The credit crunch

The Credit CrunchThe Credit crunch was once a term used only be economists, but the term has been used so extensively over the past couple of years that this term can now be found in dictionaries. A credit crunch is caused by banks and credit bureaus not lending out enough money for loans. This in turn creates many problems that can contribute to a recession. The recent ??? crunch??? of 2007 has been said to have been sparked by the housing bubble. Many people still dont understand the phrase ??? credit crunch??? and what causes them, but its not as complicated as it sounds. Basically a credit crunch is a crisis caused by banks and credit bureaus afraid to lend out money. They dont want to lend to each other, and they dont want to lend to us. Well, they still have to lend out money, so what do they do They jack up the interest rates to try and cover the ??? risk.

??? This is exactly what happened in 2007 and this risk came from the housing bubble, which I will touch upon later. When the banks and bureaus do give out loans, they come with a high interest rate, which can do a number of things. Mortgages will become more expensive for anyone attempting to take one out. Investors can lose money as the stock market fluctuates wildly. And in some cases and credit crunch can cause bankruptcy and repossession. The credit crunch that really hit home in 2007 is believed to be caused by the housing bubble. Years of lax lending, created a huge debt pool, creating the housing bubble. Anyone could borrow money cheap and pour it into housing.

This was a good idea for a time while the rates were low and people made millions. The trouble though, is it didnt last. Interest rates climbed and and house prices plummeted causing these sub-prime borrowers to default on their mortgage payments. So now the banks were left with massive amounts of debt and now with a risk of losing more money, they wont lend money to anyone at a decent rate. This recent crunch has not just effected us here in The Untied Sates, it effected the global economy.

This was because these sub prime home loans were put together and sold off in bundles as a way for investors to make substantial profits. But as more and more people became to default on there skyrocketing mortgage payments, these investors lost massive amounts of money. And because the bundled up loans, also know as collateralised debt obligations, were sold to investors around the world, global economy suffered. How a credit crunch affects us directly is pretty simple. Mortgages with a decent rate have become rare as interest rates remain high. Lenders have become a lot more picky about who they lend there money to, and for good reason.

And investors can have substantial loses as the market falls. Unfortunately there really is not much you or I could do to stop a credit crunch, but understanding what it is and how they happen could help prevent another ??? crunch??? from happening in the future.