

Mortgage crisis spreads to those with good credit

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As RIO predicted this was bound to happen. A front page headline in the *International Herald Tribune* says that the world's largest economy is struggling with its worst housing slump in two decades. Many people with good credit histories are falling behind on house payments, auto loans and credit cards, and the pace is accelerating.

"This collapse in housing value is sucking in all borrowers," said economist Mark Zandi at Moody's. House sales in Southern California are at a 20-year low. Foreclosures are on the rise. Members should take note that this will have the obvious consequences – more houses on the market sold at distress prices.

In 2007, 17.5% of all the houses sold in Nevada were ones that had been foreclosed. The figure was 15% in Colorado and 11% in California. These foreclosed house sales are pushing prices down further. A few members took RIO's advice and sold their houses in the US and have avoided the losses, which continue to plague this market.

As prices go down, more people are tempted to walk away from their mortgages and their homes. You Bloomberg has provided an estimate that, by the end of this year, 15 million U.S. households will be "upside down," meaning, their houses will be worth less than the value of their mortgage loans. Almost half of the people who took out sub prime loans over the last two years have no equity in their houses, says *Bloomberg*. Of the people who bought two years ago, 39% are already in this situation.

Over the last five years, trillions of dollars were "taken out" of U.S. housing values. In 2006, for example, owners took out \$318 billion by refinancing their houses, and another \$142 billion from home equity lines of credit. Inevitably the day would come when they would have to put money back into their houses, and that day has now arrived. Nor is the problem yet over! Of course, how much will be required, how many will go into foreclosure and how many will walk away will depend on how far house values go down. Estimates vary considerably – maybe 5% more, maybe 15% more, or maybe 50% more. To highlight the scale of the problem, the total value of U.S. housing is \$20 trillion. A 10% loss takes \$2 trillion of implied wealth out of the economy. Ten percent is manageable to the fellow, who owns his home outright or has substantial equity.

One of the delusions of the 'bubble' era was that Americans were really saving much more than the numbers reported. They were buying houses and these were going up in value. This was the equivalent of savings, they were told. Those so called savings are now disappearing and causing huge problems for the heavily leveraged, marginal housing speculator of the 1997-2007 periods.

RIO's detailed research years ago led to the prediction of the collapse of the US Dollar and US housing market due to the unsound lending practices of the financial entities at that time. In short, as said, it was totally wrong to lend money to people who obviously would subsequently have difficulty in repaying.

When most financial institutions were foolishly investing in this market and the dollar we stayed away, warning members that all was not good in the USA.

I am pleased that, having warned of the coming crisis, many RIO members have avoided the negative effects and losses witnessed by many people outside RIO's privileged membership. Perhaps equally important is that, unlike many other investment companies who have suffered significant losses recently, having taken positions lured by the promise of significant gains from US mortgage backed securities in its various guises, RIO International Investments Ltd showed its true value, not only as an innovative provider of investment opportunity, but also as a leader in the field of the type of research which is capable of uncovering potential risks unseen by many other financial institutions.

RIO International Investments Ltd is also the investment house that provides an investment platform for the launching of licensed private and professional mutual funds which are solely offered to the RIO Club membership.

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