In Homes We Trust

Homeownership 'cheerleaders' are driving the housing market here and across the nation toward a bubble.
By Linnea Bernard McCord
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According to the latest report from the real estate analysis group CoreLogic, Los Angeles home prices have continued their relentless upward march. The firm found that the median price for homes in the Southern California region hit $464,000 in June, up 5 percent from a year ago. The median price in Los Angeles County rose 6.2 percent from a year earlier to $530,000 in June (not quite the peak but very close).

Although home prices in Los Angeles in 2016 have not yet reached their all-time, pre-2008 nosebleed highs, they are likely to crest that plane this year. Bidding wars sparked by low inventory, foreign (mostly Chinese) and Wall Street competition, ultra-low mortgage rates, and the return of ultra-low 3 percent down payments have sent Los Angeles home prices spiraling upward in recent years.

Together, I believe these trends signal a warning that the Los Angeles housing market is overheated. While Los Angeles home-buying cheerleaders trumpet soaring home prices and fierce bidding wars as evidence of a sustainable recovery, America's trust barometer is signaling that another painful bust is likely just around the corner.

Unlike a weather barometer, my version of America's trust barometer is neither scientific nor mathematical. It consists of multiple data points that an independent observer can use to predict the likelihood of future painful consequences, regardless of what the "experts" are saying.

In 2004, data points suggested that serious trouble was brewing in America's housing market, long before the 2008 financial crash. On Sept. 17, 2004, an article on cnn.com cautioned that: "Rampant fraud in the mortgage industry has increased so sharply that the FBI warned Friday of an 'epidemic' of financial crimes, which, if not curtailed, could become 'the next S & L crisis.'"

Heeding warnings

Despite the clear and publicly available warning that high levels of distrust were festering in the mortgage industry, Alan Greenspan, then-chairman of the Federal Reserve, and his successor, Ben Bernanke, repeatedly reassured the public that there was no evidence of a housing bubble in the U.S. Instead, they insisted that the dramatic run-up in U.S. home prices was based solely on fundamentals. Of course, as we all know now with 20/20 hindsight, this wasn't true.

What was true was that the Fed, the government, Wall Street investment banks, financial institutions, and government-sponsored entities like Fannie Mae and Freddie Mac, enabled Wall Street to conjure up trillions of dollars for loans to purchase homes through the flagrant misuse of exotic financial products with odd-ball sounding names such as credit derivatives, credit default swaps, asset-backed bonds, and collateralized debt obligations. Almost anyone with a pulse was allowed to borrow outrageous amounts of money with little or no money down, and with little or no proof that he or she could ever repay outsized loans.

Prev Next

Page 1 of 2.

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