Good morning and **happy Tryptophan Appreciation Day!** While I should be sleeping in or teeing off, I am trying to get some work busted out in order to try and pay for my surging health insurance premiums for 2016 that Blue Shield dropped in my lap last month.

Anywayz, I missed the following **WSJ article on Subprime-auto** -- "***Surge in Subprime Auto Lending Draws Attention***" -- put out last Thursday after close. With 18.3 SAAR on tap, the terms **"bubble", "Subprime", and "2006"** are all likely to increasingly make a comeback in the media's vernacular. I have to ask, "what took so long?"

The article states that now the **Fed is "raising concerns"**. **If the Fed is "getting concerned", it means this sector is already in a raging credit bubble and has been for a long time**.

I follow auto credit fairly closely due to its leading-indicating relationship to mortgage credit often times in the past.

For three years now a good friend who runs a large auto dealer network in the West has told me "**all you need is a heartbeat, mid-500 credit score and 10% to 20% down to walk outta here in a $50k used Benz. Even less down, or nothing, for a new car. Subprime auto 2.0 makes 2006 auto lending look punitively tight".**

I don't think for a second that a credit-induced mega-bubble in a sector as large as auto can form and blow as large as it has on its own. The grotesque size of Subprime auto **surely means that many other sectors are bubbled-out as well.**

The WSJ story below refers to "**traditional subprime mortgage credit**" in contrast to auto credit, as a sector that hasn't risen back out of the Bubble 1.0 collapse ashes. I am glad it does because it's a great segue. **The article looks at the wrong thing, as do all analysts trying to make the same point.** Just because "traditional", "subprime" mortgages -- most of which are "illegal" now days" – haven't recovered doesn't mean housing isn't in a mega-bubble.

On the contrary, I am 100% convinced housing is in the midst of another credit fueled bubble, larger and more volatile than Bubble 1.0. Just because the "**unorthodox, unfundamental demand using unorthodox capital**" isn't every ma and pa in America using exotic mortgages this time around, doesn't mean that "unorthodox, unfundamental demand using unorthodox capital" isn't driving the sector.

To believe this isn't another Housing Bubble is to believe that all of the hot momo capital underpinning demand and price gains from insti's, high/biotech, flippers, flappers, fraudsters, and foreigners buying houses is fundamental and here to stay, which is exactly what everybody thought in 2006.

Additionally, **mortgage fraud is back at 2006 Bubble peaks**, you just have to know where to look. Outside of all of the unorthodox demand for single-family rentals by cohorts listed in the previous paragraph who we already know about, **"Second / Vacation" home demand has surged more than any other housing segment over the past three years.** The overwhelming market opinion is that aging, equity-market affluent baby-boomers are all rushing in at the same time to buy their dream "vacation" home.

But, this is misguided; there is no indication true "2nd/vacation" home demand is surging at all. In fact, **the data – presented in my August 2nd report entitled "7/2 Hanson...Full-Blown "Recovery"; Fraud back to 2006 highs", fully supports my thesis that this housing market is spun out of control from rampant speculation, process incompetence, relationship-driven dissonance, and outright fraud, or an exact repeat of 2005 to 2007.**

There is little doubt that rampant speculation and fraud are underpinning and at several times during the past five years were driving housing demand and certainly prices. **"Vacation", "second", and**

"investment" properties are all part of the same speculative "trade", but by different parties. And just like in 2006, **the distinction between the property types has become de minimis**. **As prices continue to increase past the ability for the incremental buyer to afford, either leverage-in-finance or fraud, must fill in the buyer qualification/house price**

Lastly, if in 2006 housing was in a bubble with houses that cost "X" against incomes and full-time employment of "X" and now houses cost "X to X+" against incomes and full-time employment of "X" to "X-" then we have to be in another bubble now. People who disagree point to rents and PE ratios as proof we are not. Well, that's of course, unless rents aren't in bubble either. If they are, which is probably an easier case to make than an auto bubble, then the thesis falls flat.

