Citigroup inc subprime mortgage crisis

Economics, Money

It is anticipated that more than 20 lakhs borrowers will lose their residences to foreclosures due to subprime mortgage lending in recent years. [Mcvicker, 2007, 16]. When there is a boom in the housing market, lenders enticed many lower-income people into buying homes which they may fail to pay for. [Streeter, 2007, 4]. These low income people were tempted mainly by lender's offering of adjustable –rate mortgages [ARMs] with attractively low initial attractive low interest rates.

In the booming business cycle, many lenders would not insist for down payments or income-proof to substantiate the loan eligibility. Further, with skyscraping real estates price rising, many homeowners employed their higher valued homes to get second mortgage to defray for renovations or additions. However, during 2007, there was a crash in the housing market and honey-moon came to an end. Now, lenders started to reset the low teaser loans at higher interest rates and as a consequential thereof, many borrowers had defaulted their high mortgage installments.

Because of this crisis, the investors who bought the mortgage-based securities had nearly lost about $ 160 billion or more. American government is seriously thinking now how to assist borrowers to come out of the debt trap. It is also seriously contemplating to introduce serious, tough lending standards which are necessary for the mortgaging industry in U. S. A. [Clemmitt. November, 2007, 1] It is projected that about 2. 2 million families will lose their residential homes due to wave of irresponsible mortgage lending in recent years.

[Halliburton, 2007, 64]. Due to subprime lending crisis, several mortgage lenders and insurers have incurred heavy losses which they never witnessed in their lifetime. Citigroup is not exempt from this Katrina cyclone. Citigroup net profit and EPS had dwindled to unprecedented low level in 2007. This is mainly due to loan defaults by major clients and general slow down in the housing market. Big investment bank namely Bear Stearns had pumped over $ 3 million mainly to save one of its hedge funds that witnessed heavy losses on mortgage investments.

Financial giant Merrill Lynch reported an $ 8 billion loss on mortgage securities. [Clemmitt. November, 2007, 1] The reason for the today's problem may be attributed a mixture of easymoney, real-estate bidding wars and loose lending policies that had contributed soaring of home prices. [The Journal, September 20, 2007, 26]. The alleged securitization of mortgages increased home ownership by facilitating other lenders and banks to trade mortgages, thus attracting capital to fund additional home loans. [Slade, 2002, 667].

With the excess mortgage available in the hands of mortgage lenders had actually resulted in an implausible build up of hazardous mortgages which had happened in a short p of time. The main problem creator namely subprime mortgage, the highest risk mortgage, is usually given to borrowers with poor credit ratings at higher interest rates than ordinary mortgages. [Kozup, 2007, 29]. Though the phenomenon " subprime mortgage' was non-existent before 1990 and now it is accounted almost one-fifth of all new mortgages entered on or after 2005.

From the year 2006 onwards, lenders now started to lend subprime mortgages not only for those with poor credit scores but also to those borrowers who do not have any documented proof of income mainly to boost their bottom line. Thus, the subprime and Alt-A loans accounted for more than $ 1 trillion of the U. S. A mortgage debt during the year 2006. [Washington Times, October 21, 2007, B02]. So as to stop the bleeding, the U. S. A's biggest mortgage lender " Countrywide" announced that it will restructure about 82, 100 mortgages to make them more affordable.

[Polyak, 2007, 46]. Further, decline in Countrywide's revenues is mainly due to write-offs of the mortgage loan and pipeline and inventory of securities and loans to the tune of $ 322. 7 million, which is mainly due to disruptions in the secondary market in the latter of the year 2007. To sum up, the present subprime mortgage crisis in U. S in mainly due to actions of the avaricious financiers, government lenient regulations and ineptitude of credit rating agencies to identify the danger of subprime mortgage crisis in advance. [Siddiqi , October 2007, 12].

SUBPRIME MORTGAGE CRISIS OF CITIGROUP INC. The year 2007 was not all conducive to banking business. Even high flyers in the industry have been thrown to doldrums due to subprime mortgage crisis. In response to the subprime mortgage crisis all over the world, Citigroup's financial outcomes have dwindled to an unexpected level. In general, there is general peril of a U. S and global recession in 2008. A U. S led –economic recession could harmfully affect other vibrant economies and markets all over the world and could hamper the Citigroup Inc future growth prospects internationally.

Subprime mortgage crisis is such that if the present worsening economic scenario continues till further, Citigroup Inc may witness decline in revenues across its business activities and augmented cost of credit. Moreover, prolonged downturn of the U. S or international real estate markets could drastically affect the Citigroup Inc future profits, which may warrant further write-offs of leveraged loan commitments and cost of credit, including augmented credit losses in mortgage –associated and other banking activities.

Likewise, if adverse credit rating is given by credit rating agencies may further worsen the situation and may result in reduction of profits in identical securities. Citigroup Inc is a parent company which has financial service business operations allover the world. Its client includes corporate customers and banking consumers around the world. Citigroup client's surpasses 200 million and operates in more than 100 countries. It employs more than 387, 000 employees all over the world.