

The Current Credit Crunch and how it affects the Mortgage Industry

What Happened With the Mortgage Industry?

We have all heard about the collapse of the sub prime mortgage industry, but do we understand exactly what is involved? Certainly if you are a victim in this crisis, you may have some idea about what is going on, but few people are aware of how connected one part of our economy is to the other. The collapse of the sub prime industry has affected everyone in the housing market, buyers and sellers, those with sub prime mortgages and those without. It has also affected contractors, real estate agents and anyone else who makes a living in the housing industry.

To simplify the problem that developed in the mortgage industry, you first need to understand that it is generally assumed that housing prices will always increase. While this is true over the long term, in the short term housing prices had risen rapidly to an artificial high. At the same time, many mortgage lenders were giving sub prime mortgages. A sub prime mortgage is one that is considered more risky than a traditional, or prime, mortgage. Sub prime mortgages went to people with problem credit, were buying a more expensive house than a traditional lender would loan, or had some other quirk that made them unattractive to a traditional lender. Many of these mortgages had an adjustable interest rate. When interest rates increased, the monthly mortgage payment increased as well. Trying to refinance became a nightmare as the bottom fell out of the housing market, and homes were appraising for much less than the amount that was owed on them. Foreclosures increased, and the cycle expanded, as other credit markets became nervous and less willing to loan money, which is one of the driving forces of our economy.

What is a Credit Crunch?

Simply put, a credit crunch is what happens when banks become less willing to lend money, or interest rates rise, making it more expensive to borrow money. A credit crunch has a trickle down effect on the economy as a whole. When money is more difficult to borrow, the economy slows down. Much of our economy is driven by credit, and a slow down in home purchasing, new home construction and auto sales can have a staggering effect on the economy as a whole. Problems that develop in one segment of the economy have a spill over effect into other areas of the economy.

How does it Affect the Consumer?

The effect of the current credit crunch on the consumer that is interested in purchasing a home can be negative. In times of a credit crunch, lenders are less likely to lend money, charge higher interest rates and tighten their lending standards. With as much as 40% of the population considered to be problem borrowers, it is easy to see how the current credit crunch affects the mortgage industry.

Interested in Buying?

If you are looking for a home, don't let the current credit crunch scare you away. Although lenders are nervous right now, if you are considered a good risk, there is money available. How to know if you are a good risk? Check your credit reports and report any errors. Make sure that you pay your bills, both utility bills and credit card bills, before the due date. Know how much home you can comfortably afford, and do not go over that amount. For the savvy home buyer there are many benefits to the current credit crunch.

What if your credit is not so perfect? It is still possible to get a loan. Banks are going to be less interested in nontraditional loans, such as no-document loans or interest only loans. While you house shop make every effort to reduce your debt and pay your bills on time. Have 20% of the asking price available as a down payment to eliminate the need for private mortgage insurance, a move that can save you over a hundred dollars each month. If you are turned down for a loan, ask the lender what you can do to improve your credit and how long you should wait before you apply again. While the current credit crunch has tightened up the mortgage industry, it has not stopped it.

About the Author

About Author: Stephanie Larkin is a freelance writer who writes about topics pertaining to the mortgage industry such as a [Mortgage Company](#)

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