

Extra credit



The power of Mortgage in the financial market Mortgages are essential in the financial market because they are collateral for loan acquisitions. The loans are taken to facilitate other spheres or buy housing units. The initial perception of the market was that mortgage values appreciate thus acceptable collateral for loan uptake. The loans taken against mortgage were viewed as secure both in short and long term. The success of the notion was short-lived because prior to the financial crisis the value of the mortgage dropped significantly leading to panic. The Banks could not offer loans to house buyers because the value of the housing was dropping, while those with loans for mortgage could not repay the loans. At one point, some of the house owners could not sustain the charges and opted for the house to be taken by the bank (Ciro 68). The value for the mortgage dropped in two years to almost 50%, which represents a tremendous loss for the bank. The drop in sales and demand for mortgage made recovery of loans impossible. Many house sellers were making losses, while the bank was speculating for change in demand, which never occurred. The result was surplus of housing units with low demand affecting the prices of the housing units. The mortgage industry was among the main sectors that contributed to the financial crisis by creating price reduction. With the massive losses incurred from the mortgage industry, it was impossible for the banks to survive because of reliance on the mortgage as collateral. The losses were reflected on the bank balance sheet leading to increased liability. The continuous drop in value of housing unit did influence the uptake of loans. Initially, loans were taken with some areas such as California having bigger loans due to the cost of housing (Tongue 86). The number of customers willing to buy housing units has been decreasing while the house construction companies are

constructing new houses. The result of the imbalance is the surplus witnessed in the mortgage industry.

Bank lending was affected. Banks refuse to lend because of the volatility of the market leading to the panic in the market. In response to the reduced lending, the prices of mortgage came down significantly leading to increased losses in the banking and mortgage sectors of the economy. The capital and financial markets were affected. The effect lasted despite efforts of the government to provide bail out. The bail out did not achieve its goal because the liability in the financial sector had surpassed the available finances. The steady decline in the value of the mortgage was the driving factor for the reluctance in lending resulting in the continued crisis (Savona, Kirton and Oldani 34). Every sector was in suspicion of collapse of the other; therefore, lending of money was not undertaken by the banks to any sector including the mortgage industry.

Despite the crisis, the demand for housing units has been increasing as the economy is on its way to recovery from the crisis. The demand over the last year has increased from a negative one percent to positive one percent indicating the fortunes in the market. The mortgage industry is slowly coming back to its feet from the fallen state it was after the financial crisis.

Works Cited

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