FROM JEROME CORSI'S RED ALERT
By Dr. Jerome Corsi

9 million Americans predicted to lose homes by 2012

Bank of America, JPMorgan Chase and Ally Bank (formerly GMAC) have halted home foreclosures in 23 states after it came to light that bank employees were rubber-stamping thousands of court documents without checking them for accuracy or getting them notarized as required by law in foreclosure proceedings, the Financial Times reported.

The disruption in foreclosures is expected to be temporary, delaying foreclosures but not giving homeowners facing disclosure any permanent relief.

Still, the problem shows the disarray in the U.S. home market as a record one million Americans are expected to lose their homes this year.

By 2012, the Center for Responsible Lending predicts 9 million more home foreclosures will occur nationwide, with 92 million families losing $1.9 trillion in their home values.

One in every 78 households in America got at least one foreclosure filing in the first six months of this year.

Although little noticed, more than 25 percent of first-quarter 2010 home sales were foreclosures, as statistics show foreclosure home sales have increased by 320 percent since 2007.

These statistics again indicate that a rebound in the market for new home sales is not imminent, a conclusion that reveals more bad news for constructors and building suppliers working in the new home market.

Obama mortgage modification program fails

In January 2009, the Obama administration announced its Making Home Affordable Program, or HAMP, to commit $75 billion to help 3 to 4 million homeowners refinance their homes.

The HAMP effort from the beginning was hampered by the program design.

HAMP does not allow judges in bankruptcy cases to modify home loans, and HAMP government employees do not have the authority to insist that banks reduce outstanding home loan principal amounts to a level where the borrower might be able to stay in the home.

Instead, HAMP is limited to bringing down interest rates in an effort to reduce home borrowers' monthly mortgage payments to no more than 31 percent of their income.

As of May 2010, HAMP had reworked only 340,000 mortgages, a number experts consider to be only about one-fifth of the homes eligible for a loan modification under the program.

Treasury Department officials report only 4 percent of troubled homeowners have received long-term help under the Obama administration's foreclosure prevention program.

Red Alert has consistently warned that the Obama administration mortgage modification plans are doomed from the start, largely because market forces must be allowed to operate.

The inevitable economic reality is that the bursting of the mortgage bubble demands home prices must devalue, to come back in line with true market values, with the unavoidable result that losses in inflated home values must be taken by someone - the homeowner, the bank or the government.

There is no solution to mounting home foreclosures, despite Obama administration efforts.

Red Alert continues to predict that housing prices will have to fall to 50 percent their peak 2006 values before the housing crisis reaches bottom. So far, home mortgages nationwide are only approximately 30 percent below top 2006 values.

Housing prices to drop even more

Yale economist Robert Shiller created an index of U.S. home prices going back to 1890, estimating the price of a standard home over that period of time.

The goal was to track the value of housing as an investment over time, presenting housing values in consistent terms over more than 100 years and factoring out the effects of inflation.

Shiller's analysis demonstrated home prices peaked in 2006, at prices that began rising dramatically as Federal Reserve Chairman Greenspan and the Federal Reserve held interest rates at or near 1 percent, in 2003 and 2004.

If a standard home sold in 1890 for $100,000, with inflation adjusted to reflect today's dollars, the house dropped to $66,000 in 1920, a level that more or less persisted until end of World War II and the housing expansion that accompanied the post-war baby boom. In 2006, the standard house was priced at $199,000, up to 199 on the index scale, or 99 percent higher than the standard house in 1890.

What this means is that the housing bubble had approximately doubled the value of the standard home in the United States by 2006.

The hard news here is that homeowners may have to take the estimated price of their home in 2006 at the maximum point of the bubble and divide that value in half to get a true estimate of the home's value in a normal market valuation.

As housing markets have adjusted downward since 2006, most homeowners have felt the pain with even a 10 percent drop in values.

Underwater mortgages increase when homeowners make small down payments, 10 percent or less, to purchase the home, and the home decreases in value by 10 percent or more.

The housing market in the U.S. will not stabilize until home values reduce to 50 percent of their 2006 peak market value, making unfortunately realistic the prediction that that one million homes will be foreclosed this year, plus an additional 9 million homes foreclosed by 2012.

ABOUT THE AUTHOR: Jerome R. Corsi received a Ph.D. from Harvard University in political science in 1972. He is the author of the #1 New York Times bestselling books THE OBAMA NATION: LEFTIST POLITICS AND THE CULT OF PERSONALITY and the co-author of UNFIT FOR COMMAND: SWIFT BOAT VETERANS SPEAK OUT AGAINST JOHN KERRY. He is also the author of AMERICA FOR SALE, THE LATE GREAT U.S.A., and WHY ISRAEL CAN'T WAIT. Currently, Dr. Corsi is a Senior Managing Director in the Financial Services Group at Gilford Securities as well as a senior staff writer for WorldNetDaily.com.