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*"Your referrals to me
 will get the best of 32
 years' mortgage
 experience - and my
 heartfelt thanks."*

By Louis S. Barnes

May 13, 2011

Financial markets have been on hold this week, the freeze a perfect reflection of widespread uncertainty about the US and global economies.

Long-term Treasury and mortgage rates have held their dramatic, near half-percent drops of the last month, but the declines themselves tend to prevent any further downward movement. A deeper slide will require something new: weaker data here, or Europe finally cracking (see [Morgan Kelly](#), Irish Times), or a China slowdown.

The small-business survey at www.nfib.com weakened slightly in April, but broadly, seven of ten components falling; and confirmed the dive in the March survey. New claims for unemployment insurance improved from last week's odd surge, but the four-week moving average is the worst since last November. April retail sales picked up a thin .5%, but .3% of the gain was the price of gasoline alone.

Housing is the obvious catalyst for a weaker economy, all of the various measures of prices showing a half-year, sustained decline, near 1% per month. However, it is no longer polite to speak of housing. The Fed does not, the White House does not, and the Treasury Secretary is busy, droning at visitors from China (draw the short straw in Beijing, be sent to listen to Timmy).

There are lots of different home-price measures, now -- it's a growth industry, after all. Try to avoid Zillow. Do pay attention to CoreLogic, RealtyTrac, and the FHFA HPI. CoreLogic's newest is a fascinating snapshot which separates prices of distressed sales from non-distressed. The gap between the two is much less than I would have thought: nationwide, a 7.5% decline for distressed sales in the last year (most of it in the last eight-straight monthly declines), but non-distressed prices dumped 5.8%.

The dispersion of price declines in the last year says there



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is a lot more going on than just the collapse of the Bubble Zones. Non-distressed price declines in 32 states include Idaho -8.8%, Minnesota -5.0%, South Dakota -4.8%, Wisconsin -4.3%, Delaware -2.9%, New Hampshire -3.9%, Massachusetts -4.5%, and Maine -6.6%.

Maine? *Maine?* If there was a Lobstah Bubble, I missed it. What might explain such a diverse, non-Bubble list of states? Unemployment, for one, although we're all supposed to believe that's getting better. The second factor is mortgage credit, tighter than ever before, tighter in every state.

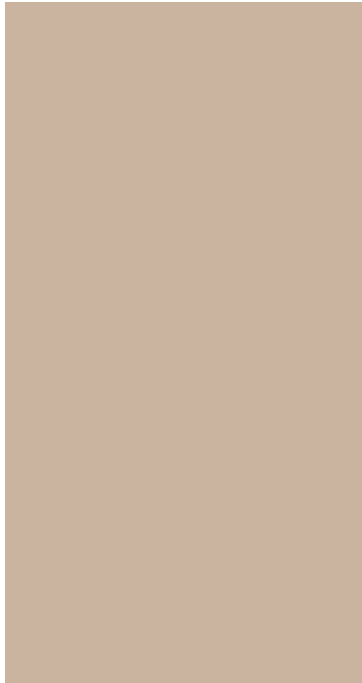
After discovery of Bin Laden's Abbottabad compound, our language has a new noun: an "abbottabad" is a bad thing hiding in plain sight, concealed by government authorities who were supposed to do something about it. The abandonment of housing to credit drought is an American abbotabad, the worst since Hoover's people allowed runs on banks to continue for three solid years.

In the movie, "The Untouchables," innocent Costner as Ness, after assembling his band of straight cops asked helplessly, "How will we find the booze?" Sean Connery snapped, "Everybody knows where the booze is!", and marched across the street to the Post Office where, sure enough, there was booze to the rafters.

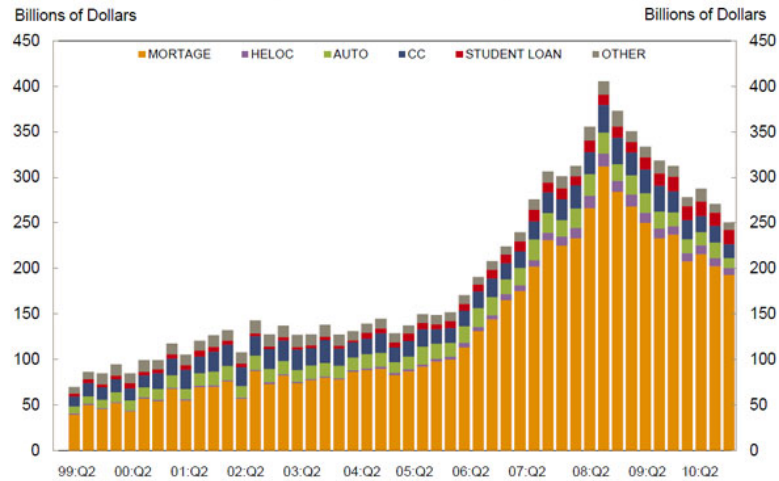
Tell a non-borrowing civilian, a reporter, or a government official, credit is too tight, and they say, "Whaddya mean?" Example: the income of every applicant must be established strictly by tax return, no matter how much money they have or how big the down payment, no exceptions for unusual but legal under-reporting of income. "Well, it's about time, right?" Try not to lose temper. No, better to lose it: General Electric has no taxable income, and so Fannie wouldn't loan it a dime. That's not restoration of prudent underwriting; that's Fannie forced-up in an abbotabad.

More new data: Fannie and Freddie at the end of 2010 owned 287,184 foreclosed homes (they report late -- takes a while on fingers and toes). In February the FHA owned another 68,801, rising 5,000 per month. New delinquencies are slowing, best shown in a thorough but optimistic consumer-credit report at the [New York Fed](#) (graph below).

However, when this decomposing REO pig leaves the python and hits what's left of markets... going to be ugly. To absorb that pig, buyers need credit, not abbotabad.



New Delinquent Balances by Loan Type



Source: FRBNY Consumer Credit Panel/Equifax

10



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