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# Mortgage Update



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## The Credit Crunch

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### **What causes it to happen? Is it starting to work it's way out of the financial markets? How can a credit crunch impact you?**

**What is a credit crunch?** A credit crunch is defined as a short supply of money to lend to consumers and businesses and is usually accompanied by higher interest rates.

**What caused the current credit crunch?** The current credit crunch came about when investors on Wall Street lost faith in the mortgage backed security market. The mortgage back security market is the secondary market on Wall Street where mortgages are sold to investors such as our retirement accounts. This market helps create liquidity in the mortgage market by constantly replenishing the money we need as lenders to continue to do more loans. The mortgages that are recently closed are purchased by the investors on the secondary market and held as long term investments. This kind of investment vehicle has always been considered a safe investment, mainly due to the fact that it is backed by the collateral of real property. The investors lost confidence because some of the mortgage backed securities started to perform very poorly, such as those that had been done based on poor credit and low equity positions. These loans performed well over the last few years when values were going up but as the market started to flatten out, we started to see a higher level of foreclosures and defaults. The credit crunch was created when the investors were unable to clearly identify which mortgage loans were risky and which ones were still performing. Not being able to tell the difference, they simply stopped buying mortgage back securities or raised their rates.

**Has the credit crunch started to work its' way out of the market?** The answer is both yes and no. On one hand, the mortgage back security market has improved and there has been more liquidity in the market in recent weeks. There are no problems in liquidity where our government is involved. For example FNMA, Freddie Mac and FHA loans are actually as available as before and have been priced a little better in recent weeks. Even where our government is not involved, the market is improving slowly and rates are starting to improve. This is the case in the jumbo market, which consists of loans with an amount at or over \$417,000. On the other hand, we are not likely to see the credit crunch go away completely anytime soon or, possibly, ever. The risky loans that were done based on very low fico scores and low equity positions have all but disappeared, as should be the case anyway.

**How will this impact you?** There are many ways the credit crunch may impact you as a homeowner. With fewer varieties of loan products there are fewer numbers of buyers that can qualify for a home loan. Less demand due to fewer buyers will likely mean less price appreciation and quite possibly price depreciation in the short term. If you are trying to get a loan you will need to make sure you have good credit. Poor credit scores can mean higher interest rates or not being able to qualify for a loan at all. If you need cash for college tuition, home improvements or other upcoming events, give us a call us so that we can make sure you will have the equity you need to get the loan you need. Even if the needs are a few years down the road, you will need to keep an eye on your equity position to make sure the current credit crunch and the likely defaults in the market don't impact your ability to accomplish your financial needs and goals. If you are on an adjustable or semi-fixed loan, you especially need to keep an eye on both equity and rates. It may be time to refinance. Call or schedule a time to consult on these issues. It may be e a great time to buy up, invest in rentals, or consider helping your children get into the real estate market while there are bargains.

This is a time to keep in close contact with your credit scores, your Realtor and your lender if you plan on making any financial or real estate moves in the near future. As always, the difficulties will pass and real estate prices will continue to increase. It may just take some time. Please come to us questions or concerns you may have and we will be happy to get you some answers.