Mortgage crisis

The Mortgage Crisis - More than What it Seems Thesis ment: The mortgage crisis that has caused house prices to fall and foreclosures to take place across the states will affect the consumer lifestyle going as far as causing a consumer recession due to the low unemployment rate, rising consumer debt and increasing short term interest rates.

Introduction

The current financial downgrade will affect credit card loans, home equity loans and prime mortgages causing a consumer recession. The house prices in 2007 fell by almost 6% and the figure is expected to rise another 15% in 2008. This combined with the unemployment rate which in December was at the highest level at 5% is projected to increase to 5. 8% by the end of the year.

Analysis:

The Domino Effect:

Subprime borrowers, with low rates of 7% to 8%, will see rates reset at numbers like 11%. Prime borrowers are seeing rates jump to 20% and more causing them to come near to defaulting on their loans. This increase in rates will create a domino effect altering most of the financial markets.

The Bigger Picture:

The mortgage crisis is simply one side of the coin. With the failing economy mortgage lenders and banks are finding it hard to find the cash to support the foreclosures. With the low house demand and the growing defaults companies like American Home Mortgage Investment Corp. and Delta Financial Corp., filed for Chapter 11 bankruptcy protection. Bigger banks are suffering losses as they write down their losses with even a company like Merrill Lynch posting its largest loss in 94-years.

The Failing Economy:

With the drop in employment rates and the economy in one of its worst positions for more than a decade a recession seems to be on the way. How bad the crisis will be and how it will alter the consumers lifestyle is what has to be determined as the mortgage crisis takes the country by storm.

Importance of the Crisis:

Being a mortgage collector I have the opportunity to review some of the ARM's, interest only and flexible payment/negative amortization loans. I have found that they are all positioned as tools to help the borrower afford the house for a moment. The financial companies and their policies have helped create a mortgage crisis without any government intervention. It is essential that people understand what direction the mortgage crisis will go in as foreclosures and increasing interest rates undermines the basic needs of the people. To me, having a home is a basic necessity and a sub-prime borrower wants this basic need in order to create stability in all aspects of their financial life. When an economy of the nation is unable to support this basic need of the people a recession can develop that alters the society in a way that will take years to understand much like the Great Depression of the 1920's.

Conclusion

What affect the mortgage crisis will have and how deep the effect on the economy will be depends on where the house prices go in the next couple of quarters, what sort of unemployment rate the nation sees, the rate of foreclosures and how the crisis falls into other parts of the mortgage and credit sector.

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