped him for the Fed job Monday but will likely be among the key topics explored by members of the Senate Banking Committee during upcoming hearings on his nomination.

2005: The Housing Bears Are Wrong Again

The Housing Bears Are Wrong Again

SHARE TWEET +1 AA

by LARRY KUDLOW *June 20, 2005 10:40 AM*
@LARRY_KUDLOW

This tax-advantaged sector is writing how-to guide on wealth creation.

Homebuilders led the stock parade this week with a fantastic 11 percent gain. This is a group that hedge funds and bubbleheads love to hate. All the bond bears have been dead wrong in predicting sky-high mortgage rates. So have all the bubbleheads who expect housing-price crashes in Las Vegas or Naples, Florida, to bring down the consumer, the rest of the economy, and the entire stock market.

None of this has happened. The Federal Reserve has effectively mopped up excess cash and calmed inflation expectations. That's why bond rates are hovering around 4 percent, with most mortgage rates about a point higher.

Meanwhile, the homebuilders index has increased 76 percent over the past year, with particularly well-run companies like Toll Brothers up about twice as much. The bubbleheads missed all this because they haven't done their homework. If they had put a little elbow grease into their analysis, they would have learned that new-housing starts for private homes and apartments haven't changed much during the past three and a half decades.

Debate Déjà Vu

TUESDAY, JUN 13, 2006 9:12 PM UTC

The man behind the Housing Bubble Blog

Harvard says: No housing crash. The Internet disagrees.

ANDREW LEONARD Follow

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TOPICS: GLOBALIZATION, HOW THE WORLD WORKS, ACADEMIA, HARVARD, POLITICS NEWS

Last week, Harvard University's Joint Center for Housing Studies released a comprehensive report on the U.S. housing market. Although it made some nods to the sorry — and worsening — state of affordable housing, overall, the report was bullish. There's been some softness in the market of late, it noted, but fundamentals are strong, and the next decade should see a renewed boom.

The money quote: "The most immediate risks to the housing market now come from the rise in interest rates, the erosion of affordability after years of strong house price appreciation, and the growing inventory of both new and existing homes for sale. But unless the broader economy stumbles and job losses mount, home sales and construction activity will likely dip only modestly."

At the Housing Bubble Blog, run by Ben Jones, readers were quick to point out a possible flaw in the Harvard analysis. What if the housing boom *itself* has been one of the main forces supporting the broader economy? Many economists have suggested that the American consumption binge of the past half-decade has been fueled by easy money extracted from housing via refinancing or home equity loans. Couldn't a slowdown in housing precipitate a wider economic downturn?

Canadian Exceptionalism

1. Canada was one of the few countries that survived 2008 unscathed due to strong regulatory oversight of its housing and financial markets
2. A national Canadian housing bubble is impossible; RE is local
3. A variant of US crisis is impossible in Canada due to structural differences between the two housing and financial markets
4. Canadian bankers, regulators, politicians, and consumers are more prudent than their counterparts elsewhere

"Furthermore, my opponent does not believe in Canadian Unexceptionalism."

Consensus: This Time Is Different

- No Bank Failures in 2008; banking oligopoly with greater diversification of business units
- Conservative lending standards
  - No subprime
  - Limited speculative home buying
  - No adjustable-rate time bomb
  - Full recourse mortgages; Stringent bankruptcy rules (limits strategic defaults)
  - Safer shorter-term (5 year) fixed rates mortgages
- The mortgage arrears rate is low in Canada, implying sound underwriting
- Governmental mortgage insurance; banks will be fine because of mortgage insurance
- Balanced supply/demand; "Canada did not over-build the way the US did"; "Chronic housing shortages", "multi-decade history of demand outstripping supply"; "Land-use restrictions" or " lack of buildable land" justifications
- No tax deductibility of mortgage interest; always an incentive to pay off the mortgage
- Canadians have more equity in their home, which should act as buffer against price declines
- "Real estate is local": differentiated regional housing markets and diversified economies
- Hot Asian money; major foreign immigration, and inter-provincial migration
- Toronto has sustained large housing busts (90's) without major national impact
- Etc etc..