Moving onto the WSJ Subprime-auto article, **I will leave you with the thought that the air-pocket between present, bubbled-out house prices driven by the "unorthodox, unfundamental, incremental demand using unorthodox capital" and "fundamental, end-user, shelter-buyer affordability" has never been larger.** At peak bubble, all that it takes is a narrow and shallow stream of a dumb money buyers to keep the prices of entire regions bubbled out, indefinitely. Most everybody else is just hanging on for the ride, unable to transact due to the unaffordability. Then one day market suddenly runs out of dumb money buyers, which is the Wile E. Coyote moment.

It's not different this time. In fact, it's exactly the same, including how everybody is absolute and resolute in their belief that house prices always go up and can't experience another 2007-2010 type crash again.

Mark Hanson

Surge in Subprime Auto Lending Draws Attention

N.Y. Fed report feeds into some regulators'

concerns about borrower profile; overall household borrowing at $12.1 trillion

Subprime auto lending has surged in recent years, while subprime mortgage lending has remained flat. Here, 2016 Chevrolet Camaros await their ride to car dealers across the country. Photo: Jeff Kowalsky/Bloomberg News

By
Josh Zumbrun

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Subprime auto lending is shifting into higher gear, raising some concerns in Washington where top financial regulators have sounded alarms about this category of loans.

Over the six months through September, more than $110 billion of auto loans have been originated to borrowers with credit scores below 660, the bottom cutoff for having a credit score generally considered "good," according to a report Thursday from the Federal Reserve Bank of New York. Of that sum, about $70 billion went to borrowers with credit scores below 620, scored that are considered "bad."

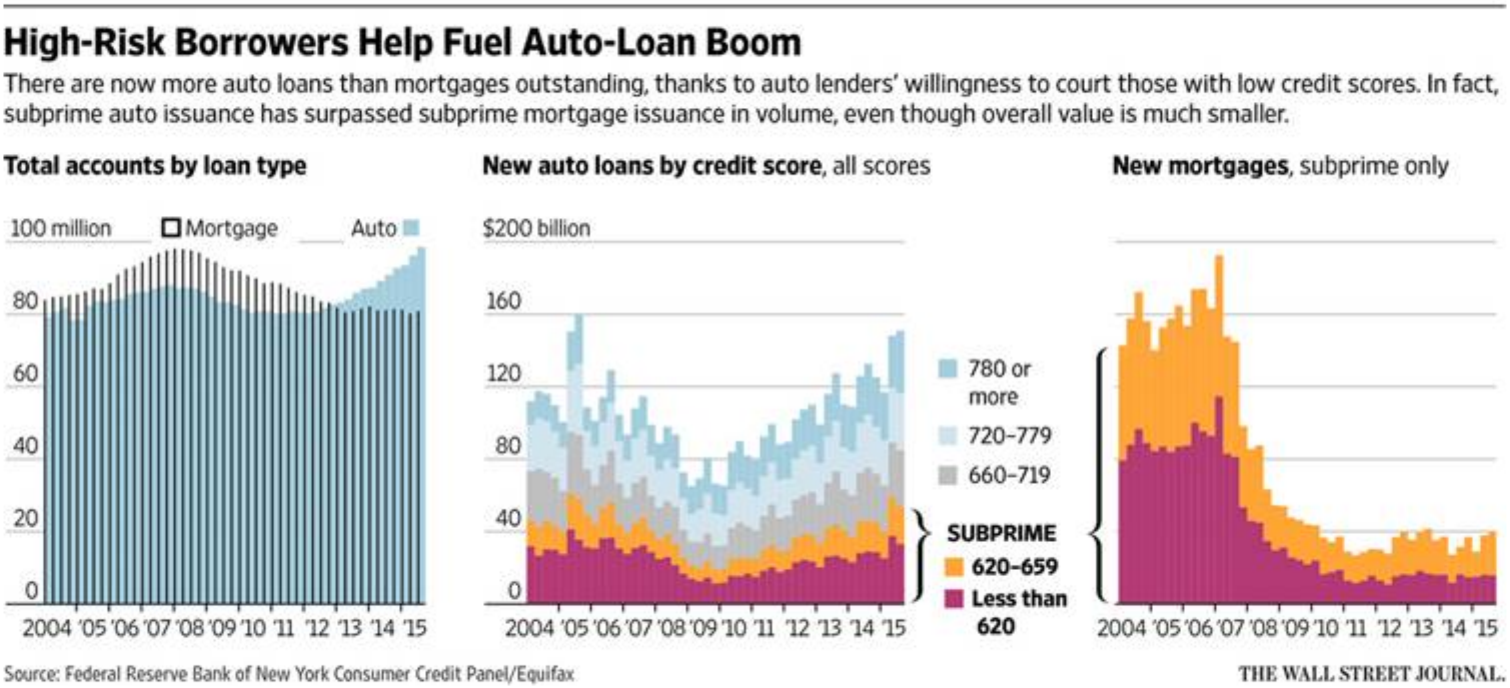
This rise in subprime auto lending comes against a backdrop of gradually improving credit across the economy. Overall household borrowing has climbed to $12.1 trillion, the highest level in more than 5 years, with rising balances for mortgages, auto loans, student loans and credit cards in the third quarter, according to the report.

