

Reasons Why the Bail-Out Won't Affect Your Short Sale

HYPERLINK "<http://www.doctorhousingbubble.com/wp-content/uploads/2008/02/feb2008-shortsale.png>" INCLUDEPICTURE "<http://www.doctorhousingbubble.com/wp-content/uploads/2008/02/feb2008-shortsale.png>" * MERGEFORMATINET One of the most common search strings or key-words that students have asked is "**How will the Bail-Out Affect Short Sales**". This post is written in attempt to answer that question. The "Bail Out" or the "Buy In", depending on if you fall for the propaganda, was/is intended to "save" the economy by injecting capital back into the financial system. The general idea is that the Federal Government will buy distressed financial instruments, like mortgage backed securities, and coax them back into being "performers" or to hold them long enough until they are once again valuable.

That is a severe simplification, but I think one that is generally agreed to by the public. However, I don't think that is what will happen at all. The above scenario implies that the Government's money has a pretty direct route into the lives of distressed home-owners.

Reason Number 1 Why the Bail Out Won't Affect Your Short Sale

The Government Has Bigger Fish to Fry. If you think the mortgage backed securities debacle is scary, start reading about the commercial paper problem. From HYPERLINK "<http://www.bloomberg.com/apps/news?pid=20601087&sid=aFJQcVQOpvL4&refer=home>" [Bloomberg](#):

The worldwide stock market slide yesterday wiped more than \$2 trillion off investors' wealth. The Standard & Poor's 500 Stock Index lost as much as 8.3 percent before it closed with a 3.9 percent drop to 1,056.89.

Equity declines were widespread, with Europe's Dow Jones Stoxx 600 Index having its steepest intraday decline since 1987 and emerging markets, until now the locomotives of the world economy, hit particularly hard: exchanges in Russia and Brazil halted trading.

"The Fed's not done yet," said former Fed Governor Lawrence Meyer, now vice chairman of Macroeconomic Advisers in St. Louis, Missouri. "They're going to try to leapfrog ahead and do something even more dramatic."

Essentially, now that the Bill has passed, the "B" Team will be left to implement it, while the "A" Team will work on freeing up capital to get the markets moving forward. Do you remember one of the most common phrases during the Bail Out debate? Remember everyone was saying, "The devil is in the details"? Well, the devil is also in the execution.

Expect major delays and mis-appropriation of the *bail out* money.

Reason Number 2 Why the Bail Out Won't Affect Your Short Sale

Lenders can see that no relief is on the way. We know we are in trouble when we point to Countrywide as a company who is progressive in the home mortgaging business. But in this case, they seem to be the one company actually trying to do something (although it is a hair brained plan wrought with problems). Countrywide Home Loans (i.e. Bank of America) is about to initiate a massive loan modification program aimed at keeping borrowers in their homes. Without going into the various ways that this plan won't work, I want to point out that they are proceeding with this because they know the Government's plan will do nothing for the distressed home owners. From [HYPERLINK "http://money.cnn.com/2008/10/06/real_estate/Drastic_plan_slashes_mortgage_costs/index.htm?postversion=2008100616"](http://money.cnn.com/2008/10/06/real_estate/Drastic_plan_slashes_mortgage_costs/index.htm?postversion=2008100616) [CNN.com](http://money.cnn.com/2008/10/06/real_estate/Drastic_plan_slashes_mortgage_costs/index.htm?postversion=2008100616):

As part of the initiative, Bank of America will cut monthly housing payments, including mortgage, property taxes and insurance, to no more than 34% of gross income. The move is expected to help keep as many as 400,000 troubled borrowers in their homes.

The program targets holders of subprime adjustable rate mortgage (ARMs), subprime fixed rate loans and option ARMs, but prime and Alt-A borrowers, who did not document their income, will be eligible as well.

No other foreclosure prevention effort has aimed to keep borrowers' house payments so low.

"[The program's] affordability is far better than any other program out there," said Rick Simon, spokesman for Bank of America.

It won't work, but at least they are trying something (ps - even if the plan is part of a legal settlement in a lawsuit from 11 different states suing over "Predatory Lending"). If Countrywide truly felt that the bail-out would be effective, then they would have put this plan on ice.

Reason Number 3 Why the Bail Out Won't Affect Your Short Sale

The bail out is too confusing. The situation is so overwhelming and so confusing that there is no way for the loan servicing companies to keep up with all the changes. The following graph is from [HYPERLINK "http://www.doctorhousingbubble.com/short-sale-report-volume-4-16646-short-sales-in-southern-california/"](http://www.doctorhousingbubble.com/short-sale-report-volume-4-16646-short-sales-in-southern-california/) \o "Dr. HousingBubble" [Dr. HousingBubble](http://www.doctorhousingbubble.com/short-sale-report-volume-4-16646-short-sales-in-southern-california/), February 2008. It shows the rate of increase in short sale requests from servicing companies. Reliable Short Sale data is extremely hard to find. This graph is based on data from the Southern California Real Estate Market and shows a dramatic rise in Short Sale rates (8 months ago). Short Sales have sky-rocketed since then.

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I have heard (anecdotally) that Countrywide is receiving 100,000 short sale request per month. I am scrambling to find that data, and will believe it when I see it. However, that does not mean that I do doubt it. This demand for a service (short sale) is one that brings a great deal of additional strain to the banking industry. All the employees that process and manage these files come at a huge cost. Part of that cost is developing processes and systems to deal with the greatly increased requests.

There is no way that the bail out money will trickle down from Uncle Sam, through the distressed financial instruments, through the investors, through the loan servicing companies, all the way down to the borrower in a manner significant to influence your short sale one way or the other.