Canada Today Mirrors US Peak 2007

	Canada 2015	US 2007
House Prices : Rents	190%	127%
House Prices : Incomes	16x	12.5x
House Prices : Per Capita GDP	8x	6.5x
Home Ownership Rate	70%	69%
FIRE* % GDP	20%	18%
Residential Construction % GDP	7%	6%
FIRE* % Stock Market	38% (TSX)	21% (SPX)
FIRE* % Stock Market Earnings	50%e (TSX)	30% (SPX)
FIRE+related Employment % GDP	14%	11%
Household Debt % GDP	96%	94%
Household Debt % Disposable Income	165%	128%
HELOC** % GDP	12%	4.5%
Govt. Sponsored Entities % GDP	~50% (CMHC)	~33% (FNM/FRE)

*FIRE: Financials, Insurance, & Real Estate

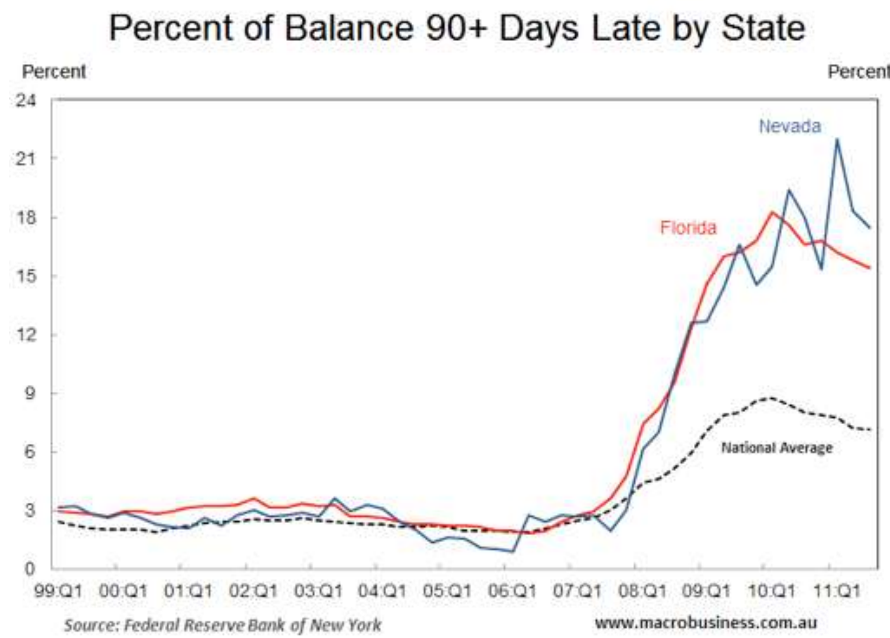
*HELOC: Home Equity Line of Credit

Recourse: US Experience

- In 75% of the US states, residential mortgages were *recourse*
- Two states with among the highest foreclosure rates, Florida and Nevada, are full recourse
- Research by the US Fed et al shows that homeowners bankruptcies not higher in non-recourse states
- Most borrowers who default on their mortgages likely have no assets to pursue
- **Negative equity is the number one predictor of mortgage default--even in recourse jurisdictions**

Table 1: State Foreclosure Laws

State	Judicial or Non-Judicial Foreclosure	Optimum Timeline*	Recourse Classification	State	Judicial or Non-Judicial Foreclosure	Optimum Timeline*	Recourse Classification
Alabama	NJ	49-74	Recourse	Nebraska	NJ	121	Recourse
Alaska	NJ	108-111	Non-Recourse	Nebraska	J	176	
Arizona	NJ	115	Non-Recourse	Nevada	NJ	116	Recourse
Arkansas	NJ	90	Recourse	New Hampshire	NJ	75	Recourse
California	NJ	120	Non-Recourse	New Jersey	J	295	Recourse
Colorado	NJ	173	Recourse	New Mexico	J	225	Recourse
Connecticut	J, strict	160	Recourse	New York (NYC)	J	445	
Connecticut	J, by decree of sale	235		New York (Outside NYC)	J	290	Recourse
DC	NJ	48	Recourse	New York (Outside NYC)	NJ	355	
Delaware	J	200-360	Recourse	North Carolina Purchase Mortgages	NJ	120	Non-Recourse
Florida	J	150	Recourse	North Carolina Other Mortgages	NJ	120	Recourse
Georgia	NJ	48	Recourse	North Dakota	J	150	Non-Recourse
Hawaii	NJ	195	Recourse	Ohio	J	217	Recourse
Hawaii	J	320		Oklahoma	NJ	201	Recourse
Idaho	NJ	150	Recourse	Oregon	NJ	160	Non-Recourse
Illinois	J	345	Recourse	Pennsylvania	J	300	Recourse
Indiana	J	266	Recourse	Rhode Island	NJ	74	Recourse
Iowa	J	180	Non-Recourse	South Carolina	J	180	Recourse
Kansas	J	230	Recourse	South Dakota	J	340	Recourse
Kentucky	J	198	Recourse	Tennessee	NJ	50-55	Recourse
Louisiana	J, executory process	209	Recourse	Texas	NJ	35-60	Recourse
Louisiana	J, non-executory	269		Texas	J	80-180	
Maine	J	270	Recourse	Utah	NJ	139	Recourse
Maryland	J	46	Recourse	Vermont	J	275	Recourse
Massachusetts	J	73	Recourse	Virginia	NJ	60	Recourse
Michigan	NJ	180**	Recourse	Washington	NJ	140-150	Non-Recourse
Minnesota	NJ	270-280***	Non-Recourse	West Virginia	NJ	120	Recourse
Missouri	NJ	61-65	Recourse	Wisconsin	J	315	Non-Recourse
Montana	NJ	163	Non-Recourse	Wyoming	NJ	180	Recourse
Mississippi	NJ	90	Recourse				