But when it comes to auto loans, in particular, a rising volume of loans is going to borrowers with poor credit. The sum in that category has nearly reached the same level as in 2006, raising questions about the health of the nation's auto-lending portfolio and drawing uncomfortable comparisons to the rise in subprime mortgages that helped fuel the housing collapse, financial crisis and recession.

The comptroller of the currency, Thomas Curry, said in a speech last month that some of the activity in auto loans "reminds me of what happened in mortgage-backed securities in the run-up to the crisis.

And Richard Cordray, director of the Consumer Financial Protection Bureau, warned in September 2014 that subprime auto-loan borrowers

“may be more vulnerable to predatory practices” and that “direct oversight of their lending practices is essential.”
Auto lending and mortgage lending in the aftermath of the financial crisis are a study in contrasts.



ENLARGE
Following the financial crisis, lenders became much more conservative in issuing mortgages and Congress and the White House passed legislation—the Dodd-Frank financial-regulatory overhaul—that tightened mortgage standards further.
The total sum of outstanding mortgages declined from 2008 until 2013 before beginning a slow recovery. The outstanding balance of U.S. mortgages remains more than $1 trillion below where it was in 2008.
Auto lending, however, began to recover in 2010 and by 2013 had already reached a new peak. In the second quarter of this year, the total sum of U.S. auto loans topped $1 trillion for the first time.
Much of this difference can be explained by borrowers with low credit scores. The share of mortgages going to borrowers with fair-to-bad credit scores collapsed after the recession. Even today, mortgage lending to these low-credit borrowers is 80% less than it was during the housing boom.
This rise of subprime credit shouldn’t be viewed as entirely negative, said Amy Crews Cutts, the chief economist at Equifax, the credit reporting firm.

Such loans can be critical in helping people who've lost jobs get back on their feet by having a dependable way to get to a new job.

"The difference between having reliable transportation and not having reliable transportation is life-changing for people," she said. "When you hit a rough patch and are financially on the edge, which is often the case with people in subprime credit, having a car can be the difference between getting and keeping a job" or never getting out of the spiral.

Auto lending has seen borrowing return rapidly at all credit levels.

But when it comes to subprime auto loans, not all institutions are getting into the game. Banks and credit unions have increased lending to subprime borrowers very slowly. The vast majority of subprime auto lending is concentrated within auto finance companies, according to the New York Fed.

"The growth in auto loan balances and originations has been very robust," said Donghoon Lee, a New York Fed researcher. "While the subprime share of outstanding auto balances hasn't increased very much, the absolute level of loans has. This is an area we'll continue to keep an eye on."

Still, housing and auto debt have key differences—in the case of default, cars can be quickly and easily repossessed and the bad loans erased from the system. The presence of GPS technology in cars can make them easier for repo men to track down. Mortgages, by contrast, can linger in foreclosure for years in a lengthy legal process.

Delinquency rates in both auto and home loans remain low, according to the New York Fed's report, pointing to improvement in the overall economy.

Just over 3% of auto loans were more than 90 days delinquent in the third quarter, a share that's little changed over the course of the year, and down from over 5% as recently as 2011. Foreclosures on mortgages fell to a new low in the 17-year history of this data, the New York Fed said.

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Thank you,

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