

US Property Market up date

As RIO predicted US Mortgage providers are heading into rough water!

28th February 2007

This is the eighth RIO up-date on the US property market. The downturn we predicted has started. Despite the occasional anomaly, the property market is running into serious trouble.

New Century Financial Corp., the second largest provider of sub-prime mortgages in the US, is now in difficulties. When the mortgages go sour, they have to be bought back, but insufficient provision has been made to do this. Hence, when investors got wind of this situation yesterday, they took down the stock by more than one-third. RIO has long commented that current lending practices in the USA have been unsoundly based, such that mortgage delinquencies and bankruptcies would sometime inevitably follow. This has all been brought about by the high risk behavior displayed by both mortgage providers and borrowers alike over the past two years.

The news we see today verifies our predictions. "Refinancing gets tougher," says the Wall Street Journal. "Lenders battered by late payers," adds the Associated Press and, according to the Mortgage Lender Implode-O-Meter, 20 lenders have been put out of business since December 2006.

The U.K's leading bank, HSBC, is being forced to set aside 20 percent more capital to cover delinquencies in the U.S. The Sydney Morning Herald comments on "How the HSBC Bet the Household and Lost". It would seem that HSBC's sub prime lender, the aptly named 'Household,' is seriously under performing. In fact, the lender, which HSBC bought in 2003 for \$27.7 billion, is experiencing mortgage portfolio problems that are threatening the group as a whole.

It is iniquitous to lend money to people who cannot afford the repayments; as is being demonstrated, never mind the damage to the lending institutions involved, this leads to huge personal pain for many people, since a property is the key asset for most people's daily lives and hopes.

The problem is just beginning; there is a long way to go.

The real estate agents, brokers, and other parties involved are astonished by this sudden downturn. RIO is not in the property business in the USA, although the inevitable turmoil this market is heading in to was predicted by us over two years ago. It is a sad commentary on the professionalism of the industry that so many operators have been so badly caught.

Many US realtors are said to be giving up after the average agent earned 20% less in 2006 than in 2005. House prices were not much lower in most cases, but there were fewer sales and thus less earned by way of commission. **RIO again warns that US property prices will decline, with the prediction that as much as 20% could be knocked off US property values in the fallout.**

Merrill Lynch, a company that has boomed with the global liquidity surplus, is now warning its customers to take heed. Merrill sees higher interest rates, possibly sooner than most expect.

"Fed official rates may rise," says a headline from the Philadelphia Enquirer.

RIO doesn't give much credence to such headlines. However, there must come a time when lenders become nervous and yields rise. That is the time when anyone owning US property or currently investing in US real estate based funds and associated products should make a serious adjustment or else they will have wished they had heeded RIO's multiple warnings. Several have already begun to suffer by not heeding RIO's 'Crash Alert' flag which has been flying over the RIO Club headquarters for some time!

Note: RIO doesn't know exactly when the tide will change, but RIO will be fully alert to take advantage of the situation, whatever the condition of the tides! **Members wishing to profit from the US Property markets forecasted crash.** e-mail on billgray@cbn.net.id

William Gray
RIO Club