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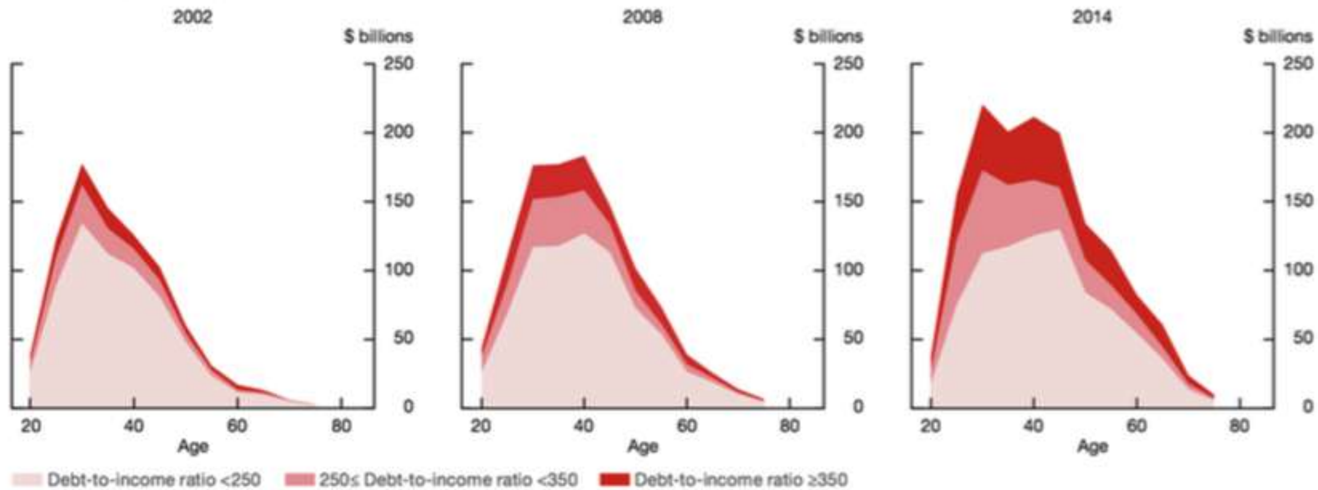
Crossing A River That is 4 Feet Deep On Average

Chart 8: **The increase in household debt has been driven by highly indebted households under the age of 45**

3-year averages in 2014 dollars



Sources: Ipsos Reid, Statistics Canada and Bank of Canada calculations

- Recent example: Artist with $930.5k in debt, $35k avg income. What is the plan, to garnish wages for 50 years?
- Can never pay it off unless house prices keeps rising.
- <u>**Makes recourse meaningless.**</u>

LTVs: Meaningless In A Debt Bubble

- ***"The liabilities are always 100%... It's the assets you have to worry about."***

  --Charlie Munger
- Problem with LTV: asset value (V) inflated by debt bubble (L)
- The loan (L) is fixed, but the "value" (V) can go down—dramatically so in crash
- Canadian avg. LTVs similar to what prevailed in the United States prior to crisis
- The portion of high LTV loans & HELOCs is higher for Canada today than it was in the U.S. in 2007

