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# Green Shoots for Housing Mowed Down

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By DAVID REILLY

Winter usually casts a chill over housing markets. And this year, spring may be a long time coming.

## Stalled

S&P/Case-Shiller home-price index, 20-metro-area composite



Thank the foreclosure debacle for that. It is roiling housing just as some positive signs were emerging: Housing starts, architectural billings and home-builder sentiment have all recently risen.

The trouble won't necessarily show up in housing reports this week—September existing-home sales come out Monday, Case-Shiller August home-price data on Tuesday and September new-home sales data on Wednesday. Economists expect sales to show a small uptick from August levels, while prices remain weak.

But these figures will reflect conditions mostly before banks temporarily halted foreclosures due to questionable affidavits. More telling may be recent declines in the weekly mortgage-applications survey from the Mortgage Bankers of America, which showed purchasing activity off nearly 40% from a

year ago.

For their part, banks are moving to restart foreclosures and reassure buyers that markets are functioning. But the legal logjam mightn't clear quickly, given what are expected to be renewed challenges from homeowners' lawyers and skeptical judges.

The upshot is the level of new foreclosure sales, a key driver of current housing activity, may be damped for months. Home prices may initially benefit from having fewer foreclosures in the mix. But any rise is likely to be short-lived, especially if buyers hibernate until the fiasco gets sorted out.

Moreover, once the legal problems clear, a backlog of discounted properties will flood the market. Economists at Wells Fargo Securities noted last week that there are two million

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homes in the process of foreclosure and another two million with mortgages 90 days past due. They expect home prices to fall an additional 5% to 8% next year.

Falling prices and legal uncertainty, meanwhile, may lead "to even more conservative appraisals and even tighter underwriting standards," the Wells Fargo economists reckon.

That, in turn, could blunt the benefit from superlow mortgage rates, currently around 4.2% for 30-year loans. It could also prompt the Federal Reserve to try to drive borrowing rates even lower. While a housing rebound mightn't be a must for an economic recovery, a renewed housing downturn almost certainly will undermine one.

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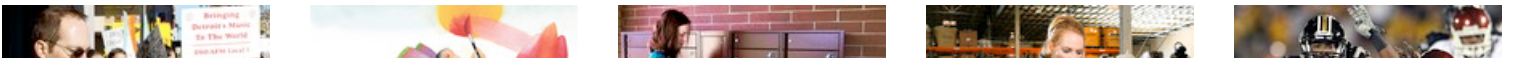
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