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Year-over-year home prices continue to decline throughout California. The weak economy, job losses and lack of available credit are the most cited reasons for the decline. There is another reason that has not garnered a lot of attention. Government intervention, such as foreclosure prevention programs and foreclosure moratoriums, is prolonging the housing slump.

There is a negative relationship between foreclosures and median home prices. As the number of foreclosures increase home prices decrease, this has certainly been the case over the last several years. This relationship suggests that before home prices can rebound foreclosures must decline.

Recent government intervention, while enacted with good intentions, has actually prevented a rebound in home prices. For the majority of at risk home owners, moratoriums do not prevent foreclosures they only delay the inevitable. Foreclosure prevention programs have the same affect due to high re-default rates. Approximately 50 percent of all modified mortgages end up in default within six months.

In effect, government intervention is not reducing the number of foreclosures it is only delaying the timing of foreclosures. As a result, home prices are likely to continue their decline. We should have taken our medicine when it was first prescribed.