LTVs Prior To Great Depression

TABLE A-12

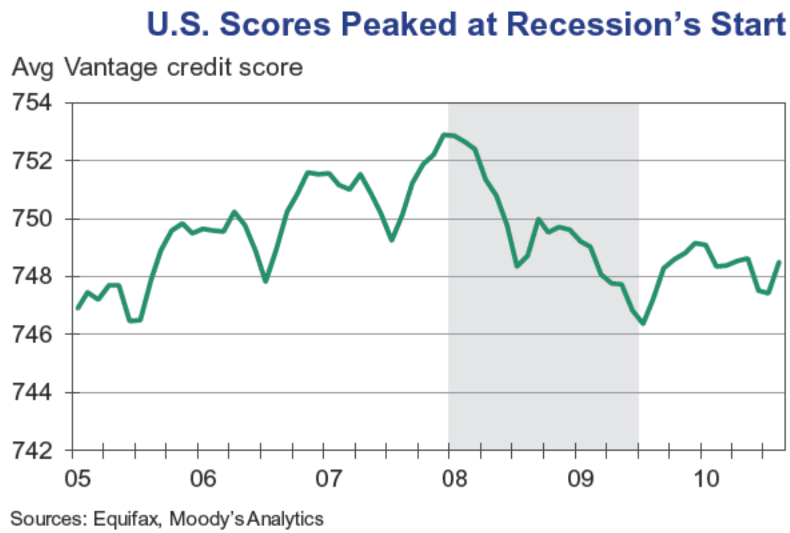
Number and Original Amount of Sampled Nonfarm Home Mortgage Loans Made 1920-29, by Contract Terms

(dollar figures in thousands)

LOAN CHARACTERISTICS	LIFE INSURANCE COMPANIES No.	LIFE INSURANCE COMPANIES Amt.	COMMERCIAL BANKS[a] No.	COMMERCIAL BANKS[a] Amt.	SAVINGS & LOAN ASSOCIATIONS[b] No.	SAVINGS & LOAN ASSOCIATIONS[b] Amt.
CONTRACT INTEREST RATE						
5.0 - 5.9%	578	$ 3,698	61	$ 578	43	$ 188
6.0 - 6.9	2,253	10,811	1,452	6,405	628	2,372
7.0 - 7.9			284	833	548	1,525
8.0 - 8.9	77	323	14	26	119	253
9.0 and over			..	..	170	307
Not available	4	17	[c]	[c]	55	184
CONTRACT LENGTH						
0 - 4 years	580	3,247	1,232	5,029	54	159
5 - 9	1,486	7,767	424	2,192	249	464
10 - 14	754	3,316	127	481	1,064	3,432
15 - 19	83	458	8	45	13	47
20 and over	6	47	20	95	2	20
Share accumulation plan, demand, etc.	3	15	[c]	[c]	170	673
Not available			[c]	[c]	11	35
LOAN-TO-VALUE RATIO						
0 - 39%	242	1,170	292	781	168	220
40 - 79	2,255	12,219	1,437	6,741	851	2,877
80 and over	3	22	8	39	30	127
Not available	412	1,438	74	281	514	1,605
Total	2,912	$14,849	1,811	$7,842	1,563	$4,830
ORIGINAL LOAN AMOUNT						
Less than $5,000	1,825	5,877	[d]	[d]	1,297	2,881
$5,000 - 9,999	863	5,624	[d]	[d]	241	1,502
10,000 - 19,999	201	2,420	[d]	[d]	21	251
20,000 - 49,999	17	408	[d]	[d]	3	85
50,000 - 99,999	4	270	[d]	[d]	..	..
100,000 and over	2	250	[d]	[d]	1	111

Credit Scores/Arrears Rates: Meaningless In Debt Bubble

- In the US, when traditional measures of affordability broke down, lenders increasingly turned to credit scores as the primary measure of creditworthiness
- As we learned the hard way in the US, credit scores are backwards looking: extracting equity every couple of years -- or adding HELOCs-- in order to pay bills on time masks the true state of a credit
- During the US housing bubble, even while true creditworthiness of borrowers constantly declined, "credit scores" not only looked good but actually <u>improved</u>!
- The error was only revealed after the boom turned to bust



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The Problem With Short Maturity Mortgages

"The 30-year [fixed rate mortgage] was originally designed to avoid the refinancing risk that contributed to the banking crisis during the Great Depression (ironically, mortgages prevalent then were very similar to today's "alternative mortgages," though the maturities typically were shorter)."

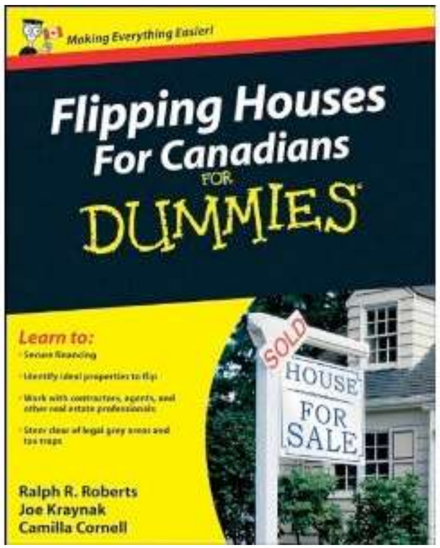
--Federal Reserve Bank of San Francisco Economic Letter, December 29, 2006 (John Krainer)

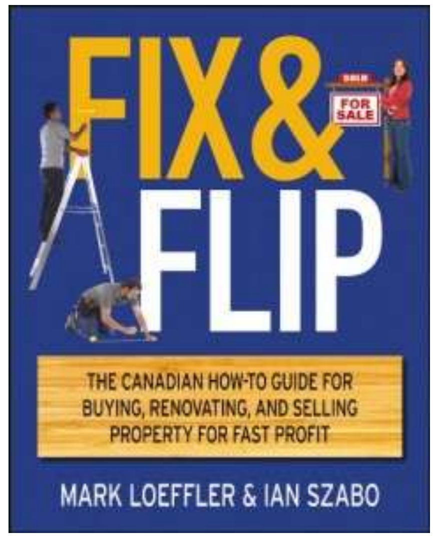
Systemic Renewal Risk: Enormous & Hidden

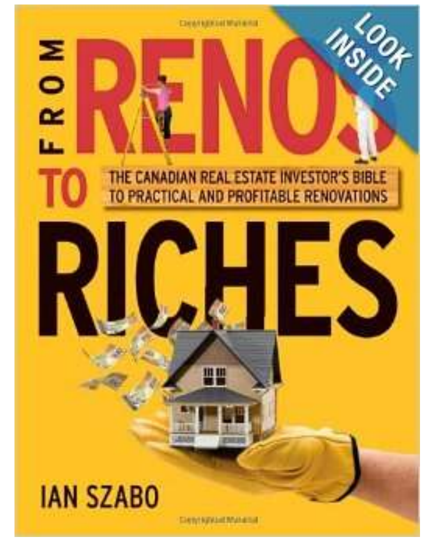
- In the US, renewal risk was small due to 30 year loans
- Standard Canadian mortgage is for 5 year term
- **Canadian mortgages face systemic renewal risk given their short maturities.**
- Standard practice has been to automatically renew without re-underwriting if borrower is current
- When the cycle turns, renewals are likely to tighten, exacerbating the down portion of the credit cycle.
- **5 year maturity also means that effectively 100% of mortgages in Canada are ARMs that face interest rate risk**

Poloz's Definition Of A Bubble…Uh Oh

- **"If we were all buying a second or a third condo with confidence that it was going to rise in price, and sell it to someone else, that would be one of the ingredients you'd expect to see in a true bubble," Poloz said.**







INVESTIGATION

The real estate technique fuelling Vancouver's housing market

KATHY TOMLINSON

VANCOUVER — The Globe and Mail

Published Saturday, Feb. 06, 2016 12:00AM EST

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Housing Millionaires: Better Than Working!

"I realized a few years after buying my first primary residence in 2003 that ***I had more equity in this property than what I could possibly save after 20 years in my day job****. This was the first realization that real estate investing was an avenue worth investigating."*

--33 Year Old Real Estate Millionaire

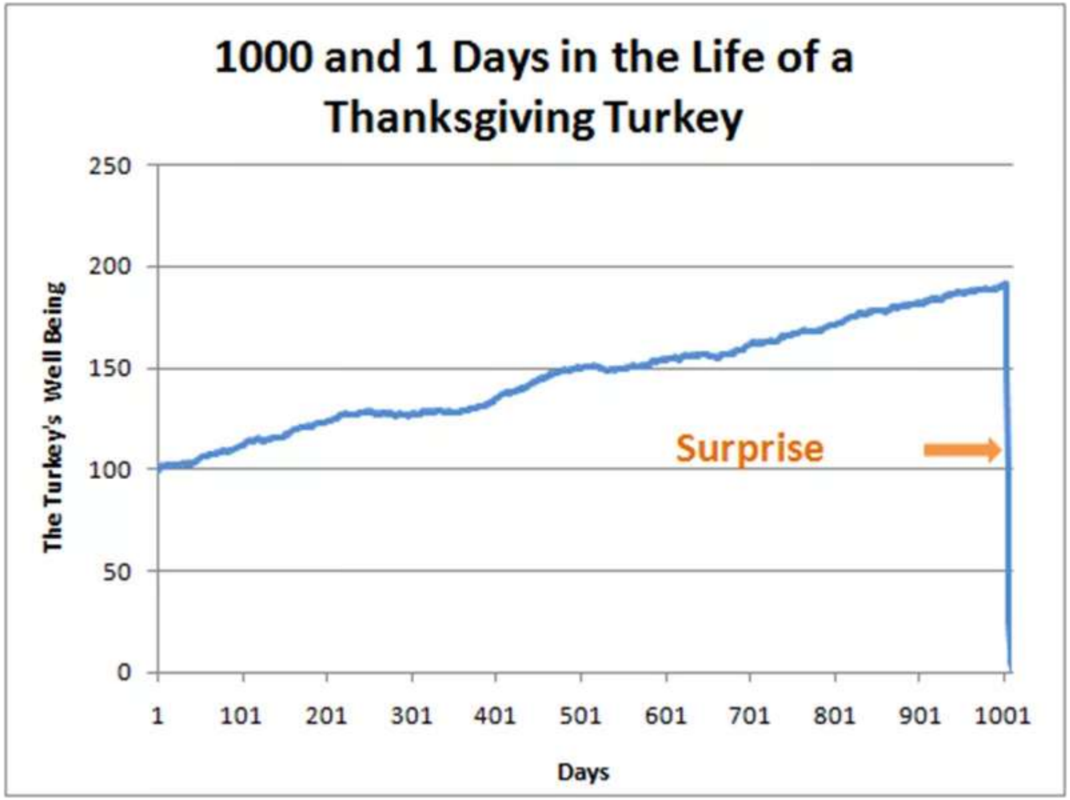
http://www.theglobeandmail.com/globe-investor/investment-ideas/real-estate-investor-has-the-vision-and-will-to-succeed/article18068074/?cmpid=rss1&click=dlvr.it#dashboard/follows/

Robert Shiller: Housing Is Not An Investment

"Historically, between 1890 and 1990, the actual rate of return on owning a home has been virtually non-existent. There's no guarantee that home prices are going to go up….We got into an illusion and it created this spectacular bubble. We have to reflect now that we had a kind of crazy mind-set in the last couple of decades, and we have to get back to thinking like people used to think. Housing is a depreciating asset…So, why was it considered an investment? That was a fad."

--Robert Shiller, Nobel Prize Winning Economist who famously predicted the US housing collapse of 2007-2008

Taleb's Turkey & Recency Bias



*Thanksgiving turkeys typically only live ~ 30 weeks

Taleb's Turkey: Implications

- Counterintuitively, the longer the bubble goes on, the more risky it becomes: living on increasingly borrowed time.
- People become <u>more</u> inured to the bubble every year that goes by and take on <u>additional</u> risk because no apparent ill effects to increasing indebtedness, deteriorating affordability, etc.
- <u>**Not the same size of problem: orders of magnitude larger than when people warned of bubble 5 years ago.**</u>
- <u>Participants become increasingly confident to the point of openly mocking bears at the same time risks grow exponentially.</u>
- I start off smoking 1 cigarette, then 1 box/day. Now up to 20 boxes/day: the idiot doctors were obviously wrong to warn me.
- There has never in the history of the world been a business cycle that goes up forever.
- Canadian GDP negative, CAD in freefall, one major region of Canada is in turmoil, global debt markets jittery.
- Now what?

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